

**INVESTOR'S APPROACH AND EXPECTATION ON  
EARNINGS FROM FINANCIAL INSTRUMENTS IN NEPAL**

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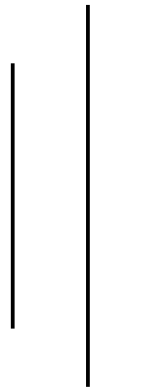
**Campus Roll No. 1449/061**

*A thesis submitted to:*

**Office of the Dean**

**Faculty of Management**

**Tribhuvan University**



*For the partial fulfillment of the requirements for the degree of*

**Master of Business Studies(MBS)**

**Putalisadak, Kathmandu**

**September, 2009**

## RECOMMENDATION

This is to certify that the thesis

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## DECLARATION

I hereby declare that the work report in this entitled "Investor's Approach and expectation on Earnings from Financial Instruments in Nepal" submitted to Shanker Dev Campus, Faculty of management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Studies (MBS) under the supervision of my thesis Supervisors Mr. Dhurba Subedi, Lecturer of Shanker Dev Campus, Tribhuvan University.

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## **ACKNOWLEDGEMENT**

It is great pleasure and satisfaction for me to complete this thesis for partial fulfillment of the requirements for the degree of Master of Business Studies (M.B.S.), which has been provided by T.U. It really increases the knowledge of the students in the course of analysis in their respective work. It helps the students to show their capacity as well as practical experience for future works.

I attempt to prepare a thesis based "Investor's approach and expectation on earning with financial instruments in Nepal". I would not have accomplished this thesis without the help of several hands, though the thanks would be insufficient for them. However I would like to express my heartfelt gratitude to all those respondents for their help and support.

To prepare this thesis the regular inspiration has been provided by my supervisor Mr. Dhurba Subedi, a lecture of Shankar Dev Campus, Who gave me the valuable time and suggestion for preparation of my thesis. The co-operation and co-ordination in providing information and data by the staff of NEPSE, SEBO/N and Securities brokers. In addition , I am grateful to library of Shankar Dev Campus.

I would like to express my hearties gratitude to my family and beloved friends. Special thanks would go towards Mr. Sadananda Bhattarai, who supported me to accomplish this thesis in whatever way it is possible. My friend Mr. Ramesh Sharma is also a necessary factors for my thesis

**Jamuna Upreti**

## **ABBREVIATIONS**

AGM	Annual General Meeting
ATS	Automated Trading System
BOD	Board of Director
BPS	Book Per share
CAPM	Capital Assets Pricing Model
CD	Certificates of Deposits
CDS	Central Depository System of Securities
CIT	Citizen Investment Trust
d.f.	Degree of Freedom
ECN	Electronic Communication Network
EPS	Earning Per Share
GDP	Gross Domestic Product
GoN	Government of Nepal
GSE	Government Sponsored Entities
i.e	that is
IMF	International Monetary Fund
IPO	Initial Public Offering
Ltd.	Limited
MBS	Master of Business Studies
MoF	Ministry of Finance
NASQAD	National Association of Securities Dealers Automation Quotations
NAV	Net Assets Value
NEPSE	Nepal Stock Exchange Pvt. Ltd.
NIDC	Nepal Industrial Development Corporation
NRB	Nepal Rastra Bank
OTC	Over the Counter
P/E	Price Earning
Pvt.	Private
SEBO/N	Security Board of Nepal
SEC	Securities Exchange Center
SMC	Securities Marketing Center
SML	Security Market Line
TU	Tribhuvan University

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# **CHAPTER- I**

## **INTRODUCTION**

### **1.1. Background of the Study**

Nepal is one of the least developed countries in the world, bordered by two of the largest countries and economies in the world, India and China. It is at an early stage of economic development: GDP growth for FY 2007/08 at basic price is estimated at 5.56 percent. Last year, the GDP growth rate was 2.58 percent. GDP at the procedure's price is estimated to increase by 4.7 percent in FY 2007/08 compared to 3.2 percent last year. The growth estimate is supported by expansion of both the agriculture, and nonagricultural sectors, with their estimated growth of 5.65 percent and 5.57 percent respectively. (Economic Survey: MoF 2007/008) which is far below than the level of sustenance. The agricultural sector has been hampered by low productivity while growth in the manufacturing and service sectors has been hindered by a lack of infrastructure, power shortages, and a relatively high cost for capital due to inefficiencies in the financial sector. This has compelled the concerned sector to stimulate on diversification of solely agro-based economy towards industry-based economy. After successful completion of constitution assembly election in March 2008, Government of Nepal (GoN) has declared our country as a federal republic state. People have been expecting that new government will initiate to change radically in the field of economic, financial and technology development.

Investment is a present sacrifice for the sake of future benefits. The present is certain but the future is uncertain. Therefore, investment always involves risk. Present decision about selecting the best investment alternative should always take the future risks into consideration. The few alternatives of investment in the past have now expanded into hundreds. Hence, the complexity of investment has also been increasing day by day. To select the best alternative and to construct an efficient portfolio, a wise analysis and decision is required.

Financial market is a mechanism that allows people to easily buy and sell (trade) financial securities (such as stocks and bonds), commodities (such as precious metals or agricultural goods), and other fungible items of value at low transaction costs and at prices that reflect efficient markets. Financial markets have evolved significantly over several hundred years and are undergoing constant innovation to improve liquidity.

Both general markets, where many commodities are traded and specialised markets (where only one commodity is traded) exist. Markets work by placing many interested sellers in one "place", thus making them easier to find for prospective buyers. An economy which relies primarily on interactions between buyers and sellers to allocate resources is known as a market Financial System in contrast either to a Control Market or to a non-market economy that is based, such as a gift economy.

In Finance, Financial markets facilitate:

- The raising of capital (in the capital markets)
- The transfer of risk(in the capital markets) and
- International trade(in the currency markets)

Financial markets play a fundamental role in the economic development of a country. They are the intermediary link in facilitating the flow of funds from savers to investors. By providing an institutional mechanism for mobilizing domestic savings and efficiently channeling them into productive investments, they lower the cost of capital to investors and accelerate economic growth of the country. The financial market in Nepal is relatively undeveloped. Limited people of urban area have only access to the financial market and most of the people are not familiar with the financial market. Few financial instruments are available in which to invest in Nepal.

The **capital market** is the market for securities such as stock and bond, where companies and governments can raise long-term funds. The capital market includes the stock market and the bond market. By raising capital directly from the public, they lower the cost of capital. Capital markets also allow for wider ownership among the public, thereby distributing risks and wealth amongst smaller investors. For investors, they provide an effective vehicle for making investment choices which suit their own preferences of risk and returns based on available information. As such, capital markets help the economy to generate more savings and productive investments. A basic feature of an efficient capital market is constant liquidity, i.e., an easy mechanism for entry and exit by investors. This requires sufficient volume and size of transactions in the market.

The capital markets consist of the primary market and the secondary market. The primary markets is where new stock and bonds issues are sold (underwriting) to investors. The secondary markets are where existing securities are sold and bought from one investor or speculator to another, usually on an exchange.

The **primary** is that part of the capital markets that deals with the issuance of new securities. Companies, governments or public sector institutions can obtain funding through the sale of a new stock or bond issue. Primary markets are facilitated by underwriting groups, which consist of investment banks that will set a beginning price range for a given security and then oversee its sale directly to investors.

Features of primary markets are:

- This is the market for new long term capital. The primary market is the market where the securities are sold for the first time. Therefore it is also called New Issue Market (NIM).
- In a primary issue, the securities are issued by the company directly to investors.
- The company receives the money and issues new security certificates to the investors.
- Primary issues are used by companies for the purpose of setting up new business or for expanding or modernizing the existing business.
- The primary market performs the crucial function of facilitating capital formation in the economy.
- The new issue market does not include certain other sources of new long term external finance, such as loans from financial institutions. Borrowers in the new issue market may be raising capital for converting private capital into public capital; this is known as 'going public'.
- The financial assets sold can only be redeemed by the original holder.

Methods of issuing securities in the primary market are:

- Initial public offering,
- Rights issue (for existing companies), and
- Preferential issue.

The **secondary** market is the market where investors purchase securities or assets from other investors, rather than from issuing companies themselves.

The secondary market has an important role to play behind the developments of an efficient capital market. Secondary market connects investors' favoritism for liquidity with the capital users' wish of using their capital for a longer period. For example, in a traditional partnership, a partner cannot access the other partner's investment but only his or her investment in that

partnership, even on an emergency basis. Then if he or she may breaks the ownership of equity into parts and sell his or her respective proportion to another investor. This kind of trading is facilitated only by the secondary market.

"Money Market is a segment of the financial market in which financial instruments with high liquidity and very short maturities are traded. The money market is used by participants as a means for borrowing and lending in the short term, from several days to just under a year. Money market securities consist of negotiable certificates of deposit (CDs), bankers acceptances, U.S. Treasury bills, commercial paper, municipal notes, federal funds and repurchase agreements (repos)."

Securities are the legal representation of the right to receive prospective future benefits under stated condition which represents shares, stock, bond and debenture stock issued by a corporate body.

Institutional investors and individual investors, both are equally important from the investment point of view. As to the general meaning, the organized financial institutions that have substantial funds investment in the securities of others are known as institutional investors. Institutional investors play decisive role in the mobilizing the financial resources from small savers to large units of industrial investors through collecting funds from small savers by issuing own securities in large volume through direct placement in primary market as well as they trade on securities in large volume in the secondary market provide liquidity and competitive market provide to the listed securities among various companies.

On the other hand we cannot neglect the potentiality of individual investors. There is an emerging trend of household saving to be invested in some security to earn future profit among common people. Unemployed, adult, housewives, retired personnel, students are attracted to investment day to day so that they can have some favorable future return. However, individual investor looks for different alternative than investing only in security market.

Both the investors no doubt must have equal participation in the investment. But the environment for the investment should be friendly i.e. having a sound economic condition, only than they feel comfortable to invest. In the financial market the investors have different option to invest.

Equities are probably the most familiar type of security. They come in two forms; common stock and preferred stock. Common stock represents ownership in a corporation. "The two most important characteristics of common stock as an investment are its residual claim and

limited liability features." (Bodie, Kane & Marcus; 2002:44) Common stock, much more important due to different features like interest coupon, dividends, capital appreciation, ownership right, status etc will be searching by the investor to make investment.

Another type of security is preferred stock which represents the right to receive the stated dividend. The dividend on a preferred stock is usually fixed at some amount and never changed. Further, in the even of liquidation, preferred shares have a particular face value. "The reason preferred stock (or preference stock, as it is sometimes termed) is called "preferred" is that a company must pay the fixed dividend on its preferred stock before any dividends can be paid to common shareholders. In other words, preferred shareholders must be paid first." (Corrado & Jordan; 2002:70)

## **1.1.1 Securities Market in Nepal**

### **1.1.1.1. History of Security Market in Nepal**

The history of capital market in Nepal dates back to 1936 in which year the shares of Biratnagar Jute Mills Ltd. were floated. In 1937, Tejarath was set up to facilitate loans to the government employees and was converted into Nepal Bank Ltd. Government of Nepal introduced the Company Act in 1964 and the first issue of government bonds made in the same year through Nepal Rastra Bank (NRB) to collect the developmental expenditures. It carried 6 percent rate of interest and had the maturity period of five years (Shrestha; 2038).

Government of Nepal announced the Industrial Policy in 1974 and under this policy, an institution named Securities Marketing Center (SMC) was established to deal in government securities-development bonds and national savings bonds, and corporate securities of few companies. The government had the virtual monopoly over the security market. Then, Securities Exchange Center (SEC) was established in 1976 under the ownership of the government, Nepal Rastra Bank (NRB) and Nepal Industrial Development Corporation (NIDC) - a government owned industrial development bank. The main function of SEC was to assist in the development of a capital market by performing the role of a broker, underwriter and share issuer, and to sell government bonds. It was the only capital market institution in Nepal. Securities Exchange Act came into force in 1984. Since then, SEC started to operate under this act. The purpose of this act was to provide systematic and favorable market environment for securities ensuring and protecting the interest of individuals and institutional investors as well as to increase the public participation in various firms and companies (Gurung 1999). After the inception of the Securities Exchange Center, shares of

various manufacturing, trading and banking companies became listed. Interestingly, the listed shares were dominated by public enterprises during this stage.

SEC had provided facilities to trade the government securities and few of corporate securities like shares and debentures. Only the shares of 10 companies were listed in SEC and there was involvement of no broker and dealer in the securities market. So, SEC itself was undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services (NEPSE 1998). Apart from this, there was the absence of effective secondary market to ensure liquidity to the securities.

The interim government (1990/91) initiated financial reform program and two indirect investment vehicles-Citizen's Investment Fund and NIDC Capital Markets Ltd.- were established with the collective investment schemes in the corporate sector (Gurung 1999).

Then, due to the world whim of privatization and economic liberalization, the operation of SEC was felt to change to make it compatible with the changing economic system. In 1992, the Finance Companies Act was amended. This enabled finance companies to be established to function in various areas such as leasing, housing finance, and hire-purchase. These institutions were also allowed to perform capital market functions such as share issue, portfolio management, market making and custodial services. In 1993, the Securities Exchange Act was amended and the Securities Exchange Center (SEC) was converted into two distinct entities - Nepal Stock Exchange (NEPSE) for securities trading by private brokers and the Securities Exchange Board, Nepal (SEBO/N) for oversight functions as a regulatory body. This amendment also permitted private sector market intermediaries and set the operating guidelines for intermediary functions such as broking, market making, issue management, and portfolio management.

The Nepalese securities market still could not take it's height. The further improvement of this market is very crucial. It helps in accumulating even small savings for development activities of the economy otherwise, which would have spent in unproductive areas. But it is true that there is no presence even of organized money market in rural areas, which covers more than 80 percent of the total area of the country. Thus, the securities market is only confined to the very limited urban areas of Nepal.

Basically, Institutional investors may play more significant role in the capital market of the country like Nepal. It is because; the development of the capital market in Nepal is in infant stage. The knowledge and information about the stock market to the general people is very



low. Therefore they cannot supply the sufficient funds in the capital market and their role in the stock market is almost insignificant.

In Nepal only limited types of security are traded. The investors are restricted to choose only the limited types of securities are available to invest. Equity is the major instrument of financial market in Nepal.

Government issues various types of securities in the market. Treasury bills, Development Bonds, National Bonds, Citizen Savings Bonds and special bond are government securities. Nepal Rastra Bank (NRB) has been actively issuing various government securities in the country.

### **1.1.1.2. Nepal Stock Exchange (NEPSE)**

Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act, 1983. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development corporation and members are the shareholders of NEPSE. NEPSE opened its trading floor on 13th January 1994. Members of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present, there are 23 member brokers and 2 market makers, who operate on the trading floor as per the Securities Exchange Act, 1983, rules and bye-laws. Besides this, NEPSE has also granted membership to issue and sales manager securities trader (Dealer). Issue and sales manager works as manager to the issue and underwriter for public issue of securities whereas securities trader (Dealer) works as individual portfolio manager. In the beginning of the 2007/08 fiscal year, NEPSE has replaced the old open-out-cry system of securities trading, which was in place since the beginning of secondary trading in 1994, with the automated trading system (ATS). The ATS has not only mechanized securities trading, but also reduced the manipulation of prices and human errors.

The number of investors is estimated to cross one million. A non profit organization till now, NEPSE is operating under the Securities Exchange Act-2063. The Government of Nepal (58.66 %), the Nepal Rastra Bank (34.60%), the Nepal Industrial Development Corporation (6.12%) and Licensed Members (0.62%) are its shareholders.

### **1.1.1.3. Securities Board of Nepal (SEBO/N)**

Securities Board, Nepal, an apex regulator and facilitator of capital market, and Nepal Stock Exchange Ltd., only a single stock market, are the main constituents of securities market in Nepal. SEBO/N was established on June 7, 1993 with its mission to facilitate the orderly development of a dynamic and competitive capital market and maintain its credibility, fairness, efficiency, transparency and responsiveness under the Securities Exchange Act 1983 (SEBO, 2001). It is an apex regulator of the securities market in Nepal. It registers the securities and approves the public issues. Moreover, SEBO/N frames the policies and programs required to monitor the securities market, provides license to operate stock exchange business and stock brokers and supervises and monitors the stock exchange operations and securities businesspersons.

The functions, duties and powers of SEBO/N as per the Securities Related Act, 2006 are as follows.

- Supervise and monitor stock exchanges and securities business activities.
- Coordinate and cooperate with other domestic as well as international securities related regulatory agencies.
- Register securities and approve prospectus of public companies
- Provide license to operate stock exchanges.
- Provide license to operate securities businesses
- Permit the operation of collective investment schemes and investment fund programme.
- Draft regulations, issue directives and guidelines, and approve bylaws of stock exchanges.
- Systematize and make transparent the act of acquiring the ownership of a company or gaining control over its management by purchasing its shares in a single lot or in different lots.
- Take enforcement measures to ensure market integrity
- Review reporting of issuer and listed companies, and securities businesspersons.
- Conduct research, study and awareness programmes regarding securities markets.
- Formulate policies and programmes relating to securities markets and advise the Government of Nepal as and when required.

### **1.1.2 Present Status of Stock Market in Nepal**

Stock Market in Nepal has been growing gradually in term of turnover as well as capital investment. As of the July 2008 there are 23 stockbrokers, 3 securities dealers and 9 issue

managers providing securities market intermediation services.(SEBO/N, 2008). The major regulatory framework for the securities markets is provided by securities Act 2006, which has given authority to the SEBO/N for the regulation of securities market.

Security market in Nepal is witnessed a slight growth from last year. But the growth of security market is not so satisfactorily. If we compare the NEPSE index of the year 2002/03 with the current year 2007/08 then great increment can be observed. These do prove that the security market is expanding as per the increased awareness of security market in Nepal.

**Table 1.1**  
**Securities Market Indicators**

(in Millions)

Year	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Number of Public Issue	18	14	14	29	34	64
Amount of Public Issue	556.3	1027.5	1626.8	2443.3	2295.5	10668.20
No. of listed co.	108	114	125	135	135	142
No. of traded companies	81	92	102	110	116	136
Paid up Value of Listed Securities	12560.07	13404.9	16771.8	19958.0	21798.8	294650
Market Capitalization	35240.4	41424.74	61365.89	96763.74	186301.28	366247.5
Annual turnover	575.80	2144.30	4507.70	3451.40	8360.10	22820.80
No. of share traded	2448	6468	18434	12221.93	18147.25	28599.77
NEPSE index	204.86	222.04	286.67	386.83	683.95	963.36

(Source: SEBO/N Annual Report 2007/08)

From the above table we can have a glance picture of the trading of security (Share) in NEPSE. A total of 64 public limited companies raised funds amounting to Rs. 1,066.82 million by floating securities in the fiscal year 2007/08. In the fiscal year 2006/07, a total of 34 public limited companies had raised funds from public issue of securities amounting to Rs. 2295.5 million.

In the fiscal year 2007/08, the total number of listed companies is 142 where as in the fiscal year 2006/7 as equal to 135 listed companies in the fiscal year 2005/06. In the fiscal year 2007/08, the market capitalization of the listed companies increased by Rs. 1,79,946.22 to be Rs. 36,62,47.5 million as compared to market capitalization of Rs 1,86,301.3 million in the fiscal year 2006/07. In the fiscal year 2007/08, the price index of the listed securities in Nepal Stock Exchange Ltd. (NEPSE) reached to 963.36 points with the increase of 279.41 points as compared to fiscal year 2006/07.

In the fiscal year 2007/08, securities market has shown positive signs in line with the country heading towards political stabilization and with the estimation of rising trend of major economic indicators like gross domestic product at basic price, gross national income, national saving and gross domestic saving. The securities markets as a whole has shown its dynamism with the rising number of companies floating share, increase in the number of

listed companies, significant increase in market capitalization and market index and percent of turnover on market capitalization as compared to previous fiscal year. (Annual Report; SEBO/N: 2007/08)

In the fiscal year 2007/08, 21 companies comprising 5 commercial banks, 11 development banks, four finance companies, issued their securities to the public. 16 companies comprising three commercial banks, four development banks and nine finance companies issued rights shares. The stock exchange has de-listed 12 companies for non-compliance of legal provisions. NEPSE have categorized 74 companies into group 'A' comprising 13 commercial banks, 15 development bank, 36 finance companies, 10 insurance companies, one manufacturing and processing company and one other company. Citizen Investment Trust (CIT) have sold units amounting to Rs. 1702.32 million and repurchased units amounting Rs. 1410.01 million under Citizen Unit Scheme. Under the NCM Mutual Fund, 2002 total investment have reached to Rs. 393.4 million and the net asset value (NAV) increased to Rs. 31.40. 60 companies have declared cash dividend and bonus share. Out of these companies, 21 have declared cash dividend, 21 have declared bonus shares, 18 have declared both dividend and bonus shares.(SEBO/N Annual Report; 2007/08)

The Government of Nepal has issued three new Regulations, namely, Securities Businessperson (Stock Broker, Dealer and Market Maker) Regulation-2007, Securities Board Regulation-2007 and Stock Exchange Licensing Regulation-2007. Among other things, paved the way for opening a new stock exchange, increase the number of stock brokers and reduce the brokerage commission.

## **1.2.Focus of the study**

The main focus of the study is investor's approach and expectation with the financial instrument. Most of the data are on common stock investors and NEPSE is the primary study area so the studies focus on NEPSE .Normally every investor wants to get good expected return from their investment and in the efficient market only the investors are rational. So, the investor should be efficient enough to recognize the potential for excess return. 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 focused to provide information about the present condition of Nepalese investor's preference in choosing the securities market plays vital role in Nepalese economic .It effects

the whole economic environment of the nation. Security market is one of the prominent sources for the economic development. So, the existing and potential investors are the biggest assets of the nation.

This study has been covered the analysis of the securities, which are common in the Nepalese Financial Market. It is analyzed that what factors affect the preference of investors. Basically, the companies issue the common stocks and these stocks are transacted regularly in NEPSE. Why do Nepalese companies not issue the debentures and preferred stocks in the primary market of Nepal? Actually the prime concern of this study is to predict the investor's preference on selecting the financial instrument and the reason of selecting. This study has tried to find out the different prominent factors of the investors. Actually it focuses much more towards the investors and with regard to the financial instrument, which are traded in the NEPSE.

### **1.3.Statement of problem**

Investors in Nepal have been found relating it to gambling and speculation. However, it is very different from speculation and gambling. It is the process of rational decision-making. The investment process begins from setting investment policy to portfolio construction, revision and performance evaluation. Choice of securities for investors is extremely limited and confined to a few securities to construct and evaluate efficient portfolios. Due to state of utopia and over-expectation of getting rich overnight, people (mid-class) hesitate to invest in securities at first. Also if they invest in securities, they don't behave rationally. Instead, they invest in without proper analysis and judgment of the risk and return leading their decision to adhocism. There is presence of information gap, misguided attitude, and suspicious authenticity of the financial statements published by the institutions. Guided by these, the investors are seemed selecting the securities without proper guidance and analysis. As a result, they may incur losses or reap profits beyond their expectations.

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

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

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

It is necessary to research the investors' preferences. The flow of issuing of securities is very high in common stock. If the investors preferable want to invest in another financial instrument except common stock, they should have alternative opportunities. In Nepalese financial market, investors' awareness and preferences should be given high priority. This research covers what factors affect the investors to invest in securities and which instruments the investors preferably use.

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

#### **1.4.Objectives of the study**

The objectives of the study are as follows.

- To find out the investors trend of investment on securities.
- To find out the investor's approach towards securities.
- To find out the expectation followed by the investors while making decision on securities.
- To find out the earning desired by investors form securities.
- To find out the strength and weakness in investment on securities.
- To explain widely used financial instruments of Nepal.
- To study the primary issue in Nepalese financial markets.
- To analyze the preferences of the different investors of Nepal to know what type of the instruments the investors prefer the most.

#### **1.5.Significance of the study**

Securities market play a vital role in the economic development of our country as it is considered as the important investment alternative in the modern world. Most of the economic environment of the country is affected by the investing in securities market which can mobilize the capital resources from collector to investors. Whereas, the investors may collect

a benefit of capital appreciation and cash in return that may fulfill the different objectives of individual investors. There may be different objectives of investors behind investing in financial instruments. Some investors are investing to make certain of their regular income for retirement age, some for children's education and some others for emergency fund. So Securities market being one of the major sources for the economic development, finally its potential investors is the biggest asset. Thus this study is important and is conducted to provide some information and guideline about the securities issued in the market and the level of investor's expectation and approach in Nepalese securities market.

### **1.6. Limitation of the study**

The major limitations of the study are as follows:

- This study is conducted to fulfill the requirements of Masters Degree in business studies (MBS) .So the study may not cover all the dimensions of the subject matter.
- Time and resources are also limited for the study.
- Due to the lack of time and financial resource most of the data are on common stock investors and NEPSE is the primary study area.
- This is descriptive research. So, qualitative rather than the quantitative techniques of analysis are used. Thus, the use of analysis techniques is also limited.
- The Investors may not give the authentic and needed information.

### **1.7. Organization of the study**

The whole research work will be organized into five chapters. They are as follows:-

**Chapter I:** introduction of the research work.

This chapter deals with introduction, focus of study, statement of the problem, objective of the study, Significance of the study, limitation of the study, need of the study, research methodology and method of analysis.

