

CHAPTER - I

INTRODUCTION

1.1 General Background

The issuance of corporate and government securities has not made a long in Nepal. The history of corporate security in Nepal dates back to 1936 A.D. Biratnagar Jute Mill – the first corporate entity in Nepal – issued 8000 ordinary shares of Rs. 100 each. Ordinary share was quite popular in early forties due to very high dividend (110 percent) declared by Biratnagar Jute Mill. It leads to cases of over-subscription by 3-4 times in some companies. Unlike ordinary share and debentures, preference share was not included as corporate security in Nepali Company Act 1936 A.D. It was embodied as corporate securities only in the Company Act 1964 A.D. Biratnagar Jute Mill also introduced the use of debentures as early as in 1936. The Mill issued 1600 debentures of Rs.500 each. But afterwards, its use remained infrequent.

In Nepal, the treasury bills first issued by the government sector in the year 1962 A.D and similarly, government bond in 1964 A.D.

The Security Exchange Center established in 1975 A.D managed 26 issues between 1978 and 1992 until it was converted into Nepal Stock Exchange in 1993. Since then the primary issue are being managed by financial institutions, particularly by finance companies. This institution is acting till now as an organized exchange center for the securities. It is the only body which handles the trading of securities. It is only body which handles the trading of securities. This regulation made detailed provisions regarding licensing, operating, registrations, listing as well as functions, powers and duties of SEBO. Further on, SEBO was empowered as an apex regular of the capital market, by the second amendment in security exchange Act in 1997. Thus capital market has got a structured shape and institutional arrangements. It is till growing and developing. SEBO is developing several guidelines and directives to regulate the stock

exchange, IPOs, issuing bodies and brokers. NEPSE is also empowered to make law to regulate listings and trading of securities

1.2 Focus of the Study

This study will focus on identifying the factors that influence investors while making investment decisions more over it will focus on type of investment investors give more priority, what the reasons are those mainly attract the investors to invest in a particular security, why they prefer one security to other(s) etc. are the issues to be addressed in the study. The study will focus on individual investors' investment process. The most important condition for market is to know what the preference of the investor is. Thus it is necessary to give guidelines frequently to the companies and investors for economic strength of the nation and ensure to give sound expected return to the investors for making investment meaningful and rewarding. This study is mainly focused to provide information about the present conditions of Nepalese investors' preferences in making choice among securities.

1.3 Statement of the Problem

Investor has the freedom of choice over the selection of instruments; they have the independence over the selection of any investment alternative. Different investors prefer different investment alternatives.

As per the investor preferences on investment normally, some want higher return, some want capital gain where as some want safety or guaranteed return of principal. Some investors are very aggressive and want to take heavy risk for the higher rate of return. But some are very conservative, they are happy to take small return, so investors have varying expectations and preferences toward profitability, liquidity and risk. Thus, those types of preferences determine the investor's decisions regarding financial instruments.

Investors are the backbone of the economic development of the country. So the investors should be encouraged to make investment in security market by creating good investment

environment. Government policies regarding the financial sector reforms and security market development can create such environment.

“The firms that issue financial securities should always know the preference of the investors which help them to attract the appropriate investors while raising the capital. There is a lack of adequate information about borrowers seeking funds and or lenders waiting to lend them. Some may not be aware of lending opportunities instead of being put to work, funds are put under the mattress and less investment takes place”. (*Ritter and Silber; 1993:27*). So is the situation in Nepal.

The problems of under- subscriptions and failure of issues arise due to the mismatch between the preferences of investors and issues made by the companies to raise the capital. Sometimes the issuer also face the condition of over-subscription, it happens due to the over expectations and over estimations made by investors toward the issuer. There should be a match between preference and instruments, which can only lead to the better performance of the financial markets of the country.

Why do the investors purchase and sell the financial instruments of a company and why do they prefer particular type of financial instrument? The preference of investor and financial instruments are the burning issues in the context of Nepal.

Keeping these views into consideration, this study will concentrate on the questions like:

- What are the different financial instruments that Nepalese investors prefer?
- What are the factors that turn as individual preference to make investment decision?
- What are the diversifications of investor’s preference in selection of financial alternatives?

1.4 Objective of the Study

The main objective of the research is to study the investors preference in the financial instrument and their preference in selecting the financial instruments used in Nepalese securities market. However the following are the major objectives of the study.

-) To study financial instruments in Nepalese Securities market.
-) To analyze the Nepalese investors preference in financial instruments.
-) To analyze factors influencing in selection of particular security.

1.5 Significant of the Study

Security market plays vital role in the economic development of the country. The investment in securities affects the economic environment of the nation. The investors are the significant participants of the security market. Since this study will focus on several financial instruments that are widely used in the Nepalese market. This study provides ideas to all the market participants of security market. Another major concern of the study is to analyze role of financial securities in Nepalese capital market. Likewise, the study aims to see how the government as well as private securities are able to protect the interest of the investors and what type of benefits it provide to them. Current problems and issues which will prevailing in Nepalese securities market will be addressed here so that prospective investors, market maker, financial intermediaries, investment bankers, NEPSE, SEBO and other researchers can be benefitted from the results of this study. These problems and issues will surely act as an effective guideline to the new issuer to reach the potential investors.

This study is also important to the policy maker of the capital market as well. This study had addressed those problems and issues which prevailing in Nepalese context. Thus, it can surely be an effective guideline to the new issuer to reach the potential investors.

On the other hand, this study will help the prospective investors, financial intermediaries, investment bankers, NEPSE, SEBO and other researchers in future giving them the information about the Nepalese investors' preference and financial instruments of Nepal.

1.6 Limitation of the Study

Some limitations of the study are:

1. The study is based in primary data analysis. However the secondary data will also be used.
2. Annual reports and various publications of NEPSE, SEBO/N and NRB are the sources for secondary data. So, the result would be based on their validity.
3. Only selected statistical tools will be used.
4. The study will focus on general investors (individual investor) rather than institutional investors.
5. The secondary data will cover the time period of year 1993 to 2008/09.

1.7 Organization of the Study

The study will have following chapters:

Chapter - I: Introduction

The first chapter covers introduction of study which incorporates financial market and instrument and overview of financial market and instruments of Nepal. Focus of study, statement of problem, objective of the study, significant of the study and limitation of the study is also the contents of this segment.

Chapter - II: Literature Review

This chapter includes the review of various related books, journal, articles, periodicals, reports and other publications. This chapter broadly consists of two parts; theoretical/ conceptual review and review of related studies.

Chapter III: Research Methodology

This chapter includes the details of the source of the data, process of data collection and data analysis tools.

Chapter - IV: Data Presentation and Analysis

This chapter represents presentation and analysis of data, figures and charts through definite courses of research methodology. Major findings of the study are also included in this part.

Chapter - V: Summary, Conclusion and Recommendations

This chapter includes the summary, conclusion and recommendations of the study.

A list of bibliography and appendices are also presented at the end.

CHAPTER - II

REVIEW OF LITERATURE

This chapter deals with review of literature related with Investors Preference in Financial Instruments. The review will be made including prior theories of previous studies, various books, journals, articles and past studies.

2.1 Conceptual Review

The word investment has become a pervasive word, as a result of which lead to be popular among people from all walks of life. Most of the people earn and spend money. Rarely, their current income exactly balances with their current consumption. These unbalance will lead either to borrow or to save in order to spend in future. Peoples' unsatisfied nature in terms of current earning and making more money has lead to the existence of the investment. They always hope of getting enlarged their current sum in the future which is uncertain. Hence, investment is the sacrifice of certain present value for the uncertain future rewards. In other way, it is property or another possession acquired for future financial return or benefit. The ultimate objective of investment is to increase systematically the individual's wealth. It is reflected in terms of profit, risk, speculation and wealth. The higher the level of desired wealth, the higher the return must be received. An investor seeking higher must be willing to take higher degree of risks as well.

In economic point of view investment refers to employing money on any physical or tangible assets, for example, a building, or machinery and equipments. On the other hand, in finance point of view investment refers to money utilized for buying financial assets, for example stocks, bonds, bullion, real properties, and precious items. People get involved in investment in the expectation that it will generate cash flows in the future. In capital market point of view, investment refers to the buying of a financial products or any valued item with anticipation that positive returns will be received in the future. The most important feature of investment is that they carry high market liquidity.

Investment is a process of exchanging income during one period of time for an asset that is expected to produce earnings in future periods. Thus, consumption in the current periods is foregone in order to obtain a greater return in the future. (*Britannica Encyclopedia 2003*)

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

“Investment should always ensure two aspects; first the money should be available back when it is needed; second, the invested money should grow because a rupee’s real value today is greater than a rupee’s value tomorrow in a world of inflation. Investment, thus, is simply concerned with the incremental of the investor’s wealth”. (*Cheney and Moses; 1999: 13-14*)

The increased amount that one gets or expects from the investment, as its return, is termed as profit. The profit is always characterized by the uncertainty and this uncertainty of return is termed as risk. Risks prevail not only in profits but also for the return of principal. Therefore return and risk are two basic components of the investments. It is said, if there is no risk, there is no gain, so return is taken as the compensation of that risk.

There is wide variety of investment alternatives in investment environment. Buying common stocks, debenture of a company, depositing money in the bank, buying a piece of land, jewelries is examples of investment. These show that an investor gets lots of opportunities for investment in the investment environment. Basically those alternatives can be categorized into two groups.

Real Assets or Non Financial Assets

Financial Assets/ Financial Instruments

Real Assets can be tangible or intangible. Plants, machinery, office, factory, furniture and building, precious metals are examples of tangible assets while technical know how, technological collaborations, patents and copyrights are intangible assets. Generally, real asset possess productive capacity and are less liquid in comparison to financial assets. The capital formation is the direct outcomes of this productive investment.

Financial Assets or Instruments are cash, evidence of an ownership interest in an entity, or a contractual right to receive, or deliver, cash or another financial instrument.

Financial instruments can be categorized by form depending on whether they are cash instruments or derivative instruments:

Cash instruments are financial instruments whose value is determined directly by markets. They can be divided into securities which are readily transferable and other *cash* instruments such as loans and deposits where both borrower and lender have to agree on a transfer.

Derivatives instruments are financial instruments which derive their value from the value and characteristics of one or more underlying assets.

“Financial Assets or Instruments are pieces of paper representing an indirect claim to real assets held by someone else. These pieces of paper represent debt or equity commitments in the form of IOUs (written document providing evidence to debt) or stocks certificates”
(*Thapa; 2003:3*)

Because of the divisibility, marketability and availability of the information financial asset is getting much more popular now a days. The investor’s decision is always guided

by his/her own preference over the investment instruments. The preference of investors guide their decision in which to invest and in which to not.

Various factors influence on investor's preference to make a choice or investment alternative, this study will focus on them.

2.1.1 Financial Market

Market is simply defined as an area for potential exchanges. Thus a market is a group of buyers and sellers interested in negotiating the terms of purchase/sales of goods/services. Similarly, financial market is that market is traded- loaned or borrowed-in-terms of different financial assets or instruments stocks and bonds are traded.

