

INVESTORS' PREFERENCES IN CHOICE OF
FINANCIAL INSTRUMENTS AND SECTORS
IN NEPAL

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A Thesis Submitted to:

Office of the Dean
Faculty of Management
Tribhuvan University

***In partial fulfilment of the requirements of the degree of
Master of Business Studies (M.B.S.)***

Pokhara
April, 2009

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ACKNOWLEDGEMENTS

I have great delight in placing this research report on the lap of respected seniors and beloved juniors and really enjoying in expressing a deep sense of appreciation to my seniors and juniors.

First of all, I wish to express my reflective gratitude to my thesis supervisor, Mr. Hari Pathak for his invaluable guidance throughout the work. His constant inspiration and support has resulted in the completion of this work. I am equally grateful to all the faculty members of P.N. campus as well as the teachers of Bindhyabasini Higher Secondary school, Pokhara who enabled me to get M.B.S. degree.

Thanks are due to authors of books, journals and articles that were consulted in course of the study. I also offer my thanks to the staffs of Western regional library, Central library (T.U.), Nepal Rastra Bank, Staff of Nepal stock exchange, security board of Nepal and all the respondents for their help and cooperation.

The special thanks go to and all of my friends, especially to Surendra, Sumana and Nabraj who provided me a small place in to their remembrance. Finally, I would be falling in my duty if I stop thinking about to acknowledge the debt of gratitude to my family members specially, my mother for their warm affection and regular inspiration.

Finally, I would like to express my special thanks to Joyti Shrestha and Santosh Shrestha of Gateway Multiple Service , Nadipur, Pokhara for word processing.

I am solely responsible for any errors in this report. I would like to extend warm welcome to suggestions and comments if any.

Mukti Raman Parajuli

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ABBREVIATION

BOD	:	Board of Director
df	:	Degree of Freedom
DPS	:	Dividend Per Share
ed	:	Edition
eg.	:	For example
EPS	:	Earning per share
FITTA	:	Foreign Investment & Technology Transfer Act.
Govt.	:	Government
ie	:	that is
IMF	:	International Monetary Fund
IPOs	:	Initial Public Offerings
JUBs	:	Joint Venture Banks
LCB	:	Land Compensation Bond
NEPSE	:	Nepal Stock Exchange
NOs	:	Numbers
NRB	:	Nepal Rastra Bank
OMO	:	Open Market Operation
Op.cit	:	In the Work Cited
OTC	:	Over the Counter
P/E ratio	:	Price earning ratio
ROE	:	Return on Equity
SEBO/N	:	Security Board of Nepal
SEC	:	Securities Exchange Center
T+5	:	Settlement of Transaction Five Working Days after the Date of Trading
TB'S	:	Treasury Bills
TU	:	Tribhuvan University
vol.	:	Volume
WB	:	World Bank
WDR	:	World Development Report

CHAPTER I

INTRODUCTION

1.1 Background

Investment in financial instruments is the process of handing over money today in exchange for promises of money far in the uncertain future (Kohn Meir, 1998:560). Investors invest their money where they feel comfortable on return they get after making investment. Taking ownership of investors' money, making them comfortable in every span of time is not the easy task to the organization that is opening the door for independent investors. Investment decision to the investors generally based on elements like type, mix, amount, timing, grade etc. Investment may be continuous or rational. More over, investment decision is a trade off between risk and return factors. Before calling for investment, organization should first test the preferences of investors in significant level and should look after the customer preferences and reasons for making investment. Investors' perception to financial instruments and sectors mainly depend on their knowledge, background and the information they are getting from the capital market.

Before the exchange stage of human development, there was no need of investment. In the era of barter system, the stock or excess quantity of goods exchange to each other. But with the development of human activities and needs, the concept of market was developed. That has developed in to the current situation of the market. Investment was also unknown subject matter in past but it was known only when economic theories had realized in their life. There after, the concept of investment was developed according to the need of human life, country or global economy. As an investor, one should consider various related aspect of market and economy. After getting the

adequate information and knowledge about it, investor shows the preference to invest in particular instrument and sector.

Investors are two types; individual investor and corporate or institutional investors. Individual investors lend the money in primary market as well as secondary market. Institutional investors collect the fund from saving of individual and invest it in numerous sectors.

1.1.1 The Evolution of Capital Market

Until the early nineteenth century, the capital market dealt mainly in government debt and in the stock of a few large public corporations such as the Bank of England, The Dutch Bank, Bank of United States and English East India companies. The early stage of the industrial revolution had little impact on the capital market. Industrial firms were small and their modest demands for capital were easily met out of internal funds, bank loans and trade credit. The big demand for long-term finance in the nineteenth century came from the construction of Canals and railroads. In the pre-civil war United States, this was largely financed through the sale of state and local bonds. By 1860, state and municipal debt was three times the size of federal debt. These bonds were largely sold in the London Market.

The British middle class was made wealthy by the industrial revolution. However, just as their demand for financial assets was increasing, the supply of government securities were declining as the British government steadily paid off the debt it had incurred in the wars of 1776-1815. As a result, British investors were willing to buy the more speculative domestic and foreign issues, including American bonds.

A domestic capital market in the United States developed rapidly after the civil war. Jay Cooke's successful wartime marketing of federal securities to small investors was widely copied. He and others applied the same methods to selling railroad bonds. In addition, the rapidly growing insurance companies and savings banks provided an important market for long term securities. The securities of manufacturing companies—"Industrial", as they

were called became important only after the 1890s. As technology advanced, the scale of manufacturing expanded. It took large sums of money to set up plants on an efficient scale and to combine small firms; only the capital market could provide finance in the required amounts.

Much of this new finance was in the form of equities rather than bonds. This was partly the result of liberalization of the laws governing incorporation, both in British and in the United States.

Corporate equities were regarded as highly speculative investment- the equivalent of today's junk bonds. Despite this, or perhaps because of it, they were enormously popular. By 1900, some one million Americans (out of an adult population of 42 million) owned stocks.