**Chapter II:** Review of Literature

This chapter deals with review of literature such as conceptual framework, review from different studies, review from journal, article and magazine and review from master's thesis for the concerned topic.

**Chapter III:** Research Methodology

This chapter deals with the research design, population and sample, data collection procedures, statistical and Analytical tools and variables defined.

**Chapter IV: Presentation and Analysis of Data**

This chapter deals with the techniques used in analyzing the collected data and its presentation in the descriptive and analytical manner.

**Chapter V: Summary, Conclusions and Recommendations**

This chapter is the final chapter of the research work consists of summary, conclusion and recommendation about the topic concerned.

In this way the whole research work is divided into five chapter and every chapter have been properly organized and prepared as mentioned. If required, necessary additions might be performed without violating the core topic structure.

Besides these, bibliography and appendices have been included.



## **CHAPTER-II**

### **REVIEW OF LITERATURE**

A literature review is an account of what has been done before on a topic by accredited scholars and researchers. The purpose of the literature review is to convey the reader what knowledge and ideas have been established on a topic, what their strengths and weaknesses are.

Reviewing the literature is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas for developing a research design. Further, reviewing the literature facilitates the researcher to explore what research studies have been conducted in one's chosen field of study and what remains to be done. (Wolff and Pant, 1999:30)

#### **2.1. Conceptual Framework**

The individual investors are always searching for better investment alternatives that can maximize their wealth and ensure their life. The investor are in expectation of financial freedom in their life. Financial Market is one of the best sector that investor can be assured that their investment will be safe and can earn more benefit. After analysing the detailed information provided by various companies, investors select and invest in one of the best alternative securities of any companies.

##### **2.1.1. Investment**

Investment means the sacrifice of current Rupees & resources for the sake of future Rupees & resources. In other words, it is a commitment of money & other resources that are expected to generate additional money & resources in the future. Such a commitment takes place in the present & is certain to occur but the reward comes in the future & always remains uncertain. Therefore, every investment entails some degree of risk.

"Investment in its broad sense means the sacrifice of current dollars for future dollars. The investment for future returns generally and automatically involves two attributes time and risk. The sacrifice of present wealth takes place in certainty but the reward or return is uncertain and hence bears a risk of uncertainty." (Sharpe, Alexander and Bailey; 2002:11)

Investment is an exchange of financial claim - stocks and bonds etc. Investment is the employment of funds with the aim of achieving additional income or growth in value. It involves the commitment of resources that have been saved or put away from current consumption in the hope that some benefits will accrue in future. An investment involves the

sacrifice of current rupees for future rupees. The sacrifice takes place in the present and certain. The reward comes later and is uncertain.

According to Stonier and Hauge, by investment, we do not mean the purchase of existing paper, securities, bonds, debenture, or equities but the purchase of new factories, machines and the like. In the words of Mrs. Joan Robinson, "By investment is meant an addition to capital such as occurs when a new house is built. Investment means making an addition to the stock of goods in existence." So as according to Peterson, "Investment expenditure includes expenditure for producer's durable equipment, new construction and the change in inventories" (Paul 1999:67). Thus an investment means an increase in buildings. Equipments or inventories over the amount of equipment goods existed say, one year ago at the same time.

Investment is generally categorized into real assets or financial assets. Real assets are tangible, material things such as buildings, automobiles, factories, knowledge and machines that are used to produce goods that can be seen and felt. Real assets are generally less liquid than financial assets. Returns on real assets are frequently more difficult to measure accurately. But our principal concern is with financial assets.

Financial assets are piece of paper representing an indirect claim to real assets held by someone else. These pieces of paper represent debt or equity commitments. Financial assets define the allocation of income or wealth among investors. Financial assets are created and destroyed in the ordinary course of doing business. When a loan is paid off, both the creditor's claim (a financial asset) and the debtor's obligation (a financial liability) cease to exist. Financial assets such as stocks and bonds can be held by investors in both direct and indirect forms. Investors can buy and sell stocks and bonds directly through financial markets or indirectly by pooling their funds with other investors.

The returns on a financial asset come from the income produced by the real assets that are financed by the issuance of the security.

### **2.1.2 Types of Investors**

**Investors** are those people who invest their saving in securities to assume risk for expectation of future return. Though there is not much attraction of investors towards the world of financial instruments. Depending on investors nature, attitude, involvement, risk, capacity, knowledge and information, investor's can be classified in different way. So there are many types of investors in the market. On the basis of information, Investors are classified into individual investors and institutional investors.

### **a) Individual Investors**

Individual investors are those who buy and sell securities for their personal account, and not for another company or organization. Individual investors buy in much smaller quantities than larger institutional investors. Individual investors are part timer; they are the businessman, government worker, doctors, lawyers and even housewives, students and unemployed adults. When a individual buys securities, holds them and gets divided of profit through price appreciation, the cash flow become income to the people. Individuals have an opportunity cost in obtaining investment information, such as reading publication, tracking stocks prices and building a files on securities.

### **b) Institutional Investors**

A non-bank person or organization that trades securities in large enough share quantities or dollar is known as institutional investor. An institutional investor is an investor, such as a bank, insurance company, retirement fund, hedge fund, or [mutual fund](#), that is financially sophisticated and makes large investments, often held in very large portfolios of investments. Because of their sophistication, institutional investors may often participate in private placements of securities, in which certain aspects of the securities laws may be inapplicable. Institutional investors face fewer protective regulations because it is assumed that they are more knowledgeable and better able to protect themselves.

## **2.1.3 Investment Process**

The investment process explains how an investor makes decisions about what securities to invest in, how extensive the investments should be, and when they should be made. An orderly, disciplined approach is necessary for successful management of the investment assets. It's a step-by-step process, starting with the assessment of investor's goals and needs. The investment process includes an analysis of the following five steps:

### **a) Setting Investment Policy**

The investment process always starts with the setting investment policy. It involves determining the investment objective and the amount of one's investable wealth. Investor objectives should be stated in terms of both risk and return. Setting a clear investment policy also involves the identification of potential categories of financial assets for consideration in the ultimate portfolio. the identification of assets depends upon many things, such as investment objectives, investable wealth, tax considerations etc.

## **b) Performing security Analysis**

The second step of the investment process is to complete security analysis which are identified in the previous stage of the process, Security analysis is conducted to assist in making buy and sell decisions for individual securities (or groups of securities) within the broad categories of financial assets. The security analysis gives the basic idea about identification about mis-priced securities. These approaches can be categorized into two types; they are Technical analysis and fundamental analysis.

### Technical Analysis:

Technical analysis is a process of using past trends in the price and volume patterns to predict accurately the future price movements. In another word, Technical analysis is a technique for predicting market direction of future stock price movements based on historical price and volume behaviour and investor sentiment. It is widely used in the commodity markets. It is essentially the search for bullish or bearish signals, meaning positive or negative indicators about stock prices or market direction.

### Fundamental Analysis:

Fundamental analysis is another approach to security analysis. It tries to examine the real or true value of financial assets. The fundamental analyst attempts to forecast the timing and size of these cash flows, and then converts them into their equivalent present value by using an appropriate discount rate. Once the real value is calculated, it is, thereby, compared with the current market price per share to identify whether the security is under-priced or over-priced. Information regarding such things as management quality, products and product markets is often examined as well.

## **c) Constructing the Portfolio**

The third part of the investment process is construction of the portfolio. At this stage we identify assets in which to invest and what proportion of the investor's wealth to put in each one. While constructing portfolio is divided into three components, the first component is in an investment strategy and portfolio allocation. The second component is the asset selection decision, where individual assets are picked within each asset class to make up the portfolio. The final component is execution, where the portfolio is actually put together, where investors have to trade off transactions cost against transactions speed. In this stage, many investors fail

#### **d) Portfolio Revision**

This step means repeating the previous three steps of the process. Over the period of time, the objectives of the investor may change and the current portfolio may no longer be optimal.

-The investor can sell some unattractive securities and introduce attractive ones to form a new optimal portfolio.

-Some securities that are initially unattractive may turn out to be attractive later and vice versa.

#### **e) Portfolio Performance Evaluation**

The last step of the investment process is to evaluate the investment performance in terms of return and risk experienced. Investing is after all focused on one objective and one objective alone, which is to make the most money we can, given the risk constraints we operate under. Investors are not forgiving of failure and unwilling to accept even the best of excuses, and loyalty to money managers is not a commonly found trait. By the same token, performance evaluation is just as important to the individual investor who constructs his or her own portfolio, since the feedback from it should largely determine how that investor approaches investing in the future.

### **2.1.4 Investment Alternatives (Financial Instruments)**

Number of investment alternatives is available to the investors in financial market. Some broadly used investment alternatives in the business world are listed below.

#### **a) Equity:**

Equities are probably the most familiar type of security. Stocks are shares of ownership of a public corporation which are sold to investors to allow the companies to raise a lot of cash at once. The investors profit when the companies increase their earnings which keeps the economy growing. It is easy to buy stocks, but takes a lot of knowledge to buy stocks in the right company. "Equities are often termed as stocks or shares. Stocks represent a part ownership of a corporation" (Hatch; 1983:165). Holding a stock certification means that the holder owns the part of the corporation. Thus there are only corporate stocks no government of state and local government stock, since individuals cannot own governments (at least not legally) (Ritter; 1993:29). Equities or stocks are basically the contracts that establish an ongoing relationship between borrower and lender and almost always bundling some combination of control "Control Rights" and rights to be a "residual claimant." "In the

establishment of the corporations of small and medium sizes, stock 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 income than they do in a saving account. For the possibility of making more income, they assume more risk. There are several advantages and disadvantages of investing in stock. The likelihood of dividends and price appreciation motivates most investors to purchase common stocks. Many companies might declare relatively small cash dividends, perhaps with a return of only 2 or 3 percent. But these companies may also offer a good chance for price appreciation over time. Equity investment also offers a high potential return. Greater than average returns are possible if one buys and sells the correct stocks. On the other hand, in equity investments risk of various types are also present. There is the financial risk that the company will go bankrupt. There is the liquidity risk that the price of stock might be quite low when one wants to sell it. Along with them inflation risk also presents. In the period of high inflation, market prices of equity are depressed.

Equity securities or stocks come in two forms: common stock and preferred stock. Of these, common stock is much more important.

#### **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. Each share of common stock entitles its owner to one vote on any matters of corporate governance that are put to a vote at the corporation's annual meeting and to a share in the financial benefits of ownership. "An investor in common stock receives certificate of ownership, stating the number of shares and par value of share. Common stock holders have the voting rights, they can vote for a board of directors and to vote on major issues that may be presented before them. Dividend is not a must for common stocks; some pay it but not all. Companies in early growth stage typically pay low or no dividends; rather, they retain as much earnings as possible to finance rapid growth. As companies become more established, they may pay a high percentage of profits as dividends." (Santomero and Babbel; 1997:343).

Payment of the common dividend is purely discretionary on the part of management, but may be constrained by certain covenants that are designed to protect other claimant's interests. If earnings are retained rather than distributed, stock holders do benefit in the sense that if the retained earnings are invested profitably, the firm will grow in size, and the stock holders will eventually capture the growth.

## **ii) Preferred Stock**

"The term preferred relates to the right of preference in payment of dividends when funds are scarce and preference in payment in the event of bankruptcy. In exchange for these preferences, the preferred shareholder generally accepts a fixed dividend as opposed to a common dividend which may increase a company profits increase. When a company is unable to pay dividends for several periods on cumulative preferred stock, all unpaid dividends must be paid before any common dividends may be paid. The voting rights of preferred stockholders may not be the same as those of common stockholders." (Elli;2001:218).

Preferred stock has features similar to both equity and debt. Like a bond, it promises to pay to its holder a fixed amount of income each year. In this sense preferred stock is similar to an infinite-maturity bond, that is, a perpetuity. It resembles a bond in that it does not convey voting power regarding the management of the firm. Preferred stock is an equity investment, however. The firm retains discretion to make the dividend payments to the preferred stockholders; it has no contractual obligation to pay those dividends.

### **b) Debt :**

Debt securities are those on which interest has to pay an they have certain maturity period. Debt securities can be divided into two parts. They are as follows:

#### **i) Short Term Debt Securities**

Short term debts are the obligations that mature in one year or less. These usually are highly marketable. Many of these securities are traded in the money market. They are as follows:

##### **Treasury Bills**

Treasury bills (T-bills) are the most marketable of all money market instruments. T-bills represent the simplest form of borrowing: 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 bill. The difference between the purchase price and ultimate maturity value constitutes the investor's earnings. Individuals can purchase T-bills directly at auction or on the secondary market from a government securities dealer. T-bills are highly liquid; that is, they are easily converted to cash and sold at low transaction cost and with not much price risk. Market of T-bill has started since 2018 B.S. and the process of selling treasury bills of banks, financial institutions and individuals through an auction has been initiated since 2045 in Nepal

### **Certificates of Deposits**

A certificate of deposit or CD is a time deposit with a bank. Time deposits may not be withdrawn on demand. The bank pays interest and principal to the depositor only at the end of the fixed term of the CD. CDs are usually negotiable and they can be sold to another investor if the owner needs to cash in the certificate before its maturity date. Short-term CDs are highly marketable, although the market significantly thins out for maturities of three months or more.

### **Commercial Paper**

Commercial paper is an unsecured debt issued by large and well known corporations with high credit ratings to finance its short term needs. Very often, commercial paper is backed by a bank line of credit, which gives the borrower access to cash that can be used (if needed) to pay off the paper at maturity. Commercial paper is available in a variety of denominations and usually ranges in maturity from 2 to 270 days.

### **ii) Intermediate and long term Securities**

It is the obligations that mature in more than one year. They are as follows

#### **Government Securities**

Government securities are the fixed income securities issued by the government. These securities are among the safest of all investments, as the government is unlikely to default on interest or on principal repayments. In Nepal, Nepal Rastra Bank has been actively issuing various government securities like T-bills, Development bonds, National Saving Bonds, Special Bonds and public saving cards with the main aims of tackling the deficit budget.

#### **Treasury Notes:**

Treasury Note is a marketable government debt security with a fixed interest rate and a maturity between one and 10 years. Treasury notes can be bought either directly from the government or through a bank.

When buying Treasury notes from the government, it can be either put in a competitive or noncompetitive bid. Treasury notes are extremely popular investments as there is a large secondary market that adds to their liquidity. Interest payments on the notes are made every six months until maturity. The income for interest payments is not taxable on a municipal or state level but is federally taxed. Treasury notes are similar to certificates of indebtedness except with regard to their time until maturity.



## **Treasury Bonds**

Treasury bonds (T-Bonds, or the long bond) have the longest maturity, from ten years to thirty years. They have [interest](#) payment every six months like T-Notes, and are commonly issued with maturity of thirty years. The secondary market is highly liquid, so the yield on the most recent T-Bond offering was commonly used as a proxy for long-term interest rates in general. Treasury bond issues that are callable may be called anytime during the last 5 years of the life of the issue.

## **Saving Bonds**

Savings bonds provide a safe, risk-free investment guaranteed by the government. It is also a long term debt instrument, which normally matures in five years. This types of bonds in Nepal known as pubic saving card. The characteristics of the public saving card are same as the other long term bonds. It has also fixed interest rate and payable semiannually. It can be purchased only by Nepalese citizens. It is also a taxable government bond. Nepal government initiated the process of selling public saving card since 2059.

## **Agency Securities**

Debt obligations of these entities are collectively called agency securities or simply agencies. Agency Securities are fixed-income securities that are issued by U.S. government-sponsored entities (GSEs) that are started to reduce borrowing costs for students, farmers, and homeowners. Agency securities are issued by organizations such as Government National Mortgage Association (Ginnie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), and Federal National Mortgage Association (Fannie Mae). Government sponsored enterprises (GSE) are private corporations chartered by the Federal Government and granted privileges so they can advance specific purposes. However, because of their special GSE status, the market doesn't demand as high of an interest rate as it would from an equivalent private sector issuer because of the perception that the government would step in to back the securities in the case of a default. However, the government does not actually back these debt issues.

## **Municipal Securities**

Municipal bonds are issued by state and local governments. They are similar to Treasury and corporate bonds except that their interest income is exempt from federal income taxation. The interest income also is exempt from state and local taxation in the issuing state. Municipal bonds are typically less complicated investments than corporate bonds. However, while municipal debt often carries a high credit rating, default risk does exist. Thus, investing in

municipal debt requires more care than investing in Treasury securities. There are basically two types of municipal bonds.

### **General Obligation Bond**

General obligation bonds are the bonds which are secured by the full "faith and credit" (the taxing power) of the issuer (municipality). In other words, the government/municipality is obligated to use its taxing power, if necessary, to repay the debt. "Full faith and credit" means the power of the municipality to collect taxes. General obligation bonds are the associated low interest costs. They are considered very low risk for the investor; consequently, they usually sell at the lowest rates of interest. The bond issue is often less complex than other types of bonds so administrative costs are less in preparing the issue.

### **Revenue Bonds**

Revenue bonds are issued to finance particular projects and are backed either by the revenues from that project or by the particular municipal agency operating the project. Typical issuers of revenue bonds are airports, hospitals, highway and port authorities. Obviously, revenue bonds are riskier in terms of default than general obligation bonds. Revenue bonds may carry a slightly higher interest rate than General Obligation bonds, however, they are usually considered the second-most secure type of municipal bonds.

### **Corporate Bond**

Corporate bonds are debt securities issued by private and public corporations. Companies issue corporate bonds to raise money for a variety of purposes, such as building a new plant, purchasing equipment, or growing the business. When we buy a corporate bond, we lend money to the "issuer," the company that issued the bond. In exchange, the company promises to return our money, also known as "principal," on a specified maturity date. Until that date, the corporation usually pays a stated rate of interest. They typically pay semiannual coupons over their lives and return the face value to the bondholder at maturity. These bonds are similar in structure to Treasury issues but they differ most importantly from Treasury bonds in degree of risk.

### **c) Derivate Securities**

The term derivative is commonly used to describe a type of security whose market value is directly related to, or derived from, another traded security. Option, futures, and forward contracts are examples of derivatives as well as stock warrants, swap agreements and other more exotic variations. The most important determinant of the price of the option is the current price of the company's shares on the open market (the underlying asset).

### **i) Option**

Option contract an agreement that gives the owner of stocks the right, but not the obligation, to buy or sell a specific asset at a specified price for a set period of time. The most familiar options are stock options. Options are a very flexible investment tool, and a great deal is known about them. Options come in two flavors - calls and puts options. Call options are securities that allow a person to buy a stock at a specified price, known as the exercise (or strike) price, on or before a certain date, known as the expiration date. Put options are similar to call options except that they give the buyer the right to sell stock at a specific price instead of buying it.

### **ii) Rights**

Rights are issued by a corporation to existing common stockholders in connection with the sale of additional shares of stock at a specified attractive price within a specified time. A rights issue is offered to all existing shareholders individually and may be rejected, accepted in full or (in a typical rights issue) accepted in part by each shareholder. Rights are often transferable, allowing the holder to sell them on the open market. Rights can be sold separately from the share to other investors during the life of the right or shareholders must either take up the rights or let them lapse. Once the rights have lapsed, they no longer exist). Subscription price for new share, number of new shares, value of right and effect of the rights should be considered before issuing rights by financial manager.

### **iii) Futures**

Futures contracts are agreements to buy or sell assets at some time in the future. Futures that provide the contract holder the right to buy or sell a specified amount of an agricultural and natural resources commodity at a designated price within a specified period of time are known as commodity futures. Futures that provide the contract holder the right to sell or buy Treasury bond, foreign exchange and stock index is known as financial futures.

### **iv) Warrants**

A Warrant is an option to buy a stated number of shares of common stock or bond at a specified exercise price. Warrants are similar to the call options except that they are issued by the firm itself and, typically, have longer maturities. When debt, preferred stock, or common stock is issued, it may be sold in units, which include one or more warrants to purchase common stock or other securities. Warrants, thus, are often used as "sweeteners" to make it easier to sell the associated security.

## **d) Other Securities**

### **i) Pension funds**

A Pension fund is a pool of assets forming an independent legal entity that are bought with the contributions to a [pension](#) plan for the exclusive purpose of financing pension plan benefits. Pension funds are important shareholders of listed and private companies. [The Economist](#) has reported that pension funds world-wide hold over the largest for any category of investor of other funds.

### **ii) Mutual Fund**

Mutual funds are simply a means of combining or pooling the funds of a large group of investors. They buy and sell decisions for the resulting pool are then made by fund manager, who is compensated for the service provided. Since mutual funds provide indirect access to financial markets for individual investors, they are a form of financial intermediary. In fact, mutual funds are now the largest type of intermediary in the world followed by commercial banks and life insurance companies.

### **iii) Closed-end funds**

Closed-end fund is an investment company with a fixed number of shares that are bought and sold only in the open stock market. With a closed-end fund, the number of shares is fixed and never changes. If we want to buy shares, we must buy them from another investors. Similarly, if we wish to sell shares that we own, we must sell them to another existing investor. Shares of closed-end funds are bought and sold in the stock markets, their share prices at any point in time may or may not be equal to their net asset values.

"The diversity in securities market instruments attracts the investors of various risk preferences providing the choices in the investment alternatives. But in case of Nepalese securities market, it is mostly dominated by risky instrument (equity share), which constitutes more than 80 percent of the total paid up value of the securities listed in the stock exchange and the rest consisting of preference, debentures/bonds and mutual funds. Recently government securities are listed in the stock exchange, however, these securities are mostly held by institutions and free float securities are not in the hands of individuals resulting in limited or no trades. Lack of benchmark interest rate provided by government securities market and the trustee mechanism, the corporate bonds issue practice has still not been popular. So, the market has not become attractive to risk averter and risk neutral investors."

(Thapa; 2007)

### **2.1.5 Investment Risks and return**

In every investment there is certain risk and return. The degree of risk and return depends upon the kind of the securities. Government securities are risk less securities where as corporate securities are risky security. The securities having the high-risk yield high return. The trade off between risk and return is directly proportional, as higher the risk, higher will be return and vice versa [Shrestha, Poudel and Bhandari, 2003: 43].

#### **i.)Investment return:**

The return means gain or loss on the investment in a given period of time. It is the motivating force in the investment process, that is, it is the reward for undertaking the investment. The return consists of the income and the capital gains or loss relative on an investment. The capital gain or loss is the difference between the purchase price and the price at which the asset can be or is sold. The total return on investment is the sum of the ordinary gain and the capital gain or loss. Scientifically

Total return=capital gain or loss + ordinary gain (income)

#### **ii) Investment risk:**

Risk in a financial analysis is the variability of return. It is the chances of unfavorable event. Risk in other words, is defined as uncertainty of returns and if there is certainty there is no risk at all. Risk arises in investment evaluation because we cannot anticipate the occurrence of the possible future event with certainty and consequently, cannot make any correct prediction about the cash flow sequence. Basically three possible attitudes toward risk: a desire for risk, an aversion to risk and indifference to risk. A risk seeker is one who prefers risk. The risk averter would select the less risky investment. The person who is indifferent to risk would not care which investment he or she invest.

Number of factors may contribute to investment uncertainty. The uncertainty makes investment risky. The sources of uncertainty that contribute to investment risk are as follows:

#### **a) Liquidity Risk**

Liquidity risk is the risk that associated with uncertainty created by the inability to sell the investment quickly for cash or that an investment cannot be sold quickly for a reasonable price. In the event that we would need to raise cash for an emergency, selling investments with liquidity risk can cause significant losses in principal. The less the liquidity, the greater will be the risk. So, two factors price and time are associated with liquidity. Avoiding

liquidity risk is as simple as keeping enough invested in liquid securities to cover an emergency. A good rule of thumb is six months living expenses held in liquid investment.

**b) Interest Rate Risk**

Interest rate risk is the risk that lowers yields or returns due to changes in the prevailing interest rates. Market interest rate influences the value of an asset and hence its return. If the market interest rate rises, the value of an asset will decrease. This represents the fluctuation in the value of an investment when market interest rate changes. This has a big impact on interest-paying investments because as market interest rate higher means a higher discount rate and a higher discount rate causes a lower present value of any asset.

**c) Default Risk**

Default risk is related to the probability that some or all of the initial investment will not be returned. The risk that companies or individuals will be unable to pay the contractual interest or principal on their debt obligations is known as default risk.

**d) Callability Risk**

This is the risk that an investment is recalled (or retired) prior to the original stated date. The callability risk is the portion of a securities total variability of return that derives from the possibility that the issue may be called. This type of risk is most applicable to long-term bonds and preferred stocks. This usually happens when the issuing firms find the market conditions favorable in “refinancing” such investments

**e) Business Risk**

Business risk is the financial risk inherent in a particular company. Components of business risk include fluctuations in sales, cash flow, and earnings due to any multitude of causes, including poor management, economic downturns, or a highly competitive environment. The most extreme result of business risk is bankruptcy of the company in which investors receive partial or no payment of interest and principal on bonds and find their common stock worthless.

**f) Market Risk**

Market risk is the result of momentum in the securities markets. These movements, or trends, are generally the result of changes in economic, political, or social conditions, or investor preferences. Nearly all marketable investments are subject to market risk. Stocks are subject

to the market risk of the general stock market and to the current trend in investing styles, whether it is growth versus value of small versus large-company stock.

