

**INVESTORS PREFERENCES IN FINANCIAL  
INSTRUMENTS IN NEPAL**

**(A Case Study in Investors Preferences in Financial Instruments In  
Nepal)**

**By**

**DINESH RAYAMAJHI**

**Shanker Dev Campus**

**T.U. Regd. No. 7-1-278-139-2000**

**Campus Roll No.: 604/062**

**A Thesis Submitted to:**

**Office of the Dean**

**Faculty of Management**

**Tribhuvan University**



***In partial fulfilments of the requirements for the Degree of  
Master Business Studies (M.B.S.)***

**Kathmandu, Nepal**

**July, 2009**

## **RECOMMENDATION**

This is to certify that the thesis

Submitted by:

**DINESH RAYAMAJHI**

Entitled:

**INVESTORS PREFERENCE IN FINANCIAL INSTRUMENTS IN NEPAL**

has been prepared as approved by this Campus/Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

.....

Shree Bhadra Neupane  
(Thesis Supervisor)

.....

Prof. Bisheshwor Man Shrestha  
(Head of Research Department)

.....

Prof. Dr. Kamal Deep Dhakal  
(Campus Chief)

.....

Manoj Bhattarai  
(Thesis Supervisor)

# VIVA-VOCE SHEET

We have conducted the viva-voce of the thesis

by

**DINESH RAYAMAJHI**

Entitled

**INVESTORS PREFERENCES IN FINANCIAL INSTRUMENTS IN NEPAL**

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfilment of the requirements for the degree of **Master of Business Studies (M.B.S.)**

## Viva-Voce Committee

Head, Research Department .....

Member (Thesis Supervisor) .....

Member (Thesis Supervisor) .....

Member (External Expert) .....

## **DECLARATION**

I hereby declare that the work reported in this thesis entitled "**Investors Preferences in Financial Instruments in Nepal**" submitted to Office of the Dean Faculty of Management, Tribhuvan University, is my original research work done in the form of partial fulfilment of the requirement for Degree of Master's in Business Studies (M.B.S.) under the supervision of **Shree Bhadra Neupane** and **Manoj Bhattarai** of Shanker Dev Campus.

.....

**DINESH RAYAMAJHI**

Researcher

T.U. Regd. No.: 7-1-278-139-2000

Roll No. 604/062

## **ACKNOWLEDGEMENT**

This research paper is prepared for partial fulfilment of the Degree in Master's of Business Studies (M.B.S.) on titled **“Investors Preferences in Financial Instruments in Nepal.”** I select this topic to know about the investors' preferences and awareness towards financial instruments in Nepal.

I express my profound gratitude to my supervisors Shree Bhadra Neupane, and Manoj Bhattarai of Shankerdev Campus, Tribhuvan University for their precious recommendation, guide and regular cooperation through out this study period.

I also owe indebt to all reputed authors whose writing has invaluable material for the enrichment of my dissertation in all possible ways. My thanks also go to the library staff member of Shanker Dev Campus.

At last not the least, there are many people I would like to thank for their assistance like staff members of NEPSE, SEBON, and NRB, who gave me, required information and all my friends who directly and indirectly help in preparation of this research work.

Dinesh Rayamajhi

Roll No: 604/2062

## **ABBREVIATIONS**

AD	=	Anno Domini
AGM	=	Annual General Meeting
BA	=	Bankers Acceptance
C	=	Coefficient of Contingency
CDs	=	Certificates of Deposits
CEO	=	Chief Executive Officer
DPS	=	Dividend Per Share
Dr.	=	Doctor
Ed	=	Edition
EPS	=	Earning Per Share
Govt.	=	Government
H	=	Kruskal-Wallis Test
HMG's	=	His Majesty Governments
IMF	=	International Promissory Notes
IOUs	=	Unsecured Promissory Notes
IPA	=	Index of Perceived Agreement
IPOs	=	Initial Public Offerings
Mid	=	Middle
MPS	=	Market Per Share
NASDAQ	=	National Association of Security Dealers Automated Quotation System
NEPSE	=	Nepal Stock Exchange
NRB	=	Nepal Rastra Bank
NTC	=	Nepal Telecommunication Company Limited
NYSE	=	New York Stock Exchange
Oct	=	October
Prof.	=	Professor
Reg. No	=	Registration number
REPOs	=	Repurchase Agreements
ROA	=	Return on Investment