However, the growth of the stock market before world war 1st was nothing compared to the boom of the 1920s. The number of stocks listed, new issues, the volume of trading- all these exploded. The boom came to a sudden end with the crash of 1929 and the depression that followed it. The stock market did not revive until the 1950s. Today, capital market significance to the corporate world is very high and the corporate borrowing is still dominant the capital market all over the world.

1.1.2 Capital Market in Nepal

The history of capital market in Nepal starts with the establishment of "Biratnager Jute Mill" in 1936 AD. In the same year, "Tejarath" was set up to facilitate loans to government employee. In 1936, the first industrial act was promulgated which was also a favorable step to promote capital market in Nepal. However, the participation of public in the ownership structure of industries was not available to public. Even after the establishment of democracy in 1950 AD the capital market could not grow, as it should be due to the indifference character of empower people.

After the existence of Panchayat System in 1960, HMG/Nepal started to issue bonds in 1964. Government bonds still occupy a major chunk of trading in the securities market. After the extensive study of the workings of public limited

company, HMG/Nepal announced industrial policy in 1974. This policy made a provision for the establishment of an institution named “Securities Marketing Centre” to deal with securities. It was established with the joint effort of Nepal Rastra Bank and Nepal Industrial Development Corporation to mobilize the capital among the various industries and companies. It was changed into Securities Exchange Centre in 1976.

Now, Nepal has entered into market oriented economic system. Thus, necessity was felt to exchange the whole operation of stock exchange centre to make friendly with the changing economic system. As a result, HMG/Nepal brought about changes in the structure of securities exchange centre by separating SEC into distinct entities- Securities Exchange Board of Nepal (SEBO/N) and Nepal Stock Exchange Ltd. (NEPSE) at the policy level in 1993.

1.1.3 Security Board of Nepal

Securities Board of Nepal (SEBON) was established by the Government of Nepal on June 7, 1993 as an apex regulator of Securities Markets in Nepal. It has been regulating the market under the Securities Exchange Act, 2006. The functions, duties and powers of SEBON as per the Act are as follows.

- J To offer advice to Government on matters connected with the development of the capital market.
- J To register the securities of corporate bodies established with the authority to make a public issue of its securities.
- J To regulate and systematize the issue, transfer, sale and exchange of registered securities.
- J To give permission to operate a stock exchange to any corporate body desirous of doing so, subject to this Act or the rules and bye-rules framed under this Act.
- J To supervise and monitor the functions and activities of stock exchange.

- J To inspect whether or not any stock exchange is executing its functions and activities in accordance with this Act or the rules and bye-rules framed under this Act, and to suspend or cancel the license of any stock exchange which is not found to be doing so.
- J To issue licenses to conduct the business of dealing in securities, subject to this Act, or the rules and the bye-rules framed under this Act, to companies or institutions desirous of conducting the business of dealing in securities.
- J To supervise and monitor the functions and activities of securities-dealers.
- J To grant permission to operate collective investment schemes and investment fund programs, and to supervise and monitor them.
- J To approve the bye-rules concerning transactions in securities framed by stock exchanges and institutions engaged in the business of dealing in securities, and, for the purpose of making necessary provisions concerning the development of the capital market and protecting the interests of investors investing in securities, issue orders to have necessary alterations made in such bye-rules of stock exchange and institutions engaged in the business of dealing in securities.
- J To systematize the task of clearing accounts related to transactions in securities.
- J To supervise whether or not security dealers are behaving in the manner prescribed in this Act, or the rules and the bye-rules framed under this Act, while conducting business of dealing in securities, and suspend the license to conduct the business of dealing in securities in case any securities dealer is not found to be behaving accordingly.
- J To make or ensure necessary arrangements to regulate the volume of securities transacted and the procedure of conducting such transactions in order to ensure the promotion, development and clean operation of stock exchanges.

- J To make necessary arrangements to prevent insider trading or any other offenses relating to transactions in securities in order to protect the interest of investors in securities.
- J To review or make arrangement for reviewing the financial statements submitted by the corporate bodies issuing securities and security dealers, and issue directives deemed necessary in that connection to the concerned corporate body.
- J To 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.
- J To establish coordination and exchange cooperation with the appropriate agencies in order to supervise and regulate matters concerning securities or companies.
- J To discharge or make arrangements for discharging such other functions as are necessary for the development of securities and the capital market.

The Governing Board of SEBON is composed of seven members including one full time chairman appointed by the Government for tenure of four years. Other members of the Board include joint secretary of Ministry of Finance, joint secretary of Ministry of Law, Justice and Parliamentary Affairs, representative from Nepal Rastra Bank, representative from Institute of Chartered Accountants of Nepal, representative from Federation of Nepalese Chambers of Commerce and Industries, and one member appointed by the Government from amongst the experts pertaining to management of securities market, development of capital market, financial or economic sector.

There are seven departments and sixteen sections in the organization of SEBON. Under the Management Department, there are two divisions namely Human Resources Section and Finance Section. There are also four sections under the Planning and Development Department namely Research Section, Training Section, Information Technology Section and International

Affairs Section. There are also two sections under the Corporate Finance Department namely, Public Issue Section and Collective Investment Scheme Section. Likewise, Under the Regulation Department, there are two sections namely, Stock Exchange Regulation Section and Market Intermediaries Regulation Section. There are also four section under the Surveillance Department namely, Stock Exchange Surveillance Section, Market Intermediaries Surveillance Section, Trading Surveillance Section and Corporate Surveillance Section. Finally, under Legal Department, there are two sections Research and Investigation Section and Enforcement Section.

The major financial sources of SEBON are the government grant, transaction fee from the stock exchange and registration fee of corporate securities. Other financing sources include registration and renewal of stock exchange and market intermediaries and the income from mobilization of its revolving fund.