#### **g) Management Risk**

The risks associated with ineffective, destructive or underperforming management, which hurts shareholders and the company or fund being managed. This term refers to the risk of the situation in which the company and shareholders would have been better off without the choices made by management. Management risk refers to the chance that company managers will put their own interests ahead of the interest of the company and shareholders. Management risk also applies to investment managers, whose decisions and actions may divert from the investors' wishes or reduce the value of an investment portfolio.

#### **h) Inflation Risk**

This is the uncertainty over future rates of inflation. If the return from an investment is barely keeping up with the rate of inflation, an investor's purchasing power will be eroded as time goes on. In other words, the investor will receive a lesser amount of purchasing power than what was originally invested because the cost of buying everything has gone up. Inflation risk is also known as Purchase power risk that is potential risk of loss in the value of cash due to inflation.

#### **i) Political Risk**

This is caused by changes in the political environment that affect an investment's market value. Political risk can be classified as either domestic or foreign political risk. An example of domestic political risk is a change in the tax laws, and an example of foreign political risk is a change in a foreign government's policy regarding capital outflow.

### **2.1.6 Investor's Objectives, Constraint and Preferences**

#### **a) Objectives**

Different investors will have very different investment objectives and strategies. Some of investors will be very active, buying and selling frequently; other will be relatively inactive, buying and holding for long periods of time. Some will be willing to bear substantial risk in seeking out returns; for others, safety is a primary concern. We invest today to have more tomorrow. In other words, investment is simply deferred consumption; instead of spending today, we choose to wait because we wish to have more to spend later. There is no difference, really, between investing and saving.

Most investors are risk-averse, meaning that all other things the same, they dislike risk and want to expose themselves to the minimum risk level possible. However, larger returns are generally associated with larger risks, so there is a trade-off. In formulating investment objectives, the individual must therefore balance return objectives with risk tolerance. (Corrado and Jordan; 2002:53)

"Whether waging a war, building a car or making a seafood gumbo, investor must identify investment objectives" (Elli; 2001:283)

Most investments are undertaken to increase in wealth. Investors invest to generate desired wealth when it is needed for retirement, children's education or other financial goals. Most investors do not necessarily have a single investment objective at any point in time. They may undertake both education for children and retirement objectives at a same time. Another investment objective may be to establish an emergency fund and is to gain feeling of financial security.

#### **b) Constraints**

Investor's investment will be affected by various constraints. Most common and important constraints are as follows:

##### Resources:

Resources are probably the most obvious constraint and the one to which many investors relate. Resources mean any kind of real assets and financial assets. Obviously, Lack of resources, investment can not be undertaken at all. So, minimum requirement of resource should be maintained before investment undertaken. Since there are frequently minimum commission levels, account fees, and other costs associated with buying and selling securities an investors need resources.

##### Horizon

The investment horizon refers to the planned life of the investment. The investment horizon for retirement depends on age which can very long whereas buying house in near future is relatively short horizon. So it is true that stocks outperformed the other investments in the long run, but there were short periods over which they did much worse.

##### Liquidity

An asset with a high degree of liquidity is one that can be sold quickly without a significant price concession. There is the possibility that an asset will need to be sold quickly.



## Taxes

Different types of investments are taxed very differently. When we talk about the return on an investment, what is really relevant is the after tax return. As a result, taxes are a vital consideration. Higher tax bracket investors will naturally seek investment strategies with favorable tax treatments, while lower tax bracket investors will focus more on pretax returns.

## Special circumstances

Everyone will have some special or unique requirements or opportunities. Since it is difficult to envision any other investment with such a favorable payoff, such an opportunity should probably be taken even though there may be some undesirable liquidity, tax or horizon considerations. Possible special circumstances would be essentially endless. The number of dependents and their needs will vary from investor to investor, and the need to provide for dependents will be an important constraint. Some investors want to invest only in companies whose product and activities they consider to be socially or politically suitable, and some investors want to invest primarily in their own community or state.

### **c) Investors Preferences**

Preference on investment depends upon the nature of investors. Risk lover (investor) prefers on the stock which have high return and risk averse investor prefers on the stock which have low risk even though the stock have low return. So, investors vary in their preferences. Some investors are very concerned about the possibility of losses with stocks and prefer to keep a lower proportion of stocks in their portfolios. Other investors are less concerned about the possibility of losses with stocks and prefer to keep a higher proportion of stocks in their portfolio. Some investors prefer stocks of socially responsible companies and some conventional companies. Some investors prefer foreign stocks while others prefer domestic stocks. Some people believe that they can pick stocks that would earn higher than average returns where as some people believe that they are unable to do so.

### **2.1.7 Security Markets**

Security, in general is a piece of paper representing the investor's rights to certain prospects or property and the conditions under which investors may exercise these rights. Share, bond, commercial paper preferred stock, Treasury bill etc are the example of securities. Moreover, the security is a legal representation of the right to receive prospective future benefits under stated conditions. Security markets are mechanisms created to facilitate the exchange of financial or security assets. Therefore, the market exists in order to bring together the buyers

and sellers of securities. There are many way in which security markets can be distinguished. On the basis of securities traded, security market can be classified as follows:

**a) Primary Market**

Market in which corporations and government institutions raise a new capital is known as primary market. Primary market is basically concerned with the accumulation of funds. "All securities, whether in money or capital markets, are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefit from issue that is the company actually receives the proceeds from the sale of securities. Once the securities begin to trade among individual, business, government or financial institution, savers and investors, they become part of the secondary market." (Bhattarai; 2004:06)

**b) Investment Banking Firm**

An investment banking firm, among other things, specializes in arranging financing for companies by finding investors to buy newly issued securities. The firm acts as a middleman in the distribution of new securities to the public and creates primary market. Therefore, the people or institutions responsible for finding out investors for the initial public offering (IPOs) of securities sold in the primary market is known as investment banking firm. The principal function of the firm is to buy the securities from the issuing company and then resell them to investors. "In other different countries investment bankers also provide brokerage services but in Nepal the issue managers only manage initial public offering and provide financial services." (Bhattarai; 2004:08) The investment banking firm also performs advisory, administrative, and distribution functions instead of only underwriting the securities.

**c) Secondary Market**

The market in which previously issued securities are traded among investors is known as secondary market. "In the secondary market, investors are constantly appraising the values of companies by buying and selling shares previously issued by these companies. In the secondary market investors buy and sell stocks with other investors. If you think of the primary as the new-car showroom at an automotive dealer, where cars are first sold to the public, then the secondary market is just the used-car lot. Secondary market stock starting among investors through three channels: 1. Directly with other investors, 2. Indirectly through a broker who arranges transactions for others. 3. Directly with a dealer who buys and sells securities from inventory. " (Corrado & Jordan; 2002;126)

#### **d) Dealers and Brokers**

A dealer buys and sells securities from inventory. A dealer maintains an inventory and stands ready to buy and sell at any time. A broker is an intermediary who arranges security transactions among investors. A broker brings buyers and sellers together but does not maintain an inventory. A dealer attempts to profit by selling securities at a higher price than the average price paid for them. Securities dealers hold securities in inventory only until the first opportunity to resell them.

"A securities broker arranges transactions between investors, matching investors wishing to buy securities with investors wishing to sell securities. Brokers may match investors with other investors, investors with dealers, and sometimes even dealers with dealers. The distinctive characteristic of securities brokers is that they do not buy or sell securities for their own account. Facilitating trades by others is their business." (Corrado & Jordan; 2002:127)

#### **e) Over the Counter (OTC) Market**

Over the counter market is not a formal exchange like organized stock exchanges. OTC neither requires membership for trading of securities nor listing of securities for trading, earning that formal listing of securities are not necessary in the OTC market. This Securities Market is largely characterized by dealers who buy and sell securities for their own inventories. "NASQAD is often referred to as an OTC Market. However, in their efforts to promote a distinct image, NASDAQ officials prefer that the term OTC not be used when preferring to the NASDAQ market. Nevertheless, old habits die hard, and many people still refer to NASDAQ as an OTC Market." (Corrado & Jordan; 2002;136). In 1971, Nasdaq a computer network of securities dealers who disseminate timely security price quotes to Nasdaq subscribers was initiated. It provides immediate information on a computer linked system of bid and asked prices for stocks offered by various dealers.

#### **f) Third Market**

The third market is an OTC Market where the securities listed in the organized stock exchange are also traded. More generally, the term third market now refers to the trading of any exchange listed security in the over the counter (OTC) markets. The trading hours are not fixed to the third market like organized stock exchange. In the third market dealers provide only execution and record keeping services for their client.

### **g) Fourth Market**

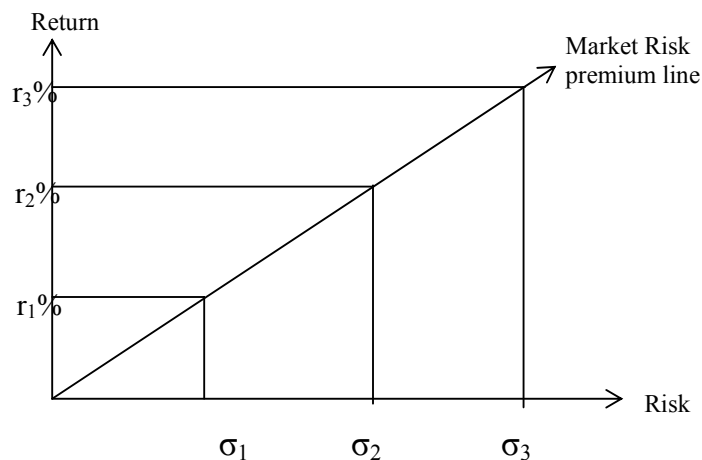
The fourth market refers to direct trading between investors in exchange listed securities without benefit of a broker. The direct trading among investors that characterizes the fourth market has exploded in United States few years back due to the advent of the electronic communication network (ECN) which provides quotations and execution automatically.

### **2.1.8. Relationship between Risk and Return**

The amount of risk associated with an investment is directly related to its expected total return. This universal rule of investing means that if we want a higher level of return on our investment, then we will have to take more risk to get it. If we are willing to take a higher level of risk, we should expect to be compensated by earning a higher rate of return. It is not always true that a riskier asset will pay a higher average rate of return, it is usually true. The reason is that most investors are risk averse. As a result, high risk assets must offer investors high returns to induced them to make the riskier investments.

In addition to knowing intuitively that risk and expected return are related, risk of investments can be measured numerically by equating volatility in total returns with risk. Standard deviation is a statistical measure of past volatility. It measures the extent to which numbers differ from the arithmetic mean of the series. The standard deviation has more meaning when we know that normally two-thirds of the returns will lie within one standard deviation of the mean.

**Figure: 2.1. Relationship between Risk and return**



The figure 2.1 represents a higher risk premium. For taking risk S.D. 1, the expected return is  $r_1$  when an investor assumes risk S.D.2, the return must be  $r_2$  Increasing the return (risk premium) by  $r_2-r_1$  for assuming more risk: S.D.2-S.D1. This assumption of linear relationship

states that the risk premium must increase or decrease in proportion to a change in level of risk. It also indicates higher the risk, higher the return and lower the risk lower the return.

**a) Systematic Risk and Unsystematic Risk**

Dividing total risk into its two components, a general (market) component and a specific (issuer) component, we have systematic risk and nonsystematic risk, which are additive:

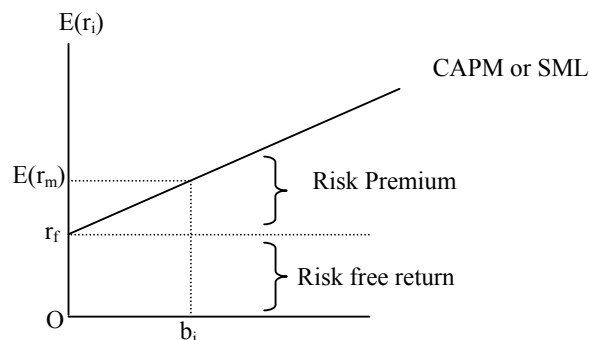
$$\begin{aligned} \text{Total risk} &= \text{General risk} + \text{Specific risk} \\ &= \text{Market risk} + \text{Issuer risk} \\ &= \text{Systematic risk} + \text{Nonsystematic risk} \end{aligned}$$

The variability in a security's total returns that is directly associated with overall movements in the general market or economy is called systematic risk. Virtually all securities have some systematic risk, whether bonds or stocks, because systematic risk directly encompasses interest rate, market, and inflation risks. Investors cannot escape this part of the risk because no matter how well they diversify, the risk of the overall market cannot be avoided. The variability in a security's total returns not related to overall market variability is called the nonsystematic risk. An unsystematic risk is one that affects a single asset, or possibly a small group of assets. This risk is unique to a particular security and is associated with such factors as business and financial risk as well as liquidity risk. Although all securities tend to have some nonsystematic risk, it is generally connected with common stocks.

**b) Security Market Line (SML)**

Security market line (SML) is a graphical representation of the linear relationship between systematic risk and expected return in financial market. In other words, the Security Market Line (SML) shows the relationship between risk as measured by beta and the required rate of return. The SML equation can be used to find the required rate of return on stock.

**Figure 2.2 Security Market Line**



### **2.1.9 Factors to be considered before Investing in Securities**

Stocks investors who want to invest in the stock market should not invest directly in corporation. At first, they come in stock exchange market. They invest on the information base on prospectus of company and other public notice and details, which are published by the company.

"While investment policies needed to be informed, the investor needs to consider many factors. Usually these are the factor to be considered in the investment planning decision." (Shim and Siegel; 1989:256)

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

- Security of principal
- Role of return
- Marketability (Liquidity)
- Stability of income
- Strength(Leverage)
- Inflation
- Cash flow
- Tax benefit
- Limited Management Requirements.

#### **a) Investment Consideration to Potential Investors in Primary Market**

Investors should be able to manage their investment from beginning of planning for investment till the security is liquidated. While buying in initial market or in primary market

the investor should be unaware of different aspect of the securities issued. Rules and regulation applied by security board will alone not be able to protect interest of investment. Investors should be able to analyze and evaluate the different aspect of company and its security issued. Investors should select those company's shares, which are regarded as well operating and future prospect, reliable management, beneficial sector or high growth, protective provision of indenture etc. before they finally invest.

Investor investing in stock must compare price and value of share in market and should select shares, which have owner market price than its intrinsic value. The investors investing in bonds and debenture should find out the provision of repayment of principle in case of default.

The investor are to informed about following before making investment decision in primary issue or initial issue (SEBON; 2058:11)

- i. The investors should take necessary information about company such as; promoters, size of company, growth of company, company's environment, Board of directors (BOD) and the past and forecasted statements (Performa balance sheet) etc. from the prospectus, Articles, Memorandum of the concerned company and company's promoters.
- ii. The investor should make a public announcement made by the company in National daily newspaper before 7 to 15 days the opening of issue of share.

#### **b) Investment Consideration to the Potential Investors in the Secondary Market**

The investors are required to be informed on the followings before investment in the share in the secondary market (SEBON; 2058:11):

- i. To keep all information of the companies return to the shareholders in the form of cash dividend, stock dividend, bonus share etc. To keep the timely information about companies earning per share (EPS), book price per share (BPS), price earning ratio (P/E ratio), future plan and growth expectancy of the company by studying annual, quarterly and half yearly performance reports, profit and loss account, Balance sheet and Annual Reports etc.
- ii. To analyze the information (price sensitive and other information) notified to the investor in the notice board of SEBON and NEPSE about the listed companies.
- iii. To study the articles related to the trading of shares and economic matters published in the different newspaper and magazines.
- iv. To study the trading statements and financial analysis of the listed companies published by NEPSE.

- v. To study annual reports and other information published by SEBON.
- vi. To attend the Annual General Meeting (AGM) regularly.
- vii. To study the act and regulation concerning to the share holders right.
- viii. To derive the necessary information related to the trading of shares from website from SEBON ([www.sebonp.com](http://www.sebonp.com)) and NEPSE ([www.nepalstock.com](http://www.nepalstock.com))

The investment consideration begins from the selection of the broker to assist the trading in the securities market. Most investors have access to investment information in the form of oral and written form from their brokers. Brokers subscribe to well known investment information sources that can be used by their customers. Brokers are most active trading agents of capital markets. Stockholders are back bone of stock market and its smooth functioning.

The investor's first step in establishing a satisfactory relationship with a broker is to choose a firm that is suitable for his needs and to select a representative of the firm with whom he can work. In practice it is hard to separate the two choices, for if one of satisfactory firm but is unhappy with the representative, it is embracing to shift one's account to another with the representative with in the some firm. "The brokerage firm should be well known and long established institution. In selecting a firm an investor can ask for recommendations from his banks or from friends whose opinions he trust. The representative should be able to furnish the investors at all times, on reasonable notice, information on any specific company's securities." (Fisher and Jordan; 1992:17). The representative should not be the type who is always trying to sell the investor something, on the other hand, he should be aware of the securities held by the investor and should inform him of any news that is relevant to these holding. "Basically, the function of the representative is to give service and information to the investor so that the latter can make investment decisions and for mutually satisfactory business relationship between the two lines with the investor, for he must make his own investing philosophies and goal quite clear so that the representative will be able to offer the type of service desired."(Fisher and Jordan; 1992:17).

The representative should not be the type who is always trying to sel the investor something on the other hand, he should be aware of securities held by the investors and should informed him of any news that is relevant to those holding. Basically the function of the representative is to give service and information to the investors so that the latter can make investment decision and for a mutually satisfactory business relationship between the two lies with the investor for he must make his own investing philosophies and goals quite clear so that the representative will be able to offer the type of served desired. (Fisher et.al, 1992)



For an investor the investment process starts after the selection of a reliable broker who can guide well in investment industry. The broker helps investors in security analysis and in providing all necessary information about the stocks current position.

Every investor must be able to calculate the intrinsic value of security and if the market price available below the value the purchase should be made and vice versa.

#### **2.1.10 Others Factors Affecting the Investment Decision/Policies**

Besides above mentioned basic principles, some basic factors really affect the investment policy and composition of the components. However, their degree of affecting power may vary. These are the other factors that have significant affecting power:

- Regulatory Provision
- Management Perception
- Present composition of the investment portfolio
- Availability and accessibility of the investment

## **2.2. Review Articles**

These days information highway or the Internet has become to the most easily accessible mediums to gain information in any subject matter. In the study period, various journals and articles have been consulted.

An article by Kent Daniel, David Hirshleifer and Avanidhar Surahamanyam (1991), "**Investor psychology and market under and overreactions**" concluded that securities market and overreactions based on two well-known psychological biases investor over confidence about the precision on private information and biased self attribution, which causes asymmetric shifts in investor's confidence as a function of their investment outcomes. According to them overconfidence implies negative long- term auto-correlation, excess volatility and when managerial actions are correlated with stock mispricing, public event based return predictability. Biased self attribution add positive short lag auto-correlation "momentum", short run earning "drift" but negative correlation between future returns and long term past stock market and accounting performance.

The article written by Brad Barber, Reuven Lehavy, Maureen McNichols, and Brett and Trueman (2001), "**Can Investors Profit the Prophets?**" assess that examines whether investors can profit from the publicity available recommendations of security analysis. Academic theory and Wall Street practice are clearly at odds regarding this issue. On the other

hand, the semi – strong form of market efficiency posits that investors should not be able to trade profitable on the basis of publicly available information such as analyst recommendation. On the other hand, research departments of brokerage houses spend large sums of money on security analysis, presumably because these firms and their clients believe its use can generate superior returns

The article written by MU Haw, Kyung Joo Park, Daging Qi, woody Wu (2006)," **Securities Regulation, the Timing of Annual Report Release, and the markets Implications**" assess that using a sample of earnings announcements of Chinese firms in the fiscal years 1994-1999, covering the periods before and after the annual reports, they reassess the relation between earnings news and the timing of earnings announcements They find that even though the reporting lag and the timing of have significantly shortened as a result of the regulation, the pattern whereby good news is announcements earlier than bad news persists. Then they examine the behavior of stock prices before earnings announcements and find some indication of information leakage. These findings suggest that the regulation has the expected effect of reducing reporting delay and earnings release clustering. Yet, it did not appear to reduce the extent of the preannouncement leakage of information

The article written by Adhikari (2005), “ **Securities Market Development in Nepal**” assesses that the Nepalese Securities Market is in an underdeveloped stage. Weak regulation, insufficient market infrastructures, poor corporate governance, inefficient trading system, low instrument diversification, low involvement of institutional investors are the major issues of Nepalese Securities Markets. These issues should duly be addressed to develop the markets as an important venue for funds mobilization in Nepal

The article written by Bhattarai (2005), “**New Ordinances and Capital Market**” stated that the new Securities ordinance replacing the Securities Exchange Act 1984 has introduced a number of new provisions with the objective of boosting the capital market. The ordinances stated the following provision :

- ✎ The Ordinance has opened the way to start over-the-counter (OTC) market.
- ✎ The Ordinance has made the provision for establishing the Central Depository System (CDS) which will bring greater efficiency in the clearing and settlement system of the stock exchange. After establishment of this system, ownership transfer of securities will be possible by dematerializing securities and making electronic book entries.
- ✎ The Ordinance has made the directors more responsible to implement the direction of the board. If the company gets ‘de-listed’ from the stock exchange due to the

negligence by the directors, then the directors will have to personally compensate the investors for the loss caused.

- ✕ The company ordinance too has made the capital market broader than the present level. It has allowed the company to determine the par value of shares that it wants to issue if the minimum value is Rs. 50 and divisible by 10. This provision has made it easier for the company to collect share capital from an wider population.
- ✕ In another provision, the ordinance has allowed companies to issue shares in premium as well as in discount under specified conditions. This provision is expected to encourage well-performing private limited companies to become public limited companies and issue shares to the general public. When such companies come to the public and get listed on the stock exchange, the stock market will be more vibrant.
- ✕ In another provision, the Company Ordinance has stated that companies cannot give the shareholders any gift in cash or kind of other than the dividend. That is expected to stop the practice of distributing traveling allowance and launch allowance to the shareholders who attend the AGM. It had encouraged the shareholders to split their shareholding and get the shares recorded in the name of their family members so that they could receive higher amount of such gifts.
- ✕ The companies can now issue share of different classes having different rights. Such practices can be found in developed countries like America, Canada etc. This provision helps promoters and the members of the current board of directors to maintain their control over the company by issuing common stocks that have no voting rights.
- ✕ The ordinance has clearly specified the period within which the ownership transfer of the traded securities has to be affected. Now, the company must transfer the ownership within 15 days of buyer putting in an application. Earlier, it was not stated so clearly. Therefore, companies were taking even upto six months for ownership transfer. Due to this, the investor were losing a lot.
- ✕ Another provision of the ordinance is the clarification of role of the Trustee. With this, the investors can have more secured debt instrument to invest in.

The article written by Bhattarai (2007), **“Stock Market’s Role in Poverty Reduction”** The stock market is considered to be an exclusive field for the wealthy and the clever. But this is not necessarily so. Policies can be formulated to use the stock market to benefit the poor and reduce poverty. For example, when a well-performing company makes an initial public offering (IPO), a portion of the shares so offered can be reserved for the poor in the same

manner as it is reserved for the company's employees. The poor who get those shares will benefit from the dividend that the company distributes in the coming year and from the appreciation of the market price of the shares so provided. Obviously, the idea is based on four major assumptions: first, the company concerned is a well performing one and will continue doing so; second, the poor who receive such shares are properly identified; third, the poor can manage the finance to buy those shares; and fourth the shares are offered at par value (not in premium). However, these conditions can be easily fulfilled.

### **2.3 Review of Unpublished Masters Degree Thesis**

Under this section, various masters degree thesis related to this study have been reviewed.

**Subedi (2003)** submitted the thesis entitled “**Investors Awareness in the securities Market in Nepal**” and the following findings have been drawn out:

Out of the total investors 24.54 percent investors responded that there are better opportunities for investors in non- securities sectors while 75.46 percent responded there were better opportunities for Nepalese investors in securities sectors. Among these respondents, who choose securities market as better sector for investors, responded the banking, finance, insurance, manufacturing, hotel, trading and other sectors are suitable for investment in ranking. Likewise, the respondents, who chose non- securities sector as better sector for investors responded the bank fixed deposit, fixed asset, business venture and other sectors are suitable for investment in ranking. They specify the nursing home and educational institutes. 18.05 percent of the respondents said that they are satisfied with the present availability of the information about the securities while 81.95 percent of the respondents showed their dissatisfaction about the present situation of the availability of the adequate information.

Companies are found unable to meet the target level as described in the prospectus as 14 percent of the investors said that listed companies are able to meet the target as mentioned in their prospectus while 86 percent of them said that they are not able to meet the target as mentioned in the prospectus.

The regularly activities of the regulatory authorities were found inefficient as 32 percent of the respondents responded that the regulatory activities are efficient while 68 percent of them opposed the response.

The status of grievances handling of the different institutions involved in share trading activities could not be considered satisfactory as 12.5 percent of the total respondents are

found satisfied with the performance of the different institutions in handling the grievances of investors while 87.5 percent of them showed their dissatisfaction.

Most of the investors were found dissatisfied with the return they are presently getting from the stock investment as 23.61 percent of the total investors were found satisfied while 76.39 percent were found dissatisfied.

Friends and other sectors were found to be highly inspiring source to get the idea to invest in share while investors education program and brokers were found to be less inspiring sources to make investment in shares.