Rs	=	Rupees
Rs	=	Spearman rank order correlation coefficient
SEBO/N	=	Security Board of Nepal
SEC	=	Security Exchange Centre
T-bills	=	Treasury bills
TU	=	Tribhuvan University
UK	=	United Kingdom
US	=	United States
USA	=	United States of America
Vol	=	Volume
$\chi^2$	=	Chi-square
19 <sup>th</sup>	=	Nineteenth

## TABLE OF CONTENTS

Recommendation	
Viva-Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	
	<b>Page No.</b>
<b>CHAPTER – I: INTRODUCTION</b>	
1.1 General Background	1
1.2 Focus of the Study	2
1.3 Statement of the Problem	2
1.4 Objective of the Study	3
1.5 Significant of the Study	4
1.6 Limitation of the Study	5
1.7 Organization of the Study	5
<b>CHAPTER – II: REVIEW OF LITERATURE</b>	
2.1 Conceptual Review	7
2.1.1 Financial Market	10
2.1.2 Financial Instruments	12
2.1.3 Investment Objectives and Preference of Investors	24
2.2 Review of Previous Studies	27
2.2.1 International Journals and Articles	27
2.2.2 Review of Thesis	31



## **CHAPTER – III: RESEARCH METHODOLOGY**

3.1 Research Design	40
3.2 Population and Sample	40
3.3 Sources of Data	41
3.4 Data Collection Techniques	41
3.5 Data Analysis Tools	42

## **CHAPTER-IV: DATA PRESENTATION AND ANALYSIS**

4.1 Introduction	44
4.2 Financial Instruments in Nepal	44
4.2.1 Corporate Securities	44
4.2.2 Government Securities	46
4.3 Primary Data Analysis	48
4.3.1 Preference over Major Investment Alternatives	50
4.3.2 Preferences as per Employment Status	50
4.3.3 Investor's Preference Instrument Wise	52
4.3.4 Preference over Investment Objectives	52
4.3.5 Opinion Regarding the Propositions	53
4.3.6 Awareness of Financial Instrument	56

4.3.7 Consideration for Corporate Security Investment	57
4.3.8 Considerations for investment decisions	57
4.3.9 Attitude toward Re-Investment	58
4.4 Major Findings of the Study	59

## **CHAPTER – V: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

5.1 Summary	63
5.2 Conclusion	64
5.3 Recommendations	65

## **BIBLIOGRAPHY**

## **APPENDICES**

## LIST OF TABLES

<b>No.</b>	<b>Details</b>	<b>Page No.</b>
2.1	Money Market Instruments	23
3.1	Population And Sample	40
4.1	Issues of Corporate Securities	44
4.2	Issues of Government Securities	46
4.3	Percentage Analysis of Respondents	48
4.4	Ranks of Investment Alternatives	50
4.5	Ranking of Preferences Status	51
4.6	Ranks of Financial Instruments	52
4.7	Ranks of investment objectives	53
4.8	Analysis of opinion regarding the propositions	54
4.9	Awareness of Financial Instrument	56
4.10	Consideration for Corporate Security Investment	57
4.11	Considerations for Investment Decisions	58
4.12	Attitude toward re-investment	59

## LIST OF FIGURES

No.	Details	Page No.
4.1	Trends of Corporate Securities	45
4.2	Trends of Government Securities	47

## BIBLIOGRAPHY

### Books

Alexander, G.J; Sharpe, W. F. and Bailey, J.V. (1998). *"Fundamentals of Investment"*. 5<sup>th</sup> ed. New Delhi: Pearson Education.