1.1.4 Introduction to Nepal Stock Exchange (NEPSE)

Institutional development of securities market in Nepal started from the year 1976. Security exchange center was established under the company act with joint capital contribution of Nepal Rastra Bank and Nepal industrial development cooperation. The industrial policy of them government also encouraged the promotion of securities exchange activities in Nepal. The main objectives of the establishment of the center were to mobilize public saving and encourage the people to participate in the ownership of industries and business enterprises. Its activities included the purchase underwrite and sale directly or through the licensed brokers or sub-brokers of the center, the shares, stocks and debenture of public limited companies and also development bond as well as treasury bills issued by the government (Joshi,2002: 1-2).

Before the establishment of the securities exchange center there was no any institutional arrangement, to undertake new issues and manage the sales of the shares and debenture of the corporate bodies. Public limited companies could make public offering according to the provision of the company act 1964.

When SEC came to existence, it started managing the new issue of shares and debentures according to the guidelines for new issues and sales management 1989. The corporate bodies were required to list their share and debentures in the SEC in order to qualify for the trading. However the government bonds issued under the national debt act were exempted from such compulsory-listing obligation. In 1993, with a view to reform the capital market, HMG converted the securities Exchange Centre into Nepal Stock Exchange Ltd. (NEPSE) along with the formation of security Exchange Board. It is a non-profit organization operating under securities exchange act 1983. Broker and Market makers operate on the trading floor as per securities exchange act, rules and by laws of NEPSE. NEPSE started its trading operation on 13 January 1994 through its licensed member (Ibid: 2).

The securities Board (SEBO) was constituted in 1993 under Sec I of the securities exchange act 1983 with the objective to provide essential policy direction for the systematic and regular exchange of securities and develop competitive stock exchange market by protecting and promoting the interest of investors. NEPSE is a trading institution, where as SEBO is the regulation body. Before the board came into existence, the SEC carried on both the functions. Though any corporate body desirous to carry out the transaction of securities can submit application to the board for license, till now Nepal Stock Exchange limited alone is representing the securities market in the country.

1.1.5 Board of Directors of NEPSE

The Board of Directors of NEPSE consists nine directors is accordance with securities exchange Act 1983. Government and different institutional investors nominate six directors. Two from the licensed members and the General Manager of the NEPSE is the Ex-office Director of the Board.

Table 1.1
Board of Directors of NEPSE

S.No.	Name of Organization	No. of Directors	Designation
1.	Ministry of Finance	1	Chairman
2.	Securities Board	2	Director
3.	Nepal Rastra Bank	2	Director
4.	Nepal Industrial Development Corporation	1	Director
5.	Licensed Members	2	Director
6.	General Manager of NEPSE	1	Director

Source: NEPSE, Trading Report 2005/2006.

1.1.6 Factor to Be Considered Before Investing In Securities

Nobody could invest blindly. Investor's should know about some factor before making the investment. To invest in securities, they should know about risk and rate of return, legal provisions, procedure of investments, self-income level, cost of investment, right and duties after investment etc. Regarding the investing in securities Nepal stock exchange has explained some facts and procedures before buying and selling securities. They are stated as follows:

- a. Placement of orders:** The investors must submit written buy and sale orders to the brokers to conduct the trading of proposed securities in prescribed formats.
- b. Points to be included in order:** The buy and sale orders the investors must consist the name of securities, its type, quantity price (i.e. fixed/ maximum/ minimum or as deemed appropriate by the brokers) and the validity of the order in prescribed formats. If the tenure is not specified in the orders it will be valid for 15 days only.
- c. Obtaining receipts for the registration of orders:** The investors must obtain receipt against the deposit of orders in which the broker members must state date, time and registration number.
- d. To obtain notification for the purchase and sale of securities:** After the transactions as per the order are done the broker must acknowledge the clients either on the same or next day in prescribed format.

- e. **To submit either purchase value or certificate:** The investor after getting the notification from the brokers must submit total amount required, in case of purchase and certificate of securities, in case of sale within five working days from the date of transactions. In case of sale, the concerned seller must hand over to the brokers the share certificate along with the single documents (i.e. transfer deeds, bonds deeds) and the buying investors must submit total required amount. Both the brokers have to submit total required amount. Both the brokers have to submit those documents to the stock exchange. It is the duty of stock exchange to cross verify the certificate deposited with the amount deposited.
- f. **Commission Brokers:** The commission for his/her service ranges from 1 to 1.5 percent based on volume of trading.
- g. **To receive the amount or share certificate:** The brokers have to submit the amount and share certificate within five working days from the date of transactions. They will be eligible to get payment and certificate on the eighth days. On the sixth days, stock exchange will do the crossing of documents and prepares bill and makes payments to the brokers on seventh day.

If both the amount and number of share and the company matched with each other the amount will be transferred to the selling brokers account and the certificate along with documents will be hand over to the buying brokers. It is investors who have to make decision whether to send those documents to the concerned company for the name transfer or to register it as blank transfer for resale purpose.
- h. **The tenure for the bank transfer:** The decision of the investors make decision to registered the purchased securities as blank transfer it will be wise to continue this decision before the closure of fiscal year or before the book closure whichever is earlier.
- i. **Receiving and making payments through cheques:** The investors must make payments or receive payment from brokers either by bank transfer or through cheques.

- j. Trading of the shares of same company can take place at different prices:** Investors must be aware that the shares of the same company can be traded at different prices. The buying and selling price of shares of the same company can be different from one transaction to another transactions.
- k. To be careful in risks involved in securities transactions:** Investing in securities is not gambling. Certain principles are there and the investors must be aware of the existing risks involved in trading and investing in securities. So before making investment decision the investors must consult financial statements of the concerned company and price study. The speculators may create rumors in the market and if investors run after that it will be his/her fault but not of the brokers.
- l. Compensation from the deposits of the brokers:** Each and every broker has to submit the bank guarantee and cash deposit in stock exchange. This stock exchange will make payments if stock exchange identify any fraud committed by brokers and also in case of default of the broker or in any other case of like nature. If the deposited amount becomes short the investor's himself/herself recover the balance from the brokers.
- m. My work is my bond:** The service of the brokers based on the principle "My work is my bond." The brokers should not be deviated from the principle. The investors must support the principle of the brokers. If any unseen events take place the broker must notify the stock exchange and reverse the transactions either by buy or sale according to the nature of transactions. If the investors suffer any loss, that should be borne by the investors him or her.
- n. Transactions based on mutual faith and trust:** It is the mutual faith and trust between the brokers and investors whether to do transactions without getting certificates or amount in advance. But as short sale and forward trading are not permitted once the transaction are done according

to the orders, the documents and amount need to be deposited in any case.