The regulatory aspect of NEPSE is found at low to maintain the fair share trading activities as 29.17 percent of investors were found satisfied with the regulatory activities while 70.83 percent of them were found dissatisfied with their regulatory activities. The dividend and capital appreciation were found most inspiring factors for investors to invest in shares while social status and participation in AGM were found less inspiring factors whereas marketability was found to be moderately considerable factors. The level of investors' awareness in the securities market was found at low and moderate level as responded by most of the investors while it is at very low and very high level as responded by very few investors.

The rumor and whim is found highly and moderately responsible in influencing the decision of the investors in share investment as responded by most of the investors whereas it is at low and very low responsible as per some of the investors.

**Pandit(2004)** submitted the thesis entitled “**Investors Preference and Financial Instruments in Nepal.**” and the following findings have been drawn out:

- The issuance of corporate securities made since 1993/94 shows that around 76% of total issue is covered by common stock is the most widely used corporate security. Government issues, show that Treasury bills are the mostly used government security, which covers around 39% of total government issues.
- Corporate securities, government securities, real estate and bullion are considered as the major investment alternative. Among them, corporate securities are found to be the most preferred investment alternative. Preferences over these alternatives in terms of different categories of investors were also found similar. However, as per the size of investors, small investors showed high preference toward real estate also. Similarly, the employed investors preferred the corporate securities whereas unemployed preferred real estate.

- To focus more on financial instruments, common stocks appeared as the most preferred financial instrument. Preferences of different categories of investors, as well as different size of investors were also found similar. As per the issuance agreed that the capital market heavily depends upon common stock. Investors also agreed that the capital market lacks the choices. It means financial innovation is really lacking in Nepalese financial market.
- Results showed that investors prefer banking and financial sector very much in comparison to other sectors. Analysis of subscription ratios showed that the issues of financial institutes are highly over subscribed in the primary market. In the secondary market trading also, last five years trading volume shows that more than 55% of trading volume is covered by the shares of commercial banks.
- Growth (capital gain) was found to be the most preferred investment objective for all type of investors. When only stock investment was considered, then also investors preferred capital gain. Bonus shares appeared as the second preferred objective of the stock investment.
- More than 30% respondents have never invested on government securities. Majority of those who have invested said that they have invested because of safety. Those who are aware and have invested in government securities disagreed that the low yields make government securities unattractive to individual investors.
- When alternatives with increasing risk and return, were asked to select. Majority of investors selected alternative with moderate risk and return.

**Dangol (2004)** submitted the thesis entitled “**A Study on Investors Perception in Nepalese Stock Market.**” and the following findings have been drawn out:

- The interests of investors have been decreasing continuously towards the stock market. Regarding the revenue from the disposal of the stocks, 30.37% of individual and 55% of institutional investors reinvested on other shares/ stocks. And the remaining individual investors invested on other sectors after selling their stocks such as bank deposits, business, Government bond and others. The remaining institutional investors invested on other sectors after selling their stocks such as bank deposit, invested on business and others.
- The revenue dividends and capital gains from stocks were not also 100% reinvested on stocks. It was seen that 52.59% individual and 55% institutional investors’ perceptions indicated that they did reinvest the dividends and capital

gains in stock, 7.41% individual and 5% institutional investors indicated that their reinvestment depended on others situations. The remaining 40% of both types of investors indicated that they did not reinvest the dividend and capital gains in stock.

- The fluctuation of the stock price is the cause of the investors' perception. Actually, changing perception of investors' continuously pushes the price of the stock up and down. From the one sample runs test it was found that banks, manufacturing and others sectors have a negative trend in response to their share price. Similarly finance and insurance sectors have a positive trend in response to their share price. In aggregate, it was found that the NEPSE index has a negative growth. It indicated that the perception of the investors' led the growth of the stock market.

**Upadhyay (2004)** submitted the thesis entitled “**Investors Preference and Financial Instruments.**” and the following findings have been drawn out:

- The market capitalization of the different financial securities showed that common stock had the largest chunk of trading in the market. Hence, it can be said that Nepalese investors are trading common stocks. Likewise, the stocks of banking sectors had the largest chunk of trading in the market, which proved that the preference of investors is on common stock of banking system.
- The majority of the Nepalese investors preferred the equity share for investment. They preferred government securities after common stocks. The stocks and preferred stocks were least preferred.
- The investors preferred the banking sector for investment.
- The majority of the respondents stated that the investors do not make risk return analysis before making investment decision.
- Nepalese investors' main objective of investment was profit.
- If investors were not satisfied with their return from investment decision in securities as the respondents were asked whether they were satisfied or not on return from their investment decision in securities.
- Major portion of the investor were not aware regarding their investment in Nepalese security market.
- Major portion of the respondents stated that dividends/returns were the main influencing factors for preferences of investors.

- The majority of the respondents of the different groups stated that the Nepalese investors were not getting sufficient and timely information from the companies.
- With respect to the rules and regulation of government, it was found that the existing rules and regulations were not sufficient to protect the investor's investment in the security market.

**Amatya (2005)** submitted the thesis entitled “**Present Status of Nepalese Debt Securities Market.**” and the following findings have been drawn out:

- The total volume of securities issued from 1993/94 to 2002/03 shows increasing trend. The major portion of securities market is covered by debt securities; it is also in increasing trend. Government debt securities are the main dominant securities in sense of volume, which cover more than 98% of total securities market and issuing regularly throughout the observation period. But the participation of corporate debt securities in securities market is very small, unsatisfactory and irregular so that only three issues can be seen from 1993/94 to 2003/04.
- While analyzing the ownership pattern of government bonds and T- bills. It is found that major holder of these securities was Nepal Rastra Bank in previous years of observation and in latter years, commercial banks are the main holders of these securities. Participation of financial institution, insurance corporations and other organizations in purchasing government Debt securities is comparatively low. On the other hand, participation of individual investors is increasing but not sufficiently.
- The amount of government debt securities is increased every year, which is good sign for debt securities market. The forecast amount of government debt securities from 2004 to 2008 shows increasing trend with healthy growth rate. If government maintain this trend in future, it will be helpful to reduce external debt and to mobilize internal debt in productive sectors by which nation will be benefited.
- The trend of T-Bills issued during the observation period seems to be increasing. The forecast amount of T-Bill in coming years also shows increasing trend. That means money market of government debt securities is effectively growing, which is good sign for overall debt securities market.
- The trend of development bond was increasing in starting period of observation, decreasing in middle period of observation and again increasing in recent year of the observation. The forecast amount of development bond for coming years shows increasing trend, which is sign of a good prospect of debt securities market.



- The trend of national saving bond shows increasing in first 15 years of observation, but it has been showing decreasing trend in last 2 years of observation. The main holders of national saving bond are individual investors, if this decreasing trend continues in the future periods; participation of individual investors will be decreased.
- The trend of special bond is increasing in the previous years of observation but shows decreasing trend in recent years. The forecasted amount of special bond shows increasing trend, which is good sign for debt securities market.
- Government has issued another debt instrument named public saving card since 2001/02, which can be sold only to Nepalese citizens. The initiation of public saving card has initiated the new step in the growth of government bond.
- The characteristics of Nepalese corporate debt securities are quite worth as necessary to be a quality security.

**Maharjan (2008)** submitted the thesis entitled “**Investor's Attitude and anticipation of Earning.**” and the following findings have been drawn out:

- Issue of corporate securities shows that corporate securities consist of common stock, preference share, debenture and mutual fund/ unit scheme. Among these securities, most of the companies issue common stock and hence it has high volume of coverage in Nepalese market. Likewise, we can see preference share, debentures and mutual fund/unit scheme have the respective position in the Nepalese security market.
- Issue of government securities shows that the government securities consists of treasury bills, development bonds, national saving bond, public saving card and special bonds. Among these securities government issues heavy volume of treasury bills and hence it has high volume of coverage in Nepalese market. Likewise, development bonds, national saving bonds, special bonds and public saving card have the respective position in the Nepalese market between the years of 2002 to 2007.
- Majority of finance companies were found listed more than other companies in Security market of Nepal. Likewise, Commercial banks, manufacturing & processing Insurance, Trading and Hotel sector were respectively listed in the security market of Nepal.
- Most of the investors have preferred the common stock for investment among various available financial instruments in Nepal. Government securities appeared as the second most preferred financial instrument after common stocks. The preferred stocks and debentures were appeared as the least preferred financial instrument.

- Among the various sector most of the investor preferred Banking sector. After the banking they gave the priority to the finance company. This ultimately proves that Nepalese investors are interested to invest in financial sector.
- Majority of people wanted to invest in banking sector even though the numbers of finance companies are listed more than banks. It has also shown that Insurance, hotel, manufacturing & processing and trading are less preferred sector for financial investment. Preference didn't change with the change in the responding groups. Staff of NEPSE, SEBO/N Brokers and Investors preferred commercial bank, finance company and insurance company to make investment respectively thereafter.
- Profit/Return was found to be the most preference to get from their investment for all types of respondents. Few investors preferred marketability and social status as a return from their investment. Some investors were interested to get profit/return, marketability and social status from their investment.
- It was found that majority of investor wanted to trade their investment in both primary and secondary market. Few investors wanted to trade through mutual fund.
- The majority of the respondents stated that the Nepalese investors are not satisfied with the return from their investment.
- It was found from the respondents responses that majority of investor are not aware regarding their investment in Nepalese security market.
- It was found out that major portion of the investors is influenced for investing in security is mainly for capital appreciation. Suggestion from relatives and friends and rumour as same factor are harmful to the investor. This factor also seen as one of influencing factor in decision making on investment.
- The majority of the respondents of the different groups felt that the Nepalese investors are not getting sufficient and timely information from the companies.
- It was found that investors' decision on financial investment is highly influenced by political situation, few investors agreed upon the statement that political situation does not influence the decision of investor.
- The reason behind main attraction of common share investment appeared capital gain. Dividend appeared as second factor of attraction. Some of investors preferred representation in Board as the attraction of common stock investment.
- With respect to the companies not preferring to issue debt and preferred stock, the majority of the respondents stated that certain and regular interest payment to

investors was the main reason that the Nepalese companies did not prefer to issue debt and preference stock frequently.

- It was found out from the responses given by respondent that the main attraction of Nepalese investors towards the government securities is due to the risk free return and safety.
- It was also found out from the responses given by respondent that the Nepalese investor didn't like high risk. Most of investor are risk avoider.
- Officials of NEPSE and SEBO/N had knowledge of derivatives where as most of investors had not knowledge about the financial derivatives like future, options and warrants etc. Therefore it can be said that knowledge of futures, options, warrants are lacking in Nepalese financial market.

## **2.4. Research Gap**

Very minimal research studies have been conducted on the subject related to Investor's approaches and expectation on earning with financial instrument in Nepal. There are many group of actors in the financial market such as market maker, institutional investor, broker, dealer, individual investor and to study on all this the researcher have limit time so the researcher choose the individual investor for the study. There are few research studies conducted by various researchers on the investor's approaches and financial instruments in Nepal. They only focus on which financial instruments the investor prefers, which sector they prefer, from whom they used to take suggestion before investing and what they attract to invest in the securities. But They have failed to address properly about issuing of the different types of corporate security used in Nepalese market and they also failed to address properly about what types of companies were involved in Security market of Nepal and which play the major role in the market, Which factor does the individual investor have their priority in terms of financial market, companies, price on security and speedy transaction of their owned securities and they also failed to explain about the different types of government securities. Thus, the researcher has realized that there is dearth of study to explore as what is the investor approaches and expectation on earning from financial instrument. Hence, this research covers trend and structure of the investor approaches and expectation on the basis of financial instrument in Nepal and their primary and secondary market, and which securities investor prefer including government securities.

Investor approach and expectation has very big role to sustain any financial institution. It is equally important to identify the investor desire and interest on the basis of financial instrument. So, it tries to assess the investors approach on earning and by analyzing the financial instrument in our country. The present study is based on the data of SEBO/N and NEPSE, which tries to achieve its objectives by analyzing secondary source of data. Thus, the earlier studies on these issues need to be updated and validated because of the many changes taking place in Nepalese securities market. The current studies is supplement to overcome the weakness and limitation of previous studies

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

Research methodology refers to the various sequential steps (along with a rationale, of each step) to be adopted by a researcher in studying a problem with certain object in view (Cothari, 1994:19). A focus is to be given to research design, sample selection and size, data collection procedure, data processing, definition of variables, meaning and definition of statistical tools used. This chapter will highlight the research methodology used for the study.

#### **3.1. Research Design**

A research design is a plan, structure, and strategy to obtain the objectives of the study. The research is based on the secondary as well as primary data and information. Hence, the explanatory or descriptive as well as analytical research design has been used. The variables related with the performance of the company, market information and relevant subjects are included in the study.

#### **3.2. Population and Sample**

In Nepalese context, due to the lack of information of financial instruments, potential investor is manipulated or exploited by the brokers, financial institution, company and other market intermediaries. So brokers, investors, experts are taken as a population and from the population 15 brokers and 40 normal individual investors as well as the 5 officials from the NEPSE and 5 officials from SEBO/N are taken as sample.

All the companies listed in NEPSE have been considered. Individual investors are the investor who is engaged in buying and selling of securities. Brokers are the person or institutions who act as a middle man for trading of securities. The staff members of SEBO/N and NEPSE have also been considered.

Total population size of the investors includes all the investors who are trading security business in Nepal. Only 40 investors have been selected for this research under which 35 investors gave their responses. There are altogether 23 licensed brokers and out of which 15 is selected for the sample but 12 of them responded. Likewise only 5 officials of SEBO/N and 5 officials of NEPSE are selected as samples and all of them gave a response.

#### **3.3. Source and Collection of Data**

For the study purpose, it has been used two types of data such as:

- Primary source of data
- Secondary source of data

Primary sources of data are mainly based on interview and queries and secondary data are mainly based on Booklets, trading Volume issued by Nepal Stock Exchange (NEPSE) and Nepal Security Board of Nepal (SEBO/N).

Secondary data have been collected from the following sources:

- Trading report published by stock exchange Nepal.
- Financial statement and other transaction of listed companies listed by NEPSE.
- Outside published material directly related to investor's attitude on earnings.
- Booklets published by other related agencies like SEBO/N, ministry of finance, and T.U. Library as the relevant materials.

### **3.4. Analysis of Data**

Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic. The collected data information through primary as well as secondary sources correspondingly will be tabulated, categorized and analyzed by using appropriate statistical and financial tools. Tick mark and open- end questions are included in the questionnaires. Many concerned personalities will be interviewed in the course of collecting data to get relevant information. The comparative analysis will be undertaken by using percentage, graphs and chart. The empirical results have been extracted in this study by using annual data of listed companies.

### **3.5 Statistical Tools**

Some statistical tools are used to implicit the comparative results are as follows:

#### **a) Multiple Bar- diagrams and graphs**

Diagrams and graphs are visual aids which give a bird's eye view of a set of numerical data which show the information in a way that enables us to make comparison between two or more than two sets of data. Diagrams are in different types. Out of these various types of diagram one of the most important form of diagrammatic presentation of data is multiple bar diagram which is used in cases where multiple characteristics of the same set of data have to be presented and compared.

#### **b) Pie- diagram**

A pie- diagram is a widely used aid that is generally used for diagrammatic presentation of the values differing widely in magnitude. In this method all the given data are converted into 360 degree as the angel of a circle is 360 degree and all components of the data are presented in terms of angels that total 360 degree for one set of data.

**c) Percentage**

Percentage is one of the most useful tools for the comparison of two quantities or variables. Simply, the word percentage means per hundred. In other words, the fraction with 100 as its denominator is known as a percentage and the numerator of this fraction is known as rate of percent.

**d) Chi Square test**

In testing of hypothesis, chi square test has been used. Expected frequencies were calculated by applying following formula:

$$\text{Expected Frequency of RiCj} = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

Where,

Calculated values of chi square can be calculated by applying following formula:

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

Where,

O = Observed frequency

E = Expected frequency

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

▪ **Null Hypothesis:**

There is no significant different between observed and expected mean.

▪ **Alternative Hypothesis:**

There is significant different between observed and expected mean.

## CHAPTER-4

### PRESENTATION AND ANALYSIS OF DATA

This chapter includes the analysis of secondary and primary information collected from Security Board Nepal (SEBO/N) and Nepal Stock Exchange (NEPSE) along with their result and interpretation. The chapter starts with the analysis of secondary data concerned with the issuance of financial instruments i.e. corporate securities and governments securities. Analysis of Primary data collected through questionnaire method is conducted thereafter. Finally the chapter ends with the major findings of the study.

#### 4.1. Presentation and Analysis of Secondary Data

In this section presentation and analysis of secondary data is conducted. Main source of Secondary is NEPSE trading reports, SEBO/N annual reports and NRB annual report. Some of the data have been collected from their official websites. The main purpose of the Research is to study about the investor's approaches on financial instruments, which is issued in the Nepalese market. Broadly there are mainly two types of security one is corporate security and next one is Government security.

##### 4.1.1 Corporate Securities

Following table shows the issue of corporate securities which are taken from SEBON annual report 2007/08.

**Table 4.1**  
**Issue of Corporate Securities**

(Rs. in Million)

F/Y	Ordinary Shares	Right Shares	Common Stock*	Preference Shares	Debenture	Mutual Fund	Total
2002/03	551.5	162.24	713.74	0	0	100	813.74
2003/04	755	429.92	1184.92	0	300	62.28	1547.2
2004/05	300.89	664.42	965.31	0	300	45.49	1310.8
2005/06	456.42	1241.45	1697.65	0	850	53.21	2600.86
2006/07	290.25	1733.25	2023.5	400	250	43.8	2717.3
2007/08	9248	6093.4	15341.4	0	2950	48.98	18340.4
<b>Total</b>	<b>11602.1</b>	<b>10324.7</b>	<b>21926.5</b>	<b>400</b>	<b>4650</b>	<b>353.76</b>	<b>27330.3</b>
%	42.45	37.78	80.23	1.46	17.01	1.29	100.00
Rank			1	3	2	4	

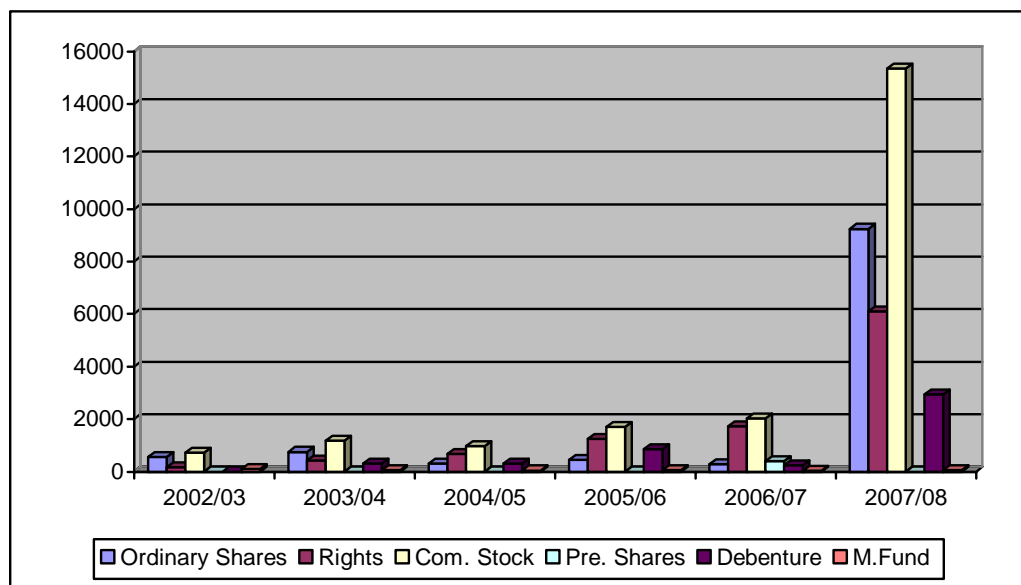
(Source: SEBO/N Annual report 2007/08)

\* Common Stock = Ordinary shares + Right shares



The table 4.1 shows that the amount of different corporate securities that are issued from the fiscal year 2002/03 to 2007/08) in Nepalese financial market. The total amount figures Rs.27330.3 millions. Table shows that Ordinary shares have the largest share in the total amount i.e. 42.45%, and then comes Right shares , debenture , Preference shares and mutual fund/unit scheme. These instruments are ranked in terms of their coverage in their total amount. The ranks show that Common stock is in first rank, Debenture in the second, Preference shares in the third and M. fund/Unit Scheme in the fourth.

**Figure 4.1**  
**Issue of Corporate Securities**



The multiple bar chart presented in 4.1 shows the issues of corporate securities made in capital market of Nepal since 2002/03 .Columns represent the corporate securities of different year. It is clear from the figure that common stocks are the most widely used and the mutual fund is the least one, which is seen in very small columns in the figure.

On this basis, we can conclude those common stocks are the most widely used corporate security. Similarly, mutual fund is a least used instrument with rank 4 in Nepalese financial market. It means that capital market of Nepal is heavily dependent upon the equity instruments mainly common stock. Financing from the other instruments is still very small as compared to equity instrument.

Issuance of just four types of securities reveals the fact that our capital market is really very poor on the matter of varieties of corporate securities. Nepalese capital market is fully dependent upon these traditional types of securities. Financial securities innovation is lacking

in Nepal's capital market. The chart also shows that in year 2007/08 trend of issuance of preference share has initiated with great amount. It shows also issue of debenture is also increasing.

#### 4.1.2 Issuance of Government Securities

**Table 4.2**

#### **Issues of Government Securities**

(Rs. in Million)

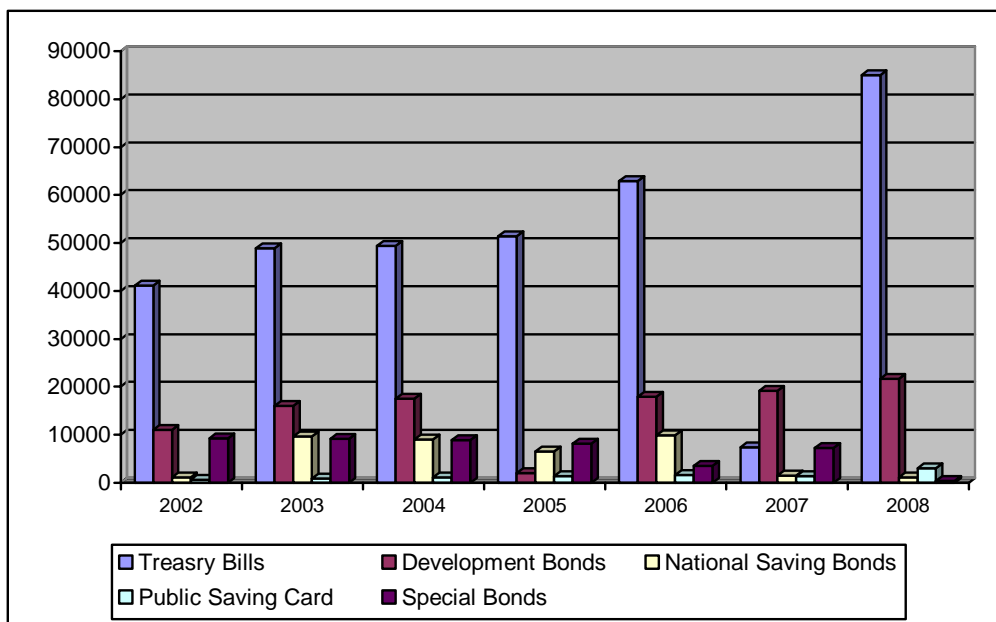
F/Y	Treasury Bills	Development Bonds	National Saving Bonds	Public Saving Card	Special Bonds*	Total Bonds
2002	41106.5	11090.7	11536.1	628.1	9259.3	73620.7
2003	48860.7	16059.2	9629.8	931.1	9164.5	84645.3
2004	49429.6	17549.2	9029.8	1178.9	8946.2	86133.7
2005	51383.1	19999.2	6576.8	1428.9	8176.3	87564.3
2006	62970.3	17959.2	9876.8	1678.9	3469.8	95955
2007	74445.3	19177.1	1516.9	1391	7245.7	103776
2008	85033	21735.4	1117	3014.3	339.4	111239
Total	413228.5	123570	49283.2	10251.2	46601.2	642934
%	64.27	19.22	7.67	1.59	7.25	100
Rank	1	2	3	5	4	

(Source: SEBO/N Annual report 2007/08)

\* includes IMF Promissory Notes

Similarly, if we see the trend of issues of Government securities, in table 4.2, we can see Treasury bills come in the first rank and Development Bonds, National Saving Bonds, Special Bonds and public saving come in second, third, fourth and fifth rank respectively in terms of percentage coverage in total amount of government securities in the period of 2002 to 2008. Public saving cards were issued for the first time in 2002 which is seen quite small and has contributed 1.59% in total amount of government securities issuance. So it is in fifth rank.

**Figure 4.2**  
**Chart of Government Issues**



The chart presented in figure 4.2 displays the trends of issuance of various government securities. In the figure, we can see the Treasury bill is in increasing trend and has covered with highest bar columns and the Development bond is also increasing from couple of years. Issue of Special bonds is decreasing up to the year of 2006 but in the year of 2007, it is increased. National Saving Bonds are also decreasing up to the year of 2005 but in the year 2006, it is increased again and in 2007 and 2008, it is decreased again. Public saving cards column is in very low level. Special bond is in very low in 2008.

From these analysis we can conclude that Treasury bills and Development Bonds are the most widely used government securities and Public saving cards are the instrument which is new than others. Treasury bills are mostly used by institutional investors. This also helps them to increase their liquidity. That's why this instrument is very much preferred among institutional investors.