Bhattarai, P. (2004). *"Capital Market in Nepal"*. Kathmandu: Asmita Books and Stationary.

Blake, D (2000). *"Finance: A Characteristics Approach"*. London: Taylor and Francis group.

Bodie, Z; Kane, A; and Marus A.J. (2000). *"Investments"* 5<sup>th</sup> ed. New Delhi: McGraw Hill publishing company ltd.

Cheney, J.M. and Moses, E.A. (1999). *"Fundamentals of Investments"*. New York: West Publishing Company.

Dewtt, K.K; and chand, A. (1998). *"Modern Economic Theory"* New Delhi: Chand and Company Ltd.

Francis, J.C. and Kirzner, E. (1986). *"Investment Analysis and Management"* 1<sup>st</sup> Canadian ed., Toronto: McGrew Hill Ryerson Ltd.

Garman, E.T; Eckert, S.W., and Fogue, R.E. (1985). *"Personal Finance"* New York: Houthton Milffin Company.

Grinblatt M; and Titman, S. (2003). *"Financial markets and corporate strategy"* 2<sup>nd</sup> ed. New York: Tata McGraw Hill.

Haugan,R.A.(1997), *"Modern Investment Theory"* New York: Prentice Hall.

Kent, R. (1972), *"Money and Banking"* 6<sup>th</sup> ed., Illiois: Dryden Press.

- Lumpkin, S.A. (1998), *“Repurchase and Revokse Repurchase Agreements”* Virginia: Federal Reserve Bank of Richmond.
- Madura, J. (1998). *“Financial Markets and Institutions”* USA: South Western College Publishing International Thomson publishing.
- Morris, N.D. and Walter, J.R. (1998), *“Large Negotiable Certificates of Deposit in Instruments of the Money Market”*, Virginia: Federal Reseme Bank of Richmond.
- Piesse. J., Peasrell, K. and Waid, C. (1995), *“British Financial Market and Institutions- An International Perspective”*. London: Prentice Hall.
- Ritter, L.S. and Silber, W.L. (1993) *“Principles of Money Banking and Financial Markets”* 8<sup>th</sup> ed., Boston: Basic Books-Harper Collins.
- Santomero, A.M. and Babbel, D.F. (1991), *“Financial Markets-Instruments and Institutions”*. Boston: Irwin McGraw-Hill.
- Shrestha, M.K., Poudel, R.B. and Bhandari, D.B. (2003), *“Fundamentals of Investments”*. Kathamndu: Buddha Academic Enterprises Pvt. Ltd.
- Vishwanath, S.R. (2000), *“Corporate Finance Theory and practice”*. New Delhi: Response Books.
- Weirih, J.L. (1983). *“Personal Financial management”* Boston: Little Brown and Company.
- Whyte L.G. (1951), *“Principles of Finance and investment”*. London: The Syndics of Cambridge University Press.
- ZVI Bondie, Alex Kane, Anan J. Marcus, Pitabas Mohanty (2007) *“Investments”* New Delhi, Tata McGraw Hill Publishing Co. Ltd.

## Journal and Periodical

- Bhattarai, P. (2003), *"Eligibility of Tradable Securities, Problems and Recommendations"*. The Boss, Kathmandu: The Boss, 1(8): 46-47
- Bhattarai, P. (2007), *"Stock Market's Role in Poverty Reduction"*, New Business Age, Kathmandu, 3(11): 58-59.
- Ghimire, A.. (2001), *"Investors' Perspective of Finance Companies"*, New Business Age, Kathmandu
- Pokhrel, P. (April-May, 2007), *"A Deadly Phrase of the Stock Market"*, New Business Age, Kathmandu.
- Shrestha K.(February, 2001) *"Nepal Stock Exchange 7 years Experiene"*, New Business Age, Kathmandu, 3(3):40-41
- Shrestha M.K. (1992), *"Capital Market in Nepal: Changing Dimension and Strategies"*. The Nepalese Management Review, Central Department of Management, Tribhuvan University, 8(1):1

## Unpublished Thesis

- Bajracharya, B.R (2004): *"Individual Investors Preference and Financial Instruments in Nepal"*, Kathmandu Shanker Dev Campus, Tribhuvan University.
- Bhattraai, B.D (2004) : *"Investor's Preferences in the choice of Financial Instruments in Nepal"*. Kathmandu, Shanker Dev Campus, Tribhuvan University.
- Dangol, R. (2007): *"Investors Preference and Financial instruments in Nepal"*, Kathmandu, Public Youth Campus, Tribhuvan University.

