

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Capital market, definitely, helps in the economic development of a country by mobilizing long-term capital in productive sectors. The effective mobilizations of the capital resources are very much essential to the productive sectors. The effective mobilization of the capital resources to the productive sectors may be more helpful to the foundation of the economic development of the nation. The major role of the capital market is to provide buying and selling opportunities of financial assets at competitive price for the investors. So it is a medium through where saving and scarce resources are mobilized into productive sectors that ultimately helps in essential for rapid economic growth of the country. Capital market helps economic development by mobilizing long-term capital needed for productive sector (Ojha, 2001:1). Thus, the significance of capital market in the economic development of the developing country like Nepal is so immense.

Capital market is a major component of financial market. It plays a significant role of bridging of the deficit money and surplus money. In other words, capital market is an institution where stocks and other securities are brought and sold continuously. Capital market plays significant role in mobilizing a constant flow of saving and unutilized financial resources for expanding productive capacity in the countries. It makes much easier to investors for investment. So the stock market provides the best investment opportunity to the investors. "The stock market is place where shares of listed companies are traded or transferred from one hand to another at a fair price through the organized brokerage system. Principally stock market refers to the

secondary market for securities whereas primary markets refer to the market for new issues. In the secondary market, to make transaction, the brokers perform primary role, in the exchange they receive commission. Therefore, they are the backbone of stock market growth and its smooth functioning (operation). The major function of stock market is to provide ready and continuous market for purchase and imparting future market abilities and liquidity to them. Thus it is a medium through which scattered saving and scarce resources are transferred into productive areas that ultimately helps to economic development and industrialization of the nation" (Aryal, 1995: 2).

"The Nepalese capital market has been passing through the transactional phase over the past few decades. There are various inconsistencies and hindrances existed on the way of smoothing function of market. Not only institutional bottlenecks are hampering the growth of capita, but also at times the existing imperfect national characteristics phenomenon deeply noted proper trading in security market. The arbitrarily quoting of the stock price without fundamental and technical justification made securities market not to look after per protection" (Shrestha, 1995: 3-9). It needs proper plan and strategy and huge amount of capital investment of efficient utilization of scarce resources. So, capital market plays a significant role in the advantage of growing income in the country.

In simple sense, investment means the sacrifice of current prices for future prices. In other words, investors want to get more money in future than at present from investment. It is made for only expected return and is also needed to the security market for the development of economic strength of the nation." An investment is a

commitment of funds made in the expectation of some positive rate of return. If the return is property, the return will be commensurate with the risk the investor assumes" (Fisher and Jordan, 2002:2).

It is necessary to the investors to get sufficient information about the risk and return involved with the investment since the preference of investors are determined. Investors invest their money where interest is safeguarded through return. Therefore in this regard Prof. Donald E. and Ronald J. Jordan have said, "Investors share identical expectations with regard to relevant decision period, the necessary decision inputs, their form and size. Thus, investors are presumed to have identical planning horizons and to have identical expectations regarding expected return, variances of expected return and covariance of all pairs of securities." Listed companies can play greater role to attract the investors by providing at least general accepted rate of return.

When the investors are fully protected and facilitated by the concerned regulating authorized, they agree to invest in productive sectors. If the investors find sound economic condition, they will certainly invest their amount in the productive sectors. One of the major productive sectors is the capital market where the investors can invest their hard earned amount if they are fully supported and facilitated by the authority level with regards to their right. Investors are fully risk averters. So they want to get some premium in their investment. "Investment made in only one project or in the stocks of only one company is exposed to both systematic and unsystematic risk" (Pradhan, 1996:230).

Investors are affected by various factors such as advertising of the company, market situation, rules and regulation of government etc. "Prospective investors are consumers, shopping they are influenced by advertising, by the company's image and pre-dominantly, by shopping bags with only one investment opportunity, and they try to be sophisticated shopper when they select a portfolio of securities" (Horne, 2000: 572).

Equity is the major instrument of financial market. Equity represents ownership shares in a corporation. There are two types of equities. One is common stock and another is preferred stock. According to Donald and Ronald, "Common stock represents an ownership position. The holders of common stock are the owners among other things elect the board of directors and have the right to the earning of the firm after all expenses and obligations" (Fisher and Jorden,2002:32). Another type of stock is preferred stock, which is preferred with respect to assets and dividends. In the time of liquidation, the preferred stockholders have a claim on available assets before common stock holders.

Another major financial instrument is debt security. Governments, corporations and individuals issue debt instrument. Debt instruments provide for the principal. In other words, debt securities are those on which interest for the principal. In other word, debt securities are those on which interest has to be paid and they have certain maturing period. Debt securities can be divided in two parts- (i) short term debt securities and (ii) long term debt securities. Deposits, commercial papers banker's acceptance, Treasury Bills are the short-term debts. Short-term debts have maturity one year or less. Treasury bill is an obligation issued by government, sold at a discount from face

value. Long term debt is the obligation that matures in more than one year. Long terms debts are traded in over the counter market. (OTC) Government securities, agency securities, municipal securities, corporate bonds, etc. are the examples of long term debts. Options, convertible bonds and preferred stock, international investments, etc. are the other instruments of financial sector.

Government issues various types of securities in the market. Treasure Bills, Development Bonds, National Saving Bonds, Citizen Saving Bonds and Special Bonds are government securities. Nepal Rastra Bank (NRB) has been actively issuing various government securities in the country. It was established as central bank of Nepal under the NRB Act. 1955 on 26th April 1956. Government issues securities internally and externally. The main source of internal debt is government bond. It is one of the most important issuances of the government to fulfill the deficit budgetary system in the country.

Efficient market is that place where the financial instruments are traded on their intrinsic value and liquidity among he instruments is very high. Investors can earn only normal rate of return from his/her investment in the efficient market. Efficient market affects the preferences of investors. "The right security of combination of securities depends on the investors' situation and preferences for return relative to his/her distaste for risk. Their may be 'right' or 'wrong' securities for a particular person or purpose. However, it would be surprising indeed to find a security that is clearly wrong for everyone and every purpose. Such situations are simply not present in an efficient" (Sharpe, 2002:8).

Government policies, rules and regulations impact the interest rates and market situation. Financial markets are affected by the government activities. Government policies influence on the economy of the state, on the money supply and likewise transaction of financial instruments in security market. The government can create certain favorable situation for the upliftment of security market. Through the channel of Securities Board Nepal (SEBO/N), government regulates the security market. Listed companies should play strong managerial role of accept accountability to create sufficient general accepted rate of return.

Financial Asset

It is a claim against the income or wealth of a business firm, household unit of government, represented usually by a certificate receipt or other legal document and usually created by the lending of money familiar examples include stocks, bonds, insurance policies and deposits hold in a bank.

Financial assets do not provide a continuous stream of services to their owners as a home. These assets are sought after because they promise further returns to their owners and serve as a store of value (purchasing power).

A number of other features make financial assets unique. They cannot be depreciated because they do not wear out like physical goods. Moreover, their physical condition or form usually is not relevant in determining their market value (price). A stock certificate is not more or less valuable, for example, because of the size of or quality of paper it is printed on or whether it is frayed around the edges. Because financial assets are generally represented by a piece of (certificate or contract) or by

information stored in a computer file. They have little or no value as a commodity and their cost of transportation and storage is low. Finally financial assets are fungible- they can easily be changed in form and substituted for other assets. Thus, a bond or share of a stock usually can be quickly converted into any other asset the holder desires.

Different Kinds of Financial Assets

Although there are thousands of different financial assets, they generally fall into three categories: money, equities and debt securities.

Any financial asset that is generally accepted in payment for purchase of goods and securities is money. Thus, checking accounts, currency and coin are financial assets serving a payment media and therefore, are forms of money. Equities (more commonly known as stock) represent ownership shares in a business firm and, as such, are claims against the firm's profit and against proceeds from the sale of its assets. We usually further subdivide equities into common stock which entitles its holder to vote for the members a firm's board of directors and therefore, determine company policy and preferred stock, which normally carries no voting privileges but does entitle its holder to a fixed share of the firm's net earning ahead of its common stockholders.

Debt securities include such familiar financial claims as bonds, notes, and account payable and saving deposits. Legally, these financial assets entitle their holders to a priority claim over the holders of equities to the assets and income of an individual, business firm or unit of government. Usually, that claim is fixed in amount and time

(maturity) and depending on the terms of the indenture (contract) that accompanies most debt securities, may be backed up by the pledge of specific assets as collateral. Financial analysts easily divide debt securities into broad classes; i) negotiable which can be easily be transferred from holder to holder as a marketable security and ii)nonnegotiable which cannot legally be transferred to another party. Passbook savings accounts and US \$ Saving bonds are good examples of nonnegotiable debt securities, negotiable debt are- Treasury bonds, corporate notes and bonds.

1.2 Securities Market in Nepal

A security market is a place where investors buy and sell financial instruments, so investors can buy or sell securities immediately at a price that varies little from the previous selling price. Buying and selling orders that flow from investors demand and supply preferences determine share price in the security market. Security markets help to allocate its financial resources more effectively. Security market in Nepal is witnessed a sharp growth during the past couples of years, the volume of trading has increased. The size of the market has been widened. The number of investing population has grown up in aggregate. The tendency of raising capital from general public is rising. The most importantly the market consciousness has been developed so that investors have begun to think about risks, return and availability or timely corporate information regarding the investment.

"As per the provision of the "Securities Exchange Act, 1983" and Securities Exchange Regulation, 1993 corporate bodies willing to manage and operate market for healthy trading of securities will first have to develop the infrastructures in matters relating to free and fair listing and trading of securities, membership to the securities

businessperson, inspection, supervision and disciplining of the members and then apply to Security Board, Nepal (SEBO/N) to get license. The application should also include the memorandum, articles of the association feasibility report and documents related to promoters. Memorandum and/or the articles of association should clearly state that the corporate body is a not profit organization. SEBO/N, upon review of the application and the submitted documents, permits authorizing corporate bodies to manage and facilitate secondary trading of securities" (NEPSE, 2002:6).

1.2.1 Primary Market

Primary market is a place where original financial instruments are issued by the companies or government bodies. The company should approve its share through the authorized issue and sales agent.

Primary market constitutes investment bankers, which are also called underwriters. They purchase new issues from security issuers and arrange for their resale to the investing public. The underwriters are responsible for finding investors for the initial public offerings of securities sold in the primary market.

"The Primary market denotes the markets for the original sale may be an underwriter to the public. The use of the words original sale may be somewhat misleading the public several years ago (and initial have sold common stock to public company) had now decided to issue additional shares of common stock (a secondary offering). These additional shares will be indistinguishable from the shares sold in the public offering. The issuer receives cash that may then invest in the productive assets or net proceeds from the sale may be used for other purposes. The public receives the newly issued

securities for the cash invested. Since in the primary market stocks are traded at par there is no problem of price". "Securities available for the first time are offered through the primary markets. The issuer may be the brand new company or one that has been in business for many years " (Weston and Brigham, 1981:375).

1.2.2 Secondary Market

The secondary market liquidates the shares and provides the opportunity between the seller of the securities and investors. So the investors can buy and sell any securities of any business company that are listed in the secondary market.

"After securities have been purchased from the primary market, they can be traded in the secondary market. The secondary market comprised the organized security exchange and a specialist facilities the transaction. The major of all capital market transaction occur in the sale of securities in the secondary markets do not go to the organizational issuer instead to the initial owners (seller) of the securities "(NEPSE, 2001:73).

So, secondary market is a place where old securities are traded. In other word, once the securities have been issued in primary market, then they are traded in secondary market. The trading of stocks in secondary market is held of different business companies without their involvement. Investors can buy or sell any securities of any business that are listed in secondary market.

The basic economic function of secondary market is to provide marketability and liquidity for long-term investments, thereby the supply of equity and long-term debt

capital for the financing of business companies. Once the investors purchase the security from the primary, they need a place to sell those securities, which is called secondary market, "Once new issues have been purchased by investors, they change hands in the secondary markets. There are actually two broad segments of the secondary markets: the organized exchanges and the over-the-counter (OTC) market" (Fisher and Jorden, 2002:22).

(a) Organized Stock Exchange

"The essential function of a stock exchange is to provide active market place for corporate shares and other listed securities. The stock exchange plays an indispensable role in mobilizing funds in the capital market. The various virtues governing stock exchange include enhanced marketability of securities, rational allocation of investable funds; facilitate economic growth and wealth generation and proper maturity, liquidity and diversification of investment. The growth of capital market through the vehicle of stock exchange has brought a flow of the information about various securities in addition to the sound listing criteria that prove worthwhile to the investors".

Security Exchange Center (SEC) was established in 1976 AD as an organized security exchange of Nepal with an objective of facilitating and promoting the growth of capital markets. Under the Security Exchange Act -1983, the government converted SEC into Nepal Stock Exchange (NEPSE) in 1993. Its history began from the flotation of shares by Biratnagar Jute Mill Ltd. and Nepal Bank Ltd. in 1937. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for

government and corporate security by facilitating transaction in its trading floors through member, market intermediaries such as brokers market makers, etc. NEPSE opened its trading floor on 13th January 1994.

Nepal Stock Exchange

The history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. With the introduction of the Company Act, 1964, the first issuance of government Bond in 1964 and the establishment of Security Exchange Center Ltd. in 1976 was other significant development relating to capital markets.

Securities Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of bordering, underwriting, managing public issue, market making for government bonds and other financial services.

His Majesty's Government, under a programme initiated to reform capital markets converted securities Exchange Center into Nepal Stock Exchange in 1993. Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under securities Exchange Act, 1983.

The basic objective of NEPSE is to impart free marketability and corporate securities by facilitating transactions in its trading floor through its members, market

intermediates such as broker, market makers, etc. NEPSE opened its trading floor on 13th January 1994.

His Majesty's Government, NRB Nepal Industrial Development Corporation and members are the shareholders of the NEPSE.

(b) Over-the-counter (OTC) Market

The name itself says that OTC was originated in the time when the securities were traded over the counters of various dealers. OTC is a market for those securities, which is not listed on the stock exchange. When the company first sells its securities to the public, the securities are traded in the OTC markets performs the works of both primary and secondary market. The securities traded over the counter range from most speculative common stocks. In past days, OTC markets were assumed to be more important for bonds than stocks. In past days, OTC markets were assumed to be more important for bonds than stocks. It includes all transaction of securities other than that taking place on the stock exchange. It is actually a group of security brokers.

1.3 Statement of the Problem

The trading of stocks in secondary market is held of different business companies without their involvement. Secondary market does not provide liquidity to securities issuing companies. Stock market provides investors good investment opportunities with fair return and instant liquidity and it helps to mobilize financial resources for the investment in development project and thereby help economic development of the country.

Investors are the backbone of the economic development of the country. So, the investors should be encouraged to make investments in security markets by creating congenial investment environment. Government policies regarding the financial sector reforms and security market development can create such environment.

Nepalese security market is in the growth stage. The government is still unable to create favorable and proper investment environment to develop the security market as well as to encourage investors to invest in this field.

It is necessary to research the investors' preferences. The flow of issuing of securities is very high in common stock. If the investors preferably want to invest in another financial instruments except common stock. They should have alternative opportunities. In Nepalese financial market, investors' awareness and preferences should be given high priority. This research mainly covers following points:

1. What are the financial assets/instruments available in Nepalese securities market?
2. What factors affect the investors to invest in securities and which instruments the investors preferably use?
3. Why do the investors purchase and sell the financial instruments of any company?
4. Why do they prefer particular type of financial instrument?
5. What are the various factors consider while choosing right alternatives of financial instruments available in Nepalese market?

The preferences of investor and financial instruments are the burning issues in the context of Nepal.

1.4 Objectives of the Study

The main objective of this research is to examine and analyze the preferences of the Nepalese investors in selecting securities. However, the specific objectives are as follows.

-) To analyze the preferences of the investors in the financial instruments/ securities.
-) To assess investors' awareness regarding the investment decisions in selecting securities.
-) To analyze the investment trend in the security market of Nepal.

1.5 Research Hypothesis

In order to achieve the research objectives, following hypotheses have been formulated and the various research variables reflected in the questionnaire have been tested through Chi-square statistics at 95% level of confidence (5% level of significance).

- a) Null Hypothesis (H₀): There is no significant difference between the opinions of different groups of respondents.
- b) Alternative Hypothesis (H₁): There is a significant difference between the opinions of different groups of respondents.

1.6 Significance of the Study

This research may be more useful to all the parties who are involved in the stock market. It is also very helpful to the university graduates and undergraduates who are curious to have knowledge about the investors' preferences and financial instruments.

The research provides the guidelines to the stock market and potential investors to make investment decisions. This research is new in terms of its nature, which can provide literature to further researchers in this area.

Previous researches were conducted regarding Nepal Stock Exchange and common stock. No much research works have been conducted on the preferences of investors and financial instruments. It is necessary to be researched about the investors' preference. In this regard, the previous researchers had undertaken many studies regarding the common stocks but they have failed to identify the preferences of investors and also to comparatively study another financial instruments-debenture, preferred stock and government securities. Hence, this research covers over the issues like what factors affect the investors to invest in securities and which instruments the investors preferably use.

It is well known fact that Security market plays a pivotal role in the economic development of the countries. The investment in securities affects the whole economic environment of the nation. The investors are very significant assets of the security market. Thus, this study will be more significant because it is conducted to provide some information about the present level of investors' preferences in the security market.

This research plays the significant role to apply the theoretical concepts and knowledge of Financial Management to the practical field as a partial fulfillment for Master of Business Studies (MBS) under the Faculty of Management, Tribhuvan University.