### **4.1.3 Involvement of different Sectors in Financial Market of Nepal**

Analysis has been conducted from the data of listed companies in financial market since the beginning of the security market development in Nepal upto the fiscal year 2007/08.

**Table 4.3**  
**Sector-wise coverage ratio of financial market**

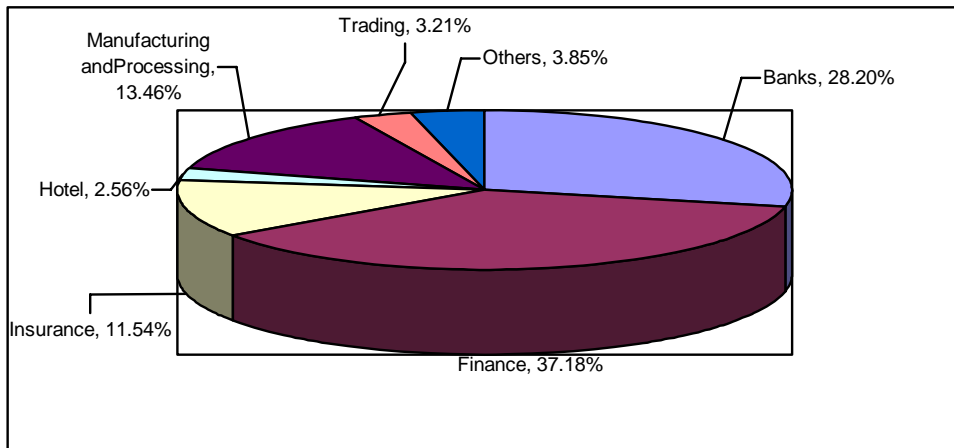
S.No.	Sectors/Companies	Number of companies involved in Financial Market	Coverage Ratio (in %)
1	Banks	44	28.20
2	Finance	58	37.18
3	Insurance	18	11.54
4	Hotel	4	2.56
5	Manufacturing and Processing	21	13.46
6	Trading	5	3.21
7	Others	6	3.85
	<b>Total</b>	<b>156</b>	<b>100.00</b>

(Source: SEBO/N Annual report 2007/08)

The table 4.3 shows that 156 different companies are listed in financial market till the fiscal year 2007/08. Among the listed companies, 58 Finance Companies have been listed which is largest involvement in the financial market and 4 hotels are listed in financial market which is lowest involvement in the financial market.

**Figure 4.3**

**Chart of Sector-wise involvement in Financial Market**



Above pie chart displays that institutional wise involvement of finance company is 37.18% of total coverage percentage of Financial Market. Here others company represents the Hydro power companies, film development company and economic development company which are listed only 3.85% among the total listed companies.

From the analysis it is found that the finance companies are actively functioning in the financial market. However, in the market, commercial and development banks are mostly preferred instead of finance companies by the investors.

## 4.2 Presentation and Analysis of Primary Data

This section consists the presentation and analysis of primary data collected from different respondents (Investors, Brokers and staff of SEBO/N & NEPSE). The primary data have been collected through the questionnaires distributed to the staff members of NEPSE and SEBON, Broker and investors. The collected data have been presented in the table and figure and then analyzed. The purpose of the analysis of primary data is to achieve the objectives of the study.

### 4.2.1 Financial Instruments and Investors Preference

The first question asked the respondents to prefer among the given securities. The table 4.4 shows the results of the respondents.

**Table 4.4**

#### **Investor's Preference on Financial Instrument**

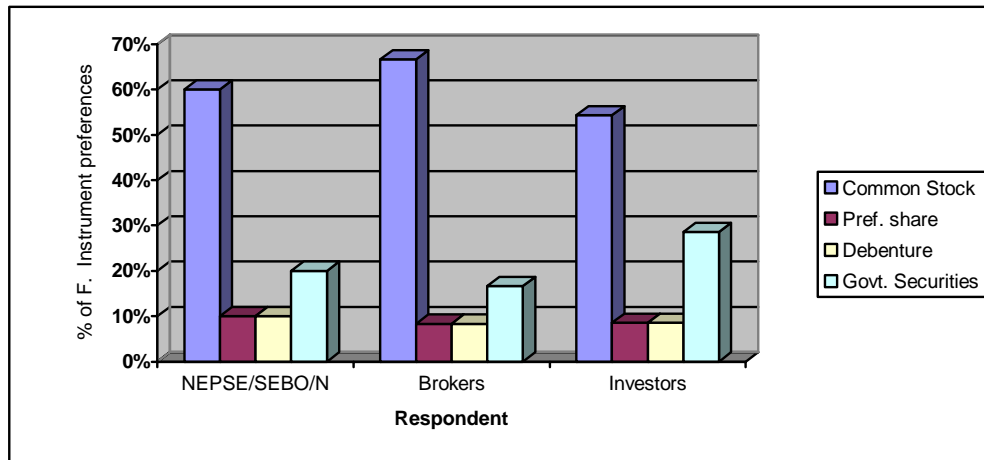
S.N.	Securities	NEPSE/ SEBO/N		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	Common Stock	6	60	8	66.67	19	54.29	33	57.90
2	Preference Share	1	10	1	8.33	3	8.57	5	8.77
3	Debenture	1	10	1	8.33	3	8.57	5	8.77
4	Government Securities	2	20	2	16.67	10	28.57	14	24.56
	<b>Total</b>	<b>10</b>		<b>12</b>	<b>100</b>	<b>35</b>	<b>100</b>	<b>57</b>	<b>100</b>

(Source: Field Survey, 2009)

In the above table 4.4, it is clearly given the respondents view upon the different financial instrument. Majority of the respondents (57.90%) stated that the Nepalese investors prefer to invest in common stock, 24.56% of the respondents stated that the preference of investors on government securities and 8.77% of respondents stated that the investors prefer to invest in debenture and preference share equally. Comparing to the responses of each respondent's group, majority of responses 60%, 66.67%, 54.29% of staff of NEPSE and SEBON, broker and investors are also prefer to common stock respectively in Nepalese market. Each respondent has preferred the debenture and preference share in the low volume.

**Figure 4.4**

**Investor's Preference on Financial Instruments**



The multiple bar diagram presented in fig 4.4 clearly describes the preference of investor regarding the common stock, preference share, and debenture and government bonds. In the figure we can see that most of the investor prefer the common stock and after the common stock, the Government bonds are preferred whereas investors prefer the preference share and the debenture at least.

On the basis of all this things finally, we can say that most of the investor gives the preference towards the common stock and after that they go for the government bonds and the least coverage of the investor go for the preference share and the debenture.

To test the hypothesis whether there is significant difference or not between the opinions of different corresponding groups, chi-square test has been used. The computed chi-square value is 0.905 and the tabulated value at 5 percent level of significance for d.f.,  $v = 6$  is 12.592 (Appendix-2). The calculated value is less than the tabulated value. Therefore, it can be stated that there is no significant difference in the opinions of different responding groups. Thus, the responses of different groups are similar regarding the investor preferences.

**4.2.2 Investment Sectors and Investors Preference**

The second question asked the respondents to prefer among the given sectors/companies. The table 4.5 shows the results of the respondents.

**Table 4.5**

**Sector wise Investors Preferences**

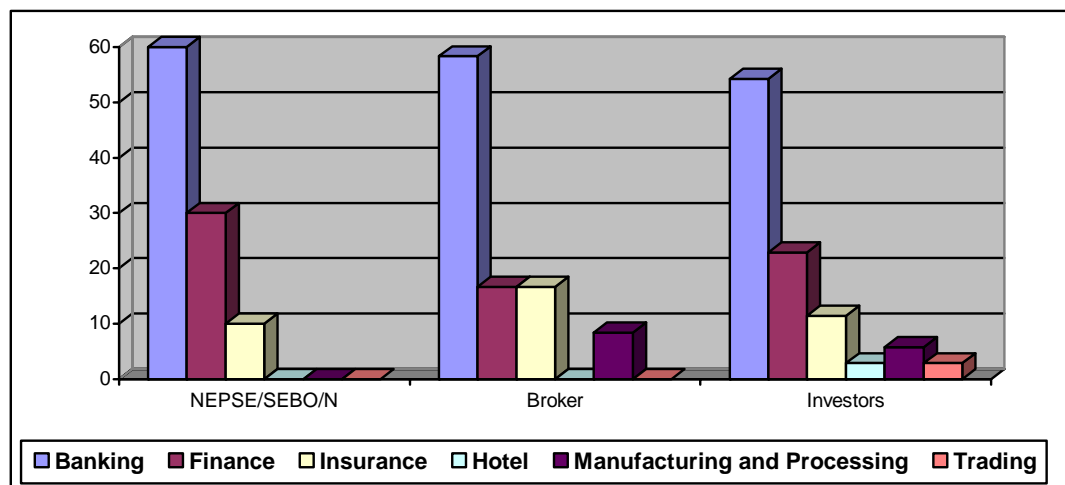
S.N	Sectors/ Companies	NEPSE/ SEBON		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	Banking	6	60	7	58.33	19	54.29	32	56.14
2	Finance Co.	3	30	2	16.67	8	22.86	13	22.81
3	Insurance Co.	1	10	2	16.67	4	11.43	7	12.28
4	Hotel		0		0.00	1	2.86	1	1.75
5	Manu Co.		0	1	8.33	2	5.71	3	5.26
6	Trading Co.		0		0.00	1	2.86	1	1.75
	<b>Total</b>	<b>10</b>	<b>100</b>	<b>12</b>	<b>100.00</b>	<b>35</b>	<b>100.00</b>	<b>57</b>	<b>100.00</b>

(Source: Field Survey, 2009)

We can see from the above table 4.5 that the majority of the opinions (56.14%) have supported banking sector investment, 22.81 % respondents have stated that Nepalese investors prefer finance companies. Then 12.28 % respondents prefer insurance companies. 5.26% investors prefer manufacturing company and 1.75 %, 1.75 % investors prefer Hotel and trading company respectively and majority of respondents 60.0 %, 58.33.5 % and 54.29 % from staff member of NEPSE and SEBON, Broker and investors respectively have stated that Nepalese investors prefer to invest in banking sector. We can see here clearly most of the investors do not like to invest in hotel and Trading Co. sector. Only one investor has preferred hotel and Trading Co. sector to make investment.

**Figure 4.5**

**Sector-wise Investor's Preference**



The multiple bar diagram presented in fig 4.5 shows the preference of investors according to the sectors of financial market in Nepal. Among the different sector it is clearly seen that the

most of the investor prefer the banking, after that they have preferred the finance company, then after the issuance company, manufacturing company and the trading company.

On analyzing all these aspects we can conclude that most of the investors' preference is to make investment on the banking sector than any other investment alternatives whereas investors are not interested to invest in the hotel sector.

To test whether there is significant difference or not between the responses of the NEPSE and SEBON, Broker and investors, the chi square test has been used. The calculated value of chi square is 16.978 and the tabulated value at 5 % level of significance for d.f.,  $\nu = 10$  is 18.307 (Appendix-2). Since the calculated value is less than the tabulated value, the opinions of all responding groups are similar and there is no significant difference between the responses of different groups regarding the sector wise preferences of investors.

### 4.2.3 Investor's Purpose of Investment

**Table 4.6**

**Investor's purpose of Investment**

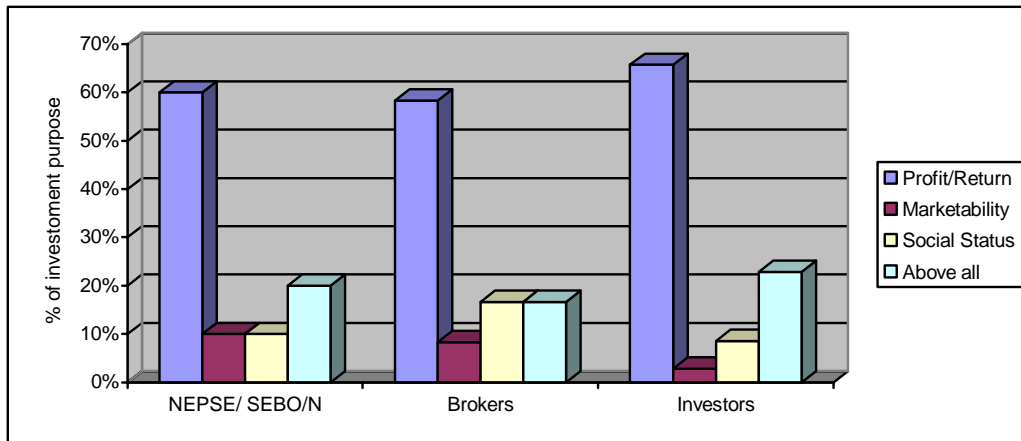
S.N.	Purpose	NEPSE/ SEBON		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	Profit/Return	6	60	7	58.33	23	65.71	36	63.16
2	Marketability	1	10	1	8.33	1	2.86	3	5.26
3	Social Status	1	10	2	16.67	3	8.57	6	10.53
4	Above all	2	20	2	16.67	8	22.86	12	21.05
	<b>Total</b>	<b>10</b>		<b>12</b>	<b>100</b>	<b>35</b>	<b>100</b>	<b>57</b>	<b>100</b>

(Source: Field Survey, 2009)

In the above table 4.6, the responses of different groups are presented with aspect to purpose of investors to invest in financial instruments, 63.16% opinions revealed that profit or return from the investment is the main purpose of the investors. Only 5.26% opinions revealed that the investors invest for marketability and 10.53% opinions revealed that they can make investment in the securities for social status. 21.05% respondents stated that they invest for profit/return, marketability and social status. 60% of NEPSE, 65.71 % of investor responded that the investors invest in financial instrument for profit or return.



**Figure 4.6**  
**Investors Purpose of Investment**



The column chart presented in fig. 4.6 shows the purpose of investment. Among the different purposes it is clearly seen that most of the investors invest to get the profit/return. Only less number of the investors invest in financial market for the liquidity or marketability and for social status. And 21.05% of the investors invest for the purpose of profit/return, marketability and social status.

On analyzing all these aspect of purpose of investment we can conclude that majority of investors invest for the purpose of profit/return whereas few investors invest for the purpose of marketability and social status.

To test whether there is significant difference between the opinions of different responding groups or not, the hypothesis is tested using chi-square. The calculated value of chi-square is 1.846 and the tabulated value at 5 % level of significance for d.f.,  $\nu = 6$  is 12.529 (Appendix-2). Since the calculated value is less than the critical value, there is no significant difference between the opinions of NEPSE and SEBON, Broker and investors. So, the opinions of different groups are similar.

#### 4.2.4 Market Mechanism and Investors Preference

**Table 4.7**

#### Investors Preference on Market

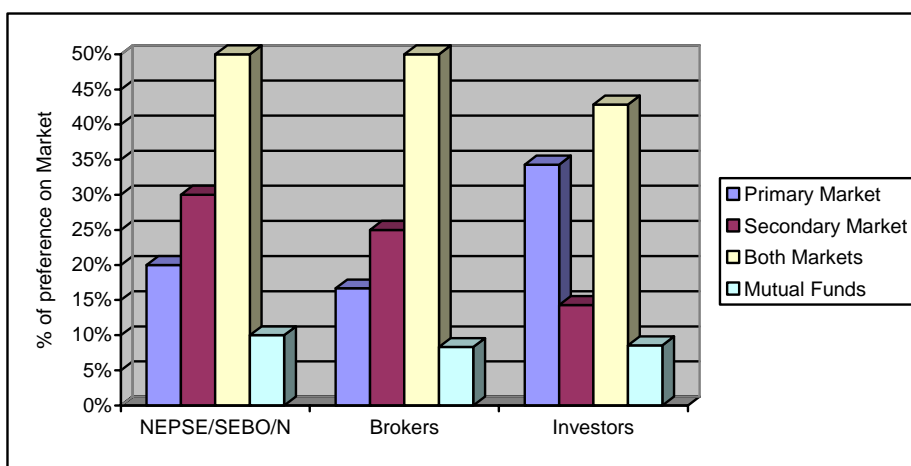
S.N	Response	NEPSE/SEBON		Broker		Investors		Total	
		Nos	%	Nos.	%	Nos.	%	Nos.	%
1	Primary Market	2	20.00	2	16.67	12	34.28	16	28.07
2	Secondary Market	3	30.00	3	25.00	5	14.29	11	19.30
3	Both market	4	40.00	6	50.00	15	42.86	25	43.86
4	Mutual Fund	1	10.00	1	8.33	3	8.57	5	8.77
	<b>Total</b>	<b>10</b>	<b>100</b>	<b>12</b>	<b>100</b>	<b>35</b>	<b>100</b>	<b>57</b>	<b>100</b>

(Source: Field Survey, 2009)

In the above table 4.7, the responses of different respondent groups are presented. The respondents were asked that from which market, investors want to purchase the securities. The majority of the respondents i.e. 43.86% respondents opinion were that the investors purchase the securities from both primary and secondary market. 28.07% respondents stated that the Nepalese investor prefer the primary market to purchase the securities. 19.30% respondents replied that the investors are interested to purchase securities from the secondary market. Few respondents stated that investors want to purchase Mutual fund. Majority of respondents 40.00%, 50.00% and 42.86% from staffs of NEPSE and SEBON, Brokers Security investors respectively stated that the investor want to purchase the securities from both market.

**Figure 4.7**

#### Investors Preference on Market



The chart presented in figure 4.7 answers about the investor's preference on markets to purchase the security. Among the above mentioned market, it is clearly seen that most of the investor prefer to purchase the securities from both primary and secondary market and after that they prefer to purchase from the primary market. Finally few numbers of investors prefer to purchase the security through Mutual Funds.

On analyzing all these aspects we can conclude that most of the investor prefers to purchase the security from both the market (Primary and Secondary) whereas less number of investor wants to purchase through Mutual funds.

To test whether the difference in the preference on the mechanism of security investment between opinions of different responding groups is significant or not, the chi-square test is employed. The calculated chi-square value is 2.97 and the tabulated value at 5 % level of significance for d.f.,  $v = 6$  is 12.529 (Appendix-2). Since the calculated value of chi-square is less than the tabulated value, it can be stated that the opinions of the NEPSE and SEBON, Broker and Investors are same and there is no significant between the responses.

#### 4.2.5 Satisfaction from Return

**Table 4.8**

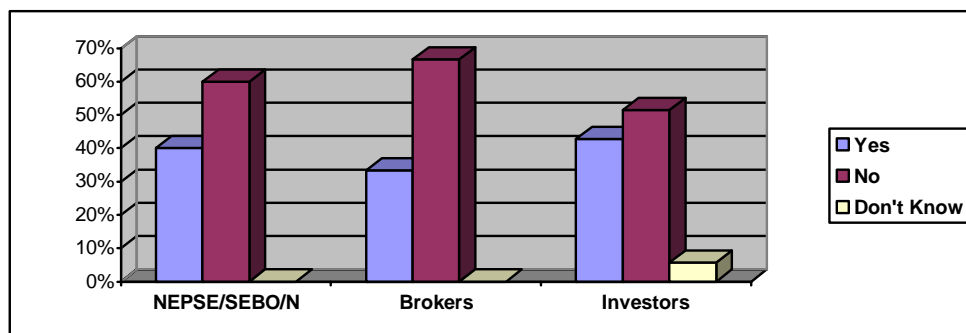
**Satisfaction from Return**

S.N.	Response	NEPSE/ SEBON		Broker		Investors		Total	
		Nos	%	Nos.	%	Nos.	%	Nos.	%
1	Yes	4	40.00	4	33.33	15	42.86	23	40.35
2	No	6	60.00	8	66.67	18	51.43	32	56.14
3	Don't Know	0	0	0	0	2	5.71	2	3.51
	Total	10	100	12		35	100	57	100

(Source: Field Survey, 2009)

The respondent's were asked whether they are satisfied with the return on their investment, the majority of respondent i.e. 56.14 % stated that the investors are not satisfied from return on their investment. 40.35 % respondents stated that the investors are satisfied from their return and 3.51 % responses clarified that they don't know about investor's satisfaction from their return. Comparing the percentage of satisfaction from their return on investment, majority of the respondents from each group i.e. 60.0 %, 66.67 %, and 51.43 % of NEPSE and SEBON, Broker and Investor respectively concluded that the investors are not satisfied from return on their investment.

**Figure 4.8**  
**Satisfaction from Return**



The column chart presented in fig 4.8 shows whether they are satisfied with the return on their investment. It is clearly seen that majority of Investors i.e. 56.14% are not satisfied with the return they are getting from the investment, only 40.35% of investors are satisfied with the return and 3.51 % of investor have no any idea about the return.

On analyzing all these aspects we can conclude, with the responses made by the respondent that most of the investors are not satisfied with the return whereas they don't know about some investors' satisfaction from their return.

To test the hypothesis whether difference between the opinions of different corresponding groups is significant or not, chi-square values are calculated. The calculated chi square value is 1.9863 and the tabulated value at 5 % level of significance for d.f.,  $v = 4$  is 9.488 (Appendix-2). The calculated value is less than the tabulated value. Therefore, it can be stated that there is no significant difference in the opinions of different responding groups. Thus, the responses of different groups are similar regarding the satisfaction from the return.

#### 4.2.6 Level of Investors' Awareness in Nepalese Security Market

**Table 4.9**

##### Level of Investors' Awareness in Nepalese Security Market

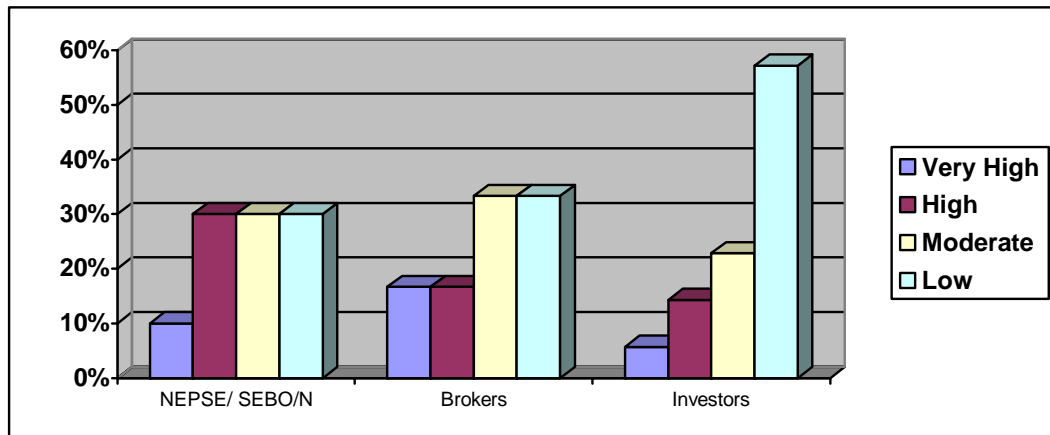
S.N.	Response	NEPSE/SEBO/N		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	Very High	1	10	2	16.67	2	5.71	5	8.77
2	High	3	30	2	16.67	5	14.29	10	17.54
3	Moderate	3	30	4	33.33	8	22.86	15	26.32
4	Low	3	30	4	33.33	20	57.14	27	47.37
	Total	10	100	12	100	35	100	57	100

(Source: Field Survey, 2009)

In the above table 4.9 different respondents responses regarding the investor's level of awareness in security market are presented. The majority of the respondents 47.37% stated that the level of awareness of investors is low about the investment in financial instruments. 26.32% of the respondents stated that level of awareness of the investors is moderate about their investment where as 17.54% respondent replied that level of awareness about financial investment is high and 8.77% of respondents replied that they level of investor's awareness is very high. 57.14% Investors stated that the level of investors' awareness is low regarding the investment in financial instrument in the Nepalese security market.

**Figure 4.9**

**Level of Investor's Awareness in Security Market**



The bar chart presented in fig 4.9 shows the level of awareness of investors regarding the investment in security market. It is clearly seen that as per the respondents responses, majority of the investors' (47.37%) level of awareness regarding the investment in the security market is low, only 8.77% of investors are highly aware about the investment in financial market of Nepal.

On analyzing all these aspects we can conclude that only few percentages of the investors are highly aware about the investment and other majority has low level of awareness about the investment in the security market.

However, the difference in the level of awareness of corresponding groups is significant at the 5% level of significance as the calculated chi-square value is 4.634 which is less than the tabulated value 12.529 (Appendix-2). This indicates that there is no significant difference between the responses of the corresponding groups regarding the level of awareness of investors in Nepalese security markets.