“Financial assets or simply a security is only a piece of paper that represent the investor's right to certain prospects or property and the conditions under which he or she may exercise those rights. These rights are transferable to another investor and with it will go all its rights and conditions. So, it is just a legal representation of the rights to receive prospective future benefits under stated conditions”. (*Alexander, et al; 1998:1-2*) Bonds and common stocks are main examples of Financial Assets or Instrument.

Financial Market or Security can be classified under two categories:

-) Money Market and Capital Market
-) Primary Market and Secondary Market

Money Market

Money Market is that financial market where funds are borrowed or loaned for short periods – usually for less than one year. Thus main function of money market is to provide short-term loans to business, government and household. Money market activities include primary and secondary market activities in short-term negotiable instruments such as Treasury bill, banker's acceptance, repurchase agreements, and short-term municipal securities issued by non-financial corporations. The treasury bills, which are government security, serve as a mechanism for non-inflationary financing of government deficits and

can also support monetary policy implementation. Other money market instruments are used to facilitate the supply of credit to larger corporations and to ease inter-bank financing.

Capital Market

Capital Market is concerned with long-term finance. In the capital market, financial instruments with an original maturity of more than one year are traded. Equities or stocks (ownership instruments), bonds, debentures, collateral mortgage obligations, and derivatives are all capital market instruments. It consists of a series of channels through which the savings of the community are made available for industrial and commercial enterprises, and public authorities. It is concerned with private savings, individuals as well as corporate, that are turned into investment through new capital issues and also new public loans floated by government and semi-government bodies.

Money Market is that financial market where funds are borrowed or loaned for short periods-usually less than a year. On the other hand, capital market deals with the longer term instruments. The financial market, in which corporations raise funds by issuing new securities, is the primary market where as secondary market is that market in which securities are traded among investors after they have been issued by corporations and public agencies.

Primary Market

“Primary Market is that financial market in which corporations raise funds by issuing new securities. The primary market itself can be subdivided into seasoned and unseasoned new issues. A seasoned new issue refers to the offering of an additional amount of an already existing security, whereas unseasoned new issues are often referred to as initial public offerings”. (*Alexander; 1998:4*)

Secondary Market

“Secondary Market is that market in which corporations and public agencies trade securities among investors after they have been issued. The majority of all capital market

transactions occur in the secondary market. Its main function is to provide liquidity for securities purchased in the primary market. Once the investors have purchased securities in the primary market, they need a place to sell those securities. Without the liquidity of the secondary market, firms would have difficulty raising funds for productive purposes in the primary market. The secondary market comprises the organized securities exchanges and the Over the counter (OTC) market”. (*Cheney & Moses; 1999:72*)

“The market through which the funds are transferred from savers to investors is called primary market. Hence, the transaction of securities issued for the first time takes place in the primary market. The market where the existing and pre-developed securities are bought and sold is called secondary market. Secondary market provides liquidity to the purchases of the securities. Secondary market can be regarded as the center to convert stocks, bonds, and other securities into cash immediately”. (*Richards et al; 1984: 370*)

2.1.2 Financial Instruments

Financial market is the place where funds are transfer from lenders to borrowers. They act as intermediaries to facilitate the flow from savers to the investors. Financial intermediaries are the organizations that channel the saving of government, business and individuals into loans or investment. Hence, financial market are those channel which make funds available to those who want to spend more than their income from those who do not spent all their income.

“The role of the financial intermediaries is to accumulate funds from various savers and lend those funds to the borrowers, and thus actively participating in the money market and capital market. Participants in the financial market commonly distinguish between the capital market and the money market former referring to borrowing lending for long-term investment purposes and later term generally referring to borrowing and lending for a period of a year or less”. (*Vishwanath; 2000: 322*)

2.1.2.1 Capital Market Instruments

Capital market is an important part of financial market, in which long term financial instruments such as equities and bonds are raised and traded. Capital market securities include such marketable debt securities with long term financial instruments, such as equities and bonds. It also includes such marketable debt securities with maturities of a year or more and equity securities. Capital market deals with longer term and relatively riskier securities. Business and industries issue shares and other securities to raise funds from capital market. In the context of our country, capital market is slowly growing as well as improving. Growth of capital market has made it possible for the public limited companies to raise the long term capital by issuing share and other industries bonds to the investing public. Stock certificates, bonds, debentures, certificates of deposit with maturities over 1 year, collateralized mortgage obligations and beneficial instruments. Most of the capital market financial instruments are transferable from one owner to another. Capital market provides a channel for the borrowing and lending of long term funds. This is designed to finance long term investments by business, governments and households. The principal suppliers and demanders of funds in the capital market are more varied than in the money market.

Some popular financial instruments traded in capital market are defined as followed.

-) Equity or stocks
-) Bond
-) Mortgage loans
-) Option & Futures.

A. Equity/Stock

“Equities are often termed as stocks or shares. Stocks represent part-ownership of a corporation. Holding a stocks certificate means that the holder owns the part the corporation. Thus there are only corporate stocks, no government or state and local government stocks”. (*Ritter and Silber; 1993:29*)

“Equities or stocks are basically the contract that establish an on- going relationship between “borrower” and “lender” and almost always bundling some combination of “control rights” and rights to be a “residual claimant”. In the establishment of corporations of small and medium sizes, stocks sales to the incorporators are usually the principal source of cash and other assets”. (*Kent; 1972:264*)

“People invest in equities because they want to make more than they do in savings account. For the possibility of making more income, they assume more risk. There are several advantages and disadvantages of investing in stocks. People want to make more income so they invest in equities than they do in a savings account. Dividends and rate of return motivates most investors to consider common stocks. There is the liquidity risk that the price of risk might be quite low when one wants to sell it”. (*Garman et al; 1985:490-492*)

In market there are two types of equity ownership or stocks.

I. Common Stock

Common stock is the first security of a corporation to be issued and, in the event of bankruptcy, the last to be retired. Common stock is an ownership share in a corporation; therefore the common stockholders are the true owners of the corporation. It has the lowest-priority claim on earnings and assets of all securities issued.

An investor in common stock receives certificates of ownership, stating the number of shares and par value of the share. Common stockholders have the voting rights, they can vote for a board of directors. Common stockholders 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 stock holders hope to receive a return bared on two sources 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. 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 stocks has no maturity date at which a fixed value will be realized.

Investment in common stock is a popular alternative in Nepal. It is traded in Nepal stock exchange (NEPSE). Only the listed companies' common stocks are traded in NEPSE.

II. Preferred Stock

“Preferred stock is also a form of equity ownership. It is a hybrid form of long term financing with combined features of both common stocks and long term debentures. Its claim is limited in size to a specified amount. No dividends can be paid on the common stock until the specified dividends have been paid to preferred stocks. It is usually perpetual however some can be callable also”. (*Haugen;1997:14-15*)

Preferred stock is superior in two areas:

-) Although they have rights to dividends, if corporation allocates earnings to declared dividends, preferred shareholders must receive before common shareholders.
-) In the events of forced liquidation, preferred shareholders have a claim on remaining assets up to the par value, as priority over common shareholders.

There are two types of preferred stocks i.e. cumulative and non cumulative.

B. Bond

“A bond is a type of fixed-income security by a borrowing entity in which the amount to be paid to the investor is specified in the investment contract or indenture. These are also known as contractual obligations since the creation of a debt is implemented by some form of contract fixing the rate of interest and defining the terms and conditions of repayment”. (*Whyte; 1951:60*)

Many individual and financial institutions are interested in buying these papers.

“The paper also states when the bond will mature- the date when the loan will be paid off to whoever owns the bond at the time”. (*Ritter & Silber;1993:28*) “Corporate Bonds are often known as debentures. Debenture holders have a prior claim on the assets of the company. The interest on debentures is a tax-deductible expense of the firm” (*Grinblatt and Titman;2003:35-37*)

“Bonds have usually the stated interest rate, which is known as coupon rate. For that reason, bonds are often termed as coupon securities”. (*Ritter and Silber; 1993:28*)

Beyond interest rate risk that affects nearly all debt, the price and investors is willing to pay for corporate issue will be influenced by its call ability and credit quality. Some bonds are convertible into common stock at a pre-specified price. This is attractive to investors because investors can benefit from appreciating stock price by retaining the bond status.

“Because of this affirmative feature, convertibles have lower promised coupon payments than ordinary bonds. The option of conversion is a sweeter attached to straight debt. Since holders of the convertibles have a choice to convert debt into equity”. (*Vishwanath; 2000:316-317*)

“Mortgage bonds, collateral trust bonds are examples of secured bonds or senior debts. The nature of any bond is indicated by its indenture. It is the legal document that spells out the rights and obligations of the issuer and the investor. Indenture agreement is made between the corporation and the trustee also. When one purchases the corporate bonds, he becomes a creditor or the corporation with the rights fully specified in the indenture, like: to receive regular interest payments, subsequent repayment of the principal and right to initiate legal proceedings if the corporation defaults on any of the terms of the indenture” (*Richards et al; 1984:375*)

C. Mortgage Loans

Loans granted for the purchase and construction of real property, that is land and buildings, are called, mortgage loans, because in almost all instances the borrower is required to pledge the property to lender as security for the loan. The document by which the pledge is made is the mortgage.

“The borrowers meet all his obligations the lender gives him a written document called a ‘satisfaction of mortgage’ like bonds, mortgages are debt instruments. In this case loan is generally amortized which means that the principal is gradually repaid along with the interest, during the life of mortgage “.(*Kent; 1972:271-272*)

“In the United States, such families are quite lucky. They mortgage bonus to finance home purchases are readily available, and they are offered at terms that compare quite favorably with other financial claims. Today, most of the homes are purchased with little more than a 20 percent down payment, and the rest is deferred and is converted into long-term debt. Fixed payment mortgages are in use in states, since 1930s. There are adjustable rate mortgages, graduated payment mortgages and graduated equity mortgages, to name just a few. In fact, the largest market for private debt in the United State in the mortgage market. A recent study, commissioned by European mortgage federation from consultant at Mercer Oliver Wyman, put Britain’s market comfortably first for ‘competences’ a measure based on the range of products on offer, the ease of access to the market, the availability of advice and the type of borrower”. (*Economist, October 18th 2003:89-91*)

D. Rights

“Corporations frequently need to raise additional fund. They do this by issuing bonds and or by selling new shares of stocks. If additional stock is sold, stockholders of most corporations will experience dilution of their ownership position. The issuing corporation often prefers selling shares to current stockholders because it is less expensive. Stockholder to purchase a proportionate number of shares of new company stock at a specific price during a limited time period. Rights have intrinsic financial value because

they are normally offered at a price somewhat lower than the current market value of the stock”. (*Garman et al; 1985:620*).

E. Derivatives

Derivatives are given their name as derivatives because their value is derived from the underlying assets with which they are associated.