1.7 Limitations of the Study

The limitations of the study are as follows:

-) This research is primarily based on primary data. However, secondary data have also been used to support the research.
-) Annual reports and various publications of NEPSE, SEBO/N and NRB are the source for the secondary data.
-) The data about the stocks traded in NEPSE within the respective last five years period from F/Y 2003/2004 are only considered in the study.
-) For the purpose of study only financial instruments (common stock, preference share, bond\debenture, and government bonds) are taken.
-) The reality of the study fully depends on questionnaires, which are duly filled up by the respondents.
-) This study may be affected by time and work force. Financial resources might be one of the many limiting factors.

1.8 Organization of the Study

This study has been divided into five chapters. They are as follows:

Chapter- I: Introduction

Chapter- II: Review of Literature

Chapter-III: Research Methodology

Chapter-IV: Data Presentation and Analysis

Chapter-V: Summary, Conclusion and Recommendations

Chapter -I: Introduction

is devoted to the general background of the study, statement of the problem, significance of the study, research hypothesis, and limitations of the study and so on.

Chapter -II: Review of Literature

includes the review of literature. Books, journals, articles and the previous related research reports have been reviewed. Review of literature is divided into three sections: (a) conceptual/theoretical review, (b) article review, and (c) review of related studies (d) research gap.

Chapter - III: Research Methodology

contains the research methodology employed to attain the objective of the research. It contains research design, population and sample, sources of data, data collection techniques, data analysis tools and limitations of the methodology accordingly.

Chapter - IV: Data Presentation and Analysis

deals with the presentation, analysis and interpretation of gathered data. That is analyzed by testing the hypothesis and major findings on the basis of this study have been derived.

Chapter - V: Summary, Conclusion and Recommendations

is the last and concluding chapter which includes the summary, conclusions, and recommendation of the study.

At the end, Appendices and Bibliography have been presented.

CHAPTER – II

REVIEW OF LITERATURE

This chapter deals with the review of literature related to investors' preferences and financial instruments in more detail by descriptive and analytical process. Under this, various books, journals and articles as well as past studies have been reviewed.

2.1 Theoretical/Conceptual Review

2.1.1 Investment

An investment is a commitment of money that is expected to generate additional money. Every investment entails some degree of risk it requires a present certain sacrifice for a future uncertain benefit (Francis, 1986:3).

Investment in its broadest sense, the sacrifice of current dollars for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes place in present and is certain. The reward comes later, if at all, and the magnitude is generally uncertain (Sharpe, 2002:8).

Investment choices (decisions) are found to be outcomes of three different but related classes of factors. The first may be described as factual or informational premises. The factual premises of investment decisions are provided by many stream of data which, taken together, represent to an investor the observable environment and the general and particular features of the securities and the firms in which he may invest. The second class of factors entering into investment decisions may be described as expectation premises. Expectations relating to the outcomes of alternative investments are subjective and hypothetical in any case but their foundations are

necessarily provided by the environmental and financial facts available to investors. These limit not only the range of investments, which may be undertaken but also the expectations of outcomes, which may legitimately be entertained. The third and final class of factors may be described as valuation premises. For investors generally these comprise the structure of subjective preferences for the size and regularity of the income to be received from, and the safety and negotiability of specific investments or combinations of investments as these are appraised from time to time (Bhalla, 2001:1).

2.1.1.1 The Investment Process

The investment process describes how an investor goes about making decisions with regard to what marketable securities to invest in, how extensive the investment should be, and when the investment should be made. A five step procedure for making these decisions forms the basis of the investment process (Sharpe, 2002:8).

(i) Investment Policy

The initial step, setting investment policy, involves determining the investor's objectives and the amount of his or her invest able wealth. Because there is a positive relationship between risk and return for sensible investment strategies it is not appropriate for an investor to say that his or her objective is to "make a lot of money". What is appropriate for an investor? In this situation, it can be stated that the objective is to attempt to make a lot of money while recognizing that there is some chance that large losses may be incurred. Therefore, investment objectives should be stated in terms of both risk and return.

This step in the investment process concludes with the identification of the potential categories of financial assets for consideration in the ultimate portfolio. This identification will be based on, among other things; the investment objectives, amount of invest able wealth, and tax status of the investors.

(ii) Security Analysis

The second step in the investment process, performing security analysis, involves examining a number of individual securities (or group of securities) within the broad categories of financial assets previously identified. One purpose for conducting such examinations is to identify those securities that currently appear to be mispriced. There are many approaches to security analysis. However, most of these approaches fall into one two classification. The first classification is known as technical analysis where as the second classification is known as fundamental analysis. Those who utilize it are known as fundamentalist or fundamental analysts. In decreasing these two approaches to security analysis, the focus at first, will be on common stocks.

(iii) Portfolio Construction

The step in the investment process, portfolio construction, involves identifying those specific assets in which to invest, as well as determining the proportions of the investor's wealth to put into each one. Here the issues of selectivity, timing and diversification need to be addressed by the investor. Selectively, also known as micro forecasting which refers to security analysis and thus focuses on forecasting, involves the forecasting of price movements of common stocks in general relative to fixed-income securities, such as corporate bonds. Diversification involves constructing the

investors' portfolio in such a manner that risk is minimized, subject to certain restrictions.

(iv) Portfolio Revision

The fourth step in the investment process, portfolio revision, concerns the periodic repetition of the previous three steps. That is, over time the investor may change his or her investment objectives, which, in turn, means that the currently held portfolio may no longer be optimal. Instead, perhaps the investor should form a new portfolio by selling certain securities that are currently held. Another motivation for revising a given portfolio is that over time the prices of securities change, meaning that some securities that initially were not attractive and others that were attractive at one time may no longer be so. Thus the investor may want to add the former to his or her portfolio, while simultaneously deleting the latter. Such a decision will depend upon, among other things, the size of the transaction costs incurred in making these changes as well as the magnitude of the perceived improvement in the investment outlook for the revised portfolio.

(v) Portfolio Performance Evaluation

The fifth step in the investment process, portfolio performance evaluation, involves determining periodically how the portfolio performed, in terms of not only the return earned, but also the risk experienced by the investor. Thus appropriate measures of return and risk, as well as, relevant standard (or "benchmarks") are needed.

2.1.1.2 Types of Investors

There are various types of investors in the market. On the basis information, individual investors and institutional investors are the most important investors in the financial market.

(a) Individual Investors

A person who invests in securities is called individual investors. They have a job apart from investing in securities. Individual investors have an opportunity cost in obtaining investment information from reading publication, tracking stocks, prices companies' performance building files on securities. This opportunity cost is the time and resources forgone that could have been used in other endeavors.

(b) Institutional Investors

Institutional investors are those investors, who are institutions or organizations. Their base is very small to mobilize saving in a cost effective manner for individual savers who otherwise might not participate in the stock market. "To ensure sustained price and market, the policy level authorities should encourage institutional buyers (The Rising Nepal, 2002:3).

General Secretary of Securities Broker Association of Nepal, Parmeshwor Mall said, "Analytical and bulk buying of shares is rendered possible through such institutional buyers which in turn help make the market less volatile than at present.

2.1.2 Financial Instruments/Securities

"Securities" means shares, stock, bond, debenture, debenture stock issued by a corporate body or a certificate to unit saving scheme or group saving scheme issued

by any corporate body in accordance with the prevailing laws or negotiable certificate of deposit or treasury bill issued by Nepal Government and it includes the securities issued under full guarantee of Nepal Government by a notification published in the Nepal Gazette or receipts relating to deposits of securities as well as rights and interest relating to securities (Security Exchange Act, 1983).

Financial instruments are traded in the financial market. Investors can buy or sell securities immediately at a price that varies little from the financial markets and facilitates the pricing discovery process. Buying and selling orders that flow from investors' demand and supply preferences determine the price of securities in the security market. It plays a significant role in bridging gap between the deficit and surplus units of society. The common stock, preferred stock, debentures and government securities are mainly used in terms of securities in Nepal. The preferred stock and debentures are not commonly used in Nepal. Basically the common stock is traded through NEPSE. The government securities are also important securities, which are issued by Nepal Government through Nepal Rastra Bank (NRB). The major financial instruments are as follows:

(a) Common Stock

Common stock represents an ownership position. The holders of common stock are the owners of the firm, have the voting power that among other things elects the board of directors, and have a right to the earnings of the firm after all expenses and obligation have a right to the earnings of the firm after all expenses and obligation have been paid; but they also run the risk receiving nothing if earnings are insufficient to cover all obligations.

Common stockholders hope to receive a return based on two sources i.e. dividends and capital gains. Dividends are received only if the company earns sufficient money and the board of directors deems it proper to declare a dividend. Capital gains arise from an advance in the market price of the common stock, which is generally associated with a growth in per-share earnings. Because earnings often do not grow smoothly over time. This fact points the need for careful analysis in the selection of securities for purchase and sale, as well as in the timing of these investment decisions, for common stock has no maturity date at which a fixed value will be realized (Fisher, 2002: 11-12).

When a company needs capital for expansion, it seeks shares of its stocks to the public. "Most companies issue millions of shares of stock, so each share represents only a tiny piece of the company. These shares are also transferable (Chandra, 1994:24).

"The common stockholders of a corporation are its residual owners; their claim to income and assets comes after creditors and preferred stockholders have been paid in full. As a result, a stockholder's return on investment is less certain than the return to a lender or to a preferred stockholder is not bounded on the upsides as are returns to the others (Horne, 2000:3).

(b) Debt

"The holders of a company's long-term debt, of course, are creditors. Generally, they cannot exercise the power to control over the company and do not have a voice in management. If the debts contract, then these holders may be able to exert some

influence on the direction of the company. Holders of long-term debt do not participate in the residual earnings of the company; instead, their return is fixed. Their debt instrument has a specific maturity, whereas a share of common or preferred stock does not. In liquidation, the claim of debt holders is before that of preferred and common stockholders. Depending on the nature of the debt instrument, however, there may be difference in the priority of claim among the various creditors of a company.

There are various types of debt instruments, which are as follows:

(i) Debenture

The term debenture usually applies to the unsecured bonds of a corporation. Investors look to the earning power of the corporation as their security. Because these general credit bonds are not secured by specific property, in the event of liquidation the holder becomes a general creditor. Although the bonds are unsecured, debenture holders are protected by the restrictions imposed in the indenture, particularly the negative pledge clause, which precludes the corporation from pledging its assets to other creditors.

(ii) Subordinated Debenture

Subordinated debentures represent debt that ranks behind debt senior to these debentures with respect to the claim on assets. In the event of liquidation, subordinated debenture holders usually receive settlement only if all senior creditors are paid the full amount owed them. These holders still would rank ahead of preferred stockholders in the event of liquidation. The existence of subordinated debentures may work to the advantage of senior holders, because senior holders are able to assume the claims of the subordinated debenture holders.

(iii) Mortgage Bonds

A mortgage bond issue is separated by lien on specific assets of the corporation- usually fixed assets. The specific property securing the bonds is described in detail in the mortgage, which is the legal document giving the bond holder a lien on the property. As with other secure lending arrangements, the market value of the collateral should the market value of the bond issue by a reasonable margin of safety.

(iv) Income Bonds

A company is obligated to pay interest on an income bond only when it is earned. There may be cumulative feature in the issue where unpaid interest in a particular year accumulates. If the company does generate earnings, it will have to pay the cumulative interest to the extent the earnings permit.

(v) Equipment Trust Certificates

Although equipment trust financing is a form of lease financing, the certificates themselves represent an intermediate long-term fixed income investment. This method of financing is used by railroads to finance the acquisition of rolling stock.

(vi) Equity-Linked Debt

Sometimes the investors in the debt instruments of a company are given an option on common stock with debt warrants, the debt holder have an option to purchase the common stock of the warrant is an 'equity sweetener' to make the instrument more attractive. A convertible bond is one that may be exchanged, at the option of the holder into a certain numbers of shares of common stock of the corporation. The

number of shares into which bond is convertible is specified in the bond indenture. And these shares remain unissued until actual conversion.

(viii) Project Financing

The term project financing describes a variety of financing arrangements for large, individual investment projects. Often a separate legal entity is formed to own the project. Suppliers of capital then look at the earnings stream of the project for payment of their loan or for the return on their equity investment.

(c) Preferred Stock

Preferred stock has fixed dividend and right of acquiring principal before common stock at the time of liquidation. "Preferred stock is said to be a "hybrid" security because it has features of both common stock and bonds. Preferred stock is preferred with respect to assets and dividends. In the event of liquidation, preferred stockholders have a claim on available assets before the common-stockholders. Furthermore, preferred stockholders get their stated dividends before common stockholders can receive any dividends (Fisher and Jordan, 2002:25).

(d) Government Securities

Government issues various types of securities to fulfill and undertake the development works under the deficit budget and raises scattered funds from public. These securities are assumed to be less risky as compared with external debt. Government issues securities internally and externally. The main source of internal debt is government bonds. NRB has been actively issuing various government securities in the country. It is one of the most important issuance of the government to

maintain the deficit budgetary system of Nepal. The Government Securities, which are issued by NRB, are described in brief below:

(i) Treasury Bills

It is the short-term government bond. It is issued to fulfill deficit budgetary system in Nepal. It normally matures in 91 days while some securities mature in 364 days. It is issued to collect scattered funds and mobilize it in productive sectors and also conduct fiscal and monetary policies. It is issued on the basis of auction so that any individuals and institutions can invest in Treasury Bills.

(ii) Development Bonds

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

(iii) National Saving Bonds

It is a long-term government bond. It has normally 5 years maturity period. This bond is purchased by individuals, organizations, financial institutions etc. except commercial banks. In this bond, interest is paid semi-annual basis. It can be purchased as a promissory note. Principal is refunded after its maturity period. It has fixed interest rate, which can be sold easily one person to another in the market. It can be used as collateral as in the case of Development Bonds.

(iv) Citizen Saving Certificate

It is also a long-term government bond. It has normally 5 years maturity period. It has fixed interest rate is paid in semi-annual basis. It cannot be used as collateral. Individual and institutional purchasers can buy this bond. It is also a taxable bond.

(v) Special Bonds

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

2.1.3 Market Risk and Return

"Capital markets are said to be efficient when security prices fully reflect all available information. In such a market, security prices adjust very rapidly to be new information. Another definition of market efficiency is the lack of security arbitrage opportunities, their having been eliminated by arbitragers.

The risk of a portfolio depends not only on the standard deviations of the individual securities comprising the portfolio but also on the correlation of possible returns. For a two-security portfolio, an opportunity set describes the risk-return trade off for various combinations. The diversification effect sometimes causes the opportunities set line to bend backward, with the minimum variance portfolio having a lower standard deviation than that of the least risky security. The efficient set is the portion of the opportunity set line going from the minimum variance portfolio to the one with the highest expected return.

By diversifying our holdings to include securities that are not perfectly correlated with each other, we can reduce risk relative to expected return. We wish to maximize utility as depicted by our indifference curves in relation to the opportunity set of risky securities available. With the existence of a risk-free security, the focus becomes a line from the risk-free rate to the point of tangency with the opportunity set. This point is the market portfolio given our assumptions. The most desirable combinations of risk-free security and market portfolio are determined by the point of tangency of investors' indifference curves with the capital market line. This two-phased approach investing constitutes the separation theorem.

The capital asset pricing model allows us to draw certain implications about the expected return of specific security. The key assumptions in the model are that perfect capital markets exist and that investors have homogenous expectations. In this context, the relevant risk of security is its undiversifiable risk. This risk is described by the slope of the characteristics line, where security returns in excess of the risk-free rate are related to excess returns for the market portfolio. Known also as **beta**, it is used as a measure of the systematic risk of a security. The total risk of a security can be divided into systematic and unsystematic components. Systematic risk is risk that cannot be diversified away, for it affects all securities in the market. Unsystematic risk is unique to the particular security and can be eliminated with efficient diversification (Horne, 2000: 76-77).

2.1.4 Sources of Investment Risk

Every investment involves uncertainties that make future investment returns risky.

The sources of uncertainty that contribute to investment risk are:

(i) Interest Rate Risk

It is defined as the potential variability of returns caused by changes in the market interest rates. If market interest rates rise or fall, then investment are present value will fall or rise. Present value moves inversely with changes in the market rate of interest. The interest rate risk affects the prices of bonds, stocks, real estate, gold, puts, calls, future contracts, and other investments as well.

(ii) Purchasing Power Risk

It is variability of return an investor suffers because of inflation. Economists measure the rate of inflation by using a price index. The percentage change in the consumer price index is a widely followed measure of the rate of inflation.

(iii) Bull-Bear market Risk

It arises from the variability in market returns resulting from alternating bull and bear market forces.

When a security index rises fairly consistently from a low point, called a trough, for a period of time, this upward trend is called a bull market. The bull market ends when the market index reaches a peak and starts a downward trend. The period during which the market declines to the next trough is called a bear market. Bull markets that usually rise more than enough to compensate for the bear market losses follow bear markets. But the alternating bull and bear market forces create a potential source of investment risk.

(iv) Management Risk

Errors made by business managers can harm those who invested in their firms. Forecasting management errors is difficult work that may not be worth the effort and, as a result, imports a needlessly skeptical outlook. Agency theory provides investor with an opportunity to replace skepticism with informed insight as they endeavor to analyze subjective management risks.

(v) Default Risk

Default risk is that portion of an investments' total risk that results from changes in the financial integrity of the investment. The variability of returns that investors experience as a result of changes in the creditworthiness of a firm in which they invested is their default risk.

(vi) Liquidity Risk

Liquidity risk that portion of an assets total variability of return which results from price discounts given or sales commissions paid in order to sell the asset without delay.

Perfect liquid assets are highly marketable and suffer no liquidation costs. Liquid assets are not readily marketable-either price discounts must be given or sales omissions must be paid, or both of these costs must be incurred by the seller, in order to find a new investor for on illiquid asset.