## 4.2.7 Influencing Factors of Investors Preference

**Table 4.10**

**Influencing Factors of Investors Preference**

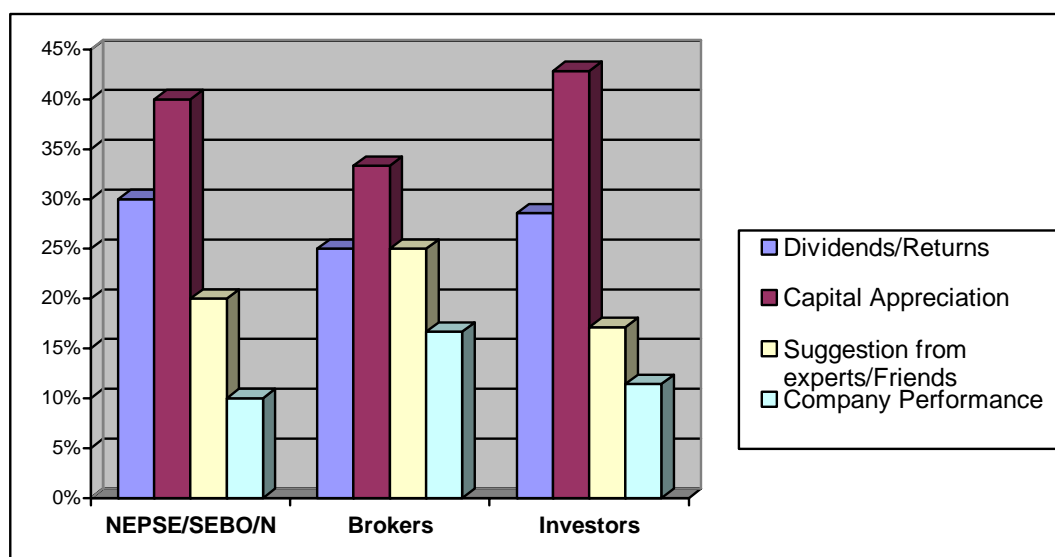
S. N.	Response	NEPSE/ SEBO/N		Broker		Investors		Total	
		Nos.	%	Nos	%	Nos.	%	Nos.	%
1	Dividend/Returns	3	30	3	25	10	28.57	16	28.07
2	Capital Appreciating	4	40	4	33.33	15	42.86	23	40.35
3	Suggestion from relatives/friends or rumors	2	20	3	25	6	17.14	11	19.30
4	Company Performance	1	10	2	16.67	4	11.43	7	12.28
	<b>Total</b>	<b>10</b>	<b>100</b>	<b>12</b>	<b>100</b>	<b>35</b>	<b>100</b>	<b>57</b>	<b>100</b>

(Source: Field Survey, 2009)

With respect to the evaluation of the influencing factor of investor's preference, the majority of the opinions i.e. 40.35% revealed that the major influencing factor is capital appreciation. 28.07% opinions revealed that the next influencing factor is dividend where as 19.30% replied suggestion from relatives/friends and 12.28 % opinions concerned with the company performance to be main influencing factors for the investors. In the aspect, when the responses of different groups are compared, majority of the respondents from each category 40%, 31.25 % and 23% from NEPSE and SEBON, Broker and Investors respectively stated that capital appreciation is the main influencing factor for the investors in the financial market in Nepal

**Figure 4.10**

**Influencing factors of Investors Preference**



The bar chart presented in fig 4.10 shows the influencing factors for the investor's preference. It is clearly seen that as per the responses of the respondents, majority of the investors (40.35 %) is influenced for the investing in financial instrument for to capital appreciation and where as 12.28% of investors is influenced due to company performance.

On analyzing all these aspects we can conclude that the majority of Nepalese investor invest in security market is mainly for the purpose of getting capital appreciation whereas some investor are influenced by return, company performance and suggestions from relatives/friends also.

To test whether difference between the opinions of different responding groups is significant or not, chi-square test has been employed. The calculated chi-square value is 0.798 and the tabulated value at 5% level of significance for d.f.,  $v = 6$  is 12.592 (Appendix-2). Since the calculated value of chi-square is less than the tabulated value, it can be stated that the opinion of NEPSE and SEBON, Broker and Investors are same and there is no significant difference between the responses.

#### 4.2.8 Availability of Information to Investors from Companies

**Table 4.11**

**Availability of Information to Investors**

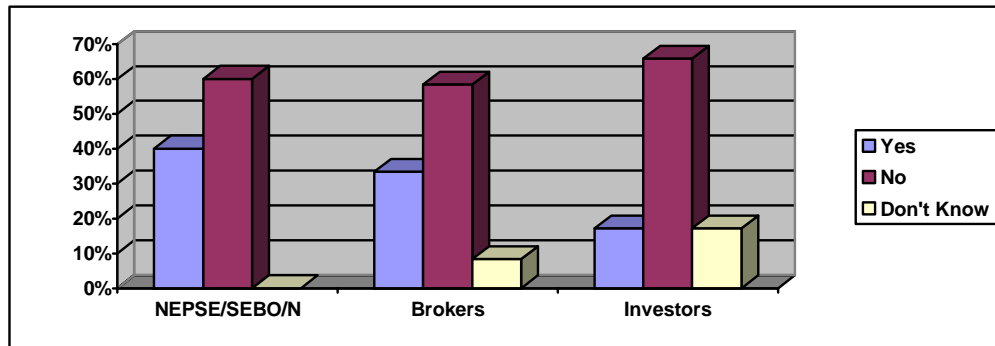
S.N.	Response	NEPSE/ SEBON		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	Yes	4	40	4	33.33	6	17.14	14	24.56
2	No	6	60	7	58.33	23	65.72	36	63.16
3	Don't Know		0	1	8.34	6	17.14	7	12.28
	<b>Total</b>	<b>10</b>	<b>100</b>	<b>12</b>	<b>100</b>	<b>35</b>	<b>100</b>	<b>57</b>	<b>100</b>

(Source: Field Survey, 2009)

The respondents were asked whether the Nepalese investors getting sufficient and timely information from companies where they have made investments. The majority of the respondents i.e. 63.16% stated that the investors are not getting the sufficient and timely information regarding the investment from the companies. 24.56% respondents stated that they are getting sufficient and timely information from the companies. Likewise, 12,28% respondents didn't know about getting sufficient and timely information from the companies. In these aspects, when the responses among the different responding groups are compared, majority of the responses from each group i.e. 60.00%, 58.33% and 65.72% of respondents

from staff members of NEPSE and SEBON, Broker and investors respectively opined that the investors are not getting sufficient and timely information from companies where they have made investment.

**Figure 4.11**  
**Availability of Information to Investors**



The bar chart presented in fig. 4.11 shows the availability of information to investors from companies. It is clearly seen from the figure that the majority of the investors (63.16%) didn't get the timely information from the companies and 24.56% of the investor get the timely information from the companies whereas we can see that the 12.28% respondents have no idea about the investor regarding the availability of information from company.

On analyzing all these aspects we can conclude that almost all Nepalese investors are far from availability of information to which they are investing. So, in order to make favorable environment, which will try to pull the participations more and more investor to invest in the security market, the companies should provide timely and sufficient information to the investors.

To test the hypothesis whether there is significant difference or not between the opinions of different corresponding groups, chi square test has been used. The calculated chi square value is 4.273 and the tabulated value at 5 % level of significance for d.f.,  $v = 4$  is 9.488 (Appendix-2). The calculated value is less than the tabulated value. Therefore, it can be concluded that there is no significant difference in the opinions of different responding groups regarding availability of information.



#### 4.2.9 Effect of political situation on the decision of the investors

**Table 4.12**

**Effect of political situation on the decision of the investors**

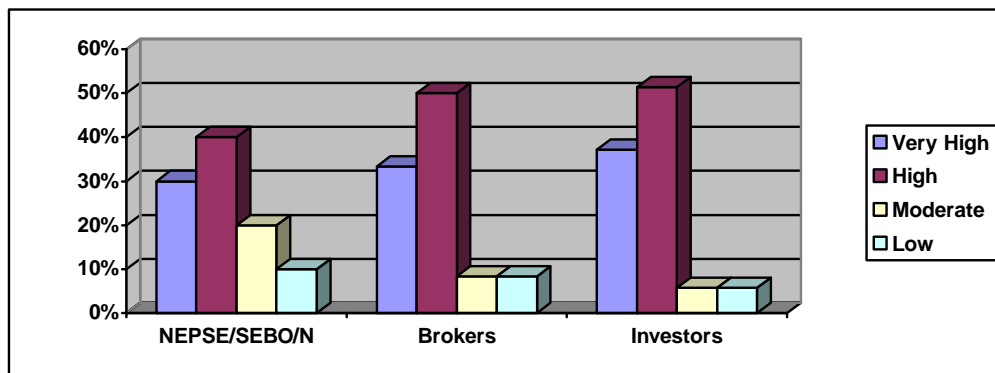
S.N.	Response	NEPSE/SEBO/N		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	Very high	3	30	4	33.34	13	37.14	20	35.09
2	High	4	40	6	50	18	51.43	28	49.12
3	Moderate	2	20	1	8.33	2	5.71	5	8.77
4	Low	1	10	1	8.33	2	5.71	4	7.02
	<b>Total</b>	<b>10</b>	<b>100</b>	<b>12</b>	<b>100</b>	<b>35</b>	<b>100</b>	<b>57</b>	<b>100</b>

(Source: Field Survey, 2009)

The respondents were asked to what extent the political situation of country affects the decision of the investors investing in security. Majority of the respondents i.e. 49.12% opined that political situation of the country will highly influence the decision of the investor for investing in security. 35.09% respondents stated that political situation of country will very highly influence the decision of the investor. 8.77% of respondents stated that the political situation of the country will moderately affect the decision of the investors and 7.02% of the respondents stated that there would be low effect of political situation on decision of the investor.

**Figure 4.12**

**Effect of Political Situation on the Decision of the Investors**



The bar chart presented in fig 4.12 shows that the effect of the political situation on the decision of the investors. It can be seen clearly that all most all of the respondents stated that there is positive relation between the effects of political situation on the decision of the investor i.e. majority of respondents stated that political situation will highly effect the decision of the investors. Few respondents stated that there is less effects of political situation on the decision of the investors.

On analyzing all these aspects we can conclude that political situation of country determines the investment possibility. So, in order to increase the number of investor friendly political situation is necessary.

To test whether there is significant difference or not between the responses of the responding groups regarding the effects of political situation on decision of investors, the chi-square test has been used. The calculated value of chi square is 2.382 and the critical value at 5 % level of significance for d.f.,  $v = 6$  is 12.592 (Appendix-2). Since the computed value is less than the critical value, the opinions of all responding groups are similar and there is no significant difference between the responses of different groups.

#### 4.2.10 Main Attraction of Common Share

**Table 4.13**

**Main Attraction of Common Share**

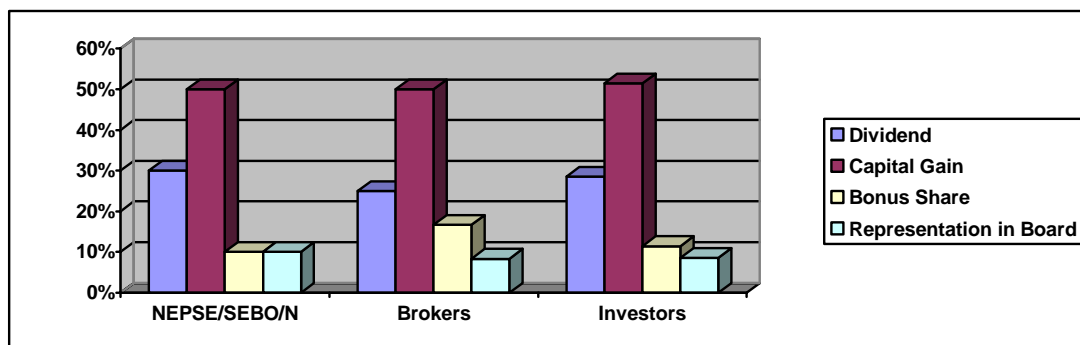
S.N.	Response	NEPSE/ SEBO/N		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	Dividend	3	30	3	25	10	28.57	16	28.07
2	Capital Gain	5	50	6	50	18	51.43	29	50.88
3	Bonus Share	1	10	2	16.67	4	11.43	7	12.28
4	Representation in Board	1	10	1	8.33	3	8.57	5	8.77
	<b>Total</b>	<b>10</b>	<b>100</b>	<b>12</b>	<b>100</b>	<b>35</b>	<b>100</b>	<b>57</b>	<b>100</b>

(Source: Field Survey, 2009)

The respondents were asked about their main attraction in making investment in common stock. The majority of the respondents i.e. 50.88 % opined that Capital Gain is the main factor of attraction of common share. 28.07% respondents stated that the main attraction factor is Dividend. Likewise, 12.28% respondents replied that bonus share is the main attraction of common share investment and 8.77% respondents stated that participation in board is main factor. As per the responses of NEPSE and SEBON, Broker and Investors, the majority of responses of each group i.e. 50%, 50%, and 51.43% agreed with the statement that the main attraction of the common share is capital gain.

**Figure 4.13**

**Main Attraction of Common share**



The bar chart presented in fig 4.13 shows the major elements for the attraction of the common equity share. It is clear from that among various elements capital gain is the powerful means for the attraction of investor and Dividend is the second attraction factor for investors whereas participation in board and bonus share are other elements for the attraction of customer but it is an attraction for quite less coverage of investors.

On analyzing all these aspects we can conclude that most of the investor in the Nepalese security market is attracted for the purpose of getting dividend whereas less coverage of investor is attracted for the participation in board.

However, the difference in the opinion about means of the attraction in common share is not significant. At the 5% level of significance the calculated chi-square value is 0.60 which is less than the tabulated value 12.592. It can be stated that the opinion of NEPSE and SEBON, Broker and Investors are same and there is no significant difference between the responses.

**4.2.11 Reasons for not Issuing Debenture/Debt and Preference Share by the Company**

**Table 4.14**

**Reasons for not Issuing Debenture/Debt and Preference Share by the Company**

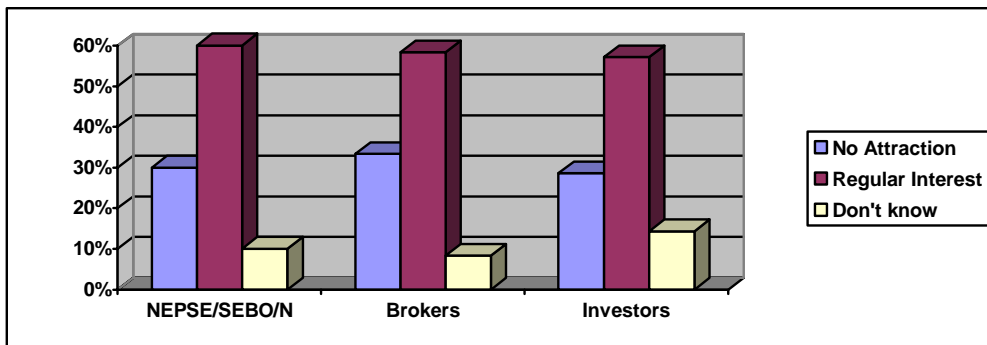
S.N.	Response	NEPSE/SEBO/N		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	No attraction	3	30	4	33.33	10	28.57	17	29.82
2	Certain return	6	60	7	58.33	20	57.14	33	57.89
3	Don't know	1	10	1	8.34	5	14.29	7	12.29
	<b>Total</b>	<b>10</b>	<b>100</b>	<b>12</b>	<b>100</b>	<b>35</b>	<b>100</b>	<b>57</b>	<b>100</b>

(Source: Field Survey, 2009)

Regarding the response about reasons of not issuing debenture and preference share compared to common stock by companies, majority of respondents i.e. 57.89% stated that there is certain and regular return should be paid to the investors in the issuance of debenture and preference share either the company is going on profit or loss. Only 29.82% respondents replied that investor's are not attracted to invest in debenture and preferred stocks and 12.29% respondents replied that they do not know why the Nepalese companies are not issuing debentures and preferred stocks. When the opinions of different groups are compared, the majority responses of different responding groups i.e. 60 %, 58.33%, and 57.14% from NEPSE and SEBON, Broker and Investors respectively stated that the main reason is certain and regular return payment to investors in debenture/debt and preferred stock.

**Figure 4.14**

**Reasons for not Issuing Debenture/Debt and Preferred Stock**



The multiple bar diagram presented in fig 4.14 shows the reasons for not issuing debt and preferred stocks. It is clear that among various reasons, the reason regarding certain and regular return should be paid to the investor is the powerful reason due to which the company did not issue debt and preferred stock. We can also see that the no attraction is the second reason of not issuing the debt and preferred stock. some respondents can be seen that who are unaware about the reason for not issuing the debt and preferred stock.

On analyzing all these aspects we can conclude that the powerful reasons of not issuing the debt and preferred stock in the Nepalese security market are due to certain and regular return for the security and of no attraction of investor and issuing companies on it.

To test whether there is significant difference or not between the responses of the NEPSE and SEBON, Broker and investors, regarding the reasons for not issuing debenture/debt and preferred stock, the chi-square test has been used. The calculated value of chi square is 0.366 and the tabulated value at 5 % level of significance for d.f.,  $v = 4$  is 9.488 (Appendix-2). Since the calculated value is less than the tabulated value, the opinions of all responding

groups are similar and there is no significant difference between the responses of different groups.

#### 4.2.12 Main Attraction of Government Securities

**Table 4.15**

**Main Attraction of Government Securities**

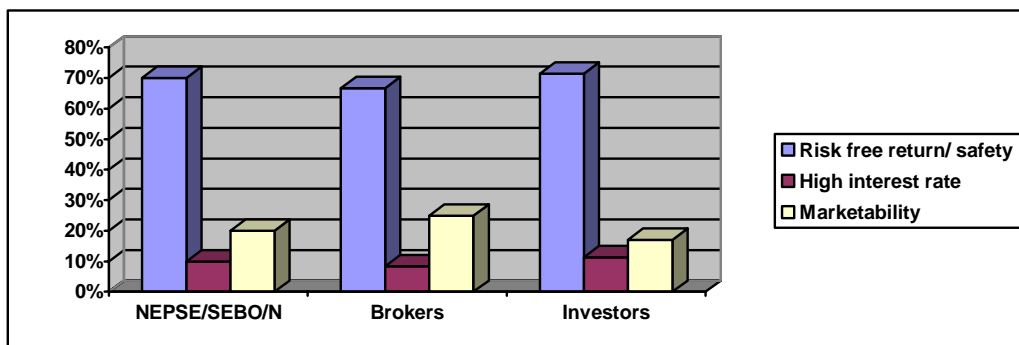
S.N.	Response	NEPSE/SEBO/N		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	Risk free return/ safety	7	70	8	66.67	25	71.43	40	70.18
2	High interest rate	1	10	1	8.33	4	11.43	6	10.52
3	Marketability	2	20	3	25.00	6	17.14	11	19.30
	<b>Total</b>	<b>10</b>	<b>100</b>	<b>12</b>	<b>100</b>	<b>35</b>	<b>100</b>	<b>57</b>	<b>100</b>

(Source: Field Survey, 2009)

With respect to the attraction of government securities, 70.18% of respondents opined that feature of risk free return and safety is the main attraction of government securities. 19.30% respondents stated that marketability is the main attraction compared to commercial banks and other means of financial instrument. The majority of the respondents from each groups i.e. 70%, 66.67% and 71.43% from NEPSE and SEBON, Broker and investor respectively stated that the main attraction of government security is the risk free return and safety.

**Figure 4.15**

**Main Attraction of Government Securities.**



The multiple bar diagram chart presented in fig 4.15 shows the various elements for attraction of government securities. It is quite clear from the figure that among various elements for investing in government securities, the strong elements as per the respondents' responses is Risk free return and safety in which we can find large coverage of investors. After that the

rest of the respondents replied that the main attraction for investing in government securities is marketability and high interest rate.

On analyzing all these aspects we can conclude that the most important reason for the attraction of government securities is risk free return and safety. Marketability of the government securities is also one of important reason for the attraction.

To test difference between the responses of the NEPSE and SEBON, Broker and investors regarding the main attraction of government securities, the chi-square test has been used. Since the calculated value of chi square is 0.398 is less than the tabulated value at 5% level of significance for d.f.,  $v = 4$  is 9.488. (Appendix-2), the opinions of all responding groups are similar and there is no significant difference between the responses of different groups.

#### 4.2.13 Approaches toward risk

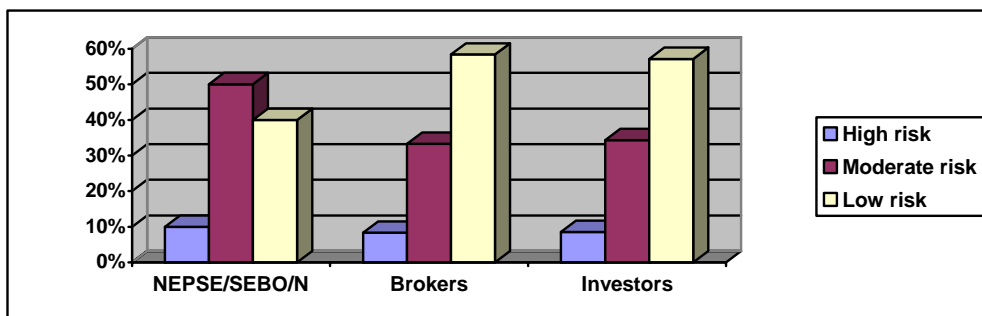
**Table 4.16**  
**Approaches toward risk**

S. N.	Response	NEPSE/ SEBO/N		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	High risk	1	10	1	8.33	3	8.57	5	8.77
2	Moderate Risk	5	50	4	33.33	12	34.29	21	36.84
3	Low risk	4	40	7	58.34	20	57.14	31	54.39
	Total	10	100	12	100	34	100	57	100

(Source: Field Survey, 2009)

With respect to the attitude toward risk, 54.39% of respondents opined that investors want to invest in those financial instruments which have low risk to get higher return. 36.84% respondents stated that investors want moderate risk where as 8.77% respondent replied that investors want to be high risk taker.

**Figure 4.16**  
**Approaches toward risk**



On analyzing all these aspects we can conclude that the most of the investors are interested to invest in those financial instruments which have low risk. It means that most of the investors in Nepal are risk averter.

To test difference between the responses of the NEPSE and SEBON, Broker and investors on attitude toward risk, the chi-square test has been used. Since the calculated value of chi square is 1.059 is less than the tabulated value at 5% level of significance for d.f.,  $v = 4$  is 9.488. (Appendix-2), the opinions of all responding groups are similar and there is no significant difference between the responses of different groups.

#### 4.2.14 Knowledge of Financial Derivatives and Investors

**Table 4.17**

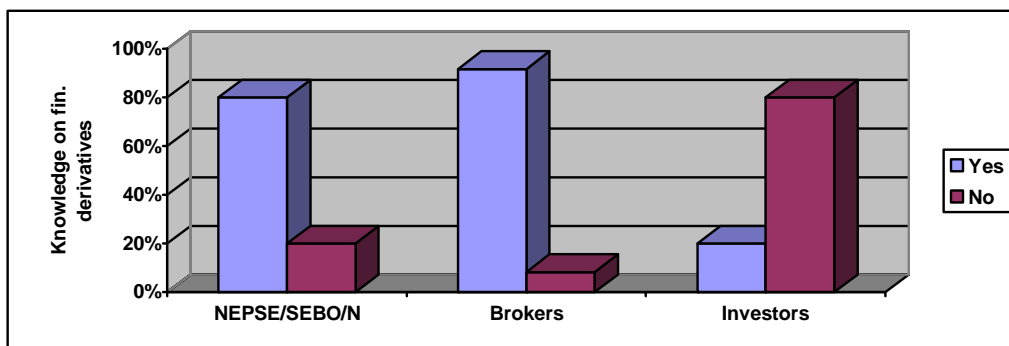
**Knowledge of Financial Derivatives and Investors**

S.N.	Response	NEPSE/ SEBON		Broker		Investors		Total	
		Nos.	%	Nos.	%	Nos.	%	Nos.	%
1	Yes	8	80	11	91.67	7	20	26	45.61
2	No	2	20	1	8.33	28	80	31	54.39
	Total	10	100	12	100	35	100	57	100

With respect to the financial derivatives, 54.39% of respondents opined that they are don't have any information about financial derivatives where as 45.61% respondent stated that they have knowledge about the financial derivatives. Majority of SEBON, NEPSE and Brokers stated that they have heard about the financial derivatives but Majority of investors stated that they have not heard about financial derivatives.

**Figure 4.17**

**Knowledge of Financial Derivatives and Investors**



On analyzing all these aspects we can conclude that the most of the investors are unknown about the financial derivatives like future, options and warrants. It means that knowledge of futures, options and warrants are lacking in Nepalese financial market.

To test difference between the responses of the NEPSE and SEBON, Broker and Investors on knowledge regarding financial derivatives, the chi-square test has been used. Since the calculated value of chi square is 24.291 is more than the tabulated value at 5% level of significance for d.f.,  $v = 2$  is 5.991. (Appendix-2), the opinions of all responding groups are not similar and there is significant difference between the responses of different groups.

#### **4.2.15 Difficulties to Invest in Securities in Nepalese Security Market**

Various groups of investors were asked about the difficulties that the investors are currently facing in the Nepalese security market. Respondents pointed out the following difficulties:

- Investors have limited alternatives of securities in Nepalese financial market even though various financial instruments have been developed and practiced in developed countries.
- Access to secondary trading services is limited, transparency and efficiency of the issuer and market is not sufficient. Capacity of the regulator, exchange and the players is limited. The market is featured by active individual investors and the institutional investors are conspicuously absent.
- Timely disclosure of corporate information for the protection of investors is lacking in Nepalese context.
- In Nepal, there are restrictions on foreign investment in the local stock market. No security market can be developed unless it attracts the foreign investors to invest the money in many developed and emerging securities market.
- Broker besides only helping for transaction of security, they don't provide the proper advice to the clients.
- Even though NEPSE has adopted computer software system, the services provided by the NEPSE are seen insufficient.
- Few numbers of security analyst or firm involved in forecasting market trends and future price of the securities, they feel difficulties to take right investment decisions at right time.
- It can be seen that mostly price of share is determined on the basis of speculation, imagination.