- o. **Investors if have any doubt can contact to the concerned authority for finding the reality:** Investors if have any doubt about the purchase and sale of securities, their quantity, price and any other facts related with particular transaction or transactions. They can contact the concerned authority of the stock exchange to and clarify the doubt at any time after the transaction is over.
- p. **To have knowledge about trading settlement and clearing procedures:** The investors must have through knowledge about trading, clearing and settlement procedures. If they do not have through idea about these procedural aspect different confusion, conflict and dilemma may take place. So it is right of the investors to obtain detail information about these procedures either with the brokers from published material by stock exchange.
- q. **Duty and rights of the investors:** It is the right and duty of the investors to inform the stock exchange authority about the problems faced by them while making investment. It is their right to get the problem solved and it is also their duty to protect other investor's form facing the same problems. So nobody is hesitate to contact the concerned authority of stock exchange with any problems either with broker or listed companies.

1.2 Focus of the Study

The investors invest their amount of money to get good expected return. Efficient market is that place where the investors behave rationally. Market is nothing but the dealings of investors. So the investors should be efficient enough to recognize the potential for excess return. The most important condition for market is to know what are the preferences of the investor. 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.

Securities market plays vital role Nepalese economy. It affects the whole economic environment of the nation. Securities market is one of the prominent sources for the economic development. So the existing and potential investors are the biggest assets of the nation. Hence, this study focuses to explore the investor's preferences in securities in the Nepalese securities market. Thus, this study is mainly focused to provide information about the present condition of Nepalese investor's preferences in choosing the securities.

This study covers the analysis of the securities, which are prevalent in Nepalese financial market. It is analyzed that what factors affect the preference of investors. Basically, the companies issued 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? However, the principle focus of this research is to analyze the preferences of Nepalese investors. In other words, how and why investors select the best financial instrument or securities is the focal point under this study.

This study tries to find out the different influential factors of the investors. So, the rationality and awareness of investors influences the whole security market. Thus, this study focuses on the rationality and awareness of investors and also includes the impact of present existing situation faced by the general investors while making investment decision.

1.3 Statement of the Problem

In the Nepalese financial market, there are various financial instruments available to the investors issued by various sectors. However, investors prefer mostly common stock issued by commercial banks and finance companies. Even the rate of return and risk factors associated with financial instruments is main factor of investor preferences for the choice of financial instruments;

they invest their money with hearsay and personal recommendations. Generally, investors do not have knowledge about all the available financial instruments and the associated sectors. The basic problem of the study affiliated with the decision relating to the choice of financial instruments and sectors in context to Nepal. More specifically, the study was concentrated to the solution of the following questions:

- What are the major preferable financial instruments in Nepal?
- What are the major preferable investment sectors to investment in Nepal?
- What are the motivating factors in choice of financial instruments and sectors?
- What are the investors' perceptions on their investment?

1.4 Objective of the Study

The major objective of the study is to identify the investors' preference in making the choice of financial instruments and sectors in Nepal. Moreover, other specific objectives of the study were:

- To analyze the investors preferable financial instruments in Nepal
- To analyze the major preferable sectors in Nepal
- To carry out the major motivating factors in choice of financial instruments and sectors
- To assess the investors' perception on their investment

1.5 Significance of the Study

Capital market moves under the vested interest of investor. So investors are sovereign of capital market that have the great power to choose & prefer any financial instrument for the purpose of investment. Most of the IPOs, issuance company should know about the investor preference in choice of the financial instrument as well as the issuing authority also. The authority is SEBO/N in Nepal for IPOs of securities. If the issued capital would not sold easily in the market then the issuer may have face the constraints and difficulties to

sustain. The capital market should also know about behaviour pattern of investors. After the capital market should also know about behaviour pattern of investors. After the capital market sanctions the new approval issue of any financial instrument in public, it goes to the market for transaction. If the IPOs issued without considering investors preferences, whole capital market as well as issuer can be affected adversely disclosing the inefficient performance of both capital market and issuing financial institution. This study is useful to sustainability of the capital market thereby developing the capital market.

As the surface study of capital market published data, common stock is the most interested instrument among all available financial instruments, which is already mentioned in background information. The study efforts to detect the choice of financial instrument issued by the various sector of the economy. Therefore the study has significance to the Nepalese companies who want to get the knowledge about the investors preferences for the e fund collection decision. This study is also important to the policy maker of the capital market as well. Moreover this type of research is very rear. So this is significant. Last but not least, it will provide literature to the researcher who wants to carryout further research in this field.

1.6 Delimitation of the Study

This study has the following boundaries that researcher did not attempt to go across:

- Study is based on some important variables like risk and rate of return, market information of capital market, financial instruments, investors' perception etc.
- This study has not included the analysis of all financial instruments. It has included some corporate and governmental securities collectively.
- This research has examined the Nepalese investors' preferences in choice of major financial instruments and sectors only.

- This research is primarily based on primary data, secondary data has also been used but in small volume.
- Sample size has been taken in small magnitude due to the high population size.

1.7 Organization of the Study

This research study has been organized into five different chapters. Each chapter devoted to some aspect of investors' preference and financial instruments. The chapters one to five is consist of:

- 1. Introduction:** Introduction chapter provides an introduction to the topic, objectives, scope and limitation of the study.
- 2. Review of Literature:** This chapter II. This chapter deals with review of literature for the conceptualization of the topic and review of the past studies for further improvement.
- 3. Research Methodology:** The chapter III is related to research methodology. This chapter explains the research design, method of primary and secondary data collection and tools and techniques uses in analysis of data.
- 4. Presentation and Analyzing of Data:** This chapter is the main body of the research. It deals with the presentation and analysis is the last chapter of this study. It provides the summary, conclusions and recommendations of the study.