(vii) Call ability Risk

Some bonds and preferred stocks are issued with a call provision. Issuers like the call provision because it allows them to buy back outstanding preferred stocks and/or

bonds with the funds from a new issue if market interest rates drop below the level being paid on the outstanding securities. But, whenever the issuing company gains by calling in an issue is gained at the expense of the investors who have their securities called. That portion of a security's total variability of returns that derives from the possibility that the issue may be called is the callability risk. Callability risk commands a risk premium that comes in the form of a slightly higher average rate of return. This additional return should increase as the risk that the issue would be called increases.

(viii) Convertibility Risk

Convertibility is a contractual stipulation that is included in the terms of original security issue. This provision alters the variability of returns from the affected security.

Convertibility risk is that portion of the total variability of return from a convertible bond or preferred stock that reflects the possibility that the investment may be converted into the issuer's common stock at a time or under terms harmful to the investors' best interest.

(ix) Political Risk

Political Risk arises from the exploitation of a politically weak group for the benefit of a politically strong group, with the effects of various actions to improve their relative position increasing the variability of return from the affected asset regardless of whether the charges that cause political risk are sought by political or economic interests, the resulting variability of return is called political risk if it is accomplished

through legislative, judicial or administrative branches of the government. Political risk can be international as well as domestic.

(x) Industry Risk

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

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

2.1.5 Trade-off between Risk and Return

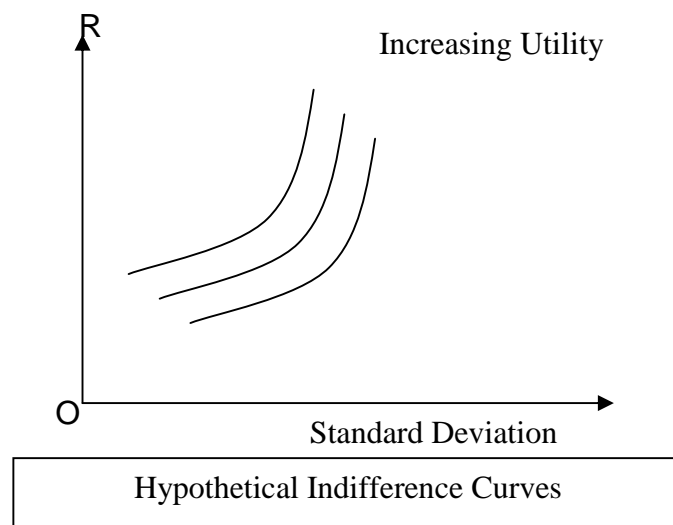
Risk is complicated subject and needs to be properly analyzed. The relationship between risk and return is described by investor's perception about risk and their demand for compensation. No investor will like to invest in risky assets unless he is assured of adequate compensation for the assumption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

Utility Functions and Investors Choice

The best mix of expected return and standard deviation for a security portfolio depends on the investors' utility function. If you are a risk adverse investor who associate risk with divergence from expected value of return, your utility function might be depicted in the following figure. The expected return is plotted on the vertical axis, while the standard deviation is along the horizontal. The curves are known as indifference curves; the investor is indifferent between any combination of expected return and standard deviation on a particular curve. In other words, a curve is defined by those combinations of expected return and standard deviation that results in a fixed level of expected utility.

Figure 2.1

Hypothetical Indifference Curves



The greater the slope of indifference curves the more averse the investor is to risk. As we move to the left in fig. 2.1, each successive curve represents a higher level of expected utility. It is important to note that the exact shape of the indifference curves will not be the same for different investors. While the curves for all risk-averse investors will be upward sloping, a variety of shapes are possible, depending on the

risk preferences of the individual. As an investor, you want to hold that portfolio of securities that places you on the highest indifference curve.

Table 2.1

Risk and Return Statistics for Six Investments

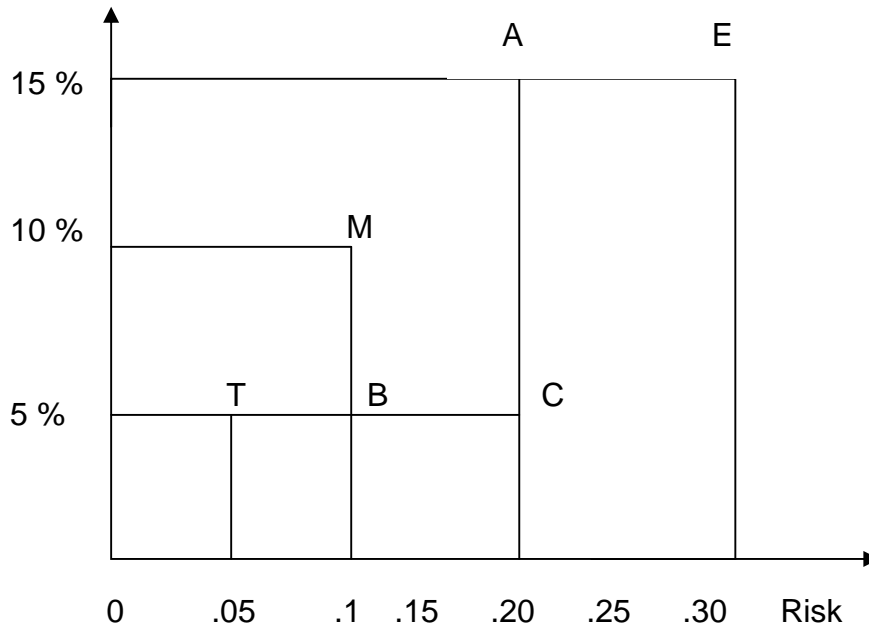
Asset	Expected Rate of Return	Risk	Dominated
M	10%	0.1	No
B	5	0.1	Yes, by T&M
C	5	0.2	Yes, by T, B & A
A	15	0.2	No
E	15	0.3	Yes, by A
T	5	0.05	No

According to the dominance principle, assets T and A dominate assets B, C and E respectively because they have less risk for their given levels of expected return. Similarly, assets B and A dominate assets B and C respectively because they have the largest expected rates of return in their risk classes. Thus, a wealth-seeking risk averse investor would prefer investing in asset T, M or A rather than in assets B, C, or E.

Which of the dominant assets the investor prefers depends on personal investment preferences? A timid investor who his highly risk-averse would prefer dominant investment T, Where as aggressive investor who is less risk-averse, would prefer dominant investment A. A 'medium investor' halfway between timidity and aggressiveness will prefer asset M but the dominance principle assumes that no rational inventor would prefer asset B, C or E. This can be depicted in a graph as:

Figure 2.2

Six Assets graphed in Risk-Return Space



We move to the left in fig. 2.1, each successive curve represents a higher level of expected utility. It is important to note that the exact shape of the indifference curves will not be the same for different investors. While the curves for all risk-averse investors will be upward sloping, a variety of shapes are possible, depending on the risk preferences of the individual. As an investor, you want to hold that portfolio of securities that places you on the highest indifference curve.

Table 2.2

Risk and Return Statistics for Six Investments

Asset	Expected Rate of Return	Risk	Dominated
M	10%	0.1	No
B	5	0.1	Yes, by T&M
C	5	0.2	Yes, by T, B & A
A	15	0.2	No
E	15	0.3	Yes, by A
T	5	0.05	No

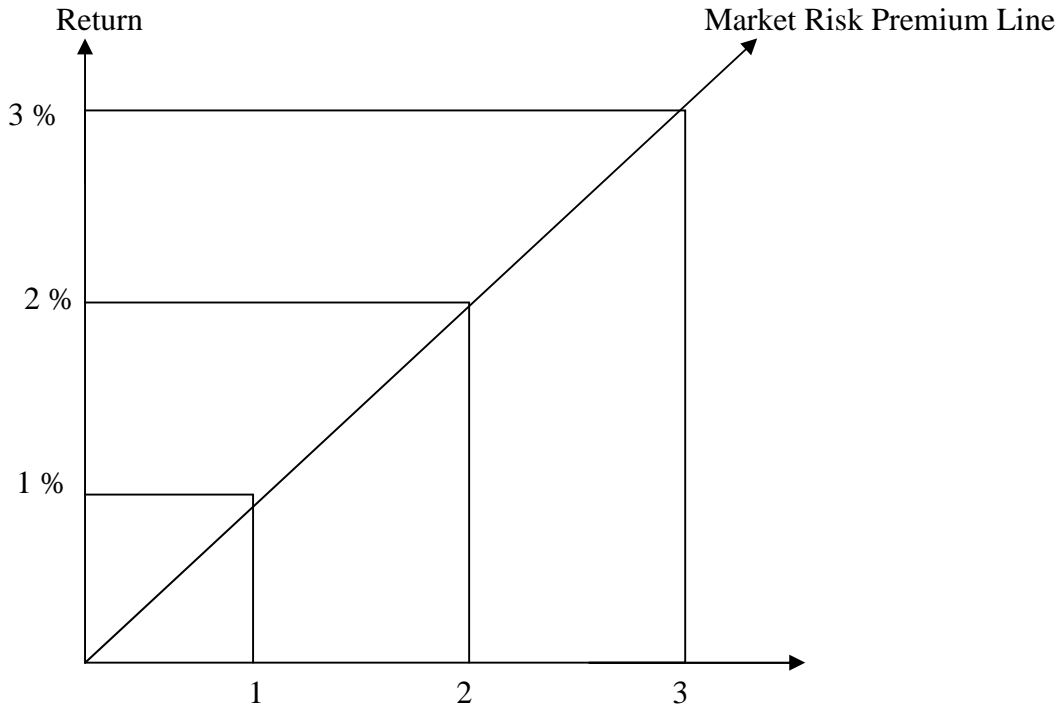
According to the dominance principle, assets T and A dominate assets B, C and E respectively because they have less risk for their given levels of expected return. Similarly, assets B and A dominate assets B and C respectively because they have the largest expected rates of return in their risk classes. Thus, a wealth-seeking risk averse investor would prefer investing in asset T, M or A rather than in assets B, C, or E. This of the dominant assets the investor prefers depends on personal investment preferences. A timid investor who his highly risk-averse would prefer dominant investment A. A 'medium investors' halfway between timidity and aggressiveness will prefer asset M but the dominance principle assumes that no rational inventory would prefer asset B, C or E. Investors are risk averse. As a result, high-risk assets must offer investors high returns to include them to make the riskier investments.

2.1.6 The Positive Trade-Off between Risk and Return

An investment manager can usually attain more return by selecting dominant assets that involve risk. While it is not true that a riskier asset will pay higher average rate of return, it is usually true. The reason is that investors are risk averse. As a result, high-risk assets must offer investors high returns to induce them to make the riskier investments.

Figure 2.3

Positive Trade-off between Risk and Return



The figure 2.3 represents a higher risk premium. For taking risk 1, the expected return is r_1 when an investor assumes risk 2, the return must be r_2 increasing the return (risk premium) by $r_2 - r_1$ for assuming more risk: 2- 1 the assumption of linear relationship states that the risk premium must increase or decrease in proportion to a change in level of risk. It also indicated higher the risk, higher the return and lower the risk lower than return.

2.1.7 Factors to be considered in Investment in Securities

Investors should consider to select the securities which are affected various factors such as good future prospects, risk factor, reliable manage of company beneficial sectors, higher growth rate of company etc. The investors who invest in the securities, they should compare the price of and value of share or debt. The rules and regulation

alone cannot protect the investors' preferences. The investors should know about the securities and companies performances. Usually the following factors should be considered in the investment decision.

-) Risk of securities
-) Liquidity
-) availability and Accessibility
-) Investment Portfolio
-) Stability of Income
-) Strength
-) Mobility
-) Cash flow

The investors are to be informed about the following before making investment in the Initial Public Offerings (SEBO/N, 2004:11).

- a. Promoters, size of company, company's environment, Board of Directors (BOD), and the past and forecasted statements (Performa Balance Sheet) etc. from the prospectus, Articles, Memorandum of the concerned company, and company's promoters
- b. To study of the public announcement made by the company in national daily newspaper before 7 to 15 days the opening of the issue of shares.

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

- a. Keep the information of companies, return on shareholders in the form of cash dividend, stock dividend, bonus share etc. and timely information about the

companies Earning Per Share (EPS), Book price of share (BPS), price earning ratio (P/E ratio), future plan and growth of the company etc.

- b. Analyze the information notified to the investors in the notice board of SEBO and NEPSE about the listed companies.
- c. Study the articles related to the trading of shares and economic matters published in the different newspapers and magazines.
- d. Study the trading statements and financial analysis of listed companies published by NEPSE
- e. Study annual reports and other information published by SEBO/N etc.

2.1.8 Efficient Financial Market

"Market efficiency means that the market price of a security represents the market's estimate of the value of that security. If the market is efficient, it uses all information available to it in setting the price. Investors who choose to hold a security are doing so because their information leads them to think that the security is worth at least its current market price. Those who do not purchase the stock interpret their information as a lower appraisal.

An efficient financial market exist security prices reflect all available public information about the economy, about financial markets, and about the specific company involved. The implication is that market prices of individual securities adjust very rapidly to new information. As a result, security prices are said to fluctuate randomly about their "intrinsic" values.

Expressed more formally market efficiency means that the unanticipated portion of the return earned on a security is unpredictable and, over a sufficient number of

observations, does not differ systematically from zero. The unanticipated portion is simply the actual return less that which was expected based on some fundamental analysis (e.g., its 'intrinsic value). Put differently, it is the surprise element. Using the definition of fame, weak-form market efficiency means that the unanticipated return is not correlated with previous unanticipated returns. In other words, the market has no memory. Knowing the past does not help you earn future returns. Semi strong form market efficiency means it is not correlated with any publicly available information. Finally, strong form market efficiency, the anticipated return is not correlated with any information, be it publicly available or insider (Horne, 2000:49-50).

Random Walk Model

The random walk theory that all future streams of income from the equity investment are independent of proceeding incomes. So the future prices of common stock can not be forecasted on the basis of past price behavior.

"Random model says that previous price changes or changes in price are useless in predicting future prices or return changes. It means if we attempt to predict future price in absolute term using only historical price change information, we will not be successful i.e. successive price changes are independent. This independence implies that prices at any time will on the average reflect the intrinsic value because among other things, different investors evaluate the available information differently or have different insights into future prospects of firm, professional investors and astute non professional well seize upon the short term or random deviations from the intrinsic value and through their active buying and selling of the stock in question will force the price back to its equilibrium positions. Finally, the efficient market theory holds

that since price reflects all available information and since information arrives in a random fashion, there is little to be gained by any type of analysis whether fundamental or technical. It assumes that every piece of information has been collected and processed by thousands of investor and this information (both old and new) is correctly reflected in the price. Returns cannot be increased by studying historical data either fundamental or technical, since past data will have no effect on future prices (Fisher, 2002:553).

Fundamental Analysis

Fundamental analysis involves working to analyze different factors such as economic influences, governmental auction, company's information, its competitors etc. the fundamentalist fundamental analyst determine the intrinsic value of stock. The intrinsic value is the true economic work of financial asset. "The fundamentalist maintain that any points of time every stock has an intrinsic value which should in principle be equal to the present value of the future stream of income from that stock discounted at an appropriate risk related rate of interest"(Bhalla, 1983:283).

The value of common stock is simply the present value of all the future income which the owner of the share will receive (Francis, 2000:398).

Technical Analysis

The technical analysis theory is based on previous market information and it assumes that the history tends to repeat him; it is believed that knowledge of past patterns of share prices will help to predict future prices under similar circumstances. "The technician usually attempts to predict short-term price movements and thus makes recommendations concerning the timing of purchases and sales of either specific

stock or groups of stocks (such as industrious) or stocks in general. It is sometimes said that fundamental analysis is designed to answer the question "What"? And technical analysis to answer the question "When"? (Sharpe, 2002:844).

"Technical analysts maintain that the price of a share at any time (present price) is the balance struck buyers and sellers at a point in time price movements take place on account of diverse internal and external factors (profits, political environment, predictions and the likes). Prices stabilize when equilibrium between buyers and sellers is achieved. They believe that a record of price movements over a period of time in the past. A whole theory is based on the assumptions that history repeats itself. That human nature does not change and that is likely to repeat his patterns of past movements will repeat themselves in the future (Palat, 1991:172).

2.1.9 Real Sector and Share Market

(a) Real Sector Performance of the Nepalese Economy

During fiscal year (FY) 2007/2008, the Nepalese economy recorded poorest real sector performance since FY 2003/2004 mainly due-to the unfavorable weather situation and acceleration of internal insurgency. Real gross domestic product (GDP) (at 1994/95 producers' prices) is estimated to have registered a lowest growth of 1.9 percent in FY 2007/2008 compared to that of previous three fiscal years, while GDP at factor cost of 1994/95 grew at lowest rate of 2.3 percent. Sector wise, agricultural GDP which has around 40 percent share in overall GDP rose only by 1.7 percent in the current fiscal year, while it had increased by 3 percent last fiscal year. Sharp reduction in agricultural GDP this year was primarily because of the drought at the time of rice plantation and also at the time of wheat and barely, and rainfall at the time harvesting period.

With regards to non-agricultural GDP, which is the major contributor (about 60 percent) to the overall GDP, it did not register satisfactory performance mainly due-to frequent transport blockade and poor security situation in the country, posing difficulties in the operation of industrial and trading activities. However in the current fiscal year, non-agricultural GDP is estimated to have improved marginally to a growth of 2.8 percent compared to that of last fiscal year as a result of ceasefire announcement by different groups for peace talk.

Out of the sub-sectors of the non-agricultural sector, electricity, gas and water, and construction sub-sectors experienced marked increase in their GDP growth in FY 2007/08. The electricity, gas and water, which grew by 4.8 percent last fiscal year, are estimated to have grown by 5.6 percent in the current fiscal year primarily due to increase in production of electricity. Similarly, the construction sub-sector witnessed a growth of 4 percent in FY 2007/08 in contrast to a negative growth in FY 2006/07.