#### **4.2.16 Suggestion from Respondents to improve the Security Market of Nepal.**

The respondents were also requested to suggest for the improvement of the security market of Nepal. The suggestions collected from respondent are as follows:

- New financial instruments should be traded in the market. It may be hybrid types of instruments, asset backed instruments, forward, options, swaps etc.
- Non-transparent and lack of openness in transaction will make the investors suspicious to invest in that security. So, Disclosure practice should be immediately removed in the Nepalese security environment.
- Brokers must provide proper advice to the investors. They will not be limited in the transaction of securities.
- Adequate legal framework or legal infrastructure for the operation of security market should be incorporated.
- There should also be financial consultancy agencies to provide financial assistance to the existing as well as prospective investors when they feel it necessary.
- The existing rules and regulation of government are insufficient for protecting investor's investment in security market. Hence, the government should draft new rules and regulations to make the trading scientific and transparent.
- The Central Depository System of Securities ( CDS), which is very important from the aspect of market, should be established. CDS helps the process of clearing and settlement and ownership transfer process will be efficient and transparent.
- Listing process of companies should not be delayed.
- Number of stockbrokers in the stock market should be increased. Easy entry and exit mechanism for stockbrokers in the market should be developed.
- Institutional investors should be formed. The role of institutional investor in the market is known to add up new instrument through collective investment schemes, play role in stabilization of the securities prices, make rational analysis of information and pressurize the issuer for the regular flow of credible information.

#### **4.3 Major Findings of the Study**

This study tries to emphasize different components of the investors and financial instrument so that we can trace out the vital things, which will ultimately help the investors and to develop the financial instruments market of Nepal. On this ground, the study has tried to find many findings. The major findings from the secondary data analysis are as follows:

- The corporate securities consist of common stock, preference share, debenture and mutual fund/ unit scheme. Among these securities, most of the companies issue common stock and hence it has high volume of coverage in Nepalese market. Likewise, we can see debentures, preference share and mutual fund/unit scheme have the respective position in the Nepalese security market.
- The government securities consists of treasury bills, development bonds, national saving bond, public saving card and special bonds. Among these securities government issues heavy volume of treasury bills and hence it has high volume of coverage in Nepalese market. Likewise, development bonds, national saving bonds, special bonds and public saving card have the respective position in the Nepalese market between the years of 2002 to 2008.
- Majority of finance companies were found listed more than other companies in Security market of Nepal. Likewise, Commercial banks, manufacturing & processing Insurance, Trading and Hotel sector were respectively listed in the security market of Nepal.

Apart from these major findings from secondary data analysis, we have also various other findings on the analysis of primary data.

- Most of the investors have preferred the common stock for investment among various available financial instruments in Nepal. Government securities appeared as the second most preferred financial instrument after common stocks. The preferred stocks and debentures were appeared as the least preferred financial instrument.
- Among the various sector most of the investor preferred Banking sector. After the banking they gave the priority to the finance company. This ultimately proves that Nepalese investors are interested to invest in financial sector.
- Profit/Return was found to be the most preference to get from their investment for all types of respondents. Few investors preferred marketability and social status as a return from their investment. Some investors were interested to get profit/return, marketability and social status from their investment.
- It was found that majority of investor wanted to trade their investment in both primary and secondary market. Few investors wanted to trade through mutual fund.
- The majority of the respondents stated that the Nepalese investors are not satisfied with the return from their investment.
- It was found from the respondents responses that majority of investor are not aware regarding their investment in Nepalese security market.

- It was found out that major portion of the investors is influenced for investing in security is mainly for capital appreciation. Suggestion from relatives and friends and rumour as same factor are harmful to the investor. This factor also seen as one of influencing factor in decision making on investment.
- The majority of the respondents of the different groups felt that the Nepalese investors are not getting sufficient and timely information from the companies.
- It was found that investors' decision on financial investment is highly influenced by political situation; few investors agreed upon the statement that political situation does not influence the decision of investor.
- The reason behind main attraction of common share investment appeared capital gain. Dividend appeared as second factor of attraction. Some of investors preferred representation in Board as the attraction of common stock investment.
- With respect to the companies not preferring to issue debt and preferred stock, the majority of the respondents stated that certain and regular interest payment to investors was the main reason that the Nepalese companies did not prefer to issue debt and preference stock frequently.
- It was found out from the responses given by respondent that the main attraction of Nepalese investors towards the government securities is due to the risk free return and safety.
- It was also found out from the responses given by respondent that the Nepalese investor didn't like high risk. Most of investors are risk avoider.
- Officials of NEPSE and SEBO/N had knowledge of derivatives whereas most of investors had not knowledge about the financial derivatives like future, options and warrants etc. Therefore it can be said that knowledge of futures, options, warrants are lacking in Nepalese financial market.

## **CHAPTER-V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

This chapter summarizes the whole study in the three sections. Section first includes the summary of the study. The second section presents the conclusion of the study. The third section of this chapter is recommendation on investor's approaches and expectation on earning from financial instrument.

#### **5.1 Summary**

This study was conducted to analyze the investor's preference on financial instruments. The first objective was to study on investor's approaches towards securities. Similarly the second and third objective was to study the investors trend of investment on securities and to study the criteria adopted by the investors while making decision on securities.

The research was conducted by collecting data through distribution of constructed questionnaire (Appendix-1) among randomly selected respondents. The respondents were requested to fill a special questionnaire prepared for this research. They were also requested to provide some suggestions to improve security market in Nepal. The researcher succeeded to fill up the questionnaire from 57 respondents. Along with they were also requested to give their personnel profile. But the research remained limited to collect data from Kathmandu valley only.

The collected questionnaires were systematically arranged and relevant data were extracted for the fulfillment of research objectives. The responses from the respondents were tabulated, figured and analyzed. The secondary data were abstracted from various annual reports of NEPSE/SEBON, NRB publications and different financial management related books. The study covered the sample period of six years beginning from F/Y 2002/03 to F/Y 2007/08

To make clear from the figure, the tabulated data collected from various respondents groups is presented in the multiple bar diagram.

After the data tabulation and presentation hypothesis testing was conducted. The results of respondents were also analyzed to ascertain the difference in their responses. In this regard Chi-Square was employed and tested at 5% level of confidence to test whether there is significant difference between the opinions of the different responding groups or not.

## **5.2 Conclusion**

After analyzing the secondary data and responses of the respondents, different major conclusions have been drawn out as follows:

Fiscal year 2007/08 proved to be a remarkable year for share market. With the restoration of peace and subsequent boost of investor confidence major indicators of share market grew tremendously. It would be remembered as a boom year for Nepalese Stock Market. Almost all the previous records of the securities market have been shattered in the year.

Major indicators of secondary market like amount of share traded, number of listed share, number of transaction, annual turnover, total market capitalization of listed shares increased in the review period.

The above-mentioned (in previous chapter) major findings of this study are concluded that investors prefer the common stock in the Nepalese financial market. In the common stocks also they prefer the common stock of banking sector. Most of the investors feel confident that investment in the banking sector is good by which investor can increase their capital and it will also provide a high return in the form of dividend. That is why; market capitalization of the common stocks of banking sector is high. Hence, the preference of investors is on common stock of banking sector.

The second preferable instrument found to the government securities. The government securities are taken as risk less investment. The Nepalese investors least prefer the preferred stocks and debenture. It was found from the primary data, certain and regular interest payment to the investor and no attraction is the main reason of the Nepalese companies for not preferring to issue debenture and preferred stock. The Nepalese investors are not appeared that the level of awareness of investors is really poor. Investors are influenced mostly due the capital appreciation. Some of investors follow of suggestions of relatives and friends or rumour. They don't analyze the risk and return before any investment in any securities. They invest their money just by observing the market trend, which is very unscientific in Nepalese context. They state that they are not getting sufficient and timely information from the companies where they have invested their money.

It seems efficient services of market intermediaries, conducive and realistic policies of regulating authorities, awareness campaigns for investors, better concern toward the investors approaches are the major felt need, in this regard.

### 5.3 Recommendations

We can expect that the economy will go towards growth stage due to the peace. The flow of issuing of securities and transaction of securities are very high in common stock of Commercial Bank. Every company has felt secured to collect the fund by issuing common stock. The Central Banks' directives to increase capital base of banks and financial have major impact on market value of listed shares. Most of the companies opted to issue bonus and right share to increase their capital base. It created buying pressure on market as investor attracted by the offering of bonus shares and right share. The investors should be encouraged to make investments in securities market by creating friendly investment environment. Sufficient policies regarding the financial sector reforms and security market development should be incorporated create such environment. The specific recommendations to encourage the Investor and for the development of security market is summarized below.

- The development of security market is depending on political stability of the nation. Due to the political conditions of the country, investors are scaring what will happen to their investment. So, government should try to maintain the political stability to win the investors confident.
- The role of brokers in the development of security market is most important. They should also avoid involving themselves in to security market disorders. As well as, the concerned authorities should take very strict action to those institutions and personnel for creation of security market disorders. The brokers should provide right and authentic information about all the companies to help the investors to choose the security of particular company that best fit his personal risk and return category but should not try to influence the investor's decision for his personal benefits.
- Sufficient and reliable information should be provided to investors. Then investors will be attracted to invest in security market. Most of the Nepalese Investors has low level of knowledge on security market. Investors' awareness program and campaigns may be the best technique to provide adequate knowledge about available financial instrument and their transaction in security.
- Efficient trading mechanism and simplified procedures should be developed so that investors can understand and participate in the security market easily.
- Adequate information should be provided to the investors regarding other financial instruments than common stock. information regarding derivatives should be provided to the investor so that they can be attracted to invest in financial instruments.

- NEPSE has launched computerize system to flow the information of transaction to the public. There should be provisions to buy or sell securities, which will attract the prospective investors residing outside the Kathmandu valley to make investment through centrally located secondary market of Nepal.
- To attract the institutional investors in the market of financial instruments and to avoid their passiveness in secondary market, some flexibility in the directives should be brought. The limitations imposed currently can be loosened to make them invest more on the financial instruments.
- Although NEPSE is performing the market surveillance system to some extends, it should improve the quality of this activities the high volatility if market prices of securities regularly and effectively to create the price formation of the securities.
- Regulating authorities should act on the best interest of investor. They should not be simply watching the malpractices of listed companies.

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## **APPENDIXES**

### **Appendix-1**

Dear Sir/Madam,

With due respect I would like to disclose the fact that in need of partial fulfillment of Masters of Business Studies, candidates are required to write a thesis in final year, for this purpose I have selected the topic **“Investor's Approach and expectation on Earnings from Financial Instruments in Nepal”**. To complete the study I have constructed a questionnaires which I humbly request you to circle the questions (1-16). Moreover, I would like to assure your esteemed authority that any information disclosed by you will duly be honored and privacy will strictly be maintained.

Your cooperation will be highly appreciated.

Thanking you,

**Jamuna Upreti**

**MBS- Thesis Year**

**Roll. No. 1449/061**

**Shanker Dev Campus, T.U.**

**Respondent's profile (Personal)**

Name :

Office :

Address :

Designation :

Qualification :

Date :

**Research Questionnaire**

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

1. Which financial instrument do the investors prefer to make investment among following alternatives?

a. Equity Share

b. Preference Share

c. Debenture / Bonds

d. Government Bonds

2. Regarding opportunity, in which sector do the investor think that they have better opportunities for investing in security investment

a. Banking

b. Finance Company

c. Insurance Company

d. Hotel

e. Manufacturing Company

f. Trading Company

3. As per your preference, for what purpose do the investors want to invest in securities?
- a. Profit / Return
  - b. Marketability
  - c. Social Status
  - d. Above All
4. Which mechanism do the investor prefer to invest in Security Market?
- a. Primary Market
  - b. Secondary Market
  - c. Both Market
  - d. Mutual Fund
5. Are the investors satisfied with the return from their investment decision in the security market?
- a. Yes
  - b. No
  - c. Don't Know
6. What is the level of investor's awareness upon financial instruments in Nepal
- a. Yes
  - b. No
  - c. Don't Know
7. In your opinion, which of the following is the main influencing factor for investors?
- a. Dividends / Returns
  - b. Capital Appreciation
  - c. Suggestion from relatives, friends/Rumors
  - d. Company Performance
8. In your opinion, are the Nepalese investors getting sufficient and timely information from the companies where they have made investment?
- a. Yes
  - b. No
  - c. Don't Know
9. To what extent do you think political situation influence the decisions of the investors?
- a. Very High
  - b. High
  - c. Moderate

- d. Low
10. In your opinion, what is the main attraction of common stock?
- |                            |                      |
|----------------------------|----------------------|
| a. Dividend                | <input type="text"/> |
| b. Capital Gain            | <input type="text"/> |
| c. Bonus Shares            | <input type="text"/> |
| d. Representation in Board | <input type="text"/> |
11. In Nepalese capital market, other financial instruments except common stock have not been used frequently. In your opinion, why do the companies not prefer to issue debt and preferred stocks?
- |                               |                      |
|-------------------------------|----------------------|
| a. No Attraction              | <input type="text"/> |
| b. Certain and regular Return | <input type="text"/> |
| c. Don't Know                 | <input type="text"/> |
12. What is the main attraction of government securities?
- |                       |                      |
|-----------------------|----------------------|
| a. Risk Free Return   | <input type="text"/> |
| b. High Interest Rate | <input type="text"/> |
| c. Rumors             | <input type="text"/> |
13. In your opinion, what level of risk do the Nepalese investor's like to make investment in financial market?
- |                  |                      |
|------------------|----------------------|
| a. High Risk     | <input type="text"/> |
| b. Moderate Risk | <input type="text"/> |
| c. Low risk      | <input type="text"/> |
14. Have you heard about the financial derivatives like futures, options, warrants etc.?  
 Yes  No
15. Do you think, are there any difficulties to invest in securities in Nepal?
16. What improvement would you like to see to develop the Nepalese securities market?

**Thank you for your kind cooperation**

## Appendix-2

### Question-wise responses and calculation of Chi-square

#### Question No.1

Alternatives	NEPSE/ SEBO/N	Brokers	Investors	Total
Common Stock/share	6	8	19	33
Preference share	1	1	3	5
Debenture/Bonds	1	1	3	5
Government Bonds	2	2	10	14
<b>Total</b>	<b>10</b>	<b>12</b>	<b>35</b>	<b>57</b>

Fixing the level of significance at 5%

#### Calculation of expected frequencies (E):

$$\text{Expected Frequency of } R_i C_j = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}, \quad R_1 C_1 = \frac{33 \times 10}{57} = 5.79$$

Similarly other value of expected frequency can be calculated using above formula. Calculated expected frequencies are inserted in table below.

### Chi-square Test

(Row, Column)	Observed Frequency (O)	Expected Frequency (E)	O-E	$\frac{(O - E)^2}{E}$
R <sub>1</sub> C <sub>1</sub>	6	5.79	0.21	0.007617
R <sub>1</sub> C <sub>2</sub>	8	6.95	1.05	0.158633
R <sub>1</sub> C <sub>3</sub>	19	20.26	-1.26	0.078361
R <sub>2</sub> C <sub>1</sub>	1	0.88	0.12	0.016364
R <sub>2</sub> C <sub>2</sub>	1	1.05	-0.05	0.002381
R <sub>2</sub> C <sub>3</sub>	3	3.07	-0.07	0.001596
R <sub>3</sub> C <sub>1</sub>	1	0.88	0.12	0.016364
R <sub>3</sub> C <sub>2</sub>	1	1.05	-0.05	0.002381
R <sub>3</sub> C <sub>3</sub>	3	3.07	-0.07	0.001596
R <sub>4</sub> C <sub>1</sub>	2	2.46	-0.46	0.086016
R <sub>4</sub> C <sub>2</sub>	2	2.95	-0.95	0.305932
R <sub>4</sub> C <sub>3</sub>	10	8.6	1.4	0.227907
				.905

$$\chi^2 = \sum \frac{(O - E)^2}{E} = .905$$

Degree of freedom = (r-1) (c-1)

$$= (4-1) (3-1) = 6$$

$\alpha = 5\%$

Tabulated value  $\chi^2_{0.05} (6) = 12.592$

Conclusion: Since the calculated  $\chi^2 <$  tabulated  $\chi^2$ , it is not significant and H<sub>0</sub> is accepted which means, the responses of different group is not significantly different.



**Question No. 2**

<b>Sectors</b>	<b>NEPSE/ SEBO/N</b>	<b>Brokers</b>	<b>Investors</b>	<b>Total</b>
Banking	6	7	19	<b>32</b>
Finance Company	3	2	8	<b>13</b>
Insurance Company	1	2	4	<b>7</b>
Hotel			1	<b>1</b>
Manufacturing Company	0	1	2	<b>3</b>
Trading Company			1	<b>1</b>
<b>Total</b>	<b>10</b>	<b>12</b>	<b>35</b>	<b>57</b>

**Chi-square test**

<b>(Row, Column)</b>	<b>Observed Frequency (O)</b>	<b>Expected Frequency (E)</b>	<b>O-E</b>	<b><math>\frac{(O - E)^2}{E}</math></b>
R <sub>1</sub> C <sub>1</sub>	6	5.61	0.39	0.02711
R <sub>1</sub> C <sub>2</sub>	7	6.74	0.26	0.01003
R <sub>1</sub> C <sub>3</sub>	19	19.49	-0.49	0.01232
R <sub>2</sub> C <sub>1</sub>	3	2.28	0.72	0.22737
R <sub>2</sub> C <sub>2</sub>	2	2.74	-0.74	0.19985
R <sub>2</sub> C <sub>3</sub>	8	7.98	0.02	0.00005
R <sub>3</sub> C <sub>1</sub>	1	1.23	-0.23	0.04301
R <sub>3</sub> C <sub>2</sub>	2	1.47	0.53	0.19109
R <sub>3</sub> C <sub>3</sub>	4	4.3	-0.3	0.02093
R <sub>4</sub> C <sub>1</sub>	0	0.18	-0.18	0.18
R <sub>4</sub> C <sub>2</sub>	0	0.21	-0.21	0.21
R <sub>4</sub> C <sub>3</sub>	1	0.61	0.39	0.24934
R <sub>5</sub> C <sub>1</sub>	0	0.53	-0.53	0.53
R <sub>5</sub> C <sub>2</sub>	1	0.63	0.37	0.2173
R <sub>5</sub> C <sub>3</sub>	2	1.84	0.16	0.01391
R <sub>6</sub> C <sub>1</sub>	0	0.18	-0.18	0.18
R <sub>6</sub> C <sub>2</sub>	0	0.21	-0.21	0.21
R <sub>6</sub> C <sub>3</sub>	1	0.061	0.939	14.4544
				16.9768

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 16.978$$

$$\text{Degree of freedom} = (r-1)(c-1)$$

$$= (6-1)(3-1)$$

$$= 10$$

$$\alpha = 5\%$$

$$\text{Tabulated value } \chi^2_{0.05}(10) = 18.307$$

Conclusion: Since the calculated  $\chi^2 <$  tabulated  $\chi^2$ , it is not significant and  $H_0$  is accepted.

### **Question No.3**

<b>Purpose</b>	<b>NEPSE</b>	<b>Brokers</b>	<b>Investors</b>	<b>Total</b>
Profit/Return	6	7	23	36
Marketability	1	1	1	3
Social Status	1	2	3	6
Above All	2	2	8	12
<b>Total</b>	<b>10</b>	<b>12</b>	<b>35</b>	<b>57</b>

Chi-square test

(Row, Column)	Observed Frequency (O)	Expected Frequency (E)	O-E	$\frac{(O - E)^2}{E}$
R <sub>1</sub> C <sub>1</sub>	6	6.32	-0.32	0.016
R <sub>1</sub> C <sub>2</sub>	7	7.58	-0.58	0.044
R <sub>1</sub> C <sub>3</sub>	23	22.11	0.89	0.036
R <sub>2</sub> C <sub>1</sub>	1	0.53	0.47	0.417
R <sub>2</sub> C <sub>2</sub>	1	0.63	0.37	0.217
R <sub>2</sub> C <sub>3</sub>	1	1.84	-0.84	0.383
R <sub>3</sub> C <sub>1</sub>	1	1.05	-0.05	0.002
R <sub>3</sub> C <sub>2</sub>	2	1.26	0.74	0.435
R <sub>3</sub> C <sub>3</sub>	3	3.68	-0.68	0.126
R <sub>4</sub> C <sub>1</sub>	2	2.1	-0.1	0.005
R <sub>4</sub> C <sub>2</sub>	2	2.53	-0.53	0.111
R <sub>4</sub> C <sub>3</sub>	8	7.37	0.63	0.054
				1.846

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 1.846$$

$$\begin{aligned} \text{Degree of freedom} &= (r-1)(c-1) \\ &= (4-1)(3-1) \\ &= 4 \end{aligned}$$

$$\alpha = 5\%$$

$$\text{Tabulated value } \chi^2_{0.05}(4) = 9.488$$

Conclusion: Since the calculated  $\chi^2 < \text{tabulated } \chi^2$ , it is not significant and  $H_0$  is accepted.

**Question No. 4**

Market Mechanism	NEPSE	Brokers	Investors	Total
Primary Market	2	2	12	<b>16</b>
Secondary Market	3	3	5	<b>11</b>
Both Market	4	6	15	<b>25</b>
Mutual Fund	1	1	3	<b>5</b>
<b>Total</b>	<b>10</b>	<b>12</b>	<b>35</b>	<b>57</b>

Chi-square test

(Row, Column)	Observed Frequency (O)	Expected Frequency (E)	O-E	$\frac{(O - E)^2}{E}$
R <sub>1</sub> C <sub>1</sub>	2	2.81	-0.81	0.33
R <sub>1</sub> C <sub>2</sub>	2	3.37	-1.37	0.94
R <sub>1</sub> C <sub>3</sub>	12	9.82	2.18	0.40
R <sub>2</sub> C <sub>1</sub>	3	1.93	1.07	0.38
R <sub>2</sub> C <sub>2</sub>	3	2.32	0.68	0.15
R <sub>2</sub> C <sub>3</sub>	5	6.75	-1.75	0.61
R <sub>3</sub> C <sub>1</sub>	4	4.39	-0.39	0.04
R <sub>3</sub> C <sub>2</sub>	6	5.26	0.74	0.09
R <sub>3</sub> C <sub>3</sub>	15	15.35	-0.35	0.01
R <sub>4</sub> C <sub>1</sub>	1	0.88	0.12	0.01
R <sub>4</sub> C <sub>2</sub>	1	1.05	-0.05	0.00
R <sub>4</sub> C <sub>3</sub>	3	3.07	-0.07	0.00
				2.97

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 2.97$$

$$\begin{aligned} \text{Degree of freedom} &= (r-1)(c-1) \\ &= (4-1)(3-1) \\ &= 6 \end{aligned}$$

$$\alpha = 5\%$$

$$\text{Tabulated value } \chi^2_{0.05}(6) = 12.592$$

Conclusion: Since calculated  $\chi^2 <$  tabulated  $\chi^2$ , it is not significant and  $H_0$  is accepted.

### Question No.5

Satisfaction	NEPSE	Brokers	Investors	Total
Yes	4	4	15	<b>23</b>
No	6	8	18	<b>32</b>
Don't Know	0	0	2	<b>2</b>
<b>Total</b>	<b>10</b>	<b>12</b>	<b>35</b>	<b>57</b>

### Chi-square test

(Row, Column)	Observed Frequency (O)	Expected Frequency (E)	O-E	$\frac{(O - E)^2}{E}$
R <sub>1</sub> C <sub>1</sub>	4	4.03	-0.03	0.0002
R <sub>1</sub> C <sub>2</sub>	6	4.84	1.16	0.2780
R <sub>1</sub> C <sub>3</sub>	15	14.12	0.88	0.0548
R <sub>2</sub> C <sub>1</sub>	6	5.61	0.39	0.0271
R <sub>2</sub> C <sub>2</sub>	8	6.74	1.26	0.2355
R <sub>2</sub> C <sub>3</sub>	18	19.65	-1.65	0.1385
R <sub>3</sub> C <sub>1</sub>	0	0.35	-0.35	0.3500
R <sub>3</sub> C <sub>2</sub>	0	0.42	-0.42	0.4200
R <sub>3</sub> C <sub>3</sub>	2	1.23	0.77	0.4820
				<b>1.9863</b>

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 1.9863$$

$$\text{Degree of freedom} = (r-1)(c-1)$$

$$= (3-1) (3-1)$$

$$= 4$$

$$\alpha = 5\%$$

$$\text{Tabulated value } \chi^2_{0.05} (4) = 9.488$$

Conclusion: Since calculated  $\chi^2 <$  tabulated  $\chi^2$ , it is not significant and  $H_0$  is accepted.