CHAPTER II

REVIEW OF LITERATURE

2.1 Conceptual Review

2.1.1 Meaning of Investing Process and Trend

The word investment brings forth vision of profit, risk, speculation and wealth (John M. Cheny and E.A. Moses 1992: 6). Investment in general is the process of sacrificing certain present value for the uncertain future reward. Investor's preference consists of two separate words; investors and preference. Both word has distinct meaning like 'investors' means those person who have sum of money that is invested with the motive of future profit and 'preference' means willingness or the favoring of one person, institution, country, material(oxford dictionary).

Investment does not always denote with profit. As mention above, it brings forth vision of profit, risk speculation and wealth. Investors cannot always enjoy with profit but sometime he/she has to face the sorrow of losing in context of different circumstance. Profit itself brings joys but investment does not always associated with out of danger zone. Sometime investors can be the victim of various factors like insider trading, fraudulent activities and poor management. So, choice among the investment objectives is strongly influenced by the investors' investment objectives and timeline of making investment. Therefore, there should be good mechanism to be protected from mal practices.

A wide range of investment alternatives is crating complication to the individual as well as institutional investors. Due to the good accessibilities, investors are more informed about the new segment of investment. Companies are more liberal in the case of conveying information. Today, the

field of investment is becoming more dynamic in every second. It is hard to compare what it was even only a decade ago. The investors have so many assets to choose from and the amount of information available to the investors is staggering and continuously growing. “The development of personal computer and their use at home has increased individual ability to track investment and to perform investment analysis. Furthermore, the inflation of the early 1980s and the recession of the early 1990s have served to increase awareness of the importance of financial planning and wise investment (H.B. Mayo, 1996:3)”.

On the course of development in the field of investment, various types of investment trends are developed like, individual investment, corporate investment, foreign investment, portfolio investment, joint ventures etc. with the development of different patterns of investment definitely creating difficulty to the investors. In addition to the traditional common stock, preferred stock and bond alternatives, other financial assets such as convertible, warrants, rights, commodity futures, financial futures, options in individual common stocks are commonly featuring on the field of investment. Therefore, the preferences of investors are influencing by various factors like the objectives of the investment, the expected rate of return, the risk involved, taxes, investment strategy, potential scope associated with investment etc.

The form of business organization also plays vital role on investment decisions. “The forms of business organization in Nepal are domestic companies, foreign companies, partnership, registered corporation and sole proprietorship. However, foreign investors or a foreign company are permitted to make foreign direct or portfolio investment in Nepal in pursuant to FITTA, 1992 with profit motive either wholly or semi-owned” (Karki, 1999:21).

“Now, we are in the age of globalization and economic liberalization. Free and open market economy system is the approach toward eco-liberalization. It means to operate economic activities freely without consumption and profession or investment related decision is conferred the individuals”

(‘Silwal, 1999:32). Therefore, when we talk about the concept of investors’ preference, it would be better to talk about investing process, the environment, economic conditions, the potential scope of investment, the form of investment, timing, diversification etc.

The main objective of investment is to maximize the wealth of an investor. However, in the growing investment scenario, investors are the background of the capital market and they expect return by sacrificing their income to generate more return in future but this is what management of companies is not realizing. The preference of the investors should be taken as the indicator of the growing security market. Above all, investors are the formulating body of any capital market. Without their existence, no financial product activates itself. The dependence of investment decision on profit expectations really helps to explain the volume of investment made of different time and the ups and down of the economy.

2.1.2 Investment

Investment in its simplest form means employing money to generate more money in future. It is the sacrifice of current rupees for future rupees. A return is the primary motive of investment but it always entails some degree of risk. Investment in its broadest sense means the sacrifice of current dollars for future dollars. Two different attributes are generally involved, time risk (Sharpe, et.al, 1998.1).

“Investment by individual, business and government involves a present sacrifice of income to get on expected future benefit; as a result, investment raises a nation’s standard of living” (Encyclopedia Americana, 1976:232). According to Oxford Dictionary of Business English (1994:209), “Investment is the purchase of materials; machine etc to produce goods for sale or the purchase of property, shares, securities etc to sell again to make a profit or to receive money/return in the form of Interest or Dividends.”

Investment can be a real investment or a financial investment. Investment in tangible assets like land and machinery is a real investment. It has productive

capacity. Investment in financial asset like common stocks and bonds is financial investment. It does not directly possess productive capacity. Financial assets may also be viewed as claims to the income generated by real assets. In this sense, the values of financial assets are derived from the value of the underlying real assets of the firm.

Investments are capital formation. The acquisition or creation of resources to be used in production. In capitalist economy, much attention is focused on business investment in physical capital, buildings, equipment and inventories. In principal investment should also include non-market output as well as goods and services produced for sale (Eatwell, et. al, 1987:980).

Business expenditures help to capital market formulation. In free economic system, businesspersons undertake investment when they found an opportunity for good return. In doing so, they compare the cost of borrowing with the expected rate of return. If the difference consists good enough to cover the risk involved, the investors attempt to have investments (Pokharel, 2001:18).

Investment is expenditure to acquire property or other assets in order to produce revenue, the asset to acquired, the placing of capital or lay out of money in a way intended to secure income or profit from its employment. Process of exchanging income during one period for an asset that is expected to produce earning in future periods. Thus, the investor's consumption in the current period foregone in order to obtain a privileged return in the future.

