INVESTORS PREFERENCES IN FINANCIAL INSTRUMENTS IN NEPAL

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

By
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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.

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(Head of Research Department)

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Prof. Dr. Kamal Deep Dhakal
(Campus Chief)

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Manoj Bhattarai
(Thesis Supervisor)
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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 Bhattrai of Shanker Dev Campus.

............................................
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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
$19^{th}$ = Nineteenth
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## Primary Date-Descriptive Statistics

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<td>Male</td>
<td>45</td>
<td>75%</td>
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<td>Female</td>
<td>15</td>
<td>25%</td>
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<th>Age</th>
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<td>Below 30</td>
<td>26</td>
<td>43.33%</td>
</tr>
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<td>30 and above</td>
<td>34</td>
<td>56.67%</td>
</tr>
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<td>Less than graduate</td>
<td>18</td>
<td>30%</td>
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<tr>
<td>Graduate</td>
<td>30</td>
<td>50%</td>
</tr>
<tr>
<td>Post graduate and above</td>
<td>12</td>
<td>20%</td>
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<th>Employment status</th>
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<td>Unemployed</td>
<td>10</td>
<td>16.6%</td>
</tr>
<tr>
<td>Job holder</td>
<td>31</td>
<td>51.7%</td>
</tr>
<tr>
<td>Self employed</td>
<td>16</td>
<td>26.7%</td>
</tr>
<tr>
<td>Retired</td>
<td>3</td>
<td>5%</td>
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<td>Less informed</td>
<td>21</td>
<td>35%</td>
</tr>
<tr>
<td>Category</td>
<td>Count</td>
<td>Percentage</td>
</tr>
<tr>
<td>-----------------------</td>
<td>-------</td>
<td>------------</td>
</tr>
<tr>
<td>Informed</td>
<td>25</td>
<td>42%</td>
</tr>
<tr>
<td>Well informed</td>
<td>6</td>
<td>10%</td>
</tr>
<tr>
<td>Analyst/professional</td>
<td>8</td>
<td>13%</td>
</tr>
<tr>
<td>Size</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>30</td>
<td>50%</td>
</tr>
<tr>
<td>Medium and large</td>
<td>30</td>
<td>50%</td>
</tr>
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Appendix-2

Frequency table for the ranking of Investment Alternatives.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Corporate Securities</th>
<th>Government Securities</th>
<th>Real Estate</th>
<th>Bullion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5</td>
<td>11</td>
<td>16</td>
<td>28</td>
</tr>
<tr>
<td>2</td>
<td>16</td>
<td>12</td>
<td>18</td>
<td>14</td>
</tr>
<tr>
<td>3</td>
<td>19</td>
<td>23</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>4</td>
<td>20</td>
<td>14</td>
<td>18</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Rank sum (rank x frequency)</td>
<td>174</td>
<td>160</td>
<td>148</td>
</tr>
</tbody>
</table>

Median

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

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

\[ = \text{value of } 2.5\text{th item} \]

\[ = \frac{160 + 148}{2} \]

\[ = 154 \]
Appendix – 3

Frequency table for rankings made by employed and unemployed investors

*Unemployed*

<table>
<thead>
<tr>
<th>Rank</th>
<th>Corporate Securities</th>
<th>Government Securities</th>
<th>Real estate</th>
<th>Bullion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Rank sum(Rank x)</td>
<td>23</td>
<td>22</td>
<td>30</td>
<td>21</td>
</tr>
<tr>
<td>Rank</td>
<td>Corporate Securities</td>
<td>Government Securities</td>
<td>Real estate</td>
<td>Bullion</td>
</tr>
<tr>
<td>------</td>
<td>----------------------</td>
<td>-----------------------</td>
<td>------------</td>
<td>---------</td>
</tr>
<tr>
<td>1</td>
<td>1</td>
<td>4</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>12</td>
<td>11</td>
<td>16</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>15</td>
<td>21</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>20</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>Rank sum (Rank x frequency)</td>
<td>153</td>
<td>140</td>
<td>119</td>
<td>94</td>
</tr>
</tbody>
</table>

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

Where,

\( K = \text{no. of samples} \)

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

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

\( R_j = \text{Sum of ranks in the } i^{\text{th}} \text{ sample} \).
\[
\frac{12}{8 \times 9} \left[ \frac{10^2}{4} + \frac{26^2}{4} \right] - 3 \times 9 = 5.33
\]
Appendix – 4

Frequency table for the ranking of financial instruments

<table>
<thead>
<tr>
<th>Rank</th>
<th>Common Stock</th>
<th>Preference Share</th>
<th>Debenture</th>
<th>T – bill</th>
<th>Govt. Bond</th>
<th>Mutual Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>7</td>
<td>13</td>
<td>14</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td>2</td>
<td>10</td>
<td>15</td>
<td>6</td>
<td>8</td>
<td>13</td>
<td>8</td>
</tr>
<tr>
<td>3</td>
<td>38</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>16</td>
<td>0</td>
</tr>
<tr>
<td>Rank sum (rank X frequency)</td>
<td>141</td>
<td>55</td>
<td>29</td>
<td>24</td>
<td>85</td>
<td>26</td>
</tr>
</tbody>
</table>

Calculation of Median

\[= valueof \left\lfloor \frac{n + 1}{2} \right\rfloor ^{th} \text{ item}\]

\[= valueof \left\lfloor \frac{6 + 1}{2} \right\rfloor ^{th} \text{ item}\]

\[= valueof \ 3.5^{th} \text{ item}\]

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

\[= 42\]

\[\therefore \ \text{Median} = 42\]
# Appendix – 5

## Frequency table for the ranking of investment objectives

<table>
<thead>
<tr>
<th>Rank</th>
<th>Price increment/ Growth</th>
<th>Regular Return</th>
<th>Safety</th>
<th>Liquidity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3</td>
<td>4</td>
<td>37</td>
<td>16</td>
</tr>
<tr>
<td>2</td>
<td>4</td>
<td>15</td>
<td>18</td>
<td>23</td>
</tr>
<tr>
<td>3</td>
<td>14</td>
<td>27</td>
<td>3</td>
<td>17</td>
</tr>
<tr>
<td>4</td>
<td>39</td>
<td>14</td>
<td>2</td>
<td>4</td>
</tr>
</tbody>
</table>

| Rank sum(rank x frequency) | 209 | 171 | 90 | 129 |

Median value
\[ = \text{value of } \left[ \frac{n+1}{2} \right]^{th} \text{ item} \]
\[ = \text{value of } \left[ \frac{4+1}{2} \right]^{th} \text{ item} \]
\[ = \text{value of 2.5}^{th} \text{ item} \]
\[ = \left[ \frac{171 + 129}{2} \right] \]
\[ = 150 \]
\[ \therefore \text{Median} = 150 \]
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
<p>| | | | | |</p>
<table>
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<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>One should not invest whole amount in the Same investment instruments, he should form a portfolio of different alternatives.</td>
<td>a</td>
<td>b</td>
<td>c</td>
</tr>
<tr>
<td>2.</td>
<td>The best investment sector is the ‘banking’</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Nepalese investors don’t have defined preferences they just follow the whim and rumor.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Nepalese investors do detailed analysis before investing in corporate securities.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>We don’t have wide choice of instruments, so we buy whatever floats in market.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Government securities yield less than corporate securities, so they aren’t attractive.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>One should first save a certain level of amount very safely like: deposits in bank, then only he has to invest valuable time.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

16. Are you aware of financial instruments?
a. Yes

b. No

c. Don’t know