The trade, restaurant and hotel sub-sector also recorded similar growth to construction this year in contrast to a negative growth 2 percent last year. This was mainly attributed to increase in foreign trade, foreign tourist arrivals, as well as domestic consumption.

However, the manufacturing industries sub-sector, which contributes about 10 percent to the overall GDP and 15 percent to the non-agricultural GDP, registered a slower growth of 2.1 percent in the current fiscal year compared to that of last fiscal year. This was primarily because of frequent transport blockade and poor security situation in the country. Likewise, the growth of transport, communication and storage, as well as financial and real estate sub-sectors decelerated to 2 percent each compared to

higher growth in FY 2006/07. The community and social services sub-sector is estimated to have increased only by 1.3 percent in FY 2007/08, while this sub-sector had grown by 2.7 percent in FY 2006/07.

Per capita real GDP (at 1994/95 constant prices) is estimated to have declined by 0.25 percent in FY 2007/08, while it had increased by 0.46 percent in FY 2006/07. The negative growth rate of the per capita real GDP in the current fiscal year is mainly due to the slower growth of real GDP than that of the population growth. However, the per capita GDP at US dollar term increased to \$311 in the current fiscal year from the level of \$297 in the last fiscal year.

Table 2.3
Real Gross Domestic Product (GDP) (at 1994/95 Prices)

(Annual percentage change)

	2004/05	2005/06	2006/07	2007/08*
Gross Domestic Product (at producers price)	3.3	3.8	2.7	1.9
Gross Domestic Product (at factor cost)	3.0	3.6	2.4	2.3
a. Agricultural GDP	2.5	3.9	3.0	1.7
b. Non Agricultural GDP	3.4	3.4	2.1	2.8
1. Mines	1.9	0.6	2.5	2.2
2. Manufacturing Industries	2.0	1.7	2.6	2.1
3. Electricity, Gas and Water	19.9	3.3	4.8	5.6
4. Construction	1.8	0.2	-0.1	4.2
5. Trade, Restaurant, and Hotel	3.3	8.0	-2.0	3.9
6. Transport, Communication and Storage	4.3	5.2	5.1	2.2
7. Financial and Real Restate	3.3	3.2	4.6	2.2
8. Community and Social Services	3.1	3.0	2.7	1.3

Source: Central Bureau of Statistics

* *Preliminary estimates.*

During FY 2007/08, the inflation level as measured by the change in urban consumer price index in Nepal is estimated to have jumped to 8 percent from the level of 4.5 percent in FY 2006/07 registering its highest level in six years. The sharp rise in the inflation level is mainly attributed to the sharp increase in the petroleum products as well as up-revision of VAT. However, the core inflation this year is estimated to have risen to 3.6 percent only from the level of 3 percent last year.

2.1.9.1 Share Market Activities

During the current fiscal year 2007/08, share market activities remained mixed the total turnover declined sharply by 23.4 percent while the market capitalization recorded steep rise. Similarly, closing NEPSE Index this year rose substantially to 386.83 compared to last year level. The sharp fall of total turnover was noticed due to primarily the higher base of last year, when NEPSE index was mainly because of increased number of listed companies as well as rise in share price.

The total turnover in fiscal year 2007/08 is Rs. 22.82 billion, registering a sharp decline of 23.4 percent from the last year record. Of this turnover, the banking sector's turnover dominates all other sectors' turnover. The total turnover of this banking sector is Rs.14.35 billion, which was 62.90 percent. In the same way, finance sector's turnover of Rs. 2.51 billion lies in the second rank, comprising 11.04 percent of total transaction. The development bank sector ranks in the third position occupying 9.09 percent of total transaction, registering its transaction worth of Rs. 2.52 billion.. It is the Manufacturing and processing sector that lies in the fourth rank occupying 1.50 percent of total transaction.

As the market capitalization is the function of price and listed securities, it has increased by 57.7 percent to Rs 36.62 billion in FY 2007/08 primarily because of the rise in the share price as well as number of listed securities. During FY 2006/07, the market capitalization had increased by 48.1 percent to Rs. 18.64 billion. Of the total market capitalization, commercial bank sector occupies the first position with the 70.98 percent contribution while the finance company sector and other sector possess second and third position comprising of 10.29 percent and 7.07 percent respectively.

If we analyze the NEPSE index, it was 222.04 in 2004/05, which went up to 683.95 in 2005/06 and 963.36 in 2007/08. If we calculate the average of the yearly high, low and closing indices given in the summary sheet, we can trace that it was 215 in 2004/05, 269.37 in 2005/06 and 354.74 in 2007/08. This reflects that the index, which is the weighted average of market price, is increasing gradually. If we look at the closing index it has increased by 29.11 percent in 2005/06 and by 34.94 percent in 2007/08.

The number of listed securities in the fiscal year 2005/06 was 161141 (units in thousand) whereas such numbers were 194673 and 226540 in fiscal year 2006/07 and 2007/08. It reveals that the number of securities increased by 20.81 percent in the year 2006/07 and 16.37 percent in 2007/08. If we analyze the listed securities in terms of their value, it was Rs. 12.02 billion in the year 2005/06, Rs.16.77 billions in 2006/07 and 19.96 billions in 2007/08. It indicates the increase in amount by 39.57 percent in 2006/07 and 19 percent in 2007/08. The number of listed companies increased by 8 Percent in FY 2007/08 while this number had increased by 11 to 125 in FY 2006/07. Increase in the number of listed companies indicates increasing interest of public

towards the establishment of companies in the country. Sector wise, the number of listed commercial banks rose by 4 to 15 in FY 2007/08 while the number of development bank increased double to 8 in the fiscal year 2007/08. In the same way, the number of finance companies reached to 50 registering an increment of 21 companies.

2.3 Review of Related Studies

2.3.1 Review of Articles

R.R. Garside in his project report described, "At one level, capital markets are simple enough. The primary market is where companies raise capital by issuing securities, basically either shares or bonds. The secondary market is where those same securities are traded those definitions are simple and there is nothing very complex about the mechanisms for issuing, trading or settling. Sometimes the term capital market is extended to cover long-term bank loans to companies.

But at another level, the capital markets are more complex because when they function properly they are the very hubs of a free market economy. In them, all economic currents and forces meet and interact.

A healthy capital market is democratic and egalitarian. It sows no respect for class or caste. It does not acknowledge hierarchy. When the price of share price falls, it falls for all those who hold it. Financial analysts may have doctorate in math but some of the best traders of equities, and futures and options have been near a university (Garside, 1983:3).

"Capital market is a crucial element in the national economy. Its role in reinvigorating and boosting the economic activities in the country holds significant. The strategic plan released by security board can to a great extent, energize the investors' dealer to increasing investor interest in it. Security market experience both boom and bust soon the beginning of securities trading through brokers' members in the stock exchange floor. Though the market started to function quickly boosting the prices of shares to an unexpected level, it could not sustained.

There is an urgent need for proficient development of the market standard and information dissemination system focusing mainly on corporate financial disclosure practice and transparency, corporate accounting and auditing securities markets regulation and corporate governance. To implement the above, security board has a great responsibility as to reviewing and developing regulatory standard to make them to relevant with the need of issuers, investors along with promoting efficient capital formation (Business Age, 2000:15).

"Investment in share has traditionally been done by rating the institutions on the basis of price earning ration or dividend. Hardly do investors compare current assets with current liabilities or take a look at debt equity ratio. Unless investors begin analyzing the intricate financial details of corporate institutions before making investment decision, the market cannot develop smoothly.

Share investment has traditionally been guided by the investor's returns. Most earning of investors here has been in the form of dividends rather than capital gains, though high dividends are often seen, in corporate finance theory as a wasteful scares capital.

"Investors were highlighted and they stated inquiring about company's financial health and future prospect before buying or selling shares. People turned to price-earning multiples; NEPSE indexes informed trading became sort of a norm when stock market entered 1995. Many who could not cope with the system of intelligent speculation left the ground? As a result, the numbers of buyers gradually came down and so did the prices.

"With an aim to revitalize the messy capital market in the country, the government is preparing to enact new Securities Exchange Act (SEA), revoking the former Act of 2040 B.S.

The Securities Bill, which was recently registered at the Parliament secretariat but could not be debated upon before the House prorogued, is likely to be passed during the Winter Session of the Parliament, officials said.

The Bill was prepared as a part of the government's reform programmed that it has undertaken patterning with Asian Development Bank (ADB). The Bill aims to bring more efficiently in the country's capital markets by reforming the culture of corporate governance, among others.

"The Bill is the first step towards building infrastructure for ensuring an efficient capital market in the country." said an official of the Securities Board on conditions of anonymity.

The Bill, among others, tries to lay down rules that would raise the standard of the domestic securities markets. Furthermore, it also aims to simplify the registration and issuance of securities to the general public by ensuring a fair and transparent mechanism.

The Bill also tries to govern the working of the NEPSE the only secondary market in the country for securities transaction, by developing it into an institution meeting international standards.

The major thrust of the Bill is to ensure the safety of investor's money by minimizing risks through efficient dissemination of information for investment purposes which today is the major lacking in the Nepali secondary market.

Once the Bill is enacted as an Act after it is passed by the Parliament, it would clearly define the enforcement mechanisms, which in turn would ensure that the working of the capital markets would be in accordance to law.

The Bill drafted at the initiation of the ABD-funded Corporate and Financial Governance Project.

"The principle of Risk management is "greater the degree of diversification, the smaller is the degree of portfolio risk in individual assets" with more importance. Absolute quantitative Credit Deposit ratio has no relevance if the assets are not performing ones. Hence, it is felt that appraisal techniques of bank leading in competitive areas have to be more attuned to towards risk evaluation. A major aspect of this work has to be more attuned to towards risk evaluation. A major aspect of this

work has been the development of more advanced methods for the quantitative measurement of risks. As one might expect, most progress has been made in the measurement of market risk; the extensive trading in financial instruments provides a good supply of price statistics and this is a considerable help when it comes to estimating markets risks.

In recent years, risk management skills have been revolutionized by advanced financial innovations and technology. Those improvements on risk management have helped financial transactions an increasing number of financial institutions have developed and applied several risk models such as "value at risk" and credit risk model to quantify market and credit risks for many years. The quantifying model of operational risk is also under development, even though there are many arguments and difficulties on it. The new model based approaches not only strengthen the financial institution ability of risk measurement and management, but also contribute to more efficient resource allocation through better evaluation of risk. In result, the financial institutions can more thoroughly understand their risk exposure and hedge unwanted risk (Shrestha, 2003:112-113)."

2.3.2 Review of Thesis

Under this section some of the masters degree theses related to this study has been reviewed which are presented and analyzed below:

Bachhu Ram Dahal (2002) had conducted a study on "A Stock Market Behavior of Listed Joint Stock Companies in Nepal". The specific objectives of the study related to this were:

- J To study and analyze the investors view regarding the decision on stock investment
- J To study and examine the signaling factors impact on stock price with the help of NEPSE index.

The Study undertaken by Dahal had the following significant findings:

- J Most of the Nepalese investors preferred the stocks of commercial banks.
- J The stock market in Nepal is in developing stage as investors were not well aware about the investment
- J The trading system in NEPSE trading floor is traditional rather systematic.
- J The investors were not satisfied with the return on their investment.
- J The main motivating factor of Nepalese investors for owning shares was to receive the dividends.
- J It was found that investors in the stock market make the investment decision on the basis of market price of shares. It was also found that rumors are the most predominate factor to determine the market price of share.
- J The efficiency of stock market's different parties, brokers, market makers, security exchange limited were not found efficient in terms of required support from these parties.

Meg Nath Pandey (2003) has also conducted a study titled "Legal and Institutional Arrangements for investors protection in Capital Market of Nepal" under Faculty of Management, T.U. The study had the following objectives:

- J To study and analyze the existing legal provisions regarding investors' protection in Nepalese capital market.

- J To assess the development of capital market in Nepal.
- J To recommend for improvement in legal and institutional arrangements for protection in Nepalese Capital Market.

In order to achieve the set objectives, Pandey had used descriptive and analytical research design. On the basis of analysis, following major findings were observed.

The existing legal provisions and regulations were insufficient for protecting investor's interest. Provisions were insufficient especially in case of timely disclosure of price sensitive information and insider trading.

It was found that there was duplication and redundancy of regulation in between ROC and SEBON, both of the institutions were doing some of the tasks under the regulations. For example, prospectus of issuing companies is first submitted to ROC and thereafter to SEBO/N, it is not clearly defined which agency is responsible for analyzing it.

Collective performance of regulations like SEBO/N, ROC, NEPSE, NRB and company board were found to be less effective and unsuccessful. No proper coordination among regulatory was found. He also added that, insider-tackling practice existed in Nepalese securities market. Sufficient legal provisions to check insider trading, did not exist. Regulatory authority like SEBO/N had no appropriate and adequate power to make investigation and take decisions.

Badri Subedi (2003) in his thesis entitled "Investors Awareness in the Securities Market in Nepal" concluded that fair and timely information disclosure was essential

ingredients to function the securities market efficiency. Information deficiency in the capital market might be one of the reasons for determination by the gamblers and the speculation. This might lead to domination by the gamblers and the speculators in the capital market. Norms, regulatory submission and disclosure of information by listed companies are meant for ensuring good corporate governance, transparency and investors protection.

Since the quality of information available to investors, the rationality of the investors in Nepal is to be at quite low. They have very little knowledge of the trading procedures and the price formation mechanism of NEPSE. Considerable efforts should be given to expand the role of training and certification institute to include research and investors education. The size of the market is simply too small to make research and economically viable function to be offered by securities firms of investment banks in the next several years. At present, there is a general lack of investors' awareness about the listed companies, the operation and potential role of securities market techniques of financial analysis and risks and rewards of holding securities.

Bhadrakali Pokharel (2004) submitted the thesis entitled "Legal Provision to the protection of investors under the Nepalese Law and an Analytical and Critical Study."

The following points were taken as the objectives of the Study

-) To identify the investors and focus on the investing process.
-) To make comparative study of Nepalese legal provisions in investors protection.
-) To analyze the trend of implementation of those legal provisions in regard to investors protection.

The study was based on doctrinal approach and as well as non doctrinal as needed to obtain information based on survey method. Most of the information had been taken from secondary sources of data. Mainly the study was undertaken as the descriptive and diagnostic in its theoretical point of view. Some of the information was taken from primary source of information.

He had mainly focused to analyze the trend of implementation of Nepalese legal provisions with regards to investors protection and to find out the legal strengths and weaknesses of executive bodies with regards to investors protection.

In this study, Mr. Pokharel found that Nepal has drafted various laws to protect the interest of investors on the scattered forms-acts, regulation and byelaws. But there was still an absence of particular/separate legislation for the protection of investors. Likewise, Nepalese investors were not governed under the corporate norms and values due to lack of proper knowledge of their rights. They could be victimized but they did not complain at concerned authority.

He further added, "The main ground of investors deceiving are insider trading, mal-motion on the prospectus, wrong financial statements of company, wrong auditing reports, wrong performance details, and public information. Beside these, various grievances like wrong details on underwriting and listing the share, delay on returnable money, and delay on distribution of bonus shares, dispatching proper information to share holders or potential investors, misusing the application money are the main deceiving groups of investors in Nepalese context."

Ram Prasad Poudyal (2002) had conducted a thesis work on "A study on Government Securities Practices in Nepal" in course of his M.B.S. study. Poudyal thought that his thesis had expressed positive view toward public debt. Very cautious recommendations had been made regarding rising and use of public debt. He further added, "Public debt especially internal borrowing is required to meet deficit budget. Since internal borrowing being less inflationary, it is better than borrowing from commercial banks.

"In the context of slow growth of economy of the country, it is required to intensify which also requires private sector and government sector investment. However, if public debt is expanded on unproductive may problems on country," added Mr. Poudyal.

Poudyal described "Public debt assets the government in solving the economic monetary and budgetary problems which are to be addressed by the states as per the situation. In addition people pride themselves in their financial contribution to the nation through the public debt. But in other sense if it is used in properly, it hurts the people. The government of Nepal has been collecting funds by selling various government securities. The main reason is to recover deficit budgetary system. The trend of borrowing is increasing every year". Major findings included in the Poudyal research were as follows:

-) The government has adopted budgetary system in the name of development functions. Treasury bills, development bonds, national saving bonds and special bonds are debt-borrowing instrument in Nepal.
-) Nepal has been suffering capital shortage since the first budget speech of Nepal.

- J The government has been following liberal policy in the matter of collecting funds. The main objective of internal borrowing is to collect significant impact on economy for future generation.
- J Enormously increasing magnitude of public debt is becoming a great challenge for the nation.
- J Between the period 1984/2001 the average annual growth rate of total outstanding public debt (only internal debt) is 16%.
- J The borrowing policy has creating problems of increasing government interest rate so that is should allocate more amounts for interest service motive.

Bharat Prasad Bhatta (2001) conducted a research on the topic "Dynamic of stock market in Nepal". The objectives were as follows:

- J To analyze the trend of the Nepalese stock market.
- J To diagnose and compare sectoral financial status of the stocks in Nepalese stock market.
- J To analyze the market share prices of the Nepalese stock market.
- J To find out the impact of the secondary on primary market and vice versa.
- J To recommend for the improvement of stock market in Nepal.

The main conclusions of his research were:

The stock market and economic activities move in similar direction. They influence each -other. The development of the former is reflected in the latter. The stock market raises and mobilizes the investable resources to finance the long-term large projects in the economy. The stock market, therefore, can be regarded as a heart of economy.