-) Option and futures
-) Cap, floor and collars
-) Warrants
-) Swaps

2.1.2.2 Money Market Instruments

“Money market is used to facilitate the transfer of short term funds from individuals, corporations, governments with excess funds to those with deficient funds. Money market deals with the short term financial needs. Such instruments which have maturities with in one year are referred to as money market securities or instruments”. (*Madura; 1998:138*)

Instruments that are traded in the money market have the characteristics like: they are all debts obligation; they have maturities ranging from one day to a full year. They exhibit typically a high degree of safety of principal and they have high degree of liquidity. Some main instruments of money market are:

1. Treasury Bills
2. Commercial paper
3. Certificates of deposit
4. Banker’s acceptance
5. Repurchase agreements
6. Short-term municipal Securities
7. Other instruments

1. Treasury Bill

Treasury bills are the most marketable instruments. Treasury bills represent the simplest form of borrowing. Treasury bills are the money market instruments because they have a maturity period of less than one year. Their popularity is mainly due to the simplicity. T-bills are basically a way for the government to raise money from the public. The government raises money by selling bills to the public. Investors buy the bills at a discount from the stated maturity value. At the bill's maturity, the holder receives from the government a payment equal to the face value of the bills. The difference between the purchase price and ultimate maturity value constitutes the investor's earning.

They are short securities that mature in one year or less from their issue date. In Nepal, T-bills are issued with a maturity period of 365 days, 182 days, 91 days and 28 days. Investors buy T-bills for a price less than their minimum value and when they mature, the government pays the face value to the investors.

“Government of Canada T-bills is promissory notes that are sold at a discount to mature at par. The difference between the purchase price and the selling price of these is treated for tax purposes as business income”. (*Hatch; 1983:81*)

In the U.S security market, T-bills are issued by U.S. Treasury. The treasury sells bills at regularly scheduled auctions to refinance maturity issues and to help finance current federal deficits. It also sells bills on an irregular basis to smooth out the uneven flow of revenues from corporate and individual tax receipts. Persistent federal deficits have resulted in repaid growth in T-bills in recent years. Because of the low risk and short maturity of these instruments, T-bills are attractive investments for many financial market participants.

“To the individual and commercial investors, T-bills have the added attraction of being exempt from state and local taxes. T-bills constitute approximately one-fourth of the total of all U.S. government marketable debts”. (*Santomero and Babbel; 1997:244-245*)

2. Commercial Paper

Commercial paper is a promissory negotiable note issued by a large, well-known corporation and government a foreign commercial paper consists of short term, unsecured promissory notes (IOUs) issued by firms with the greatest financial strength quality to issue commercial paper. It consists of a fixed maturity period and is usually issued on discount. The paper has a life time of one year or less and the maturity is dedicated by regulations. Generally, the terms of the commercial paper are not negotiable but the issuer can prepay the amount if necessary. The commercial paper can be sold directly by the issuing company price through commercial paper dealers.

“The market for developed in the United States in the late 19th century. The practice of commercial paper has not yet developed in Nepal. Because of advantages of commercial paper for both investors and issuers, commercial paper has become one of America’s most important debt markets. It is the second largest money market instruments, in terms of outstanding debt, behind T-bills. Money market funds are the largest investors in commercial paper. Insures, banks, thrifts, non financial corporations and state locals government bodies are also important in this instrument”. (*Santomero and Babbel; 1997:253-255*)

3. Certificates of Deposits (CD)

A certificate of deposit or CD, is a time deposit with a bank. They are issued at discount to the face value. A CD is a document evidencing a time deposits placed with a depository institution. A CD can be legally negotiable or non-negotiable, depending on certain legal specifications of the CD. Most CDs feature fixed interest rates to maturity; however some CDs have variable interest rates. CDs are issued both in bearer and registered form.

“Four types of CDs are mostly popular with differing rates, risks and liquidity in America. They are: Domestic CDs, Eurodollar CDs, Yankee CDs and Thrift CDs”. (*Santomero and Babbel, 1997:257*)

A bank tries to sell as many CDs as possible directly to investors because banks have limited capability to sell all their CDs directly to investors. However, they often sell some of their CDs to dealers who resell them to investors.

4. Banker's Acceptance

The investors or lenders would lend a certain amount to the investors in exchange for a document stating that the debt would be paid back on a certain date in the short-term future. The redemption of the loan would have to be guaranteed by a bank, called the acceptance by the bank making arrangement. Thus the name is "banker's acceptance.

"In exchange for guaranteeing the time draft, the accepting bank is given international trade documents, temporary title to the goods that are related to the transaction, and a commission for its services. Investors in BAs include commercial banks, foreign central banks, money market funds and non financial corporation". (*Santomero and Babbel; 1997:255-256*)

The yields of BAs are slightly lower than on Commercial paper because BAs are less risky due to the borrower's pledge to pay the collateral of goods and the guarantee of the accepting bank over the past 70 years; BA investors have not suffered any losses of principal. BAs are very popular in export-imports business.

5. Repurchase Agreement(REPO)

"The term repurchase agreement and reverse repurchase agreement refer to a type of transaction in which a money market participant acquires immediately available funds by selling securities and simultaneously agreeing to repurchase the same or similar securities after a specified time at a given price, which typically includes interest at an agreed upon rate".(*Lumpkin; 1998:59-61*)

Repurchase agreements are collateralized loans. Dealers in Treasury securities, dealers in securities issued by federal agencies, and large banks are the primary borrowers that use repurchase agreements. Securities in the dealers' inventory are used as collateral.

“The major players in the REPO market are banks, savings institutions and non-bank securities dealers. Investors such as banks, money market funds, and other non-financial firms who have funds to invest for short periods of time, take it as an attractive alternative to the zero return received from idle balances in a checking account”. (*Santomero and Babbel; 1997:256-257*)

6. Short-Term Municipal Securities

“Local government often have temporary needs for cash to finance their own expenditures to provide funds to some tax-exempt entities such as non-profit hospitals, colleges and to a limited degree, to provide funds to private firms and individuals. To meet such needs, they often issue short-term municipal securities. These securities are issued in two forms. Interest-bearing notes and discount notes. The interest earnings and the capital gains in the case of municipal securities are generally exempted from the taxes, provided that the investor is a resident of the state or city that issues the debts instrument. Individual, mutual funds, banks and other corporations are the major types of investors in municipal securities”. (*Santomero and Babble;1997:248-250*)

7.Other Instruments

There are several instruments popular in money market of different countries. When we see the American money market instruments besides above discussed, like: federal funds, federal agency discount notes, Eurodollars etc are very popular.

Table: 2.1
Money Market Instruments
Characteristics of Money Market Instruments (International Perspectives)

Money Market Instrumnets	Principal Borrowers	Principal Borrowers	Duration (Common Maturities)	Credit Risks	Liquidity	Timing of Payment Risk
Treasury Bills	Government	Individual, non-financial corporations, money market funds, etc.	91,182 and 364 days	Assumed to be none	Very active secondary market	Known
Commercial Paper	Financial and non financial corporations	Non-financial corporations , money market funds	20-45 days	Medium to very low, rated by credit agencies	Limited Secondary market	Known
Certificates of Deposits	Large banks and thrifts	Non-financial corporations, money market funds	1,2,3 and 6 months	Low to high; not guaranteed against defaults	Active Secondary market	Known
Banker's Acceptance	Financial and non-financial corporations	Non-financial corporations, money funds, government	1-9 months	Very low , major banks are guarantors	Active Secondary market	Known
Repurchase Agreements	Banks, Security dealers, other owners of government securities	Non-financial corporations and financial institutions	1 day, 1 week, 3 to 6 months, flexible term	Low risks, collateralized by treasury securities; collateral price risks	High liquidity but no secondary market	Flexible
Short-Term municipal Securities	State and local governments	Insurance companies and individuals	1-12 months	Rated by credit agencies	Moderately active secondary market for large issues	Known

Source: Santomero and Babbel; 1997:258-259

2.1.3 Investment Objectives and Preference of Investors

Investment is all about making multiplying and making money to earn money by investing in available alternatives rationally. Investment is the outcome of your needs and goals. People invest money for different purpose that is; investors invest to increase income, to have funds available during retirement years and specific goals that depend upon age, income, planned activities and attitude about risks. Becoming a successful investor takes times and effort. Getting ahead through investments requires willingness, ability and discipline. Willingness involves understanding your innovations. Investing requires that an individual invest money in assets that will generate the desired wealth when it is needed for retirement, children's education or other financial goals. That is why; an investor seeking higher returns must be willing to face higher levels of risks.

Investment objective is to increase systematically the individual's wealth. The principal objective in making investment is to earn return that compensates investors for the risk bearing of the investment.

Generally, people invest for the reasons like making too much money just sitting in the bank, getting rich quickly, buy a Mercedes-Benz Automobile, retire with a secure income, and fulfill the desire of parents.

“Ability has to do with knowing alternative investments finding investment funds and making intelligent investment decisions. And, ‘discipline’ describes the courage to act responsible in financial matter”. (*Garman; 1985:446-447*)

While wealth maximization may remain an investor's investment objective over a lifetime, age or family circumstances will necessarily force the investor to change his or her investment objective. Thus an investment objective is not static rather it varies from person to person, from time to time and from one circumstance to another circumstance. It will be most difficult when full achievement is hardly possible or when it is a question of selecting the investments which, through falling short of complete fulfillment of purpose, yet come nearest to attaining what is required.

“Investors, as buyers of financial products, expect to obtain three characteristics from the financial requirements. They are the expected return, security and liquidity”. (*Blake; 2000:57*)

While making investment the investor should consider about the compensation for the investment that it is going to provide in future will the investment return or not. These issues should be considered while defining the objectives of the investment are described below:

1. Safety
2. Growth
3. Regular return
4. Liquidity

1. Safety

Investor wants the return of the investment or the original principal i.e. the guaranteed return at the end of specified period. Safety doesn't take into consideration the amount of loss due to inflation but rather whether or not the dollars placed into the investment are guaranteed to be returned at a later time. Many investors equate the objective of safety of principal with the purchase of high quality investment instruments. Savings accounts, certificates of deposit, and savings bonds all have a virtually guaranteed return of principal. While these types of investments may help to keep the amount of the portfolio reasonably constant inflation may reduce its purchasing power.

“Investor looking for some investment income but cannot risk much loss of principal. For the pension funds, investment of safety instruments is more desirable. Hence, investors often seek to keep the portfolio safe in terms of purchasing power by seeking enough growth to offset changes in the cost of living”. (*The Economics, April 26th 2003*)

2. Growth

Primarily, most of the investors expect the increment in secured principal. Price appreciation of principal in addition to the secured principal is also one significant

objective of investors. An investment is purchased with the hope of earning a capital gain at the time of sale. An important task for the investor is to balance the desire for safety of principal with the desire for growth in a manner consistent with her or his personal preferences.

3. Regular Income

Investors may realize investment income either in the regular income is either necessary or highly desirable. A retired individual often needs a high level of current or regular income to be able to supplement income from social security. The idea here is that current income received in the form of capital appreciation is in a more favorable tax position than current income received in the form of dividends or interest.

The need of regular income varies greatly, depending upon such factors as the age, wealth, and non-investment income of the investor. Bonds, preferred stocks, and other investments with high current yields are traditional income investments.

“Income also may influence risk preferences. High-income investor may be willing to choose higher risk investment since they can more easily contribute additional investment capital. The need of regular varies greatly, depending upon such factors as the age, wealth, and non-investment income of the investor. Bonds, preferred stocks and other investments with high current yields are traditional income investments”. (*Steverson and Jennings; 1984:4*)

4. Liquidity

Liquidity is the ease with which you can convert your assets to cash at fair market value. It is essential that you recognize the need to convert your assets into cash at the appropriate times. As the definition says the ability to turn an investment into cash quickly at a value close to the original amount of the investment is liquidity. Since greater liquidity generally results in lower return, it is necessary to give serious consideration to the inherent tradeoffs.