Darshandhari Manoj (2007): *“Investors Preference and Financial Instruments in Nepal”*, Kathmandu, Shanker Dev Campus, Tribhuvan University.

Khadka, H. C (2008): *“Investors Preference on Financial Instruments in Nepal”*.  
Kathmandu, Shanker Dev Campus, Tribhuvan University.

Maharjan, R. (2004) : *“Investors Preference and Financial Instruments in Nepal”*.  
Kathmandu, Shanker Dev Campus, Tribhuvan University.

Pandit, K. (2004): *“Investors Preference in Financial Instruments in Nepal”*  
Kathmandu, People’s Campus, Tribhuvan University.

Poudel R.P. (2001): *“A Study on Government Security Practices in Nepal”*, Kathmandu,  
Shanker Dev Campus, Tribhuvan University.

Sharma (2001): *“Public Debt Practice in Nepal”*, Kathmandu, Shanker Dev Campus,  
Tribhuvan University.

Subedi, B. (2003): *“Investors Awareness in Security Market”*, Tribhuvan University,  
Kathmandu.

Tamrakar, D. (2006): *“Development in Financial Instruments in Nepalese Capital Market”*, Kathmandu, Shanker Dev Campus, Tribhuvan University.

Timilsina, B. (2001): *“Capital Market Development and Stock Price Behavior in Nepal”*  
. Kathmandu, Shanker Dev Campus, Tribhuvan University.

Upadhyaya, S. (2004), *“Investors Preference and Financial Instruments in Nepal”*,  
Kathmandu, Shanker Dev Campus, Tribhuvan University.



## Others

NEPSE *Trading Report-2055*, 160 Research and Planning Division, Kathmandu, Nepal:  
NEPSE.

NRB (March, 2008), *Current Macroeconomics Situation*, Kathmandu, Nepal

NRB (2007/08), *Economic Report*, Kathmandu, Nepal: NRB.

SEBO (2007/08), *Annual Report*, Kathmandu, Nepal: SEBO.

NRB ( Mid January,2008), *Quarterly Economic Bulletin*, NRB vol. 42

NRB (March, 2008), *A Handbook of Government Finance Statistics*, Kathmandu, Nepal

## Websites

<http://www.Economickancha.com>(2008/06/01)

<http://www.investopedia.com>. (2008/06/11)

<http://www.businessage.html>. (2008/09/11)

<http://www.nepalsnews.com.np/businessage.html>. (2008/09/11)

<http://www.nepalstock.com>(2008/09/11)

<http://www.sebonp.com>(2008/09/12)

<http://www.nrb.org.np>. (2008/11/17)

<http://www.rich.frb.org/pubs/instruments>(2008/11/17)

<http://www.wikipedia.com>(2009/06/01)



## Appendix-1

### Primary Date-Descriptive Statistics

Gender		
Male	45	75%
Female	15	25%
Age		
Below 30	26	43.33%
30 and above	34	56.67%
Education		
Less than graduate	18	30%
Graduate	30	50%
Post graduate and above	12	20%
Employment status		
Unemployed	10	16.6%
Job holder	31	51.7%
Self employed	16	26.7%
Retired	3	5%
Category		
Less informed	21	35%

Informed	25	42%
Well informed	6	10%
Analyst/professiona l	8	13%
<i>Size</i>		
Small	30	50%
Medium and large	30	50%

## Appendix-2

Frequency table for the ranking of Investment Alternatives.