In keynsian economics, investment means real investment. Real investment impulse the creation of new machines, factory, buildings, roads, bridges and other forms of productive capital, where directly generates new jobs and increases production. Real investment does not include the purchase of existing stocks, shares and securities, which constitutes merely an exchange of money from one person to another. Such an investment is simply financial investment and has no direct impact on employment and output of economy. Therefore, real investment involves the addition to the existing capital that results increasing employment. According to Stonier and Hange, "By

investment, we don't mean the purchase of existing paper, securities, bonds, debentures, or equities but the purchase of new factories, machines etc." In the word 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." According to Peterson, "Investment expenditure includes expenditure for producer's durable equipment, new construction and the change in investment."

Investment is known as postponed of consumption for future. Actually, the term investment has different meanings. Economists consider it as the purchase of assets like plant and machinery, house, land etc. In addition, the financial analysts considered it as the purchase of financial assets such as purchase of shares, bonds, debenture, warrants and options (Bhattarai, 2002:1).

'Investment' or 'Investing' like 'value' is a word of many interpretations. There are three concept of investment: 1) Economics investment that is economist's definition of investment. 2) Investment in a more general or extended sense, which is used by the average person. 3) The concept in which we are going to be very much interested; the financial investment. The term 'economic investment' has a rather precise meaning in the literature of economic theory. For a number of reasons, economists also include inventories (that is, goods produced and still in the manufacture's hands) as part of that capital stock that is a net addition to the capital stock. The everyday usage of the term investment can mean a variety of things but to the average person it usually refers to a money commitment of some sort. Financial investment is a form of this general and in very extended sense of the term. It means an exchange of financial claims stocks and bonds (collectively termed securities), real estate mortgages etc. Investors to differentiate between the pseudo-investment concept of the consumer and the real investment of businessperson often use the term financial investment. Semantics aside, there is still a difference between an investment in a ticket to horseracing and the constructing of a new plant, between the pawning of a

watch and the planting of corn. Some investments can simply transect among people, others involve mature. The latter are 'real' investments and the former are 'financial' investment. However, here investment would imply the employment of funds with the objective of realizing additional income or growth in value of investment at a future date (ibid: 4).

2.1.3 Investment Decisions

Investors do not make investment decisions in all investment alternatives available in the market. They choose a few among them. Generally, gross investment is determined by two main factors: the real interest rate and expected profit rate. Other things remaining the same, higher the expected profit rates on capital, higher the amount of investment. To decide whether to undertake an investment or not, a firm compares the expected profit rate with the opportunity cost (real interest rate) of funds. Others things remaining the same, the lower the real interest rate, greater are the amount of investment undertaken (Parking, 1996:202).

There is one basic fact about investment spending in a market system that one should never forget. Business firms invest in equipment and buildings in order to make money. It is as simple as that, all investment expenditure is undertaken in the expectation of profit. However, it will be harder to separate expected and real profitability line in ground level that is always depends on current level of output, sales and costs, investment objectives, taxes, investment timeline, investment strategies, timing as well as the diversification. This is good common sense but it does not mean that investment will take place only when current profits are satisfactory, because in many instances firm with low profit margins will invest in money –saving equipment in an effort to reduce costs (Peterson, 1987:199).

In short, investment decisions largely depend on lots of information related to asset on which we are making investment. Situation of markets, risk and return, taxes level, alternative opportunities available in the market, bank interest rate, governmental policies, expected changes in the environment ,

changing attitudes of investors etc are some of the determinant of whether or not the investment to be made.

2.1.4 The Investment Process

The investment process originates how an investor should go about making decision with regard to what marketable securities to invest in, how extensive the investment should be and when the investment should be made. A five step procedure for making these decision form the basis of the investment process (Sharpe et.al, 1998:10-14).

2.1.4.1 Investment Policy/Strategy

It is an initial step. Setting investment policy involves determining the investor's objectives and the amount of his investing wealth. There is a positive relationship between risk and return for sensible investment strategies. It is not appropriate for an investor to say that his objective is to 'make a lot of money'. What is appropriate for an investor in this situation is to state that the objective is to 'attempt to make a lot of money'. While recognizing that there are some chances that large losses may be incurred. Investment objectives should be stated in terms of both risk and return. This step in the investment process concludes with the identification of the potential categories of financial assets for consideration in the ultimate portfolio.

2.1.4.2 Security Analysis

The second Step in the investment process, performing security analysis, involves examine a number of individual security or groups of securities within the board categories of financial assets previously identified. One purpose for conducting such examinations is to identify those securities that currently appear to be under or over priced. There are many approaches to security analysis. How ever, most of these approaches fall into one of two classifications. The first classification is known as technical analysis and the second one is fundamental analysis. Technical analysis involves the study of

stock market prices in attempt to predict future price movements for the common stock of a particular firm. By testing the past prices, the pattern of price movements is studied and thus expected future price is forecasted. Fundamental analysis involves with the computation of the real present value of assets. For this expected cash flows, time factor, discount rate plays a vital role.

2.1.4.3 Portfolio Construction

A Portfolio is a combination of assets designed to serve as a store of value. In another sense, it is an accumulation of assets owned by the investor and designed to transfer purchasing power to the future (Herbert B. Mayo: 1993). Portfolio construction is the third step in the investment process and it involves identifying those specific assets in which to invest, as well as determining the proportion of the investors' wealth to put into each one. Investing in portfolio rather than in a single security reduce risk. Constructing portfolio requires specific knowledge of the different types of securities. Here the selection of securities, timing and diversification need to be addressed by the investor.

2.1.4.4 Portfolio Revision

Portfolio revision concerns the periodic repetition of the previous three steps that is over the time the investor may change his investment objectives which in turn, means that the currently hold portfolio may no longer be optimal. Instead of holding all existing securities, investor should form a new portfolio by selling certain currently held securities and purchasing new securities. Another motivation for revising a given portfolio is that over the time the prices of securities change meaning that some securities that initially were not attractive may become attractive and others that were attractive at one time may no longer be so. However, investors' portfolio revision decision depends on transaction cost, investment environment, needs and preferences of the investors.