2.2 Review of Previous Studies

2.2.1 International Journals and Articles

Daniel et. al. (2001) in their articles "*Carnegie Rochester Conference Series*", to made a presentation at the Carnegie Rochester conference series in public policy at the University of Rochester, New York. Kent Daniel, David Hirshleifer, and Siew Hong Teoh have reviewed evidence about how psychological biases affect investor behavior. The paper has explored investor's behavior like:

-) Individual investors exhibit loss-averse behavior: investors are more prone to realizing gains than losses.
-) Investors use past performance as an indicator of future performance in mutual fund and stock purchase decisions.
-) Investor's trade too aggressive: it has been argued that the volume of trade in speculative markets is too large and overconfidence of traders has been advanced as an explanation. Among investors also, males trade more aggressively than females, incur higher transaction costs and consequently earn lower returns.
-) Investors make blatant errors: large errors are made by investors in exercise policy of options. Consistent with limited attention, investors sometimes fail to exercise in the money options at expirations, which should affect the pricing of options by rational individuals.
-) Investors are subject to the status quo bias: especially in their retirement investment decisions people tend to stick to the default offered by their firm.
-) Investors don't always form efficient portfolios.
-) Certain classes of investors change their behavior.
-) The trade of some investors is influenced by whether stocks are trading at an historical high or low.

Investor biases and mistakes cause real resource misallocations also:

Investors hold poorly diversified portfolios, allocate their across pension plan funds in an adhoc fashion and their overconfidence apparently lead them to bear risk and expend excessive trading costs.

This paper has also analyzed whether firms try to mislead investor, the findings are:

) Firms manipulate market perceptions to create market misvaluation: window dressing is made to improve investor perception artificially. Earnings reported on firm's financial statements are generated by adjusting cash flows, in principal to reflect the firm's future cash flow prospects. There is evidence that firms choose income increasing accounting methods or report high accounting adjustments (accruals) to improve investor perception.

) Upward manipulation of earnings is stronger at the time of new issues if equity and prior to heavy insider trading.

) Managers adjust earnings to meet threshold levels such as zero, past levels, and levels forecast by analysts.

) Firms tend to release good news early and bad news late.

Investors and professional analysts are also too credulous about firms' accounting choices that increase their earnings, that investors do not draw a sufficiently skeptical (pessimistic) inference when firms undertake new issues, causing them to buy overpriced shares; that investors do not draw a sufficiently skeptical (optimistic) inference in response to repurchase, causing them to sell their shares to the firm too cheaply; that firms engage in new issue and repurchase in ways consistent with exploiting credulity, and what individuals are often victimized by fraud or market manipulation that a reasonably skeptical person would be able to avoid.

The second source of excess credulity is overconfidence. In some cases it can act opposite direction also. If an investor thinks that his expectation of future cash flow is very accurate, he will place little weight on the manager's information.

Vayanos (2001), has illustrated strategic trading of strategic traders in a noisy market in this paper. Large traders, such as dealers, mutual funds, and pension funds, play an important role in financial markets. He assumes trading motives for large traders are generally of two types-informational and allocation. Informational motives arise from private information about asset payoffs and allocation motives are risk sharing, portfolio

rebalancing and liquidity. Large traders or investors are assumed to be risk averter instead risk neutral. This paper reveals that the strategic traders like large traders often play with their stocks, termed as market manipulation, they go on changing their holdings as per the inside information. Like they sell the stocks with the inside information that price will fall because of negative earnings announcements and they will again repurchase the stock when the price falls. These are also known as 'round trip transactions'.

Sushil Bikchandani and Sunil Sharma (2001), in their article "*Herd Behavior in Financial Markets*" is analyzed of the investor's attitude activities and their behavior to the financial market. Their research study was published in IMF staffs paper vol. 47, no 3. Their study has been done in the context of developed countries. In these contexts the evidence suggests that investment managers do not exhibit significant herd behavior and that the tendency to herd is highly correlated with a manager's tendency to pursue momentum investment strategies. More empirical work needs to be done on emerging markets where, as the evidence suggests, one is likely to find greater tendency to herd. In these markets, where the environment is relatively opaque because of weak reporting requirements, lower accounting standards, tax enforcement of regulations and costly information acquisition, information cascades and reputation herding are more likely to remain difficult since the requisite data will not be available even equipped with more sophisticated measures. There is always information asymmetry between any borrower and lender and some element of an agency problem when owners of funds delegate investment decisions to professional managers. Therefore there will always be some possibility of informational cascade and of reputation and compensation based herding. The development of futures and forward markets way bring information about market expectations into the public domain. However, in a relatively transparent environment changes in the situation of economic units is likely to bring forth similar responses from many, if not most, profit-maximizing investors, but this behavior would reflect the reaction to publicly available information in well-functioning markets. Greater transparency makes it more likely that prices will closely track fundamentals "its does not necessarily imply that transparency will reduce price volatility."

Herding behavior is a main factor that affects the investor's preference. Herding has been theoretically linked to many economics activities, such as investment recommendation (Scharfstein and Stein, 1990), price behavior of IPOs (Welch, 1992), fads and customs (Bichchandani, Hirshleifer, and Welch). The study of Graham J.R. (1999) adds to the herding literature by developing and empirically testing a model that examines the incentives investment advisors face when herding whether to herd.

And the paper has tested whether economic conditions and agents' individual characteristics affect their likelihood of herding. Graham (1999) concluded that the expected effect of reputation is unambiguous. Similarly, one may expect the incidence of herding to vary in response to certain events. In the study, one doesn't pay careful attention to the conditional nature of many herding predictions, one may inadvertently average away the signs and symptoms of herding.

Grinblatt (2001), have conducted a study to examine the influence of distance, language and culture. This study shows how such things govern the preferences of investors toward a certain firm and its stock.

This documents that investors are more likely to hold, buy and sell the stocks of firms that are located close to the investor, that communicate in the investor's native tongue, such bias is also known as 'home bias' behavior of culture is less prominent among the most investment savvy institutions than among both households and less savvy institutions. The firm's language, culture and distance from the investor are three important familiarity attributes that might explain an investor's preference for certain firms. All these three attributes contribute to investor preferences for certain stocks, and the preferences tied to these attributes are inversely related to investor sophistication.

The paper results, developed by analyzing the holdings, purchases, and sales of firm stocks while controlling for numerous alternative explanations, show that:

-) Investors prefer to hold and trade stocks head quartered in nearby locations to those in more distant locations. But, the firms that are nationally known have less of a distance effect associated with them.
-) Investors in Finland prefer to hold and trade firms whose CEO is of similar cultural origin.
-) Investors prefer to hold and trade the companies that publish their annual reports in their native tongue rather than others. Multilingual companies which publish their reports in two languages lie in the preferences of both types of investors.
-) The influence of distance, language and culture on stock holdings and trade is generally smaller for financially savvy institutions than for households or less savvy institutions.
-) The influence of distance and culture on stock holdings and trades is smaller for more sophisticated household investors.

However, Grinblatt and Keloharju disagree that these influences are the biases that create irrationality, they want to conclude-

2.2.2 Review of Thesis

Bharat Timilsina (2001), has conducted a research entitled *Capital Market Development and Stock Price Behaviors in Nepal*. His study has mainly focused in tracing out the historical events controlling to the development process of capital market in Nepal. The specific objectives of that study were:

-) To find out the fair market prices of equities and;
-) To observed the variations of the actual market prices from the computed fair prices to rest whether the present behaviors of prices will remain same (stable).

Different types of statistical tools like chi-square, mean, median etc. as well as financial tools were taken for the interpretation of the data taken from the primary and secondary data sources.

The major finding of the study was:

-) The market price of share depends on EPS as well as on DPS but DPS is more prices sensitive.
-) EPS and DPS will have direct and immediate response in the market.
-) Market values of share computed on the basis of EPS are near to the observed values.
-) The money supply and bank credits however indulge or a direct impact on the capital market. When money supply increases, the interest rate may fall causing the share price to move upwards, but inflation may also creep upside, as a result the increase of capital gain is neutralized.

Rajendra Maharjan (2004), conducted a study on the topic *Investors Preferences and Financial Instruments in Nepal*. The main objectives of the study were:

-) To analyze the investors' preferences in financial instruments in Nepal
-) To analyze the past trend of financial instruments used in Nepal
-) To give new understanding of derivations
-) To provide appropriate recommendation and suggestions on the basis of analysis.

In order to achieve the objectives of the study, the researcher followed specific research methodology. Different section like research design, nature and sources of data population and sampling, period covered presentation and analysis of the data and method and tools for analyzing data collected data. For the purpose of analyzing the data, primary and secondary markets' data and information were taken from published and unpublished sources during period 1993/94 to 2002/03. Statistical and financial tools like chi-square, graph, hypothesis and Spearman's Rank correlation coefficient were used for analysis of numerical data. 23 listed companies, 15 experts, 22 investors, in total 60 samples were taken as primary source for analysis through questionnaire and statistical tool were used.

The major finding of the study was:

-) There were chunk issued of equity share because of the investors preference.

-) Among government issue special bond occupy the largest portion
-) Nepalese security market is not providing range of financial instruments
-) Investors investments decisions is strongly affected by the return involved in the securities rather than investment horizon, tax etc.

In addition to this overall, securities market is heavily dominated by the government securities as it occupies well over 98% over last 10 years.

Bashu Dev Bhattarai (2004), conducted a research entitled *Investors Preferences' in the Choice of Financial Instruments in Nepal*". The major objectives of the study were:

-) To identify, the investors preference in choice of financial instruments.
-) Factors effecting investment decisions.
-) To examine the Nepalese investors sectoral preference.
-) To access investors perceptions on their investments

Researcher has divided research methodology in three sections viz. research design of the study, describes the nature and source of data as well as the selection of the financial instrument and investors, and explains the methods of data analysis employed in interpretation of data. Primary data have been collected through structured questionnaire and personal interview with the investor. For the secondary data source annual reports, publications of NRB, economic survey, studies, websites etc. were referred of the period 1993/94-2001/02. Individual investors from 97 listed companies were treated as population. 81 investors view were collected through questionnaire method. Common stock, preference stock, debenture and other instruments were taken as sample for representation of financial instruments. In the process of analyzing the data, statistical tools like simple mean, weighted mean, median, quartiles, chi-square test, rank correlation was used. Computerized method was also used.

The major finding of the study through analysis of the data was:

-) Corporate common stock's issue were increasing regularly than financial instruments like debenture, preference share etc.

-) Most preferable sector of public issue was finance sectors (44 public issues) from 1993/94-2001/02, manufacturing and processing sectors issue was in second place (20 public issues), and trading sector's public issuance of ordinary share was only one by united company.
-) 75% of the respondents showed they want to invest in corporate securities instead of government securities. A treasury bill was most preferred government security.
-) So far the preference of financial instrument is concerned; majority of respondents preferred the common stock. Debenture got second, preferred stock third.
-) The factors affecting the investment decision were risk and return analysis (42%), recommendation of the friend and relatives (41%), investors income(13%) and tax lasted.