The investors are interested to invest their resources in the shares of corporate sector through the stock market in the Nepalese economy. It is necessary to develop the entrepreneurship and encourage the entrepreneurs to start the productive venture as soon as possible. Management capability of the entrepreneurs is a key for better performance of the firms. Government should launch programs to enhance management capability of the entrepreneurs, which may contribute to raise the return from the investment.

Development of manufacturing sector is the backbone of an economy, which in turn assists to foster banking, finance and insurance sectors. Unfortunately, the manufacturing sector does not have a good performance in Nepalese economy. Almost all firms in this sector have a sustained loss.

The secondary aspect of the stock market is not also functioning well in Nepal. There is almost no liquidity in the stock market for shares expects that of banking and some finance and insurance sectors.

Although it has become late to take steps to overcome such problems of the Nepalese stock market in order to make it active and supportive, the stock market has good prospect for the resource mobilization to finance the productive enterprises in Nepalese economy".

Roshan Gautam (2005) entitled "A Study on Problems and Prospects of Primary and Secondary Stock Markets in Nepal" has concluded that most of the people considered stock market investment as black art that they have unrealistically optimistic or

pessimistic expectations about stock market investment or perhaps a fear of the unknown. We know that Nepalese stock market is in emerging stage. Its development is accelerating since the political change in 1990 in effect of openness and liberalization in national economy. But, Nepalese individual investors cannot analyze the securities as well as market properly because of the lack of information and poor knowledge about the analysis of securities for investment.

There is no alternative in securities market to allocate scarce resources efficiently within economies and increase mass participation in country's development process. Though the institutional development of securities Market in Nepal started in 1976, it is still at an underdeveloped stage, characterized by legal inadequacy, low resource availability to the regulators, low liquidity, double taxation on dividend and capital gain tax/poor corporate governance practices, low involvement of institutional investors, poor disclosure practices, high cost of public issue, high transaction cost and lack of enforcement of accounting and auditing standards.

Public response is high due to lack of opportunities for investment in other fields. No proper investment analysis is been made. Despite this, public are attracted towards shares than other sectors, basically to increase their value of investment. The dynamism of the stock market has been greatly reduced by the domination of the long-term shareholders, who prefer holding the shares with the hope of increasing their wealth, who prefer holding the shares with the 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 very few rather no alternative to holding shares.

Since 2051/52 the major companies have been registered in transport, finance and manufacturing sectors.

Similarly, there is a significant increment in the number of listed companies in stock exchange. In fiscal year 2063/64, the number of companies listed in on the NEPSE is 137. The structure of both segments of the market primary/New secondary/Stock exchange has witnessed significant change. Some of the important developments in the primary market are as follows:

- i. The establishment of merchant banks, provision of speedy up allotment refunds, proportionate allotment of shares, allotment of financial institution, increase in minimum application amount for investment in primary issues.
- ii. The secondary market which presented an institutional mechanism that was un-equate nontransparent, hardly regulated and rarely geared to investor's protection, has also witnessed notable development. Among them are: prescription of norms for intermediaries like brokers in trading/settlement and the bound of stock exchange with participation from stock exchange members and investors. The Exchange has made tremendous effects in the volume of transaction, share turnover, number of shareholders, public response and market capitalization. However, a set back from the fiscal year 2052/53 B.S. is observed in the performance of both primary and secondary market as the price of share companies making loss has also tremendously increased and political instability which has buoyed down the country in recent times poor information dissemination to the public regarding share market. There are still quite a number of public companies which have not made their financial statements to public or disseminated requisite information.

Major findings of Roshan Gautam's study are as follows:

1. Tax system should be reformed and encourage to stimulate capital formation.
2. Improvement should be done in the systems of the Company Registrar's Office.
3. The NEPSE should adopt appropriate policies; membership and fee structure to attract members outside the Kathmandu valley similarly, the brokers from the Kathmandu valley need not be present on the floor or carry customs account. All type of securities firms, including broker-dealers, issue managers full managers as well as full service securities firm should be eligible for membership.
4. Restrictions on foreign direct and portfolio investment should be reviewed and the unnecessary impediments should be eliminated.
5. Accounting and audit standards for public companies should be strengthened through implementation of provisions of Chartered Accounts Act, 2054 B.S requiring newly licensed Chartered Accounts to pass an examination and provide financial assistance to ICAN.
6. The NEPSE should establish an Arbitration committee to handle unresolved investors complaints. The NEPSE Bye-laws should be amended to establish procedures governing the process of arbitration.
7. Give the Securities Board the power to require the stock exchange to discharge its responsibilities for ensuring compliance by public issuers either their continuing disclosure obligation.
8. When questionnaires were distributed to the officials related to the organization, brokers, market makers, policy makers, investors hesitate to meet the researcher. Similarly, when humbly requested for interviews they directly deny such request. Therefore, considering these entire facts fair situation is to be created to avoid such an unfair hesitancy on the part of concerned authorities.

9. The Central Depository System (CDS) may be interfaced to the current trade, trade capture of future potential automated trading systems. This means that very high volumes of trading can be cleared and settled in a timely and cost-effective way there by supporting the overall development of NEPSE.
10. Presently, Institutional players have not been able to play noticeable role in the Stock Exchange Limited Market, allotment procedures and emphasis for small investors have not helped to enhance the role of the instructional players. Increased role of players will make the market more competitive and also will help to check the manipulative trends if any of individual brokers. Additionally, it would add the professional dimension in the market too. To increase their roles, following strategies should be adopted.
11. Institutions should be encouraged to operate brokers in the secondary market
One of the major problems cited in the Nepalese Stock Exchange is the suspect of insider trading system which is one of the worst flows in stock trading. Such a system must be immediately discouraged and total review of broker appointing system should be made further, if any practices are noticed, immediate action must be initiated.
12. Manipulative practices like wash sales and churning should be strictly controlled.
13. Shareholders should also learn and believe to facilities improvement in the performance of the companies.
14. Opening up the foreign market and Nepalese market would further open up the opportunities.
15. While investing or trading in the primary or secondary market, the major consideration should be made that of the promoters, directors and managers in

Nepal. Other Considerations may be market prospect, professionalization of management and environment.

2.4 Research Gap

Capital market provides the best investment opportunities to the investors and plays the vital role in mobilizing savings and unutilized funds to the productive sectors for the expansion of trade and commerce. The basic objective of this study is to study and analyze the investors preference's in different financial instruments and this research work is quite different from the studies made by the above person. Research totally focus on to examine the preference of the investors in financial instruments and assess investors awareness regarding the investment decisions in selecting securities as well as provide the scenario of the investment trend in the securities market of Nepal.

So we can say that this research will be helpful to those who are going to be an investor as well as existing investors and this research also useful to determine the parameter of risk and return on different financial instruments. All the data which are used in this research based on primary data however secondary data have been also used to support the research. The method of analysis tally different, financial tools and statistical tools are used in this study as trend analysis, correlation, chi-square test and hypothesis. So this study will be fruitful to those interested person, scholars, teachers, students, businessman and government academically as well as policy perspective.

CHAPTER - III

RESEARCH METHODOLOGY

In this chapter, the specific research design has been presented to obtain the research objectives. The principle objective of this study is to find out the investor's preferences in financial instruments.

This chapter covers the overall research methodology. It includes the research design, population and sample, sources of data, data collection techniques, data analysis tools and limitation of the methodology.

3.1 Research Design

This study attempts to analyze the preferences of investors and financial instruments. To achieve the objective of this research, descriptive and analytical research design has been used. As per the nature of this research, primary data has been used to find the research objectives and the secondary data has also been used to support the research. Recent five years data from F/Y 2003 to 2007 have been used as sample.

3.2 Populations and Sample

Professional investors, market makers, Brokers, staff members of SEBO/N and NEPSE, and other related parties to securities market are the total populations of this research. Stratified and purposive sampling methods have been used to select the samples.

Altogether 140 companies (www.nepalstock.com) have listed their shares in NEPSE in order to make them eligible for trading. All the companies listed in NEPSE have

been considered. The professional shareholders are related to SEBO/N, NEPSE, and NRB. Issue manager, stockbroker, securities dealer and market maker are working as securities business person. The concerned staff members of SEBO/N and NEPSE have also been considered.

The samples under study are as follows:

S.N.	Categories	Samples	Responses
1.	Professional investors	25	22
2.	Market makers/brokers	20	20
3.	Staff members of NEPSE and SEBO/N	10	10
	Total	55	52

Source: Field Survey.

There are indifferent numbers of professional investors. Total population size of the professional investors includes those indifferent numbers. Only 25 investors are selected for this research who was involved in buying and selling the shares. There are altogether 37 brokers and market makers including 27 licensed brokers, 2 issue managers/ security dealers and 8 issue managers (see Annex-IV). These all have been categorized into a group of brokers/market makers. Altogether 20 brokers/market makers are taken as samples who were met on the trading floor of NEPSE. In case of NEPSE and SEBO/N, total 10 officers have been taken as sample from related departments.

3.3 Sources of Data

The information and data have been collected through primary sources as well as secondary sources. Discussions and interview with existing and potential investors,

staff members of NEPSE and SEBO/N, brokers, financial intermediaries and other concerned parties have been conducted to collect the primary data.

The secondary data have been collected through various published and unpublished documents will be concerned authorities. The sources of secondary data are as:

-) Official publications of the concerned offices
-) Publication of government relating to this field.
-) Books and journals related to Financial Management
-) Periodicals, magazines and newspaper
-) Brochures and booklets related to this research

3.4 Data Collection Technique

Secondary data and information are collected from the annual report published by NEPSE and publication of NRB. In order to collect primary data and information, the schedules of questionnaire (see Appendix-I) have been developed and provided to the investors and other related parties. Their opinions have been surveyed.

3.5 Data Analysis Tools

The collected data and information through primary as well as secondary sources correspondingly have been tabulated, categorized and analyzed by using appropriate statistical and financial tools. Tick mark and open-end questions are included in the questionnaires. Data from questionnaires will be gathered and tabulated systematically and then will be analyzed using percentage. The comparative analysis has also been undertaken using graphs. The responses of related parties of questionnaires have been presented according to question patterns in the columns of

table with observed and expected frequencies. Those observed and expected frequencies have been tested through chi-square test.

J Chi-square Test

In testing of hypothesis χ^2 test has been used. Expected frequencies were calculated by applying following formula:

$$E = \frac{RT \times CT}{N}$$

Where,

RT = Row Total

CT = Column Total

N = No. of Observation

Calculated values of χ^2 were calculated by applying following formula:

$$\chi^2 = \sum \frac{(O - E)^2}{E}$$

Where,

O = Observed Frequency

E = Expected Frequency

3.6 Limitation of the Methodology

This research is mainly related to investor's preferences and financial instruments with regards to Nepalese securities market. As per the research objectives, both primary and secondary data have been employed. To meet these research objectives, primary data has been used. Therefore, this research is a survey research. Like other studies, this study has also some common limitations of the methodology.

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter includes the presentation and analysis of data. The basic objective of this chapter is to analyze and elucidate the collected data from various sources. Analysis is based on primary as well as secondary data. This chapter is divided into three sections. The first section includes the presentation and analysis of secondary data. The second section includes the presentation and analysis of primary data collected from different respondents. And third section encompasses the major findings of the study. Primary data is collected on the basis of questionnaires distributed to Market Makers/ Brokers the staff members of NEPSE and SEBO/N, and Professional Investors.

4.2 Presentation and Analysis of Secondary Data

Likewise, presentation, interpretation and analysis of secondary data have been undertaken in this section. Secondary data have been collected from particularly various annual trading reports of NEPSE, annual reports of SEBO/N. The main purpose of the study is to examine the preferences of investors in financial instrument which is available in Nepalese securities market. This study also focuses the investor's awareness and investment trend in Nepalese security market and analyzes the Nepalese security market. The yearly approval of security has been presented in table 4.1.

Table 4.1**Issue Approved Instrument Wise**

(Rs. in million)

F/Y	Equity Share	Right Share	Debenture/Bonds	Government Securities*
2001/2002	319.46	621.86	360	13909.5
2002/2003	358.3	162.24	-	15368
2003/2004	647.5	70	300	10043.1
2004/2005	377.48	749.45	-	7431
2005/2006	456.42	1241.45	850	11584.2
2006/2007	290.254	1817.25	250	1789.234
2007/2008	1012.65	7605.21	2950	2049.64
Total	3462.046	12267.46	4710	62174.674

Source: Annual Report, SEBON/N and Quarterly Bulletin, NRB

** Government Securities includes Treasury Bills, Development Bonds and Citizen Saving Bond*

4.2.1 Market Capitalization

Securities market indicator shows that the investment trend of investors in secondary market is decreasing. Market capitalization of different sectors can be taken as the indicators of investors' preference in those sectors. Higher market capitalization indicates higher percentage of investors.

Table 4.2

Market Capitalization

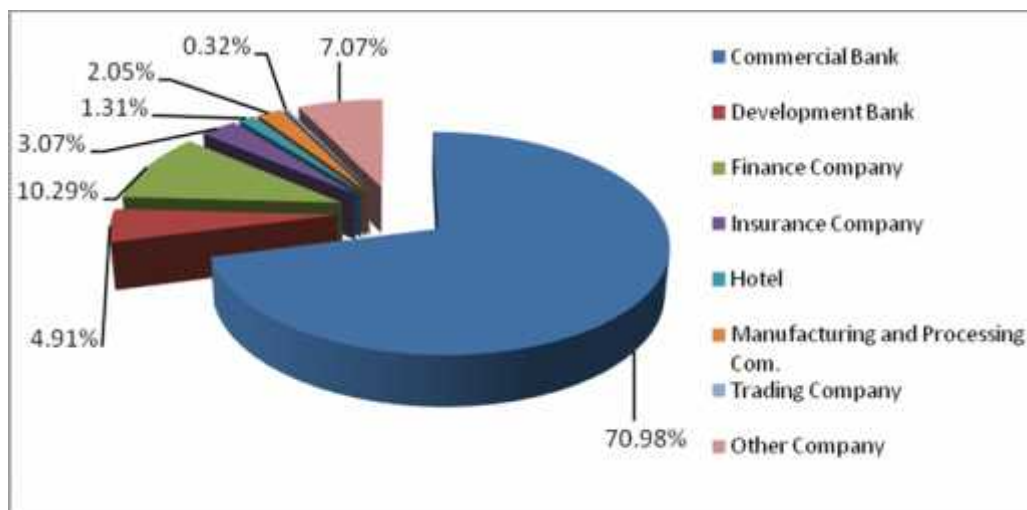
S.N.	Sector	Market Capitalization	Percent
1.	Commercial Bank	25995.53	70.98
2.	Development Bank	1799.78	4.91
3.	Finance Company	3767.44	10.29
4.	Insurance Company	1124.14	3.07
5.	Hotel	480.96	1.31
6.	Manufacturing and Processing Com.	751.69	2.05
7.	Trading Company	117.02	0.32
8.	Other Company	2588.19	7.07
	Total	36624.75	100.00

Source: Annual Report, SEBO/N, 2007/2008

The market capitalization of commercial bank is the highest i.e. Rs. 25995.53 million. The majority of the total capitalization (70.98%) is covered by the banking sector. Then Finance company Sector covers 10.29% of total market capitalization. Development bank, insurance, Manufacturing, hotel, trading and others sector cover 4.91%, 3.07%, 1.31%, 2.05%, 0.32% and 7.07% respectively of the total market capitalization (table 4.2).

Figure 4.1

Market Capitalization of Different Sectors



4.3 Presentation and Analysis of Primary Data

This section includes the presentation and analysis of primary data collected from different respondents. The primary data have been collected through the questionnaires distributed to the staff members of NEPSE & SEBO/N, Broker/Market Markets and Professional Investors. The collected data have been presented in the table and then analyzed. The purpose of the analysis of primary data is to achieve the objectives of the study.

4.3.1 Investors' Preference: Instrument-wise

Table 4.3

Investor's Preferences: Instrument wise

S. N.	Research Variables	NEPSE & SEBO/N		Broker/Market Markets		Investors		Total	
		Nos	%	Nos	%	Nos	%	Nos	%
1.	Equity Shares	5	50	12	60.0	12	54.5	29	55.8
2.	Preference Shares	1	10	1	5.0	2	9.1	4	7.7
3.	Debenture/Bonds	1	10	1	5.0	2	9.1	4	7.7
4.	Government Bonds	3	30	6	30.0	6	27.3	15	28.8
	Total	10	100	20	100	22	100	52	100

Source: Field Survey

With respect to preference of investors in financial instruments available in Nepalese security market, majority of the respondents (55.8%) stated that the Nepalese investors preferred to invest in equity share. 28.8% of the respondents stated that the preference of investors is in government securities. Only 7.7% of respondents stated that the investors prefer to invest in debenture and preference share. Comparison of responses of each responding group, majority of responses 50%, 60%, 54.5% of staff

of NEPSE & SEBO/N, Broker/Market makers and professional investors respectively prefer to equity share in Nepalese security market, which is shown in table 4.3.

Hypothesis Testing

To test the hypothesis whether there is significant difference or not between the opinions of the different responding groups, chi-square test has been used. The computed chi-square value is 0.9272 and the critical value at 5 percent level of significance for d. f., $v=6$ is 12.592 (Appendix-II). The computed value is less than the critical value. Therefore, it can be stated that there is no significant difference in the opinions of different responding groups. Thus, the responses of different groups are similar regarding the investors' preferences. Hence, the investors' preference is on equity share.