2.1.4.5 Portfolio Performance Evaluation

Investor should evaluate the portfolio performance periodically. It involves determining periodically how the portfolio is performing in terms of the return and risk. Performance evaluation is an integral part of the investment process. Evaluation and control mechanism can make this process more effective. Therefore, appropriate measures of return and risk as well as relevant standards, benchmarks are necessary.

2.1.5 Securities Market

Securities market is an important constituent of capital market. It has a wide term embracing the buyers and sellers of securities and all the agencies and institutions that assist the sale and resale of corporate securities. The development of sound securities market with its constituent financial institution is one of the mechanisms. It enables the efficient transformation of savings from the hands of surplus spending units to those of deficit spending ones who can use them more productively and have loss/risk aversion (Rogh, 1966:50).

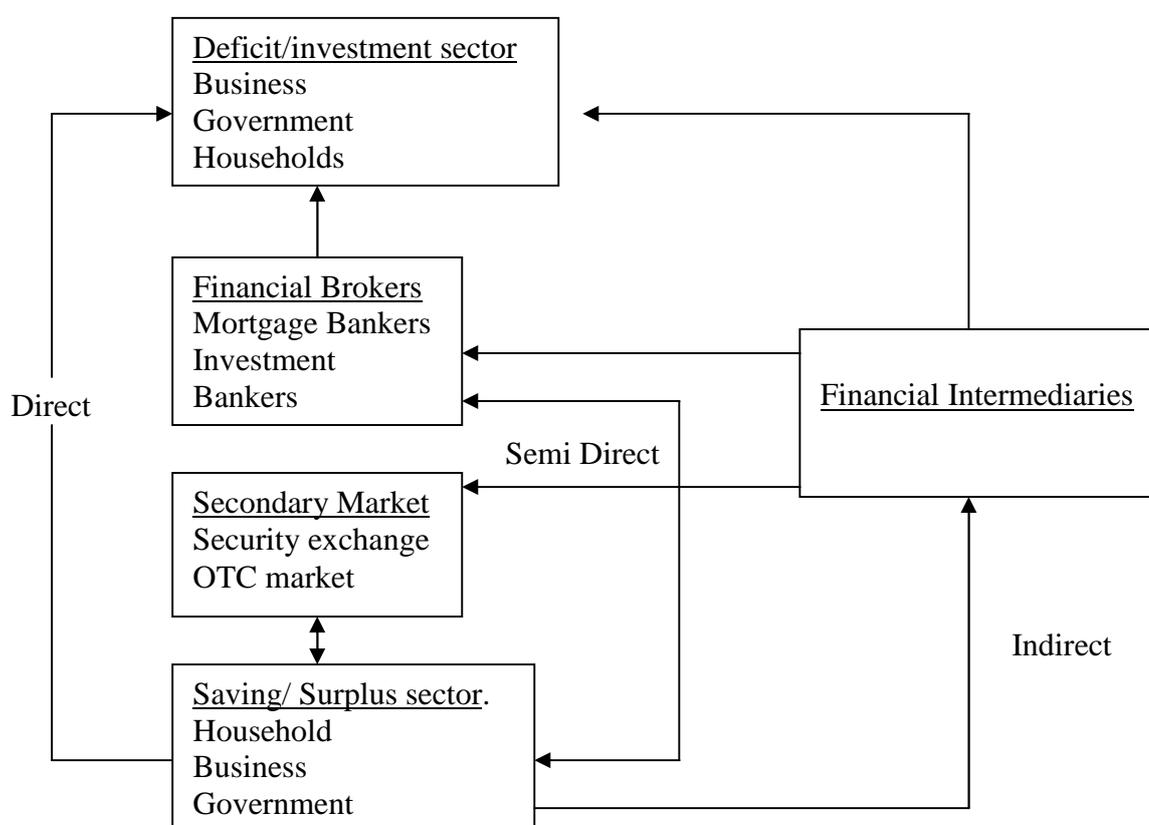
Security markets refer more to mechanism rather than to place, designed to facilitate the exchange of securities by bringing buyers and sellers of securities together. In other words, people and organization wanting to borrow money are brought together with those having surplus fund in the securities markets. Securities such as equities, short and long-term debt instruments, derivatives etc are the products that are traded in the market. Institution such as investment bankers and security firms, securities issuing institution such as government and corporate bodies and the participants of the securities markets. Securities markets' major function is to provide line between saving and investment there by facilitating the creation of new wealth (Baral, 1999:8-9).

The existence of markets for securities is of advantage to both issuers and investors. As to their benefit to issuers, securities market assists business and government in raising funds. In society, with private ownership of the means

of production and distribution of goods and services, saving must be directed towards investment in industries where capital is most productive. Government must also be able to borrow for public improvements. Market mechanism makes possible the transfer of funds from surplus to deficit sectors, efficiently and at low cost (Fisher and Jordon, 2000:17).

Surplus money of the surplus unit is transferred to deficit unit in three ways, which is presented in the figure below.

Fig. 2.1: Transformation of Money from Surplus Unit to Deficit Unit:



Source: Dahal, 2002:3.

As shown in transformation of money from surplus unit to deficit unit system above financial instruments are used in which surplus sector makes the investment and deficit sectors get the investing amount.

Securities markets facilitate the sale and resale of transferable securities. However, there are three things securities market must do (Kohn Meir, 1998:524).

- Determine a fair price for the securities in trades (Price Discovery)

- Enable transaction to be made at this price quickly and easily (The Provision of Liquidity)
- Enable transaction to be made at as low cost as possible (Minimization of Trading Cost)

Classification

One way which securities markets may be classified is by the types of securities bought and sold there. The broadest classification is based on whether the securities are new issues or are already outstanding and owned by investors. New issues are made available in the primary markets and securities that are already outstanding and owned by investors are bought and sold through the secondary markets. Securities market can also be classified taking considerations of maturity period. Securities with maturity period of one year or less traded in the money market; those with maturity period of more than one year are bought and sold in the capital market. It is needless to mention that classification criteria may have many variations.