Santosh Upadhaya (2004), has also conducted a research on *Investors Preference and Financial Instruments*. The main objective of the study was to examine and analyze the preference of the investors in selecting securities. However, the specific objective of the study was;

-) To study the preference of the investors in financial instruments.
-) To access investors awareness regarding the investment decisions in selecting securities.
-) To analyze the investment trend in the security market of Nepal.
-) To suggest some practical recommendation on the basis of the findings of the study.

In order to find the principal objective of the study, the researcher followed the research design, sources of data, data collections technique, data analysis tools, and limitations of the methodology. In order to analyze, descriptive and analytical process were followed through the primary and secondary data sources during the period of 1998 to 2002. Published and unpublished documents were concerned during that period. Statistical and financial tools like chi-square test, hypothesis, graph, mean, median were used to interpret and analyze the data.

Major findings of the study were:

-) Common stock were the largest chunk of trading in market
-) Majority of respondent do not make risk-return analysis, the main objective was profit.
-) Majority of investors were unaware regarding investment in the Nepalese security market.
-) The influencing factors of the investment were dividend/return, majority of the respondents stated.

Bikram Ratna Bajracharya (2004), had conducted research on the topic of *Individual Investors' Preference and Financial Instruments in Nepal*. The study had aimed to explore behavioral aspects of individual investors in financial instruments. However the specific objective of the study was:

-) To understand investment procedure and behavior of the individual investors for their investment.
-) To justify how individual investors select specific type of instrument to invest their savings.
-) To identify the element of investment that is considered important by individual investors in a preferential scale.
-) To identify whether personal factors like age, sex, education and occupation of the investor plays significant role in their investment behavior.

Specially, secondary data were used for the analysis of the study. For the analysis and presentation of the data different statistical tools like percentage analysis, median, hypothesis testing, chi-square test etc. were done and questionnaire method of interview was also followed.

The major finding of the study was;

-) 67% among 100 respondents wanted to invest and remaining were potential investors.
-) 70% of respondents supported investment return as most important factor of investment.

-) 65% invest through primary where 23% invest through secondary and 12% invest through mutual funds.
-) Regarding preference to available alternatives investments people gave higher preference to corporate investments alternative while moderate preference to real estate common stock, fixed deposits, bonds, debenture etc.
-) Among security sectors, 76%, 5%, 10%, 4% and 5% saw opportunity in bank, finance, manufacturing, trading, and hotel sector respectively. While non security sectors, 29%, 7%, 34%, and 30% saw opportunity in fixed deposit, personal money lending, real estate and business ventures respectively.

Deepa Tamrakar (2006), conducted a study entitled “*Development Of Financial Instruments In The Nepalese Capital Market*”. The main objective of the study is to provide details about the development of financial instruments in Nepalese capital market. The major objective of the study was:

-) To identify the different investment alternatives available in the Nepalese capital market.
-) To analyze the development of different investment alternative available in Nepalese capital market.
-) To explore the current status of available investment alternatives.

Mainly secondary data was taken as major source of analysis; however primary data sources like questionnaire method were also taken. For the conclusion purpose analysis of systematic examination was done through the use of statistical tools. Researcher used Parametric as well as non parametric tools. Non parametric tools like median, percentage analysis, chi-square, coefficient of contingencies, Cramm's coefficient etc were used. And parametric tools like t-test, f-test etc were followed financial tools like subscriptions ratio, growth rate, correlation, coefficient of determination, graphs etc. were used.

The major findings of the study are as followed:

- J Most of the investors are interested to invest their resources in the shares of corporate sectors, where as preference share and debentures are in low limits. In comparison to them, mutual fund and limit schemes are used significantly.
- J Investor's investment on Government Issue like T-bill is the most used government security in comparison to special bonds and other issues.
- J According to her study Public Saving Card has appeared as a new concept and is growing in a good phase.
- J Investment in corporate securities, government securities, real estate and bullion are popular.
- J Corporate securities are found to be widely used alternative. However, the government securities also have some scope in the Nepalese capital market.
- J In terms of different categories of investors (less informed, informed, well informed, analyst/professionals) their ranking towards different investment alternatives were also found similar.
- J Employed investors like to invest their saving in corporate securities whereas unemployed investors like to invest their saving in real estate than corporate securities.

Delay in allotment, refund of money, delivery of certificate and listing of shares in the stock exchange, people are starting to lose confidence and others like taking investment as gambling are current issue that are causing negative impact in investment.

Investment in sectors like banking and finance in comparison to manufacturing, trading, hotel and others are mostly preferred by investors. Commercial banks, finance companies and insurance companies were found to be the most profitable and safe sectors.

Manoj Darhsandhari (2007), conducted research to examine and analyze the preferences of investors in selecting financial instruments entitled *Investors Preference in Financial Instruments in Nepal*. Pointing out his objectives of the study, specific objectives of the study were;

-) To examine the status of investors preferences towards the financial instruments
-) To analyze the influencing factors that attracts investors to invest in particular security(s)
-) To assess investors awareness regarding the investment decisions in selecting securities.
-) To explore the shortcomings of securities issuing as perceived by the investors.

Mainly the researcher used secondary data for the analysis of the study through various published and unpublished sources. Needed primary data and information that supported the study were gathered through questionnaire. Direct interview and mail questionnaire method of data collection also followed. Statistical tools like median, chi-square test, testing of hypothesis were used.

The major finding of the study was:

-) Common stock was most popular investments sector, debts and preferred stock are less preferred by investment,
-) The survey made resulted that common stock (1.07 median) were most preferred financial instrument among Nepalese investors. Similarly, second preference was Government bonds (1.56 median), third preference was Preferred stock (2.80) and Debenture (3.06) was the security that was least preferred by Nepalese investors.
-) The research points out the reason for the preference of common stock was it entrust holders the right to participate in earnings.
-) Marketability was another factor that attracts the investors. Likewise, bulk transaction, power to exercise rights, participation in management and sense of ownerships was other factors. These are major attributes of finding the researcher explain in the research.
-) The most preferred sector of investment, according to the research, was banking sector, finance was the second attractive sector. Likewise, insurance, hotel, trading, manufacturing, processing simultaneously other sector of investment.
-) Investors objectives of the investment in these sectors were maximize return, enhance social status, and minimize the possible risk.

Policy making body and related institution should pay their attention. And grievances of the investors should be handled promptly and reasonably otherwise the transparency, accountability and credibility of security market will come to a difficult verge and the expenses of which will irrecoverable. He suggests for the arrangement of financial professionalism to arrange a favorable environment of investment.

Research Gap

Overall previous thesis related to securities and Nepalese investors' assumptions of investments alternatives found to be incomplete, some were related only with psychological factors of investors and some were related only with developments of financial instruments. Most of the research works were found not addressing exclusively on the investor's preference in the context of Nepal. Investor's behavior like investments habit, psychological factors and awareness changes with passage of time. So does their preferences and priorities. In this regard, this study covers all these aspects and examines current perceptions and attitude of investors about financial instruments and provides fresh findings and recommendations. That is why, this study, contribute new approach toward preference of financial instrument which is not sought yet by previous researchers. This study, in true sense fills the gap of ignorance with knowledge for seekers. Hence, the research covers what factors affect the investors to invest in securities and which instruments are preferred by investors through the access of investor's awareness regarding the investment decisions in selection of securities through primary data analysis using different statistical tools which is new to previous research.

CHAPTER - III

RESEARCH METHODOLOGY

This part of study includes all the necessary steps to be followed throughout this research work in order to achieve the objective of the study. Research methodology discussed in this chapter helps to guide the research study providing different issues and aspects. This chapter includes the way, techniques and processes in order to interpret the result. Also focuses on how to collect required data, classify variables and adopt steps

3.1 Research Design

The research designed adopted in this study will be integration of descriptive com exploratory.

3.2 Population and Sample

The population of this study is the entire number of investors of financial instruments. The total population of investors is very large, which includes from very small investors to analysts and professional investors. Investors were taken on subject on random sampling basis. Hundred investors were taken as respondents. Out of their responses, only 60 responses were in usable form. The details of sample of the study are as followed:

Table: 3.1
Population and Sample

Sectors		Numbers
1.Gender	Male	45
	Female	15
2.Age	Below 30	26
	30 & above	34
3.Education	Less than graduate	18
	Graduate	30

	Post graduate & above	12
4.Employment	Unemployed	10
	Job holder	31
	Retired	3
	Self employed	16
5.Information	Informed	21
	Less informed	25
	Well informed	6
	Analyst/Professional	18
6.Investment size	Small	30
	Medium and large	30

3.3 Sources of Data

Both primary and secondary data will be used, secondary sources were like: NEPSE reports, SEBON reports, NRB reports, reports of issue managers etc will be used. On the other hand, to know about the preferences of the investors primary data were collected.. This study is heavily dependent upon the primary data.

3.4 Data Collection Techniques

To collect the primary data questionnaire survey were distributed and also interviews and observations method were used. The questionnaire included the areas of information like preferences of investors, their state of information about the financial instruments, means of information, causes for selecting the instrument etc. The secondary data were collected especially regarding issuance of corporate securities of different sectors and their trends.

3.5 Data Analysis Tools

In regards to data analysis, statistical tools will be used like median, chi-square, coefficient of contingency, Kendall coefficient of concordance, Kruskal-Wallis Test, Spearman Rank Order Correlation Coefficient, Mode, t-test, graphs.

a. Median Analysis

Median gives the middle value in the set of numbers. It divides the total observation into two halves. One half comprising the values greater than median and other half comprising smaller values than median. This tool has been selected to find the preferences of investors.

Formulate to calculate median is given below.

$$\text{Median} = \text{value of } \frac{N + 1}{2} \text{th item}$$

Where,

N= number of items

b. Kruskal-Wallis Test (Non Parametric ANOVA) H

Kruskal-Wallis test helps us to test the hypothesis whether the responses of two categories of subjects are significantly different or not. To test whether there is any difference in the preferences of different investors or not, this Kruskal-Wallis H has been calculated by the following formula,

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

Where,

K = no. of samples

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

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

R_j = Sum of ranks in the j^{th} sample.

If the calculated value is greater than the tabulated value null hypothesis is rejected.

c. Mode Analysis

Mode gives the highest frequency of the data. It has been used for the conclusion of the propositions.

d. Graphs

Line charts has been used to show the trend of issues of financial instrument. It is created by connecting a series of points that represent individual measurements with line segments. Here it is used as means to visualize trend in data over interval of period from 1993 A.D to 2008 A.D chronologically.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter deals with the analysis of secondary and primary data and their results. 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. And third section encompasses the major findings of the study.

4.2 Financial Instruments in Nepal

4.2.1 Corporate Securities

There are limited securities available in Nepal as financial instruments. A brief state of such instruments is from alternatives.