Table 4.4
Investors Preferences: Sector-wise

S. N.	Research Variables	NEPSE & SEBO/N		Broker/Market Markets		Investors		Total	
		Nos	%	Nos	%	Nos	%	Nos	%
1.	Banking	5	50.0	11	55.0	12	52.1	28	53.8
2.	Finance Co.	2	20.0	5	25.0	4	21.7	11	21.2
3.	Insurance Co.	2	20.0	3	15.0	4	17.4	9	17.3
4.	Hotel	-	-	1	5.0	-	-	1	1.9
5.	Manufacturing Co.	1	10.0	-	-	1	4.4	2	3.8
6.	Trading Co.	-	-	-	-	1	4.4	1	1.9
7.	Others	-	-	-	-	-	-	-	-
	Total	10	100	20	100	22	100	52	100

Source: Field Survey

It has been seen from the above table that the majority of the opinions (53.8%) supported banking sector investment. 21.2% respondents stated that Nepalese investors prefer finance companies. Then 17.3% respondents prefer insurance

companies. Only 1.9% of respondents stated investors want to invest in Hotel. Manufacturing companies and trading companies are selected by only 3.8 and 1.8 percent of respondents. Majority of respondents 50.0%, 55.0% and 52.1% from staff of NEPSE & SEBO/N, market makers/brokers, and professional investors respectively stated that investors prefer to invest in banking sector (table 4.4).

Hypothesis Testing

To test whether there is significant difference or not between the responses of the NEPSE & SEBO/N, market makers/brokers and professional investors, the chi-square test has been used. The computed value of chi-square is 5.2647 and critical value at 5 percent level of significance for d. f. $v=10$ is 18.307 (Appendix-II). Since the computed value of χ^2 test is less than the critical value, the opinions of all responding groups are similar and there is no significant difference between the responses of different groups regarding the sector wise preferences of investors.

4.3.2 Risk and Return Analysis before Investments

Table 4.5
Risk and Return Analysis before Investments

S. N.	Research Variables	NEPSE & SEBO/N		Broker/Market Markets		Investors		Total	
		Nos	%	Nos	%	Nos	%	Nos	%
1.	Yes	4	0.0	6	30.0	9	40.9	19	36.6
2.	No	5	0.0	11	55.0	12	54.5	28	53.8
3.	Don't know	1	0.0	3	15.0	1	4.6	5	9.6
	Total	10	100	20	100	22	100	52	100

Source: Field Survey

The respondents were asked whether they analyze risk and return before making investment. The majority of the respondents (53.8%) stated that the Nepalese

investors don't do risk and return analysis before making investment in financial instruments. Only 36.6% respondents stated that Nepalese investors analyze the risk and return before making investment in any securities. 9.6% respondents stated they don't know whether Nepalese investors do risk and return analysis or not. Majority of the respondents from each category i.e. 50.0%, 55.0% and 54.5% from NEPSE & SEBO/N, brokers/market makers and professional investors respectively stated that the Nepalese investors do not analyze the risk and return (table 4.5).

Hypothesis Testing

To test the hypothesis whether there is significant difference between the opinions of NEPSE & SEBO/N, market markers/brokers and professional investors, the chi-square test has been used. The computed value of chi-square is 1.544 and critical value at 5 percent level of significance for $v=4$ is 9.488 (Appendix-II). Since the computed value is less than the critical value, the opinions of different groups are similar and there is no significance difference in the opinions with respect to risk and return analysis before making investment in securities.

4.3.3 Investors' Purpose of Investment

Table 4.6

Investors' Purpose of Investment

S. N.	Research Variables	NEPSE & SEBO/N		Broker/Market Markets		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1.	Profit/Return	7	70.0	14	70.0	17	77.3	38	73.1
2.	Marketability	1	10.0	1	5.0	1	4.5	3	5.8
3.	Social Status	-	-	1	5.0	1	4.5	2	3.8
4.	Above All	2	20.0	4	20.0	3	13.7	9	17.3
	Total	10	100	20	100	22	100	52	100

Source: Field Survey

In the above table, the responses of different groups are presented. With respect to purpose of investors to invest in financial instruments, 73.1% opinions revealed that profit or return from the investment is the main purpose of the investors. Only 5.8% opinions revealed that investors invest for marketability and 3.8% opinions revealed that they do make investment in the securities for social status. 17.3% respondents stated that they do invest for profit/return, marketability and social status. 70.0% of NEPSE, 70.0% of market markers/brokers and 77.3% of professional investors responded that the investors invest in financial instrument for profit or return (table 4.6).

Hypothesis Testing

Whether is significant difference between the opinions of different responding groups or not, the hypothesis was tested using chi-square. The computed value of chi-square is 1.7306 and the critical value at 5% level of significance for d. f. $v=6$ is 12.592 (Appendix-II). Since the computed value is less than the critical value, there is no significant difference between the opinions of NEPSE & SEBO/N, market markers/brokers and professional investors. So, the opinions of different groups are similar.

4.3.4 Basis of Investment Decision

Table 4.7

Investment Decision in Securities

S. N.	Research Variable	NEPSE & SEBO/N		Broker/Market Markets		Investors		Total	
		Nos	%	Nos	%	Nos	%	Nos	%
1.	Fundamental Analysis	1	10.0	3	15.15	3	13.6	7	13.4
2.	Technical Analysis	7	70.0	13	65.65	13	59.1	33	63.5
3.	Random Walk Model	1	10.0	3	15.15	4	18.2	8	15.4
4.	Others	1	10.0	1	5	2	9.1	4	7.7
	Total	10	100	20	100	22	100	52	100

Source: Field Survey

The respondents were asked to find out the basis of investment decision, what type of analysis do they follow when making investment. The majority of the respondents i.e. 63.5% stated the investors follow the technical analysis before making investment. 13.4% opinions revealed that the investors carry out the fundamental analysis. 15.4% respondents stated that Nepalese investors adopt random walk model. According to the 7.7% opinions, some investors adopt any other measure to make investment other than fundamental, technical and random walk model. The majority respondents from each category (70.0% of NEPSE & SEBO/N, 65.0% of brokers/market makers and 59.1% of professional investors) stated that investors assume the technical analysis for the base of investment in financial instruments (table 4.7).

Hypothesis Testing

Whether there is significant difference between the opinions of the different responding groups, hypothesis has been tested using chi-square test. The computed

chi-square value is 0.8816 and the critical value at 5% level of significance for d. f. v=6 is 12.592 (Appendix-II). Since the computed value of chi-square is less than the critical value, it can be stated that the opinions of the NEPSE & SEBO/N, brokers/market makers and professional investors are same and there is no significant difference between the responses.

4.3.5 Satisfaction from Return

Table 4.8

Satisfaction from Return

S. N.	Research Variables	NEPSE & SEBO/N		Broker/Market Markets		Investors		Total	
		Nos	%	Nos	%	Nos	%	Nos	%
1.	Yes	3	30.0	6	30.0	8	36.4	17	32.7
2.	No	6	60.0	11	55.0	13	59.1	30	57.7
3.	Don't know	1	20.0	3	15.0	1	4.5	5	9.6
	Total	10	100	20	100	22	100	52	100

Source: Field Survey

The respondents were asked whether they are satisfied with the return on their investment, the majority of the respondents i.e. 57.5%) stated that the investors are not satisfied from return on their investment. 32.7% respondents stated that the investors are satisfied from their return and 9.6% respondents clarified that they don't know about the investors' satisfaction for their return. Comparing the percentage of satisfaction from their return on investment, majority of the respondents from each groups i.e. 60.0%, 55.0% and 59.1% of NEPSE & SEBO/N, brokers/market makers and professional investors respectively concluded that the investors are not satisfied from return on their investment (Table 4.8).

Hypothesis Testing

To test whether there is significant difference in the opinions of the respondents, chi-square test is used. The computed chi-square value is 1.3917 and the critical value at 5% level of significance for d. f. $v=4$ is 9.488 (Appendix-II). There is no significant difference between the opinions of each since the computed value is less than the critical value.

4.3.6 Investors Awareness Regarding the Investment in Nepalese Security Market

Table 4.9

Awareness of Investors Regarding the Investment in Security Market

S.N.	Research Variables	NEPSE & SEBO/N		Broker/Market Markets		Investors		Total	
		Nos	%	Nos	%	Nos	%	Nos	%
1.	Yes	4	40.0	8	40	8	32.4	20	38.5
2.	No	6	60.0	11	55	12	54.5	29	55.7
3.	Don't know	-	-	1	5	2	13.6	3	5.7
	Total	10	100	20	100	22	100	52	100

Source: Field Survey

Awareness of the investors regarding the investment in financial instrument helps to the development of the security market. With respect to the investor's awareness about the investment in financial instrument in security market, the majority of the respondents (55.7%) stated that they are aware regarding their investment. 38.5% of the respondents stated that investors are not aware in their investment in financial instruments. 5.7% respondents replied that they don't know about the investors' awareness. If the responses of different groups (NEPSE & SEBO/N, market

makers/brokers and professional investors) are compared, the majority of the respondents 60.0%, 55.0% and 54.5% of NEPSE & SEBO/N, market makers/brokers and professional investors respectively stated that the investors are not aware regarding the investment in financial instrument in the Nepalese security market (Table 4.9).

Hypothesis Testing

To test the hypothesis whether there is significant difference between the opinions of different groups, the chi-square test is used. The computed value of chi-square is 1.1802 and the critical value at 5% level of significance for d. f. v=4 is 9.488 (Appendix-II). Since the computed value is less than the critical value, there is no significant difference in the opinions of different respondent groups regarding the awareness of investors in Nepalese security market.

4.3.7 Preference Influencing Factors

Table 4.10

Preference Influencing Factors

S. N.	Research Variables	NEPSE & SEBO/N		Broker/ Market Markets		Investors		Total	
		Nos	%	Nos	%	Nos	%	Nos	%
1.	Returns	6	60.0	11	55.0	12	54.5	29	55.8
2.	Profit	2	20.0	4	20.0	4	18.2	10	19.2
3.	Rumors	-	-	1	5.0	2	9.1	3	5.8
4.	Company Performance	2	20.0	4	20.0	4	18.2	10	19.2
	Total	10	100	20	100	22	100	52	100

Source: Field Survey

The respondents were asked what are the influencing factors of the investors' preferences in the financial instruments, the majority of the opinions (55.8%) revealed that the major influencing factor is return and 19.2% opinions concerned with the main influencing factors to be profit and company's overall performances. 5.8% opinions concerned with the rumors to be main influencing factors of the investors. In this aspect, when the responses of different groups are compared, majority of the respondents from each category 60.0%, 55.0% and 54.5% from NEPSE & SEBO/N, brokers/market makers and professional investors respectively stated that return from financial instrument is the main influencing factor of the investors (table 4.10).

Hypothesis Testing

To test the hypothesis whether there is significant difference between the opinions of different groups, the chi-square test is used. The computed chi-square value is 1.0758 and the critical value at 5% level of significance for d. f. $v=6$ is 12.592 (Appendix-II). The computed value is less than the critical value and therefore the opinions of the different groups are similar and there is no significant difference between the responses.

4.3.8 Availability of Information to Investors from Companies

Table 4.11

Availability of Information to Investors

S.N.	Research Variables	NEPSE & SEBO/N		Broker/ Market Markets		Investors		Total	
		Nos	%	Nos	%	Nos	%	Nos	%
1.	Yes	3	30.0	6	30.0	2	9.1	17	21.2
2.	No	7	70.0	11	55.0	18	81.8	36	69.2
3.	Don't know	-	-	3	15.0	2	9.1	5	9.6
	Total	10	100	20	100	22	100	52	100

Source: Field Survey.

The respondents were asked whether the Nepalese investors are getting sufficient and timely information from the companies where they have made investments. The majority of the respondents i.e. 69.9% stated that the investors are not getting the sufficient and timely information regarding the investment from the companies. 21.2% respondents stated that they are getting sufficient and timely information from the concerned companies. Likewise, 9.6% respondents didn't know about getting sufficient and timely information from the companies. In this aspect, when the responses among the different responding groups are compared, majority of the responses from each group i.e. 70.0%, 55.0% and 81.8% of respondents from staff members of NEPSE & SEBO/N, brokers/market makers and Investors respectively opined that the investors are not getting sufficient and timely information from companies where they have made investment (Table 4.11).

Hypothesis Testing (table 4.11)

To test the hypothesis whether there is significant difference between the opinions of different responding groups, the chi-square test is used. The computed chi-square value is 5.2833 and the critical value at 5% level of significance for d. f. $v=4$ is 9.488 (Appendix-II). The computed value of chi-square is smaller than critical value and therefore it can be concluded that there is no significant difference between the opinions of responding groups.

4.3.9 Sufficiency of Rules and Regulations

Table 4.12

Sufficiency of Rules and Regulation to Protect the Investors

S.N.	Research Variables	NEPSE & SEBO/N		Broker/Market Markets		Investors		Total	
		Nos	%	Nos	%	Nos	%	Nos	%
1.	Yes	2	20.0	5	25.0	2	9.1	9	17.3
2.	No	8	80.0	15	75.0	19	86.4	42	80.8
3.	Don't know	-	-	-	-	1	4.5	1	1.9
	Total	10	100	20	100	22	100	52	100

Source: Field Survey.

The respondents were asked whether the existing rules and regulations regarding the investment in Nepalese capital market are effective /sufficient or not, majority of the respondents i.e. 80.8% stated that existing rules and regulation of the government are not sufficient and effective. 17.3% respondents concluded that the rules and regulation are sufficient for the protection of investment in security market and 1.9% respondents replied that they don't know the rules and regulation of government regarding the investment in the security market. In this aspect, when the responses different groups are compared, the majority of the responses from each group i.e. 80.0%, 75.0% and 86.4% from respondents from staff members of NEPSE & SEBO/N, brokers/market makers and professional Investors respectively replied that the existing rules and regulations of the government are not sufficient to protect the investment in the security market (Table 4.12).

Hypothesis Testing

Chi-square test has been used to test whether there is significant difference between the opinions of different groups. The computed chi-square value is 2.7522 and the critical value at 5% level of significance for d. f. $v=4$ is 9.488 (Appendix-II). Since the computed value is less than critical value, there is no significant difference between the opinions of different responding groups.

4.3.10 Main Attraction of Common Stock

Table 4.13

Main Attraction of Common Stock

S.N	Research Variables	NEPSE & SEBO/N		Broker/ Market Markets		Investors		Total	
		Nos	%	Nos	%	Nos	%	Nos	%
1.	Dividend	7	70.0	13	65.0	16	72.7	36	69.3
2.	Participation in mgnt	1	10.0	2	10.0	1	4.5	4	7.7
3.	Rights of shareholders	1	10.0	3	15.0	2	9.1	6	11.5
4.	Bulk Transaction	1	10.0	2	10.0	3	13.7	6	11.5
	Total	10	100	20	100	22	100	52	100

Source: Field Survey

The respondents were asked what was their main attraction in making investment in common stock. The majority of the respondents i.e. 69.3% opined that dividend is the main factor of attraction of common stock. 7.7% respondents stated that the main attraction factor is participation in management. Likewise, 11.5% respondents stated that a right of shareholders is the main factors and 11.5% respondents supported bulk transactions in the market. When the responses of NEPSE & SEBO/N, 65.0% of brokers/market makers and professional investors are compared to each other, the

majority of respondents from each group i.e. 70.0%, 65.0% and 72.7% from NEPSE & SEBO/N, brokers/market makers and professional investors stated that the main attraction of the common stock is the dividend (Table 4.13).

Hypothesis Testing

To test whether there is significant difference between the opinions of different responding groups regarding the main factor of preference in common stock, the chi-square test has been used. The computed chi-square value is 1.3172 and the critical value at 5% level of significance for d. f. v=6 is 12.592 (Appendix-II). The computed value of chi-square is less than critical value. Therefore, it can be concluded that there is no significant difference between the opinions of different responding groups.

4.3.11 Reason of not Issuing Debenture/Debt and Preference Share by the Companies

Table 4.14

Debenture/Debt and Preferences Share

S.N.	Research Variables	NEPSE & SEBO/N		Broker/ Market Markets		Investors		Total	
		Nos	%	Nos	%	Nos	%	Nos	%
1.	No attraction	7	70.0	15	75.0	15	68.2	37	71.1
2.	Certain return	2	20.0	4	20.0	6	27.3	12	23.1
3.	Don't Know	1	10.0	1	5.0	1	4.5	3	5.8
4.	Others	-	-	-	-	-	-	-	-
	Total	10	100	20	100	22	100	52	100

Source: Field Survey

The respondents were asked why the Nepalese companies are not issuing debentures and preferred stocks rather than common stock. The majority of the respondents i.e. 71.1% stated that there is no attraction of the investors. Only 23.1% respondents

replied that debentures and preferred stocks carry a certain level of return, which is very low and 5.8% respondents replied that they do not know why the Nepalese companies are not issuing debentures and preferred stocks. When the opinions of different groups are compared, the majority responses of different responding groups i.e. 70.0%, 75% and 68.2% from NEPSE & SEBO/N, brokers/market makers and professional investors stated that the main attraction of the common stock is the dividend (Table 4.14).

Hypothesis Testing (4.14)

Whether there is significant difference between the opinions of different groups. The hypothesis has been tested using chi-square. The computed chi-square value is 0.6123 and the critical value at 5% level of significance for d. f. $v=4$ is 9.488 (Appendix-II). The computed chi-square value is less than critical value. So there is no significant difference between the opinions of different responding groups.

4.3.12 Main attraction of Government Securities

Table 4.15

Attraction of Government Securities

S.N.	Research Variables	NEPSE & SEBO/N		Broker/ Market Markets		Investors		Total	
		Nos	%	Nos	%	Nos	%	Nos	%
1.	Risk free return	7	70.0	16	80.0	17	77.3	40	76.9
2.	High interest rate	3	30.0	4	20.0	5	22.7	12	23.1
3.	Rumors	-	-	-	-	-	-	-	-
4.	Others	-	-	-	-	-	-	-	-
	Total	10	100	20	100	22	100	52	100

Source: Field Survey.