		Investment alternatives			
		Corporate Securities	Government Securities	Real estate	Bullion
Rank	1	5	11	16	28
	2	16	12	18	14
	3	19	23	8	10
	4	20	14	18	8
Rank sum(rank x frequency)		174	160	148	118

Median

$$= \text{value of } \left[ \frac{N+1}{2} \right]^{\text{th}} \text{ item}$$

$$= \text{value of } \left[ \frac{4+1}{2} \right]^{\text{th}} \text{ item}$$

$$= \text{value of } 2.5^{\text{th}} \text{ item}$$

$$= \frac{160+148}{2}$$

$$= 154$$

Appendix – 3

Frequency table for rankings made by employed and unemployed investors

*Unemployed*

		Investment alternatives			
		Corporate Securities	Government Securities	Real estate	Bullion
Rank	1	1	3	1	4
	2	3	2	3	2
	3	4	1	1	3
	4	1	3	5	1
Rank sum(Rank x		23	22	30	21

frequency)					
<i>Employed</i>					
		Investment alternatives			
		Corporate Securities	Government Securities	Real estate	Bullion
Rank	1	4	7	14	25
	2	12	11	16	12
	3	15	21	7	7
	4	20	12	13	6
Rank sum (Rank x frequency)		153	140	119	94

$$H = \frac{12}{N(N+1)} \left[ \sum_{j=1}^k \frac{R_j^2}{n_j} \right] - 3(N+1)$$

Where,

K=no. of samples

$n_j$ =number of cases in  $j^{\text{th}}$  sample

$N = \sum n_j$ , the number of cases in all sample combine.

$R_j$ =Sum of ranks in the  $i^{\text{th}}$  sample.

$$= \frac{12}{8 \times 9} \left[ \frac{10^2}{4} + \frac{26^2}{4} \right] - 3 \times 9$$
$$= 5.33$$



## Appendix – 4

Frequency table for the ranking of financial instruments

		Financial instruments					
		Commo n Stock	Preferen ce Share	Debent ure	T – bill	Govt . Bond	Mutua l Funds
Rank	1	7	13	14	5	11	10
	2	10	15	6	8	13	8
	3	38	4	1	1	16	0
Rank sum (rank X frequency)		141	55	29	24	85	26

### Calculation of Median

$$= \text{value of } \left[ \frac{n+1}{2} \right]^{th} \text{ item}$$

$$= \text{value of } \left[ \frac{6+1}{2} \right]^{th} \text{ item}$$

$$= \text{value of } 3.5^{th} \text{ item}$$

$$= \left[ \frac{55 + 29}{2} \right]$$

$$= 42$$

$$\therefore \text{Median} = 42$$

## Appendix – 5

Frequency table for the ranking of investment objectives

		Investment alternatives			
		Price increment/ Growth	Regula r Return	Safety	Liquidity
Rank	1	3	4	37	16
	2	4	15	18	23
	3	14	27	3	17
	4	39	14	2	4
Rank sum(rank x frequency)		209	171	90	129

Median value

$$= \text{value of } \left[ \frac{n+1}{2} \right]^{\text{th}} \text{ item}$$

$$= \text{value of } \left[ \frac{4+1}{2} \right]^{\text{th}} \text{ item}$$

$$= \text{value of } 2.5^{\text{th}} \text{ item}$$

$$= \left[ \frac{171+129}{2} \right]$$

$$= 150$$

$$\therefore \text{Median} = 150$$

## Questionnaire Survey

Dear Respondent,

This questionnaire is designed to explore the preferences of different investors over different financial instruments like: share, debentures etc. The data you will provide will be used only for this research study as a partial fulfillment of MBS degree. I assure you, your responses and views will be kept completely confidential. Your correct information in this regard will help to explore actual scenario in this context. So, I cordially request you to answer the questions below kindly.