Table 4.1
Issues of Corporate Securities

(Rs. in million)

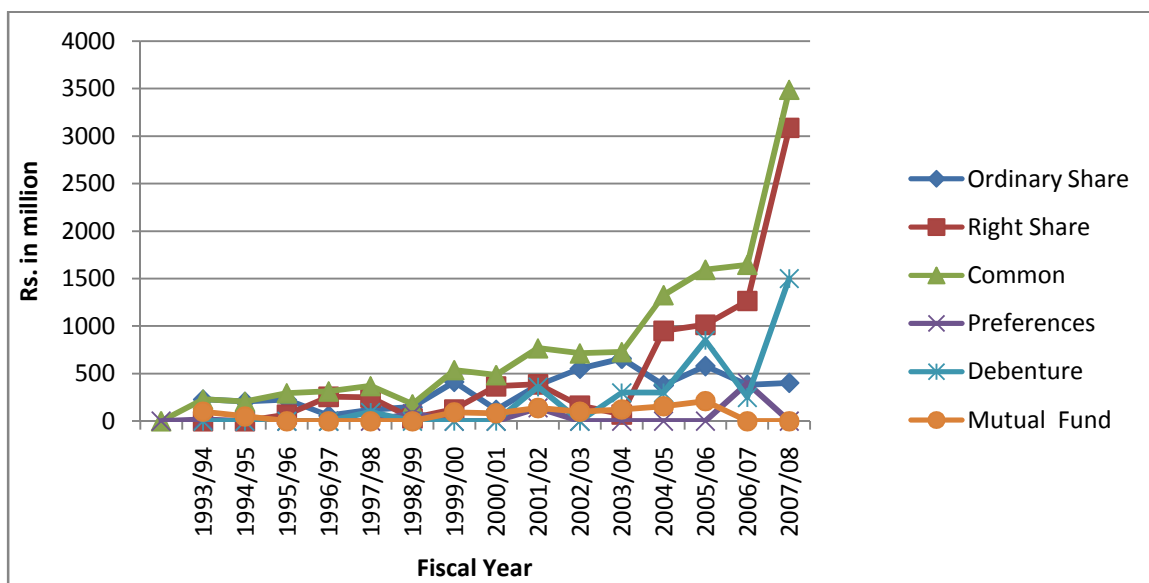
Fiscal year	Ordinary Share	Right Share	Common Stock*	Preferences Shares	Debenture	Mutual Fund	Total
1993/94	227.9	0	227.9	16.5	0	100	344.4
1994/95	204.21	0	204.21	0	0	50	254.21
1995/96	224.74	69	293.74	0	0	0	293.74
1996/97	57	257.2	314.2	0	0	0	314.2
1997/98	119.4	249.96	369.36	0	93	0	462.36
1998/99	148	30	178	80	0	0	258
1999/00	412.46	124.6	537.06	0	0	93.25	630.31
2000/01	118.5	365.79	484.29	0	0	82.91	567.2
2001/02	378.76	387.87	766.63	140	360	138.48	1405.11
2002/03	551.5	162.24	713.74	0	0	100	813.74
2003/04	657.5	70	727.5	0	300	123.41	1150.91
2004/05	377.48	949.34	1326.82	0	300	157.74	1784.56
2005/06	579.83	1013.45	1593.28	0	850	210.71	2653.99
2006/07	380.2	1265.3	1645.5	400	250	0	2295.5
2007/08	402.4	3084.	3486.5	0	1500	0	4986.5
Total	4839.88	8028.85	12686.8	636.5	3653	1056.5	18214.7
%	26.6	44.1	69.6	3.5	20.1	5.8	
Rank			1	4	2	3	

**Includes both ordinary shares and right shares*

Source: Economic Survey 2008 and Security Board Nepal

The table 4.1 indicates the amount of different corporate securities that are issued in different periods (from the fiscal year 1993/94 to 2007/08) in Nepalese financial market. The total amount figures Rs. 18214.7 Millions. Table shows that ordinary shares have the largest share in the total amount i.e. 26.6% in second state there comes right shares, debentures, mutual funds and preference shares. The ranks show that common stock is in first rank with 69.6% coverage in total amount of public issue.

Figure 4.1
Trends of Corporate Securities



The line chart as of figure 4.1 shows the trends of issues of corporate securities made in capital market of Nepal since 1993/94. Line representing common stock is the only line that follows an increasing trend where as others have very ups and downs as well as frequently reach to the zero limits.

Bases on discussion, it can be concluded that common stocks are the most widely used corporate security. Similarly preference share is a least used instrument (with 4 ranks) in Nepalese financial market. It means the capital market of Nepal is heavily dependent upon the equity instruments. Issuance of just four types of securities reveals the fact that Nepalese capital market is really have less varieties of corporate securities. Nepalese

capital market is fully dependent upon these traditional types of securities. Financial or securities innovation is yet been liberally practiced.

4.2.2 Government Securities

There are different investment alternatives available in private as well as public sectors. Government issues few financial instruments like treasury bills, Development bond, national saving bond, public saving card. A brief state of this issuance is presented below:

Table 4.2
Issues of Government Securities

(in million)

Year	Treasury Bills	Development Bonds	National Savings Bonds	Public Saving Card	Special Bonds *
1993	4403.2	5132.2	4901.5	0	11019.1
1994	5216.30	4732.2	5691.5	0	14991.2
1995	6392.50	4122.2	6076.4	0	15466.8
1996	7142.50	3672.2	7376.5	0	16050.6
1997	8092.50	3042.2	8736.5	0	16019.6
1998	9182.50	3302.2	9886.4	0	16035.5
1999	17586.90	3872.2	10426.4	0	17784.2
2000	21026.90	4262.2	11526.5	0	17541.4
2001	27610.80	5962.3	12476.5	0	13994.3
2002	41106.70	11090.7	11536.3	628.1	9259.3
2003	48860.70	13090.7	10659.9	931.1	9621.7
2004	49429.60	17549.2	9029.8	1178.9	8946.2
2005	51383.10	19999.2	6567.8	1428.9	8176.3
2006	62970.30	17959.2	3876.8	1678.9	3469.8
2007	74445.3	19177.1	1516.9	1391.0	2773.5
2008	79443.0	18065.5	1516.9	1888.0	2773.5
Total	434849.8	155031.5	121802.6	9124.9	183923
%	48.06	17.14	13.46	1.01	20.33
Rank	1	3	4	5	2

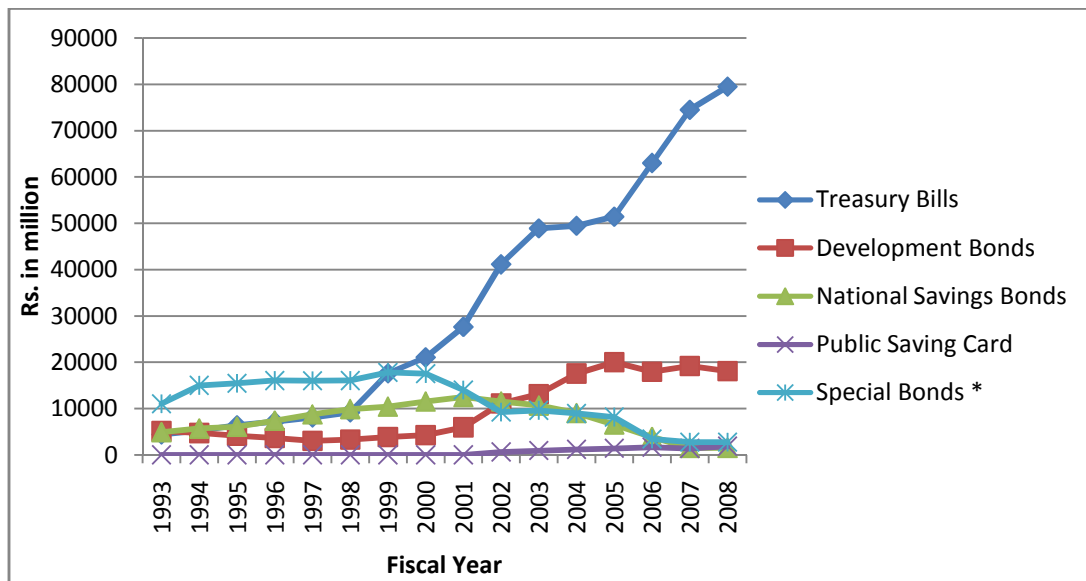
* - includes IMF promissory notes

Source: NRB Quarterly Economic Bulletin (Mid Jan 2008)

It is clearly seen that the scenario of government securities, in table 4.2 treasury bills comes in first rank and special bonds come in second rank, in terms of their percentage coverage in total amount of government securities issued in the 16 year period of 1993 to

2008. Development bonds are in third place with the coverage of 17.14% of total amount of government securities issued and then come national savings bonds and public saving cards respectively. Public saving cards were issued for the first time in 2002. So its contribution in total amount is just 1.01% in fifth rank.

Figure 4.2
Trends of Government Securities



The line chart presented in figure 4.2 indicates the trends of issuance of various government securities. In the figure, it can be seen that the Treasury bill is the only instrument which followed a rapid increasing trend. Special bond and national savings bonds are also in a increasing trend but in recent years they are decreasing. Development bonds are also growing but in very slow pace. Public saving cards line is in low pace of increasing.

From this analysis it can be concluded that treasury bills and development bonds are the most widely used government securities and public saving cards are the newly introduced instruments. Treasury bills are mostly used by institutional investors. That is why this instrument is very much preferred among institutional investors.

4.3 Primary Data Analysis

This section includes the presentation and analysis of primary data collected from different respondents. Questionnaire survey was made among investors of different nature randomly. The total number of subjects or cases was 60 as followed:

Table 4.3
Percentage Analysis of Respondents

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/Professional	8	13%
Size		
Small	30	50%
Medium and large	30	50%

Gender and Age

Among subjects, only 25% were female investors where as 75% were male investors. As per the age 43.33% are of below 30 years and rest is of 30 and above group.

Education

On the basis of education investors are categorized in three groups-under graduate, graduate and post-graduate and above. Among them majority were graduates (50%) and 30 % of respondents were under graduates and 20% were post graduate and above.

Employment Status

Majority of investors were found the jobholders which mean that they are the regular earners. And 26.7% of respondents were found to be self-employed they are also regular earners. Very few were found retired (i.e. 5%), they have not the current regular income source except pensions and provident funds. Around 16.6% were found unemployed which means that they have not the regular source of income beside depending on other sources.

Category

When they were asked in which category of investor they belong to a significant portion of respondents (35%) answered they are less informed investors. Likewise 42% were found to be informed and 10% were well informed and 13% were said that they are analyst or professional investor.

Size

On the basis of amount of investment on financial instrument investors are categorized into two groups- small and medium and large investors. Exactly 50% of investors were found under the category of medium and large investors and rest 50% were small investors.

4.3.1 Preference over Major Investment Alternatives

For this study corporate securities, government securities, real estate and bullion were taken as the major investment alternatives prevailing in investment environment.

Table 4.4
Ranks of Investment Alternatives

S.N.	Alternatives	Rank sum	Rank
1	Corporate securities	174	1
2	Government securities	160	2
3	Real estate	148	3
4	Bullion	118	4

Median=154

Source: Questionnaire Survey, 2008(Q# 4), details in Appendix 2.