The respondents were asked what was the main attraction of Nepalese investors in making investment in government securities. The majority of the respondents i.e. 76.9% opined that risk free return are the main attraction of government securities. 23.1% respondents stated that high interest rate with compared to commercial banks and other is the main attraction of government securities. 23.1% respondents stated that high interest rate with compared to commercial banks and other is the main attraction. The majority of the responses of different responding groups i.e. 70.0%, 80.0% and 77.3% from NEPSE & SEBO/N, brokers/market makers and professional investors respectively stated that the main attraction of government security is the risk free return (Table 4.15).

Hypothesis Testing (Table 4.15)

To test whether there is significant difference between the opinions of the NEPSE & SEBO/N, broker/market makers and professional investors, the chi-square test has been used. The computed chi-square value is 0.3781 and the critical value at 5% level of significance for d. f. $v=2$ is 5.991 (Appendix II). The computed value of chi-square is less than critical value. Hence, there is no significant difference between the opinions of the different responding groups.

4.3.13 Difficulties to Invest in Securities in Nepalese Security Market

The respondents were asked the questions like what are the difficulties that the investors are facing in Nepalese security market. Most of the respondents pointed out the difficulties. The difficulties that the Nepalese investors are facing, There are no other alternative financial instruments except ordinary share and government bonds. Though, they wish to purchase preference shares and debentures, they have no

choices and the process for trading of the securities in the security market of Nepal requires a lengthy paper work as well as Very few numbers of security analysts or firms involved in forecasting market trends and future price of the securities feel difficulties to take right investment decisions at right time.

Though the NEPSE is adopting T+5 day transaction strategy, the share transfer process is very time consuming and tough. The existing rules and regulations of government are insufficient for protecting investors' rights in security market. The investors are not aware in their investment and they are not getting sufficient and timely information about the companies. There is no facility for investors residing outside Katmandu valley for making transaction from his/her place. Suggestion from respondents to solve the above difficulties in the security market.

The respondents were also requested to suggest some practical measures that can help eliminating those problems and developing Nepalese securities market.

The suggestions made by the respondents are summarized below:

1. The government or the concerned authorities should create such an environment for the public companies to raise funds through issuing debentures and preferred stocks in order to provide the investment alternatives to the investors.
2. The government or the concerned authorities should disseminate the required information on timely manner regarding the listed company's financial status and shares to the general people.
3. The brokers and market makers should provide the advices to the clients about the investment.

4. Lengthy paper work process to buy or sell the securities should be removed and very transparent system should be adopted.
5. There should be computer-aided technologies for systemizing the securities. There should also be financial consultancy agencies to provide financial assistance to the existing as well as prospective investors when they feel.
6. The process of share transfer should be shortened.
7. The trading system should be computerized. There should be provisions to make transactions via. Internet. This will help make easy the transaction system for the existing as well as prospective investors residing out of Kathmandu valley also.
8. The existing rules and regulation of government are insufficient for protecting investors' investment in security market. Hence, the government should draft new rules and regulations to make the trading scientific and transparent.
9. The investors should be made aware regarding their investment and the security market should also disseminate the sufficient and timely information.
10. The only secondary market of Nepal i.e. Nepal Stock Exchange Limited should be privatized. Hence, the professionalism will be reflected.

4.4 Major Findings of the Study

The main objective of this study is to assess the investors' preference in making investment. The major findings of this study are summarized below:

1. The market capitalization of the different financial securities showed that common stock has the largest chunk of trading in the market. Hence, it can be said that Nepalese investors are trading in the market which proved that the preference of investors is on common stock of banking sectors.

2. The majority of the Nepalese investors preferred the equity share for investment. They preferred government securities after common stocks. The preferred stocks and debentures were least preferred.
3. The investors preferred the banking sector for investment.
4. The majority of the respondents stated that the investors do not make risk-return analysis before making investment decision.
5. Nepalese investors' main objective of investment is profit.
6. It was found that from the analysis of primary data that the investors made the investment decision in securities on the basis of technical analysis.
7. The investors were not satisfied with their return from investment decision in securities as the respondents were asked whether they were satisfied or not on return from their investment decision in securities.
8. The respondents were asked whether the Nepalese investors are aware or not regarding investment in Nepalese security market, major portion of them said that the investors were not aware regarding their investment in the Nepalese security market.
9. Major portion of the respondents stated that dividends/returns were the main influencing factors for preferences of investors.
10. The majority of the respondents of the different groups stated that the Nepalese investors were not getting sufficient and timely information from the companies.
11. With respect to the rules and regulation of government, it was found that the existing rules and regulations were not sufficient to protect the investors in the security market.

12. Majority of the respondents stated that dividend; right share and bonus share was the main attraction of common stock.
13. With respect to the companies not preferring to issue of debt and preferred stock, the majority of the respondents stated that no attraction of investors was the main reason that the Nepalese companies did not prefer to issue debt and preference stock frequently.
14. It was seen that the main attraction of Nepalese investors towards the government securities was the absent of risk.
15. Legal provisions regarding the trading of securities should be amended as per the needs and those provisions should be implemented properly in practice.
16. The investors who have invested in some of the companies like NECON AIR, Himgiri Pharmaceuticals, Nepal development bank(Liquidation process) etc. have already been collapsed even they did not return back the investment of the investors to date so the government should make effort to recover their lost investment from the concerned companies fixed assets.

CHAPTER-V

SUMMARY, CONCLUSION & RECOMMENDATIONS

This chapter deal with the finding and conclusions derived from the study of investors' preferences in financial instruments. This chapter consists of three sectors: First Section provides the summary of the study, the second draws the conclusions of the study and the final section gives recommendations to solve the problem observed on the basis of findings.

5.1 Summary

Capital market provides the best investment opportunities to the investors and plays the vital role in mobilizing savings and unutilized funds to the productive sectors for the expansion of trade and commerce. The basic objective of this study is to study and analyze the investors' preferences in financial instruments. The study also analyzes the investors' awareness regarding the investment decision and Nepalese security market. In order to conclude the study in a manner of the academic research, this study follows the conventions of the methodology set by University. In the first chapter introduction to the security/capital market, statement of problem, objective of the study, research hypothesis, significance of the study and limitations of the study were attempted. Next to this follow the chapter of review of literature in this chapter the concept of security market, types of financial instruments and studies on security market with focus of financial instruments conducted held inside the country and abroad are explored.

After that, methodology of research is dealt in detail for the basic understanding of the methods applied in the conclusion of the study. The next chapter is the major part of the study, in this the analytical exploration and manipulation of data has been attempted within the frame of the methodology insisted in the chapter of research methodology. And then come the present chapter namely summary, conclusion and recommendations. In this chapter, the summary of the study, conclusions derived out of the study and recommendations have been presented.

This study is primarily based on the primary data being the main objective of finding the investors' preferences on financial instruments. However, secondary data have also been used to support the study. For collecting the primary data, the schedule of questionnaires were developed and provided to the investors and other concerned persons. The given information from the respondents are tabulated and analyzed. The secondary data were abstracted from various annual reports of NEPSE, SEBO/N and publications of NRB. The study covered the sample period of five years beginning from F/Y 2003/2004 to 2007/2008. Percentage and chi-square tests have been used to analyze the primary data. Chi-square test at 95% level of confidence has been used to test whether there is significant difference between the opinions of the different responding groups or not.

This study analyzes the different influential factors of the investors. So, the rationality and awareness of investors influence the whole security market. Thus, this study focuses on the rationality and awareness of investors and also includes the impact of present existing situation faced by the general investors while making investment decision and also this study covers the analysis of the securities, which are prevalent

in Nepalese financial market. It is analyzed that what factors affect the preference of investors. Basically, the companies issue the common stocks and these stocks are transacted regularly in NEPSE.

5.2 Conclusion

From the above analysis, it seems that the Nepalese investors' prefer common stocks when making investment decision. The common stock has the largest chunk of trading in the market. The main attraction of common stock is due to dividend, right share and bonus share of the company. The stocks of banking sectors have the largest amount of trading in the market of the market capitalization of common stock of banking sectors is very high. Hence, the preference of investors is on common stock of banking sector.

The investors give the second priority of the government securities because the government securities are taken as risk less investment. The Nepalese investors least prefer the preferred stocks and debenture. The main reason behind the Nepalese companies for not preferring to issue debenture and preferred stock frequently is lack of attraction of investors towards debenture and preferred stock. It was found that from the primary data, no attraction of investors is the main reasons of the Nepalese companies for not preferring to issue debenture and preferred stock frequently.

The market capitalization of the securities shows that the Nepalese security market is in development stage since the capitalization is increasing trend.

The Nepalese investors do not seem aware in regarding investment in the security market. They don't analysis the risk and return before making any investment in any securities. They invest their money just by observing the market trend and rumors of declaring bonus share, right share, which is very unscientific in Nepalese context because Nepalese security market is not in equilibrium. The investors are feeling that the existing rules and regulations regarding the security market are insufficient. They claimed that they are not getting sufficient and timely information from the companies where they have invested their money.

5.3 Recommendations

Nepalese security market is in growth stage. It is one of the prominent sources for the economic development. The flow of issuing of securities is very high in common stock of commercials banks. Investors are the backbone of the economic development of the country. So, the investors should be encouraged to make investments in security market by creating congenial investment environment. Government policies regarding the financial sector reforms and security market development can create such environment. The government is still unable to create favorable and proper investment environment to develop the security market as well as to encourage investors to invest in this field. The specific recommendations based on the findings of the study are summarized below:

1. Under the study, it was found that the brokers and market makers are not making appropriate suggestions. Considering this fact, they are required to provide assistance and make aware the investors. Furthermore, the government concerned public limited companies, market makers, brokers and other intermediaries are required to make the awareness programs for general

regarding the investment opportunities in the secondary market and Lengthy paper work process to buy or sell the securities should be removed and very transparent system should be adopted.

2. The existing rules and regulations related to security market and transactions have been felt insufficient. This is why the government should amend the existing rules and regulations make the trading scientific and transparent.
3. The security exchange centers around the world are autonomous and public owned. Many secondary markets are established according to the need of the time. However, there is only one secondary market in Nepal i.e. Nepal Stock Exchange Limited. The government has already adopted the liberalized economic policy. Some government corporations are progressing after privatization. Hence NEPSE should also be privatized. In effect, the professionalism will be reflected and the growth can be felt immediately.

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Appendix -I

Dear Sir/Madam,

I hereby request you to fill up the attached questionnaire provided to you in order to collect the precious views and opinions from your side, which will be helpful for facilitating the research for the partial fulfillment of the requirement of the MBS degree. The research topic is "Investors' Preferences in Financial Instruments ". The views expressed in this questionnaire by you will only be used for the research purpose and kept confidential.

Your kind cooperation will be helpful to complete this research successfully.

Thank You!

Karunakar Mallick

(Researcher)

Master of Business Studies (MBS)

Shanker Dev Campus, T.U.

Research Questionnaire

Name:

Address:

Qualification:

Date:

Please place () mark on the correct box and express your ideas and views where necessary.

1. In which of the following financial instruments do you want to invest?

a) Equity share

b) Preference share

c) Debenture/bonds

d) Government bond

2. In your opinion, which one of the following investment sectors do the you prefer do make investment?

a) Banking

b) Finance

c) Insurance

d) Hotel

e) Manufacturing

f) Trading company

g) Others

3. Do you emphasis (consider) on risk-return analysis while making investment?

a) Yes

b) No

c) Don't know

4. What is your motive in making investment in securities?

a) Profit/Return

b) Marketability

c) Social status

d) Above all

5. What type of analysis do you follow when making investment ?

a) Fundamental Analysis

b) Technical Analysis

c) Random walk model

d) Others

6. Are you satisfied with the return from your investment decision in the security market?

a) Yes

b) No

c) Don't know

7. Are you aware regarding the investment in Nepalese security market?

a) Yes

b) No

c) Don't know

8. Which is the main influencing factor for your investment?

a) Returns

b) Profit

c) Rumors

c) Company's overall performance

9. Are you getting sufficient and timely information from the companies where you have investment?

a) Yes

b) No

c) Don't know

10. Are the rules and regulations of the government sufficient to protect your investment in the securities market?

a) Yes

b) No

c) Don't know

11. Why are you attracted to make investment in the common stock?

a) Dividend

b) Participation in the management

c) Right of shareholders

d) Bulk transaction

12. Why the Nepalese companies are not issuing debenture & preferred stocks rather than common stock?

a) No attraction

b) Certain Return

c) Don't Know

d) Others

13. What is the main attraction of Nepalese investments in making investment in government securities?

a) Risk free return

b) High interest rate

c) Rumors

d) Others

Appendix-II
Result of Chi-square Test

Q.N.	NPES/SEB O/N	Broker/Mar ket Makers	Investor s	Tota l	Chi- square	5% level	Remarks
Q.1							
a.	5	12	12	29			
b.	1	1	2	4			
c.	1	1	2	4			
d.	3	6	6	15			
Total	10	20	22	52	0.972	12.592	NHA
Q.2							
a.	5	11	12	28			
b.	2	5	4	11			
c.	2	3	4	9			
d.	-	1	-	1			
e.	1	-	1	2			
f.	-	-	1	1			
Total	10	20	22	52	5.2647	18.307	NHA
Q.3							
a.	4	6	9	19			
b.	5	11	12	28			
c.	1	3	1	5			
Total	10	22	22	52	1.544	9.488	NHA
Q.4							
a.	7	14	17	38			
b.	1	1	1	3			
c.	-	1	1	2			
d.	2	4	3	9			
Total	10	20	22	52	1.7306	12.592	NHA
Q.5							
a.	1	3	3	7			
b.	7	13	13	33			

c.	1	3	4	8			
d.	1	1	2	4			
Total	10	20	22	52	0.8816	12.592	NHA
Q.6							
a.	3	6	8	17			
b.	6	11	13	30			
c.	1	3	1	5			
Total	10	20	22	22	1.397	9.488	NHA
Q.7							
a.	4	8	8	20			
b.	6	11	12	29			
c.	-	1	2	3			
Total	10	20	22	52	1.1802	9.488	NHA
Q.8							
a.	6	11	12	29			
b.	2	4	4	10			
c.	-	1	2	3			
d.	2	4	4	10			
Total	10	20	22	52	1.0758	12.592	NHA
Q.9							
a.	3	6	2	11			
b.	7	11	18	36			
c.	-	3	2	5			
Total	10	20	22	52	5.2833	9.488	NHA
Q.10							
a.	2	5	2	9			
b.	8	15	19	42			
c.	-	-	1	1			
Total	10	20	22	52	2.7522	9.488	NHA
Q.11							
a.	7	13	16	36			
b.	1	2	1	4			
c.	1	3	2	6			

d.	1	2	3	6			
Total	10	20	22	52	1.3172	12.592	NHA
Q.12							
a.	7	15	15	37			
b.	2	4	6	12			
c.	1	1	1	3			
Total	10	20	22	52	0.6123	9.488	NHA
Q.13							
a.	7	16	17	40			
b.	3	4	5	12			
Total	10	20	22	52	0.3781	5.991	NHA

Appendix - III
Listed Companies

List of the Companies in the Fiscal Year (2007/2008)

Commercial Banks				
1	Nabil Bank Ltd.	4909950	100	490995000
2	Nepal Investment Bank Ltd.	8013526	100	801352600
3	Standard Chartered Bank Ltd.	4132548	100	413254800
4	Himalayan Bank Ltd.	8108100	100	810810000
5	Nepal SBI Bank Limited	6478032	100	647803200
6	Nepal Bangladesh Bank Ltd.	7199260	100	719926000
7	Everest Bank Ltd	3780000	100	378000000
8	Bank of Kathmandu Ltd.	6031413	100	603141300
9	Nepal Industrial & Co. Bank Ltd.	6600000	100	660000000
10	Machhapuchhre Bank Ltd.	8216513	100	821651300
11	Laxmi Bank Limited	7320000	100	610000000
12	Kumari Bank Ltd.	6250000	100	625000000
13	Lumbini Bank Ltd.	6000000	100	600000000
14	Nepal Credit & Com. Bank Ltd.	7000000	100	700000000
15	Siddhartha Bank Limited	5000000	100	500000000
	TOTAL	95039342		9503934200
Manufacturing & Processing				
1	Morang Sugar Mills Ltd.	35827	100	3582700
2	Bottlers Nepal (Balaju) Ltd.	1948887	100	194888700
3	Biratnagar Jute Mills Ltd.	68750	160	11000000
4	Nepal Lube Oil Ltd.	203936	100	20393600
5	Nepal Vanaspati Ghee Udhyog Ltd	101250	100	10125000
6	Raghupati Jute Mills Ltd.	1806966	100	180696600
7	Butwal Spinning Mills Ltd.	1306693	100	130669300
8	Gorakhkali Rubber Udhyog Ltd.	3833400	75	287505000
9	Jyoti Spinning Mills Ltd (ord.)	1270288	100	127028800
10	Arun Vanaspati Udhyog Ltd.	550343	100	55034300
11	Bottlers Nepal (Terai) Ltd.	1210000	100	121000000
12	Harisiddhi Brick and Tile Fac.Ltd.	18650000	10	186500000
13	Birat Shoe Ltd.(Ord.)	165000	100	16500000
14	Uniliver Nepal Ltd.	920700	100	92070000
15	Nepal Khadya Udhyog Ltd.	90000	100	9000000