A. Respondent's profile

Sex: Male  Female

Age:

a. below 30 years  b. 30 years and above

*Education:*

a. Under graduation  b. graduation   
c. post graduation and above

*Professional Status:*

a. Academic   
b. Government Employee   
c. Private Employee   
d. Business   
e. Self employed   
f. Retired

1. Please tick that, which best appropriately, describes you.
  - a. Less informed investor
  - b. Informed investor
  - c. Well informed investor
  - d. Analyst/professional investor
  
2. In which category of investors you belong to regarding the amount of investment?  
(Please don't include the investments of real estate, gold, silver and bank deposits)
  - a. Small investors (if less than Rs. 50,000)
  - b. Medium and large investors (if more than Rs. 50,000)

B. Responses toward financial instruments.
  
3. How did you come to know about investment alternatives?
  - a. Relatives or friends
  - b. Media
  - c. Self education
  
4. Please rank these alternatives? 1 2 3 4
  - a. Corporate securities
  - b. Government securities
  - c. Real state
  - d. Bullion ( gold, silver)
  
5. Among these financial instruments, please mark best three as per your preference.  
(Mark 1 to best, 2 to just lower and 3 to lower)
  - a. Common stock / share
  - b. Preference share
  - c. Debentures
  - d. Treasury bill

- e. Government bonds
  - f. Mutual funds.
6. Please rank these as per your preference, what you prefer in your investments?
- a. price increment (capital gain)
  - b. regular return/dividend
  - c. less risk
  - d. marketability (easy buying and selling)
7. What made you buy corporate securities?
- a. Companies goodwill
  - b. Companies forecasted profits
  - c. Your friends and relatives
  - d. Advertisements appealed you
  - e. Because most of people are buying.
8. What do you prefer most in your share investment?
- a. dividend
  - b. capital gain
  - c. bonus shares
  - d. representation in board
  - e. voting rights
9. Which sector do you prefer to invest?  
(Mark 1 to best, 2 to just lower and 3 to lower)
- a. commercial banks
  - b. finance companies
  - c. insurance companies
  - d. development banks
  - e. Manufacturing and processing companies.
  - f. Trading companies
  - g. Hotels

10. Have you ever heard about derivatives like?

Future, options, warrants etc?

a. Yes:

b. No:

If yes which one?

a. Future

b. Options

c. Warrants

d. Convertibles

If you know about derivatives, are you willing to invest on them, if there is opportunity?

a. Yes:

b. No:

11. If you have invested in government securities, what made you buy government securities?

a. Marketability

b. No risk/safety

c. Your friends and relatives

d. NRB notices

e. Be of most of people are buying

12. Suppose you gained a lot from your present investment, then what will you prefer to do with your return?

a. Purchase more securities of same kind

b. Purchase some other types of securities

c. Spend on durables

d. Save it safely.

13. In your opinion, what investors should consider most before investment decisions?

(Tick most important four factors)

- a. Company's track-record/goodwill
- b. Forecasted profit
- c. Management team and promoters
- d. Environment factors like ( political scenario, national plans and policies, international trends etc)
- e. Expected risk level
- f. Taxation
- g. Inflation
- h. Liquidity and Maturity

14. If you have to decide on either of these investment alternatives which will you prefer to invest?

- a. Normal return – no risk
- b. Small return - less risk
- c. Moderate return-moderate risk
- d. High return – greater risk
- e. Super return-maximum risk

15. Please, give your opinion regarding these propositions.

- a. Strongly agree
- b. Agree
- c. Neither agree nor disagree
- d. Disagree
- e. Strongly disagree



		a	b	c	d	e
1.	One should not invest whole amount in the  Same investment instruments, he should form a portfolio of different alternatives.					
2.	The best investment sector is the 'banking'					
3.	Nepalese investors don't have defined preferences they just follow the whim and rumor.					
4.	Nepalese investors do detailed analysis before Investing in corporate securities.					
5.	We don't have wide choice of instruments, so we buy whatever floats in market.					
6.	Government securities yield less than corporate securities, so they aren't attractive.					
7.	One should first save a certain level of amount very safely like: deposits in bank, then only he has to invest valuable time.					

16. Are you aware of financial instruments?

a. Yes

b. No

c. Don't know