As per the median analysis the alternatives which have the rank sum of more than 154 are the preferred alternatives and those with less rank sum are the less preferred alternatives. On this basis, it can be seen, corporate securities and government securities are the preferred alternatives where as real estate and bullion is less preferred. In this case, corporate securities are the most preferred investment alternative and bullion is the least preferred investment alternative.

Taking responses of total cases (60), the investment alternatives are ranked as per their rank sum. It shows that corporate securities are the most preferred alternatives. A government security is second preferred alternative and then comes real estate. The bullion falls in the least preferred category.

4.3.2 Preferences as per Employment Status

From the population two groups are separated on the basis of employment. Jobholders and self employed were taken as employed where as unemployed and retired were taken as unemployed investors. Employment directly affects the earnings of the investors and earnings have impact over investment decisions and preferences. Hypothesis is to be tested in this regard are:

H_0 X There is no significant difference between the ranks given by unemployed investors and employed investors.

H_1 X There is significant difference between the ranks given by unemployed investors and employed investors.

Kruskal Wallis one-way non-parametric ANOVA by ranks has been used to test the difference in two groups.

Table 4.5
Ranking of Preferences Status

	Investment alternatives	Rank sum	Rank
Unemployed Investors	Corporate securities	23	3
	Government securities	22	4
	Real estate	30	2
	Bullion	21	1
		Total	10
Employed Investors	Corporate securities	153	8
	Government securities	140	7
	Real estate	119	6
	Bullion	94	5
	Total	Total	26

H =5.33

Source: Questionnaire Survey, 2008 (Q#4), details in Appendix: 3

Tabulated value of chi-square at 0.05 level of significance with 1 degree of freedom is 3.841. Since the calculated value (5.33) is greater than the tabulated value. So null hypothesis is rejected. It can be concluded that person holding a job and a person without a job has different preferences toward investment alternatives. In this cases those who have jobs and have regular income has preferred corporate securities and government securities over real estate and bullion where as the unemployed investors have preferred real estate and corporate securities over government securities and bullion.

4.3.3 Investor's Preference Instrument Wise

Now we have dropped the alternatives like real estate and bullion and focused only on the financial instruments. Study had considered common stock, preference shares, government bonds, debenture, mutual funds and treasury bills as the major financial instruments since these are the major instruments that prevail in Nepalese financial market.

Table 4.6

Ranks of Financial Instruments

S.N.	Instruments	Rank sum	Rank
1	Common stock	141	1
2	Government bonds	86	2
3	Preference shares	55	3
4	Debentures	29	4
5	Mutual funds	28	5
6	T-bills	24	6

Source: questionnaire survey, 2008 (Q#5); details in Appendix: 4

Table 4.6 shows the lists of financial instruments as well as it presents the rank sum and ranks. Here we can see common stocks have the highest rank sum and T-bills have got the lowest rank sum.

Calculated median=42

Median has been calculated on the basis of rank sums. As per median the stock which has scored (rank sum) more than 42 are the preferred instruments in comparison to others with fewer score. Scores show that common stock is the most preferred stock since it has the highest score and T-bills is the least preferred stock since it has the lowest score. Common stocks, government securities and preference shares are the preferred instruments in comparison to debentures, mutual fund and T- bill.

4.3.4 Preference over Investment Objectives

Every investor has some objective over the investments she or he makes. Major investment objectives (as studied in chapter 2) are the price increment or growth, regular

return, liquidity and safety. Different investors might have different objectives. Here, the study had tried to know the preferences of investors over these objectives.

Table 4.7

Ranks of investment objectives

Objectives	Rank sum	Rank
Price increment/Growth	209	1
Regular return	171	2
Safety	90	4
Liquidity	129	3

Source: Questionnaire Survey, 2008(Q#6); details in Appendix: 5

Table 4.7 shows the frequency of ranks provided by respondents to those objectives, ranks sum and ranks.

Calculated Median=150

Calculated median means that the investment objective which has the rank sum of more than 150 is the preferred objectives and vice versa. It means growth/price increment and regular return are the preferred objectives in comparison to liquidity and safety.

4.3.5 Opinion Regarding the Propositions

To know the awareness of investors in different regards, different propositions were provided. The propositions and their responses are presented as followed.

Table 4.8**Analysis of opinion regarding the propositions**

Propositions	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Total	Mode	Rank
1. One should not invest whole amount in the same investment, should form a portfolio of different portfolio	40 (66.67)	17 (28.33)	2 (3.33)	0	1 (1.67)	60 (100)	40	1
2. The best investment sector is the Banking	15 (25)	26 (43.33)	8 (13.33)	10 (16.67)	1 (1.67)	60 (100)	26	4
3. Nepalese investors don't have defined preferences they just follow the whim and rumors.	11 (18.33)	24 (40)	19 (31.67)	6 (10)	0	60 (100)	24	5
4. One should first save a certain level of amount very safely like depositing in bank, and then only invest the surplus amount.	10 (16.67)	29 (48.33)	10 (16.67)	10 (16.67)	1 (1.67)	60 (100)	29	3
5. We don't have wide choice of instruments, so we buy whatever floats in market.	5 (8.33)	38 (63.33)	7 (11.67)	7 (11.67)	3 (5)	60 (100)	38	2
6. Government securities yield less than corporate securities, so they are not attractive.	9 (15)	26 (43.33)	11 (18.33)	12 (20)	2 (3.33)	60 (100)	26	4
7. Nepalese investors do detailed analysis before investing in corporate securities.	2 (3.33)	13 (21.67)	17 (28.33)	23 (38.33)	5 (8.33)	60 (100)	23	6

Source: Questionnaire survey, 2008 (Q#15);

Table 4.8 summarizes the ranking made by investors among propositions through higher frequency (Mode) first rank and so on.

The table 4.8 shows the propositions that one should not invest whole amount in the same investment, should form a portfolio of different portfolio in the first rank. Most of the respondent i.e. 66.67% is strongly agreed on this proposition. Investors were strongly agreed that one should form a portfolio of investment rather than investment on single instruments.

Similarly, the results show that the proposition, we do not have wide choice of instruments, so we buy whatever floats in market stand in second rank. Most of the respondents i.e. 63.33% were agreed on this proposition.

Most of the investors; i.e. 48.33% were agreed that one should not invest the entire amount what one possesses came to third rank. They believe that there should be kept certain amount very safely for the unseen needs and emergency purposes than only surplus amount should invest. It shows that investors not aggressive risk seeker stock holder.

The result shows a proposition that best investment present context of Nepal is banking stand on forth rank. Most of the investors i.e. 43.33% were agreed on this proposition. Financial sectors' securities have high liquidity, high potentiality of capital gain, stock dividend bonus shares and less risky. That is why the sectors are very preferred by general investors.

Further, the results show that the proposition government securities yield less than corporate securities, so they are not attractive ranked at forth position. In response to this proposition, 43.33% of the respondents were agreed that government securities are not attractive to the investors.

Like wise, Most of the investors i.e. 40% agree that Nepalese investors don't have defined preferences they just follow the whim and rumors and comes to fifth rank.

Likewise, the proposition Nepalese investors do detailed analyze before investing in corporate securities ranked as sixth position. Responses in this proposition depict that majority of investors i.e. 38.33% were disagreed on this proposition. It is because investors are not aware of security market. Investors are not aware regarding securities trading mechanism, price formation, legal provisions, and theoretical knowledge of investment. Investors didn't try to analyze other factors while investing their money. No one used to analyze before they invest in securities, they only analyze the market supply and demand factor. They wanted to buy the share of the company whose demand was very high in the market.

4.3.6 Awareness of Financial Instrument

To know investors awareness regarding the investment in security market, they were simply asked about the security market awareness. The variables and number of respondents are presented in following table.

Table: 4.9
Awareness of Financial Instrument

S.N.	Research Variables	Number	Percentage
1	Yes	34	56.67%
2	No	23	38.33%
3	Don't know	3	5%
	Total	60	100%

Source: Questionnaire survey 2008(Q#16);

Awareness of the investors regarding the investment in financial investment helps to the development of the security market. With respect to the investors' awareness about the investment in financial instrument in security market, the majority of the respondents (56.67%) stated that they are aware regarding their investment. Respondents of 38.33% stated that investors are not aware in their investment in financial instruments. And 5%

respondents replied that they do not know about the investors' awareness. Investors are not aware about in their investment decision because of lack of education, knowledge and lack of sufficient market information.

4.3.7 Consideration for Corporate Security Investment

Different factors should be taken into account before investing incorporate securities. In the course of identifying the considerations i.e. preferences they made before investing in corporate securities, different preferences variables as shown below were provided and examined.

Table 4.10
Consideration for Corporate Security Investment

S.N.	Contents	Frequenc y	Percentage
1	Companies goodwill	29	48.4 %
2	Forecasted profit	22	36.67%
3	Friends and relatives motivated them	8	13.26%
4	Advertisement appealed them	1	1.67%
	Total	60	100%

Source: Questionnaire Survey 2008 (Q#7)

Here most of the investors (48.4%) said that company's goodwill is the most important which guides their investment decisions. Where as 13.26% investors said they just buy the corporate securities because of the friends and relatives. Only 36.67% investors consider forecasted profits before investing in corporate securities. It means only 36.67% analyze the forecasted profits of companies before making decisions.

4.3.8 Considerations for investment decisions

In the course of taking decision of investment in the security market different reason were analyzed as presented in following table. In this regard different reasons were provided and asked the most important factor for investment decision.

Table 4.11
Considerations for Investment Decisions

S.N.	Alternatives	Frequency	Rank
1	Company's track-record/goodwill	57	1
2	Forecasted profit	46	3
3	Management team and promoters	55	2
4	Environment factors	29	4
5	Expected risk level	28	5
6	Taxation	4	7
7	Inflation	2	8
8	Liquidity and maturity	18	6

Source: Questionnaire Survey 2008 (Q#13)

After studying the frequency we can say that company's track record/goodwill is that factor which majority of investors consider before making investment decisions then comes management team and promoters as second major consideration and the factor like forecasted profit comes in the third place of consideration. Above mention 8 factors are very crucial factors which should be considered while making decisions. So it was assumed that the investors will uniformly respond to all factors.

4.3.9 Attitude toward Re-Investment

Reinvestment is the investment process. Investors were provided with following four variables and asked about the preference of following options.

Table 4.12
Attitude toward re-investment

		Frequency	Percentage
Re-investment	Purchase more securities of same kind	18	30%
	Purchase some other types of securities	27	45%
Total		45	75%
No-Reinvestment	Spend on durables	7	11.67%
	Save it safely	8	13.33%
Total		15	25%

Source: questionnaire survey, 2008(Q#12)

The above table shows that majority of the investors i.e. 75% want to re-invest their return where as 25% of investors just want to save the return safely or spend the return to buy some durables.

Among those who want to reinvest, 27 investors (60%) want to purchase some other types of securities. However 18 investors (40%) want to purchase the same kind of securities from which they have gained. It means that most of the investors want to diversify their portfolio by selecting some other investment instruments. But during the course of survey investors said the decision to select which instruments fully depends upon the market scenario.

4.4 Major Findings of the Study

The main objective of this study is to assess the investors' preference in making investment however on the basis of the overall study made here, following are the major findings of this study.