16	Himgiri Textile Industries Limited	480000	100	48000000
17	Shree Bhrikuti Pulp& Paper Ltd	3500000	100	350000000
18	Fluer Himalayan Limited	262102	75	19657650
19	Shree Ram Sugar Mills Ltd	3045990	100	304599000
20	Nepal Bitumin and Barrel Udyog	210680	100	21068000
21	Himalayan Distillery Ltd.	4130000	100	413000000
	TOTAL	43790812		2602318650
Hotels				
1	Yak and Yeti Hotel Ltd. (Ord.)	2209208	100	220920800
2	Soaltee Hotel Ltd.	8697187	10	86971870
3	Taragaon Regency Hotel Ltd.	7449875	100	744987500
4	Oriental Hotel Ltd.	5000000	100	500000000
	TOTAL	23356270		1552880170
Others				
1	National Pro. & Eco. Dev. Centre Ltd.	77355	100	7735500
2	Nepal Film Dev. Co. Ltd.	446623	100	44662300
	TOTAL	523978		5237800
Hydro Power				
1	National Hydro Power Co. Ltd.	6606630	100	660663000
2	Butwal Power Co. Ltd.	8390577	100	839057700
3	Chilime Hydro Power Co. Ltd.	7296000	100	729600000
	TOTAL	22293207		2229320700
Tradings				
1	Salt Trading Corporation	247777	100	24777700
2	Bishal Bazar Co. Ltd.	273000	100	27300000
3	Nepal Byapar Bikash Co. (Koshi) Ltd.	56018	100	5601800
4	Nepal Trading Ltd.	50000	50	2500000
5	Nepal Welfare Company Ltd.	41000	50	2050000
	TOTAL	667795		62229500
Insurance				
1	Nepal Insurance Co. Ltd.	1026984	100	102698400
2	Rastriya Beema Sansthan	995138	100	99513800

3	National Life & Gen. Ins. Co. Ltd.	300000	100	30000000
4	Himalayan Gen. Ins. Co. Ltd.	300000	100	30000000
5	United Insurance Co. (Nepal) Ltd.	600000	100	60000000
6	Everest Insurance Co. Ltd.	900000	100	90000000
7	Premier Insurance co. Ltd.	300000	100	30000000
8	Neco Insurance Co. Ltd.	550000	100	55000000
9	Alliance Insurance Co. Ltd.	500000	100	50000000
10	Sagarmatha Insurance Co .Ltd	785400	100	78540000
11	NB Insurance Co. Ltd.	1000000	100	100000000
12	Nepal Life Insurance Co. Ltd.	2500000	100	250000000
13	Life Insurance Co. Nepal Ltd.	2500000	100	250000000
14	Prudential Insurance Co. Ltd.	1000000	100	100000000
15	Lumbini General Insurance Co. Ltd.	1000000	100	100000000
16	Shikhar Insurance Co. Ltd.	1250000	100	125000000
	TOTAL	15507522		1550752200
Finance				
1	Nepal Finance and Saving Co. Ltd.	200000	100	20000000
2	NIDC Capital Markets Ltd.	750000	100	75000000
3	National Finance Co. Ltd.	1045767	100	104576700
4	Nepal Share Markets Ltd.	1600000	100	160000000
5	Annapurna Finance Co. Ltd.	1680000	100	80000000
6	Kathmandu Finance Limited.	330000	100	33000000
7	Peoples Finance Limited.	663941	100	66394100
8	Union Finance Co. Ltd.	725153	100	72515300
9	Citizen Investment Trust	400000	100	40000000
10	Nepal Aawas Bikas Beeta Co. Ltd.	638207	100	63820700
11	Narayani Finance Limited	501109	100	50110900
12	Yeti Finance Company Ltd.	250000	100	25000000
13	Gorkha Finance Ltd.	300000	100	30000000
14	Samjhana Finance Co. Ltd.	225000	100	22500000
15	Universal Finance Ltd.	501306	100	50130600
16	Nepal Housing & Merchant Fin. Ltd.	653400	100	65340000
17	General Finance Ltd.	242434	100	24243400
18	Maha Laxmi Finance Ltd.	660000	100	66000000
19	Lalitpur Finance Ltd.	506250	100	50625000

20	Goodwill Finance Co. Ltd.	500000	100	50000000
21	Paschimanchal Finance Co. Ltd	506000	100	50600000
22	Pokhara Finance Ltd.	600000	100	60000000
23	Lumbini Finance Ltd.	600000	100	60000000
24	Nepal Mer. Banking & Finance Ltd.	2000000	80	160000000
25	Siddhartha Finance Limited	520000	100	52000000
26	Alpic Everest Finance Co. Ltd.	780000	100	78000000
27	Nepal Bangladesh Fin. & Leasing Co. Ltd.	500480	100	50048000
28	United Finance Ltd	600000	100	60000000
29	International Leasing & Fin. Co. Ltd.	1200000	100	120000000
30	Shree Investment Finance Co. Ltd	560000	100	56000000
31	Central Finance Co. Ltd.	480000	100	48000000
32	Nepal Shree Lanka Merchant Bank Ltd.	1000000	100	100000000
33	Premier Finance Co. Ltd	288000	100	28800000
34	Nava Durga Finance Co. Ltd.	220000	100	22000000
35	Butwal Finance Ltd	632500	100	63250000
36	Janaki Finance Ltd.	400000	100	40000000
37	Standard Finance Ltd.	660000	100	66000000
38	Om Finance Ltd.	500000	100	50000000
39	Cosmic Merchant Banking & Finance Ltd.	750510	100	75051000
40	Fewa Finance Co. Ltd.	500000	100	50000000
41	KIST Merchant Bank. & Finance Ltd.	2000000	100	200000000
42	World Merchant Bank Ltd	600000	100	60000000
43	Birgunj Finance Ltd	660000	100	66000000
44	Capital Mer. Banking & Finance Ltd.	1610000	100	161000000
45	Everest Finance Ltd.	200000	100	20000000
46	Prudential Bittiya Sanstha Ltd.	500000	100	50000000
47	Shrijana Finance Ltd.	100000	100	10000000
48	Royal Mer. Banking & Finance Ltd.	550000	100	55000000
49	Guheshwori Mer. Banking & Finance Ltd.	550000	100	55000000
50	IME Financial Institution Ltd.	500000	100	50000000
51	Bhajuratna Fin. & Saving Co. Ltd.	350000	100	35000000
52	Patan Finance Ltd.	500000	100	50000000
53	Imperial Financial Inst. Ltd.	500000	100	50000000
54	Civil Merchant Bittiya Santha Ltd.	500000	100	50000000
	TOTAL	34317623		3387262300

Development Banks				
1	Nepal Industrial Dev. Corp.	2978784	100	297878400
2	Nepal Development Bank Ltd.	1600000	100	160000000
3	Development Credit Bank Ltd.	2688000	100	268800000
4	Nirdhan Utthan Bank Ltd.	328838	100	32883800
5	Chhimek Vikash Bank Ltd.	300000	100	30000000
6	Paschimanchal Bikash Bank Ltd.	525000	100	52500000
7	Diprox Development Bank Ltd.	116000	100	11600000
8	Gandaki Development Bank Ltd.	500000	100	50000000
9	Business Development Bank Ltd.	300000	100	30000000
10	Siddhartha Development Bank Ltd.	500000	100	50000000
11	Bhrikutee Vikash Bank Ltd.	239572	100	23957200
12	Sanima Vikash Bank Ltd.	3200000	100	320000000
13	Narayani Industrial Dev. Bank Ltd.	200000	100	20000000
14	Bageshori Development Bank Ltd.	300000	100	30000000
15	Sahayogi Vikas Bank Ltd.	200000	100	20000000
16	Gurkha Development Bank (Nepal) Ltd.	3200000	100	320000000
17	Annapurna Bikas Bank Ltd.	600000	100	60000000
18	Swabalamban Bikas Bank Ltd.	200000	100	20000000
19	Ace Development Bank Ltd.	3200000	100	320000000
20	Himchuli Bikas Bank Ltd.	300000	100	30000000
	TOTAL	22476194		2217919400
	GRAND TOTAL	258846721		23116992720

Preference Shares

S. No.	Companies Name	Listed Shares	Paid up Value	Total Paid up Value
1	Everest Bank Ltd.	1400000	100	140000000
	TOTAL	1400000		140000000

Mutual Fund

S. No.	Companies Name	Listed Unit	Paid up Value	Total Paid up Value
1	NCM Mutual Fund	10000000	10	100000000
	TOTAL	10000000		100000000

Corporate Bond

S. No.	Companies Name	Listed Unit	Paid up Value	Total Paid up Value
1	Himalayan Bank Debenture	360000	1000	360000000
2	Nepal Inv. Bank Bond 2067	300000	1000	300000000
3	Everest Bank Rinpatra 2061	300000	1000	300000000
4	Bank of Kathmandu Bond 2069	200000	1000	200000000
5	Nepal Inv. Bank Bond 2070	250000	1000	250000000
6	NIC Bond 2070	200000	1000	200000000
7	Nepal SBI Bank Rinpatra 2070	200000	1000	200000000
8	Nepal Investment Bond 2071	250000	1000	250000000
	TOTAL	2060000		2060000000

Government Bond

S. No.	Companies Name	Listed Unit	Paid up Value	Total Paid up Value
1	Bikash Rinpatra 2067	5000000	100	500000000
2	Bikash Rinpatra 2067 'Ka'	10000000	100	1000000000
3	Bikash Rinpatra 2067 'Kha'	7500000	100	750000000
4	Bikash Rinpatra 2067 'Ga'	7500000	100	750000000
5	Bikash Rinpatra 2072	7500000	100	750000000
6	Bikash Rinpatra 2075	12000000	100	1200000000
7	Bikash Rinpatra 2075 "Ka"	21000000	100	2100000000
8	Bikash Rinpatra 2076	22000000	100	2200000000
	TOTAL	92500000		9250000000

Delisted Companies for Year 2065/66

S. No.	Companies Name	Listed Shares	Paid up Value	Total Paid up Value
1	Nepal Battery Co. Ltd.	125425	100	12542500
2	Juddha Match Factory	80000	40	3200000
3	Nepal Plywood & Bobin Co. Ltd.	110589	16	1769424
4	Himal Cement Co. Ltd	453115	100	45311500
5	Sayapatri Color Lab	34910	100	3491000
6	Nepal Med Ltd.	110849	100	11084900
7	Ace Laboratories (Nepal)	272448	100	27244800
8	Bansbari Leatherage	500000	100	50000000
9	Necon Air Ltd.	1792000	100	179200000
10	Nepal United Co.	52901	100	5290100
11	Plastic Trading Co.	20000	100	2000000
12	Nepal Byapar Bikas Co.	94929	75	7119675
	TOTAL	3647166		348253899

Number of total listed companies: 140

Preference Share: 1

Mutual Fund: 1

Corporate Debenture: 8

Government Bond: 8

Appendix -V

List of Brokers/Market Makers

Brokers

S.N.	Name of the License Members	Address
1.	Kumari Securities (Pvt.) Ltd.	Mahabouddha, Kathmandu
2.	Arun Securities (Pvt.) Ltd.	Putalisadak, Kathmandu
3.	Opel Securities (Pvt) Ltd.	Putalisadak, Kathmandu
4.	Market Securities & Exchange (Pvt.) Ltd.	Basantpur, Kathmandu
5.	Agarwal Securities (Pvt.) Ltd.	Kamaladi, Kathmandu
6.	Ashutosh Brokerage & Sec. (Pvt.) Ltd.	Khichapokhari, Kathmandu
7.	J.F. Securities (Pvt.) Ltd.	Ramshahahpath, Kathmandu
8.	Pragyan Securities (Pvt.) Ltd.	Gaushala, Kathmandu
9.	Malla & Malla Stock Broking Co. (Pvt.) Ltd.	Dillibazar, Kathmandu
10.	Ohm Securities and Allied Services (Pvt.) Ltd.	Maharajgunj, Kathmandu
11.	Annapurna Securities Service (Pvt.) Ltd.	Putalisadak, Kathmandu
12.	Nepal Stock House (Pvt.) Ltd.	Anamnagar, Kathmandu
13.	Nikhil Securities Service (Pvt.) Ltd.	Ward No. 32, Kathmandu
14.	Primo Securities (Pvt.) Ltd	Putalisadak, Kathmandu
15.	Khandelwal Stock Broking Co. (Pvt.) Ltd.	Rautahat District, Gaur
16.	Sagarmatha Securities (Pvt) Ltd.	Putalisadak, Kathmandu
17.	Nepal Investment & Sec. Trading (Pvt.) Ltd.	Rautahad District, Gaur
18.	Sipla Securities (Pvt) Ltd.	Newroad, Kathmandu
19.	Midas Stock Broking Co. (Pvt.) Ltd.	Kalimati, Kathmandu
20.	Siprabi Securities (Pvt.) Ltd.	Maitighar, Kathmandu
21.	Shivashakti Stock and Investment (Pvt.). Ld.	Kamaladi, Kathmandu
22.	Sweta Securities (Pvt.) Ltd.	Putalisadak, Kathmandu
23.	Asian Securities Co. Ltd.	Pako, Kathmandu, Nepal
24.	Shree Krishna Securities Ltd.	Dharmapath, Kathmandu
25.	Trisul Securities and Investment Ltd.	Maitidevi, Kathmandu
26.	Yeti Securities Pvt. Ltd.	Kamalpokhari, Kathmandu
27.	Premier Securities Co. Ltd.	Putalisadak, Kathmandu

Issue Manager and Securities Dealer

S.N.	Name of the License Members	Address
1.	Nepal Sri-Lanka Merchant Bank Ltd.	Kamaladi, Ktm.
2.	United Finance Ltd.	Darbar Marg, Ktm

Issue Manager

S.N.	Name of the License Members	Address
1.	National Finance Co. Ltd.	Pako, New Road, Ktm.
2.	Rastriya Banijya Bank (RBB)	Bishal Bazar, Ktm.
3.	Ace Finance Co. Ltd.	Kantipath, Ktm
4.	NIDC Capital markets Ltd.	Kamalpokhari, Ktm
5.	Citizen Investment Trust	Addwait Marg, Ktm.
6.	Nepal Merchant Banking & Finance Ltd.	Kamaladi, Ktm.
7.	Nepal Finance, Saving Co. Ltd.	Kamaladi, Ktm
8.	Nepal Share Markets & Finance Ltd.	Putalisadak, Ktm

Appendix-VI
List of Securities Businesspersons

S.N.	Name of Securities Businessperson Address	Tel. No. Fax No.
1	Kumari Securities (P) Ltd. POB 20189, Dillibazar, Ktm	4418036 4418369
2	Arun Securities (P) Ltd. POB 8136, Putlisadak, Ktm	4419051 4420572
3	Opel Securities (P) Ltd. Baluwatar, Ktm	4423509
4	Market Securities and Exchange Co. (P) Ltd. Dharmapath, Ktm	4248973
5	Agrawal Securities (P) Ltd. POB: 4760 Sankardev Marg, Ktm	4430780, 229739
6	Aashutosh Brokerage & Securities (P) Ltd. Khichapokhari, Ktm	4227510, 4220276 4240162
7	Pragyan Securities (P) Ltd. POB: 10087, Gaushala, Ktm	4491683, 4498234
8	Malla and Malla Stock Broking Co. (P) Ltd. Dillibazar, Ktm	4414263, 4416050
9	Om Securities and Allied Services (P) Ltd. POB 2654, New Plaza, Ktm	4431386, 4442122
10	Annapurna Securities Service (P) Ltd. Putalisadak, Ktm	4419051 4420572
11	Nepal Stock House (P) Ltd. POB: 8978 Anamnagar, Ktm	4245012 4255732
12	Primo Securities (P) Ltd. POB 748, Putalisadak, Ktm	4230787 4226507
13	Khandelwal Stock Broking Co. (P) Ltd. Tahachal, Ktm	4284943
14	Sagarmatha Securities (P) Ltd. Kha 2/450, Putalisadak, Ktm	4242548
15	Nepal Investment & Securities Trading (P) Ltd. Maitidevi, Ktm	4413201, 4495450
16	Sipla Securities (P) Ltd. 6/50 New Road, Ktm	4255782 4255580
17	Midas Stock Broking Co. (P) Ltd. W.No. 13, Kalimati, Ktm	4414263, 4416050
18	Siprabi Securities (P) Ltd. POB 5705, Kupondol, Ktm	5530701
19	Sweta Securities (P) Ltd. RadhaKuti Arcade, Putalisadak, Ktm	4444791
20	Asian Securities Ltd. Kha2- 691, Adwait Marg, Ktm	4240609, 4258160 4241817
21	Sri Krishna Securities Ltd. Dhakhwa Building, New Road Ktm	4224262, 4222209 4224262
22	Trishul Securities & Investment Ltd. POB 1874, Putalisadak, Ktm	4440708 4438197
23	J.F. Securities (P) Ltd. POB 20946, Putalisadak, Ktm	4231339

24	Premier Securities Co. Ltd. POB: 11185, Ramshahpath, Ktm	4231339, 4266422
25	National Finance Co. Ltd. (NFC) Pako, New Road, Ktm	4228380, 4242302 4222920
26	Ace Finance Co. Ltd. (AFCL) Kanti Path, Ktm	4249396/88, 4266101,4249477
27	NIDC Capital Markets Ltd. (NCML) Kamal Pokhari, Ktm	4423219/398 4423401
28	Citizen Investment Trust (CIT) Putalisadak, Ktm	4228759, 4240598 4240645
29	Nepal Merchant Banking & Finance Ltd. (NMB) Darbar Marg, Ktm	4246160 4246156
30	Nepal Finance & Saving Co. Ltd. Kamaladi, Ktm	4220031, 4247020 4241237
31	Nepal Share Markets & Finance Ltd. Putalisadak, Ktm	4252332, 4267597 4430109
32	Nepal Sri Lanka Merchant Bank Ltd. (NSLMB) Kamaladi, Ktm	4440824/300
33	United Finance Ltd. (UFL) Darbar Marg, Ktm	4241648/49,4241645