### **Question No. 6**

<b>Level of Awareness</b>	<b>NEPSE</b>	<b>Brokers</b>	<b>Investors</b>	<b>Total</b>
Very High	1	2	2	5
High	3	2	5	10
Moderate	3	4	8	15
Low	3	4	20	27
<b>Total</b>	<b>10</b>	<b>12</b>	<b>35</b>	<b>57</b>



### Chi-square test

(Row, Column)	Observed Frequency (O)	Expected Frequency (E)	O-E	$\frac{(O - E)^2}{E}$
R <sub>1</sub> C <sub>1</sub>	1	0.88	0.12	0.016
R <sub>1</sub> C <sub>2</sub>	2	1.05	0.95	0.860
R <sub>1</sub> C <sub>3</sub>	2	3.07	-1.07	0.373
R <sub>2</sub> C <sub>1</sub>	3	1.75	1.25	0.893
R <sub>2</sub> C <sub>2</sub>	2	2.11	-0.11	0.006
R <sub>2</sub> C <sub>3</sub>	5	6.14	-1.14	0.212
R <sub>3</sub> C <sub>1</sub>	3	2.63	0.37	0.052
R <sub>3</sub> C <sub>2</sub>	4	3.16	0.84	0.223
R <sub>3</sub> C <sub>3</sub>	8	9.21	-1.21	0.159
R <sub>4</sub> C <sub>1</sub>	3	4.74	-1.74	0.639
R <sub>4</sub> C <sub>2</sub>	4	5.68	-1.68	0.497
R <sub>4</sub> C <sub>3</sub>	20	16.58	3.42	0.705
				4.634

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 4.634$$

$$\begin{aligned} \text{Degree of freedom} &= (r-1)(c-1) \\ &= (4-1)(3-1) \\ &= 6 \end{aligned}$$

$$\alpha = 5\%$$

$$\text{Tabulated value } \chi^2_{0.05}(6) = 12.592$$

Conclusion: Since calculated  $\chi^2 >$  tabulated  $\chi^2$ , it is not significant and  $H_0$  is accepted.

**Question No. 7**

<b>Influencing Factors</b>	<b>NEPSE</b>	<b>Brokers</b>	<b>Investors</b>	<b>Total</b>
Dividends>Returns	3	3	10	<b>16</b>
Capital Appreciation	4	4	15	<b>23</b>
Suggestion from relatives and friends / rumour	2	3	6	<b>11</b>
Company Performance	1	2	4	<b>7</b>
<b>Total</b>	<b>10</b>	<b>12</b>	<b>35</b>	<b>57</b>

### Chi-square test

(Row, Column)	Observed Frequency (O)	Expected Frequency (E)	O-E	$\frac{(O - E)^2}{E}$
R <sub>1</sub> C <sub>1</sub>	3	2.81	0.19	0.013
R <sub>1</sub> C <sub>2</sub>	3	3.37	-0.37	0.041
R <sub>1</sub> C <sub>3</sub>	10	9.82	0.18	0.003
R <sub>2</sub> C <sub>1</sub>	4	4.04	-0.04	0.000
R <sub>2</sub> C <sub>2</sub>	4	4.84	-0.84	0.146
R <sub>2</sub> C <sub>3</sub>	15	14.12	0.88	0.055
R <sub>3</sub> C <sub>1</sub>	2	1.93	0.07	0.003
R <sub>3</sub> C <sub>2</sub>	3	2.32	0.68	0.199
R <sub>3</sub> C <sub>3</sub>	6	6.75	-0.75	0.083
R <sub>4</sub> C <sub>1</sub>	1	1.23	-0.23	0.043
R <sub>4</sub> C <sub>2</sub>	2	1.47	0.53	0.191
R <sub>4</sub> C <sub>3</sub>	4	4.3	-0.3	0.021
				0.798

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 0.798$$

$$\begin{aligned} \text{Degree of freedom} &= (r-1)(c-1) \\ &= (4-1)(3-1) \\ &= 6 \end{aligned}$$

$$\alpha = 5\%$$

$$\text{Tabulated value } \chi^2_{0.05}(6) = 12.592$$

Conclusion: Since calculated  $\chi^2 < \text{tabulated } \chi^2$ , it is not significant and  $H_0$  is accepted.

**Question No. 8**

Sufficiency of Information	NEPSE	Brokers	Investors	<b>Total</b>
Yes	4	4	6	<b>14</b>
No	6	7	23	<b>36</b>
Don't Know	0	1	6	<b>7</b>
<b>Total</b>	<b>10</b>	<b>12</b>	<b>35</b>	<b>57</b>

**Chi-square test**

(Row, Column)	Observed Frequency (O)	Expected Frequency (E)	O-E	$\frac{(O - E)^2}{E}$
R <sub>1</sub> C <sub>1</sub>	4	2.46	1.54	0.964
R <sub>1</sub> C <sub>2</sub>	4	2.95	1.05	0.374
R <sub>1</sub> C <sub>3</sub>	6	8.6	-2.6	0.786
R <sub>2</sub> C <sub>1</sub>	6	6.32	-0.32	0.016
R <sub>2</sub> C <sub>2</sub>	7	7.58	-0.58	0.044
R <sub>2</sub> C <sub>3</sub>	23	22.11	0.89	0.036
R <sub>3</sub> C <sub>1</sub>	0	1.23	-1.23	1.230
R <sub>3</sub> C <sub>2</sub>	1	1.47	-0.47	0.150
R <sub>3</sub> C <sub>3</sub>	6	4.3	1.7	0.672
				4.273

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 4.273$$

$$\begin{aligned} \text{Degree of freedom} &= (r-1)(c-1) \\ &= (3-1)(3-1) \\ &= 4 \end{aligned}$$

$$\alpha = 5\%$$

$$\text{Tabulated value } \chi^2_{0.05}(4) = 9.488$$

Conclusion: Since calculated  $\chi^2 <$  tabulated  $\chi^2$ , it is not significant and  $H_0$  is accepted.

### **Question No.9**

<b>Influence of Political situation</b>	<b>NEPSE</b>	<b>Brokers</b>	<b>Investors</b>	<b>Total</b>
Very High	3	4	13	<b>20</b>
High	4	6	18	<b>28</b>
Moderate	2	1	2	<b>5</b>
Low	1	1	2	<b>4</b>
<b>Total</b>	<b>10</b>	<b>12</b>	<b>35</b>	<b>57</b>

### Chi-square test

(Row, Column)	Observed Frequency (O)	Expected Frequency (E)	O-E	$\frac{(O - E)^2}{E}$
R <sub>1</sub> C <sub>1</sub>	3	3.51	-0.51	0.074
R <sub>1</sub> C <sub>2</sub>	4	4.21	-0.21	0.010
R <sub>1</sub> C <sub>3</sub>	13	12.28	0.72	0.042
R <sub>2</sub> C <sub>1</sub>	4	4.91	-0.91	0.169
R <sub>2</sub> C <sub>2</sub>	6	5.89	0.11	0.002
R <sub>2</sub> C <sub>3</sub>	18	17.19	0.81	0.038
R <sub>3</sub> C <sub>1</sub>	2	0.88	1.12	1.425
R <sub>3</sub> C <sub>2</sub>	1	1.05	-0.05	0.002
R <sub>3</sub> C <sub>3</sub>	2	3.07	-1.07	0.373
R <sub>4</sub> C <sub>1</sub>	1	0.7	0.3	0.129
R <sub>4</sub> C <sub>2</sub>	1	0.84	0.16	0.030
R <sub>4</sub> C <sub>3</sub>	2	2.46	-0.46	0.086
				2.382

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 2.382$$

$$\begin{aligned} \text{Degree of freedom} &= (r-1)(c-1) \\ &= (4-1)(3-1) \\ &= 6 \end{aligned}$$

$$\alpha = 5\%$$

Tabulated value  $\chi^2_{0.05}(6) = 12.592$

Conclusion: Since calculated  $\chi^2 <$  tabulated  $\chi^2$ , it is not significant and  $H_0$  is accepted.

**Question No.10**

<b>Attraction of common stock</b>	<b>NEPSE</b>	<b>Brokers</b>	<b>Investors</b>	<b>Total</b>
Dividend	3	3	10	<b>16</b>
Capital Gain	5	6	18	<b>29</b>
Bonus Share	1	2	4	<b>7</b>
Representation in Board	1	1	3	<b>5</b>
<b>Total</b>	<b>10</b>	<b>12</b>	<b>35</b>	<b>57</b>

### Chi-square test

(Row, Column)	Observed Frequency (O)	Expected Frequency (E)	O-E	$\frac{(O - E)^2}{E}$
R <sub>1</sub> C <sub>1</sub>	3	2.8	0.2	0.014
R <sub>1</sub> C <sub>2</sub>	3	3.37	-0.37	0.041
R <sub>1</sub> C <sub>3</sub>	10	9.82	0.18	0.003
R <sub>2</sub> C <sub>1</sub>	5	5.09	-0.09	0.002
R <sub>2</sub> C <sub>2</sub>	6	6.11	-0.11	0.002
R <sub>2</sub> C <sub>3</sub>	18	17.81	0.19	0.002
R <sub>3</sub> C <sub>1</sub>	1	1.23	-0.23	0.043
R <sub>3</sub> C <sub>2</sub>	2	1.47	0.53	0.191
R <sub>3</sub> C <sub>3</sub>	4	4.3	-0.3	0.021
R <sub>4</sub> C <sub>1</sub>	1	0.88	0.12	0.016
R <sub>4</sub> C <sub>2</sub>	1	1.05	-0.05	0.002
R <sub>4</sub> C <sub>3</sub>	3	3.07	-0.07	0.002
				0.339

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 0.339$$

$$\begin{aligned} \text{Degree of freedom} &= (r-1)(c-1) \\ &= (4-1)(3-1) \\ &= 6 \end{aligned}$$



$$\alpha = 5\%$$

$$\text{Tabulated value } \chi^2_{0.05}(6) = 12.592$$

Conclusion: Since calculated  $\chi^2 < \text{tabulated } \chi^2$ , it is not significant and  $H_0$  is accepted.

### Question No. 11

Reason for not issuing debt and preferred stocks	NEPSE	Brokers	Investors	Total
No Attraction	3	4	10	17
Certain and regular return	6	7	20	33
Don't Know	1	1	5	7
<b>Total</b>	<b>10</b>	<b>12</b>	<b>35</b>	<b>60</b>

### Chi-square test

(Row, Column)	Observed Frequency (O)	Expected Frequency (E)	O-E	$\frac{(O-E)^2}{E}$
R <sub>1</sub> C <sub>1</sub>	3	2.98	0.02	0.000
R <sub>1</sub> C <sub>2</sub>	4	3.58	0.42	0.049
R <sub>1</sub> C <sub>3</sub>	10	10.44	-0.44	0.019
R <sub>2</sub> C <sub>1</sub>	6	5.79	0.21	0.008
R <sub>2</sub> C <sub>2</sub>	7	6.95	0.05	0.000
R <sub>2</sub> C <sub>3</sub>	20	20.26	-0.26	0.003
R <sub>3</sub> C <sub>1</sub>	1	1.23	-0.23	0.043
R <sub>3</sub> C <sub>2</sub>	1	1.43	-0.43	0.129
R <sub>3</sub> C <sub>3</sub>	5	4.3	0.7	0.114
				0.366

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 0.366$$

$$\begin{aligned} \text{Degree of freedom} &= (r-1) (c-1) \\ &= (3-1) (3-1) \\ &= 4 \end{aligned}$$

$$\alpha = 5\%$$

$$\text{Tabulated value } \chi^2_{0.05} (4) = 9.488$$

Conclusion: Since calculated  $\chi^2 <$  tabulated  $\chi^2$ , it is not significant and  $H_0$  is accepted.

### **Question No.12**

<b>Attraction of Government Securities</b>	<b>NEPSE</b>	<b>Brokers</b>	<b>Investors</b>	<b>Total</b>
Risk Free Return	7	8	25	<b>40</b>
High Interest Rate	1	1	4	<b>6</b>
Marketability	2	3	6	<b>11</b>
<b>Total</b>	<b>10</b>	<b>12</b>	<b>35</b>	<b>57</b>

### Chi-square test

(Row, Column)	Observed Frequency (O)	Expected Frequency (E)	O-E	$\frac{(O - E)^2}{E}$
R <sub>1</sub> C <sub>1</sub>	7	7.02	-0.02	0.000
R <sub>1</sub> C <sub>2</sub>	8	8.42	-0.42	0.021
R <sub>1</sub> C <sub>3</sub>	25	24.56	0.44	0.008
R <sub>2</sub> C <sub>1</sub>	1	1.05	-0.05	0.002
R <sub>2</sub> C <sub>2</sub>	1	1.26	-0.26	0.054
R <sub>2</sub> C <sub>3</sub>	4	3.68	0.32	0.028
R <sub>3</sub> C <sub>1</sub>	2	1.93	0.07	0.003
R <sub>3</sub> C <sub>2</sub>	3	2.32	0.68	0.199
R <sub>3</sub> C <sub>3</sub>	6	6.75	-0.75	0.083
				0.398

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 0.398$$

$$\begin{aligned} \text{Degree of freedom} &= (r-1)(c-1) \\ &= (3-1)(3-1) \\ &= 4 \end{aligned}$$

$$\alpha = 5\%$$

$$\text{Tabulated value } \chi^2_{0.05}(4) = 9.488$$

Conclusion: Since calculated  $\chi^2 <$  tabulated  $\chi^2$ , it is not significant and H<sub>0</sub> is accepted.

**Question No. 13**

Attitude toward risk	NEPSE	Brokers	Investors	Total
High Risk	1	1	3	5
Low Risk	5	4	12	21
Moderate risk	4	7	20	31
	<b>10</b>	<b>12</b>	<b>35</b>	<b>57</b>

**Chi-square test**

(Row, Column)	Observed Frequency (O)	Expected Frequency (E)	O-E	$\frac{(O - E)^2}{E}$
R <sub>1</sub> C <sub>1</sub>	1	0.88	0.12	0.016
R <sub>1</sub> C <sub>2</sub>	1	1.05	-0.05	0.002
R <sub>1</sub> C <sub>3</sub>	3	3.07	-0.07	0.002
R <sub>2</sub> C <sub>1</sub>	5	3.68	1.32	0.473
R <sub>2</sub> C <sub>2</sub>	4	4.42	-0.42	0.040
R <sub>2</sub> C <sub>3</sub>	12	12.89	-0.89	0.061
R <sub>3</sub> C <sub>1</sub>	4	5.44	-1.44	0.381
R <sub>3</sub> C <sub>2</sub>	7	6.53	0.47	0.034
R <sub>3</sub> C <sub>3</sub>	20	19.04	0.96	0.048
				1.059

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 1.059$$

$$\text{Degree of freedom} = (r-1)(c-1)$$

$$= (3-1) (3-1)$$

$$= 4$$

$$\alpha = 5\%$$

$$\text{Tabulated value } \chi^2_{0.05} (4) = 9.488$$

Conclusion: Since calculated  $\chi^2 <$  tabulated  $\chi^2$ , it is not significant and  $H_0$  is accepted.

### **Question No. 14**

<b>Knowledge of financial derivatives</b>	<b>NEPSE</b>	<b>Brokers</b>	<b>Investors</b>	<b>Total</b>
Yes	8	11	7	<b>26</b>
No	2	1	28	<b>31</b>
<b>Total</b>	<b>10</b>	<b>12</b>	<b>35</b>	<b>57</b>

### **Chi-square test**

<b>(Row, Column)</b>	<b>Observed Frequency (O)</b>	<b>Expected Frequency (E)</b>	<b>O-E</b>	<b><math>\frac{(O - E)^2}{E}</math></b>
R <sub>1</sub> C <sub>1</sub>	8	4.56	3.44	2.595
R <sub>1</sub> C <sub>2</sub>	11	5.47	5.53	5.591
R <sub>1</sub> C <sub>3</sub>	7	15.96	-8.96	5.030
R <sub>2</sub> C <sub>1</sub>	2	5.44	-3.44	2.175
R <sub>2</sub> C <sub>2</sub>	1	6.53	-5.53	4.683
R <sub>2</sub> C <sub>3</sub>	28	19.04	8.96	4.216
				24.291

$$\text{Calculated } \chi^2 = \sum \frac{(O - E)^2}{E} = 24.291$$

$$\begin{aligned} \text{Degree of freedom} &= (r-1)(c-1) \\ &= (2-1)(3-1) \\ &= 2 \end{aligned}$$

$$\alpha = 5\%$$

$$\text{Tabulated value } \chi^2_{0.05}(2) = 5.991$$

Conclusion: Since calculated  $\chi^2 >$  tabulated  $\chi^2$ , it is significant difference and  $H_1$  is accepted.

### Appendix-3

#### LIST OF SECURITY BORKERS IN NEPAL

In the beginning, the lissence of broker was issued to 27 securities companies but in fiscal year 2007/08 only 23 securities companies are actively functioning in security market.

S. No	Firm Name	Code	Tel. No.	Address
1	Kumari Securities Pvt. Limited	1	01-4418036	Dilli Bazar,Kathmandu
2	Arun Securities Pvt. Limited	3	01-6916470	Putalisadak,Kathmandu
3	Opal Securities Investment Pvt. Limited	4	01-4421648	Ramshah Path,Kathmandu
4	Market Securities Exchange Company Pvt. Limited	5	01-4248973	Kichha Pokhari,Kathmandu
5	Agrawal Securities Pvt. Limited	6	01-4229739	Shankardev Marga, Putalisadak,Kathmandu
6	J.F. Securities Company Pvt. Limited	7	01-4223089	Putalisadak,Kathmandu
7	Ashutosh Brokerage & Securities Pvt. Limited	8	01-4220276	Kichha Pokhari,Kathmandu
8	Pragyan Securities Pvt. Limited	10	01-4498234	Putalisadak,Kathmandu
9	Malla & Malla Stock Broking Company Pvt. Limited	11	01-4414263	Dillibazar,Kathmandu
10	Annapurna Securities Service Pvt. Limited	13	01-4419051	Putalisadak,Kathmandu
11	Nepal Stock House Pvt. Limited	14	01-4255732	Anamnagar,Kathmandu
12	Primo Securities Pvt. Limited	16	01-4239214	Shankardev Marga, Putalisadak,Kathmandu

13	Khandelwal Stock Broking Company Pvt. Limited	17	01-4230787	Indrachowk,Kathmandu
14	Sagarmatha Securities Pvt. Limited	18	01-4242548	Putalisadak,Kathmandu
15	Nepal Investment & Securities Trading Pvt. Limited	19	01-4495450	Old Baneshowar,Kathmandu
16	Sipla Securities Pvt. Limited	20	01-4255782	NewRoad,Kathmandu
17	Midas Stock Broking Company Pvt. Ltd.	21	01-4416050	Dillibazar,Kathmandu
18	Siprabi Securities Pvt. Limited	22	01-5530701	Kupondol,Lalitpur
19	Sweta Securities Pvt. Limited	25	01-4444791	Putalisadak,Kathmandu
20	Asian Securities Pvt. Limited	26	01-4240609	Viharmarga,Kathmandu
21	Shree Krishna Securities Pvt. Limited	28	01-4224262	NewRoad,Kathmandu
22	Trishul Securities Pvt. Limited	29	01-4440709	Putalisadak,Kathmandu
23	Premier Securites Pvt. Limited	32	01-4231339	Putalisadak,Kathmandu

(Source: [www.nepalstock.com](http://www.nepalstock.com) 2009)



## Appendix-4

### STAFFS OF SECURITY BOARD OF NEPAL(SEBO/N)

Presently, there are 41 staffs in SEBON including chairman, two directors, five deputy directors, nine officers, seven assistants, seven support staffs and messengers, and there are ten staffs on contract basis.

S.N.	Name	Designation
1	Dr. Surbir Paudyal	Chairman
2	Mr. Niraj Giri	Director
3	Mr. Paristha Nath Poudyal	Director
4	Mr. Binaya Dev Acharya	Deputy Director, Corporate Finance Department and Management Department
5	Mr. Nabaraj Adhikari	Deputy Director, Planning and Development Department
6	Mr. Mukti Nath Shrestha	Deputy Director, Market Regulation Department
7	Mr. Dhruva Timilsina	Deputy Director, Surveillance Department
8	Mr. Mekh Bahadur Thapa	Deputy Director, Financial Information Analysis Department
9	Mrs. Manju Upadhyay	Officer, Finance Section
10	Mr. Krishna Prasad Ghimire	Officer, Legal Section
11	Mr. Anuj Rimal	Officer, Administration Section
12	Mr. Ambika Prasad Giri	Officer, Public Issue Section
13	Mr. Gopal Krishna Acharya	Officer, Education & Training Section
14	Mr. Niranjaya Ghimire	Officer, Securities Businessperson Surveillance Section
15	Mr. Ram Saran	Officer, Market Regulation Section

	Pokhrel	
16	Mrs. Jyoti Sharma (Pudasaini)	Officer, Legal Section
17	Mr. Bijay Dhakal	Officer, Surveillance Section
18	Mr. Suraj Pradhananga	Senior Assistant, Reports Review Section
19	Mr. Deepak Sharma	Senior Assistant, Education & Training Section
20	Mr. Bharat Raj Aryal	Senior Assistant, Research Section
21	Mr. Raju G.C.	Assistant, Registration & Market Monitoring Section
22	Mrs. Sashi Aryal	Assistant, Administration Section
23	Mr. Nabaraj Pandit	Personal Secretary, Chairman's Office
24	Mr. Rajan Thapa	Assistant, Corporate Finance Section, Human Resource Management
25	Mr. Nahakul Bhattarai	Support Staff
26	Mr. Rajesh Lage	Messenger
27	Mr. Rajan Khatiwada	Messenger
28	Mr. Arjun Prasad Dhakal	Messenger
29	Mr. Deepak Chhetri	Messenger
30	Mr. Nabaraj Poudyal	Messenger
31	Mr. Binod Maharjan	Support Staff
<b>Deputation on Contract Basis</b>		
1	Mr. Deepak Raj Kafle	Training Expert
2	Mr. Subash Poudel	Legal Expert
3	Mr. Nabin Pandit	Deputy Director, Corporate Finance Department, Financial Information Analysis, Finance Section
4	Mr. Nabin Man Vaidya	IT Officer
5	Mrs. Sarita Gautam	Research Officer

6	Mr. Narayan Prasad Sharma	Surveillance Officer
7	Mr. Prem Kajee Shrestha	Supervisor, Library & Documentation Section
8	Mr. Amit Devkota	Computer Overseer
9	Mr. Ramesh Thapa	Messenger
10	Ms. Seema Pokhrel	Senior Assistant

(Source: Annual Report, 2007/08, SEBO/N)

## Appendix-5

### STAFFS OF NEPAL STOCK EXCHANGE PVT. LTD. (NEPSE)

Fiscal year 2007/08

S.N.	Name	Designation
1	Mr. Rewat Bahadur Karki	General Manager
2	Mr. Promod Kumar Bhattarai	Acting Deputy General Manager
3	Mr. Vijay Gurung	Manager
4	Mr. Sambhu Prasad Pant	Acting Assistant Manager
5	Mr. Uttam Raj Bhatta	Senior Officer
6	Mr. Khom Bhatta	Senior Officer
7	Nr. Niranjana Phuyal	Senior Officer
8	Mrs. Samjhana Baral	Senior Officer
9	Mr. Krishna Raj Pokharel	Senior Officer
10	Mr. Harish Pokharel	Senior IT Officer
11	Mr. Surendra Raj Wagle	Officer
12	Mr. Narayan Timilsina	Officer
13	Mrs. Resha K.C.	Officer
14	Mr. Deepak Raj Joshi	Officer
15	Mrs. Prabin Pandak	Officer
16	Mr. Murahari Parajuli	Officer
17	Mr. Sagar Dhungel	Officer
18	Mr. Upendra Raj Timsina	Officer
19	Mr. Basu Dev Pandey	IT Officer
20	Mr. Subodh Dhungel	Senior Assistant
21	Mr. Prakash Bahadur Deupa	Senior Computer Operator
22	Mr. Bhesh Raj Khanal	Senior Computer Operator
23	Mr. Badriram Adhikari	Senior Computer Operator

24	Mr. Sudarshan Upadhya	Senior Computer Operator
25	Mrs. Tanuja Aryal	Senior Computer Operator
26	Miss Sanju Kadel	Senior Assistant
27	Mr. Giri Raj Dahal	Senior Assistant
28	Mr. Siddhi Nath Misra	Senior Assistant
29	Mrs. Sharmila Pathak	Senior Computer Operator
30	Mr. Jagadish Rijal	Senior Computer Operator
31	Mr. Bal Krishna Kaju	Senior Computer Operator
32	Mr. Niraj Shrestha	Senior Driver
33	Mr. Dil Bahadur Basnet	Assistant Recorder
34	Mrs. Sashi Raut	Assistant Recorder
35	Mr. Prakash Dahal	Assistant Recorder
36	Mr. Laxman Mandal	Assistant Recorder

## Appendix-6

### LIST OF THE RESPONDENT FOR THE QUESTIONNAIRES

Categories	Response Number
Investors	35
<b>Brokers:</b>	
Kumari Securities Pvt. Ltd.	1
Arun Securities Pvt. Ltd.	1
Agrawal Securities Pvt. Ltd.	1
Malla and Malla Stock Broking Co. Pvt. Ltd.	1
Annapurna Securities Service Pvt. Ltd.	1
Nepal Stock House Pvt. Ltd.	1
Sagarmatha Securities Pvt. Ltd.	1
Nepal Investment & Securities Trading Pvt. Ltd.	1
Silpa Securities Pvt. Ltd.	1
Siprabi Securities Pvt. Ltd.	1
Yeti Securities Co. Pvt. Ltd.	1
Premier Securities Pvt. Ltd.	1
<b>Staff Member of SEBON</b>	<b>5</b>
<b>Staff Member of NEPSE</b>	<b>5</b>
<b>Total</b>	<b>57</b>