1. Corporate Securities in Nepal

Nepalese financial market consists of varied types of corporate financial instruments viz. Ordinary share, right share, preference share, debentures and mutual funds.

The issuance of corporate securities made since 1993/94 to 2007/08 shows that only 44.1% of total issue is covered by right share, 26.6% of the total issue is covered by ordinary share. 20.1% of total issue is covered by debentures. 5.8% of total issue is covered by mutual fund. And only 3.5% of total issue is covered by preference share. Since, the ordinary share and right share have are highest coverage in total corporate issue, common stock is the most widely used corporate security among Nepalese investors. Moreover, preference shares are in very low limits.

2. Issues of Government Securities

The scenarios of government securities in the table 4.2, the issuance of Treasury Bills comes first place with 48.06% in overall issuance since 1993 to 2008. Special bonds come in second rank with 20.33%. Development bonds in third rank with 17.14% of total amount of government issuance and then come national saving bond with 13.46% and the public saving card appeared as a new concept and is growing in good pace.

3. Preference over Major Investment Alternatives

Corporate securities, government securities, real estate and bullion are considered as the major investment alternatives. Government securities and corporate securities are preferred investment alternatives among investors whereas bullion market and real estate are less preferred investment alternatives. The results show that corporate securities are most preferred investment alternative, government securities in second place. And then come real estate while bullion is the least preferred investment alternative.

4. Preference as per Employment Status

Preference as per employment status investors are categorized in two types i.e. employed and unemployed. The employed investors preferred the corporate and unemployed have preferred real estate.

5. Financial Instruments and Investors Preferences

Common stock, government bonds, preference shares, debentures and mutual funds are considered as the major financial instruments. The result shows that common stocks

appeared on the most preferred financial instrument, government bonds appeared as the second preferred financial instrument. Preference share, debenture, mutual funds, treasury bills simultaneously appeared preference ranks.

6. Preference Over Investment Objective

Most of the respondents were inspired by price increment and regular return more than safety and liquidity, which is shown in table 4.7. It means, growth/price increment and regular return are the preferred objectives in comparison to liquidity and safety.

7. Opinion Regarding the Propositions

The proposition that one should not invest the whole amount in the same investment stood in the first rank which is concluded on the basis of percentage along with mode. We don't have wide choice of instruments so we buy whatever floats in market. It means whole investment should be diversified in different sectors. After that, one should first save a certain level of amount very safely like depositing in bank and then only invest the surplus amount, came to next position. The result shows the proposition that best investment sectors in present context of Nepal is banking and government securities yield less than corporate securities, so they are not attractive stood the forth rank. Likewise, the proposition that Nepalese investors don't have defined preferences they just follow the whim and rumors and Nepalese investors do detailed analysis before investing in corporate securities simultaneously stood in fifth and sixth position.

8. Awareness of Financial Instruments

Nepalese investors are not well aware of financial market. Most of the investors are investing in the capital market without any proper knowledge or information. Nepalese financial market lacking well informed and professional investors, most of the investors are educated but education has not to do much with the knowledge of market and investment. The majority of respondents (56.67%) were aware regarding their investment. 38.33% of respondents stated that they are not aware in their investment in financial instruments. And 5% of respondents replied that they do not know the investment awareness.

9. Consideration for Corporate Security Investment

So far for the consideration for security investment, the sector like company's goodwill is the most important factor which guides their investment, the sectors like furcated profit guides their investment decision where as 36.67% investors said they just buy the corporate securities because of the forecasted profit only 13.26% investors consider friend and relatives motivated them investing in corporate securities.

10. Consideration for Investment Decision

After studying the frequency we can say that company's track record/goodwill is that factors which majority of investors consider before making investment decisions then comes management team and promoter as second major consideration and the factors like forecasted profit comes in the third place of consideration. These factors are very crucial factors while making investment decision.

11. Attitude toward Re-investment

Around 75% of investors said that reinvest the returns they gain. Only 25% of investors said that they will first consider either buying some durables or saving the returns safely, if they gain returns from investment.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter includes the summary and conclusion and the recommendations based on the findings of the study.

5.1 Summary

Capital provides the best investment opportunity to the investors and it plays vital role in mobilizing savings and utilize funds to productive sectors for the expansion of trade and commerce .Nepalese capital market consists of varied types of investor, those who are completely unaware of market and those who are professional players of security market. However the institutional investors seem very passive in secondary market though participation in IPO's is very significant. This study is mainly related to identify the Nepalese investor's preferences and attitude towards different financial security. In such scenario, this study was conducted with an objective to explore investor's preferences in financial instruments in Nepalese capital market and investors awareness regarding the investment decision and factors affecting the investment decision. Specifically, the objectives of the study was set as: to explore financial instruments in Nepalese security market, to analyze the Nepalese investors preference in Financial instruments, to analyze influencing factors those attract the investors to invest in a particular security.

Since, the basic objective of the study is to study and analyze the investors preference in financial instruments and investors awareness regarding the investment decision and factors affecting the investment decision, the study is explanatory. In this situation primary data were mainly focused to explore the status of investor's attitude toward the securities. Sources for the primary data were strongly based on questionnaire method. On the other hand, the study is explanatory, secondary data have also been used to support the research. Sources for this purpose were various annual reports, NEPSE, SEBO/N, NRB reports, different websites etc. The important preference has been drawn on the basis of randomly selected sample size of 60 respondents.

To analyze primary and secondary data tools like percentage, rank, rank sum, median, chi-square test etc were used. Through the analysis, ordinary shares, right shares, preference share, debentures, mutual funds, and unit schemes were the major corporate securities used in Nepal. In turn to the government securities, there were t-bills and bonds of several types like developments bond, national saving bond, special bond and IMF promissory notes. Study towards the preferences towards the particular security reveals that common stock is the most preferred security by the investors, followed by government bond, preference share, and debenture. While taking decision which particular security to invest in investors take consideration like company's goodwill, forecasted profit, management team and promoters, environmental factors, expected risk level, taxation, inflation, liquidity and majority. The main factor which affect the investors decisions are company's goodwill, forecasted profit and environments. In regard to the investor's profession, employed investors preferred corporate securities whereas unemployed investors preferred real estate investment.

5.2 Conclusion

From the analysis it seems that the Nepalese investors prefer common stocks when making investment decision. The common stock has the largest portion of trading in the market. The main attraction of common stock is due to return/ dividend of the company. The stocks of banking sectors have the largest amount of trading in the market. Hence the preference of investors is on common stock of banking sector. Nepali security market is completely dominated by the equity shares. The awareness level of those large professional investors is really good but small investors know about the market mechanism. Many of them just invested due to the influence of friends and relatives. The awareness level of general investors is really poor. They just follow the whim of the market. Those who do not have knowledge about the financial market and investment scenario prefer real estate and bullion. As a result, such investment will not help in the capital mobilization for the economy.

The investors give the second priority to the government securities because the government securities are taken as risk less investment. The Nepalese investors least

prefer the preferred stocks and debenture. It was found that from the primary data, no attraction of investors is the main reason of the Nepalese companies for not preferring to issue debenture and preferred stock frequently.

Nepalese investors do not seem aware in regarding investment in the security market. They do not analyze risk and return before making investment in any securities. Investors claimed that they are not getting sufficient and timely information from the companies where they have invested their money.

In sum, it can be concluded from this study that the investors select the common stock of the banking sector because of high return provided by the banking institution in Nepal, over all other investment alternatives.

5.3 Recommendations

The recommendations from this study are as follows:

-) The analysis shows the young age investors who are dissatisfied in present investment, are searching new financial instrument than existing one. So issuer should issue other financial instrument available in the capital market than common stock to public.
-) The Nepalese investors are not getting the required information from the companies where they have invested their money. Hence concerned authorities should be liable to disseminate the required information to the general public through appropriate means.
-) In Nepal, it is found that there are no professional firms providing financial assistance and advice to the existing as well as prospective investors. Hence the government should arrange for creating such environment for the development of financial professionalism.
-) Regulating authorities like: SEBO should act for the well-beings of investors with the pro-investor policies. Investors are the main pillar of capital market. With out the trust of investors no capital market can sustain. So to win the trust of investors regulating authorities should act on the best interest of

investors. While giving the approval to the new issues and types of issues the investors preferences should also be taken into account.

-) It seems that the investors outside like Kathmandu valley are neglected as if they are not supposed to participate in security exchange. These days they can participate in primary market because of various outlets of the issuers. However they are completely disadvantaged from the secondary transactions. So security exchange centre outside the valley should also be established to cater the preferences of those investors who are outside the valley.
-) Study shows that investors are in confusion or unaware of market mechanism. Due to this they are investing randomly as well as a big amount of capital is flowing toward unproductive investments like real estate and bullion. If awareness level of the investors can be improved more savings can be pulled toward financial instruments. Awareness programs and campaigns should be launched for this. This also helps to increase the number of smart investors who will not just gamble on the basis of rumor and whim.
-) Investors should always try to know more about the capital market mechanism. They should have some knowledge of technical and fundamental analysis. This will reduce the tendency of taking security investments as a simple gamble and speculation. And will create rational investors with rational judgment.
-) Investors should try to be well-informed of the alternatives prevailing in investment environment. They should not be carried away by the whim and rumor. They should develop the habits of studying related publications, periodicals and reports.
-) Investors should be always being clear of their preferences or the investment objectives. This helps them to choose the investment alternatives. During the survey, many of the investors were found in confused state. They say they prefer safety, but were found neither investing on the government securities nor fixed-income securities. This is because of the lack of clarity of preferences as well as lack of the knowledge about financial instruments. They should try to avoid haphazard investments.

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Appendix-1
Primary Date-Descriptive Statistics

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

$$X \text{ value of } \frac{N \Gamma 1}{2} \text{ item}$$

$$X \text{ value of } \frac{4 \Gamma 1}{2} \text{ item}$$

X value of 2.5th item

$$X \frac{160 \Gamma 148}{2}$$

X154

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 frequency)		23	22	30	21

Employed

		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

$$H X \frac{12}{N(N-1)} \sum_{j=1}^k \frac{R_j^2}{n_j} - Z^2(N-1)$$

Where,

K=no. of samples

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

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

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

$$X \frac{12}{8} \frac{10^2}{4} \Gamma \frac{26^2}{4} Z3 | 9$$

X5.33

Appendix – 4

Frequency table for the ranking of financial instruments

		Financial instruments					
		Commo n Stock	Preferenc e Share	Debentur e	T – bill	Govt. Bond	Mutual 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

$$X \text{ value of } \frac{n \Gamma 1}{2} \text{ item}$$

$$X \text{ value of } \frac{6 \Gamma 1}{2} \text{ item}$$

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

$$X = \frac{55 \Gamma 29}{2}$$

$$X = 42$$

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

Appendix – 5

Frequency table for the ranking of investment objectives

		Investment alternatives			
		Price increment/ Growth	Regul ar Return	Safety	Liquidity
Ran k	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

$$X \text{ value of } \frac{n+1}{2} \text{th item}$$

$$X \text{ value of } \frac{4+1}{2} \text{th item}$$

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

$$X = \frac{171 + 129}{2}$$

X150

\therefore Median X150

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