2.1.5.1 Primary Market

Securities available for the first time are offered through primary market. This issue may be of a brand new company or one that has been in the business for many years. The securities offered might be a new type for the issuer or additional amount of security used frequently in the past (Fisher and Jordan, 2000:17).

The primary securities market includes all transactions that result in the accumulation of financial capital by firms, government or individual to be used in consumption or real capital investment. The participants in this process are many and varied, but an important segment, includes the money brokers who act as intermediaries in the process of exchanging securities for fund. These brokers provide invaluable services. Their principal role is to assist in the pooling of funds by the certain security forms that will appeal to the ultimate investors (Jacob et.al, 1996:146).

Primary markets are distinguished by the flow of funds between the market participants. Instead of trading between investors as in the secondary markets, participants in the primary market buy their assets directly from the source of the asset. Once the assets or securities are sold in the primary market, they begin trading in the secondary market (Hirt and Black, 1983:25).

All securities whether in the money or capital markets, are initially issued in the primary market. This is the only market in which company or government is directly involved in the transaction and receives direct deficit or benefit from the sale of securities. Once the securities begin to trade among individual, business, government or financial institution savers and investors become the part of the secondary market (Gitman, 1988:30).

Primary market is the place where instead of goods and services, securities are sold to mobilize the saving for the establishment and operation of the business. It is the market where original sale of securities takes place. It is also known as IPO market because Initial Public Offerings are done through this market. Securities can be sold at par, at premium and at discount. However, Nepal company act 1997 has restricted to sell the securities at discount. Nepal Stock Exchange issues license for initial public offerings and Security Board of Nepal regulates the primary market in Nepal. Before the establishment of security exchange centre, there was no any institutional governing body undertaking the responsibilities of arrangement to the new issues. A public limited company could make public offering according to the provision of the company act 1964. When security exchange center came into existence, it started managing new issues of securities according to the guidelines for new issues and sales mgmt act 1986. It charges commission for its service to the issuing company varying from a minimum of 1.35 % to 2.5% depending upon the value of securities sold. The issue managers who arrange the sale of securities charges commission to the issuing company at the rate of 2.5% of the value of the sold securities up to Rs 2.5 million. If the value of the issue is more than Rs 10 million the rate of commission is 1.5% (Timilsina, 2001:4).

2.1.5.2 Secondary Market

The existing and pre-developed securities are bought and sold in the secondary market. The main function of this market is to provide liquidity to the purchase of securities. This market remains as a centre to convert stocks, bonds and other securities into cash immediately. Even though secondary market provides liquidity to the securities, investors are encouraged to buy securities in the primary market. The transactions are more in secondary market than in primary market. However, these markets involve in mutually exclusive related. For example, if the interest increase or the prices of securities increase in secondary market, the interest and price of primary market also increase because of the investment transfer from one market to another according to price and return. As for instance, financial institutions become active in both markets.

Secondary market comprises stock exchange and over-the-counter market (popularly known as OTC market). The stock exchange is an open market that is registered in the concerned agency of the government. It is a voluntary organization established to purchase and sell securities of large business enterprises. Listed organization's securities are transected in stock exchange. Market for the securities not listed in the in the stock exchange is called over the counter market. It is not a particular organization but an intangible market for the purchasers and sellers of securities not listed on the organized exchange centre. A sophisticated communication network links active traders in this market. Competitive bids and negotiation determines the prices at which securities are traded 'over the counter'. Nowadays, OTC market is defined to include all facilities that are needed to conclude security transactions not conducted on the organized exchanges. These facilities consist of the relative few dealers who hold inventories of OTC securities and who are said to 'make a market' in these securities, the thousands of brokers who act as agent in bringing the dealers together with investors and the computer terminals and electronic networks that provide a communication link between dealers and brokers (Brigham et.al.,1998:78).

2.1.5.3 Capital Market

The capital market makes available the long-term credit facilities to the government and corporate sectors. It provides the liquidity to the long-term investment. The maturity preference of lender and borrower is adjusted in capital markets. With the help of capital market, lender immediately can change securities into the cash and borrower receives long-term credit facilities. It helps to distribute the ownership of business to many persons and re-distribute financial assets among business firms and industries. The maturity of the instruments traded in capital market is of more than one-year period. In short, capital market is just what the name implies: a market for capital funds. Strictly speaking, the capital market encompasses any transactions involving long-term debt or equity obligations. Functions and importance of capital market can be listed as follow:

- It mobilize savings
- Channel savings to investments
- Promotes long-term investment s
- Increase quality of investments
- Provide liquidity
- Attract foreign capital
- Balance and enhance economic growth

In Nepal, security market consists of two parts; securities market consisting national saving bond, corporate shares, bond, debenture etc gone into the market through bond market and stock exchange and non-securities market means activities of providing loan to bank, financial institutions industries and businesses for the long-term popularly known as debt market in Nepal (Prashikshan, 1999,vol. 42:58).

2.1.5.4 Money Market

Money market is a market for short-term (less than one year) loans. Its very name suggests that money is being bought and sold. The short-term funds are transected in money market. In general, the duration of credit is less than one

year. Hence the evidence of credit maturity in less than one year time is the instrument of money market. The main function of money market is to provide working capital to the business and short-term loans to the government. This market also makes available loans to make speculation of goods and securities. World Bank defines money market as ‘A market in which short-term securities such as treasury bills, certificates of deposits and commercial bills are traded’. The money market has the following main features:

- The money market makes credit available by exchanging financial assets instead of money.
- This market makes credit available only to supply the short-term cash.
- This market brings savers in cash and those having deficit in cash contact with each other and makes lending and borrowing possible. Moreover, it works as the short-term credit mechanism of government, business and financial institution and on the other hand, it is able to provide some returns by making available investment opportunity to the idle resources of the savers.

2.1.6 Types of Investor

- A) There are various types of investor in the market. However, they could be comprehended into two categories as individual investors and institutional investors.
- I) **Individual Investors:** A person who invests in securities is called individual investor. Individual investors most often have a job apart from investing in securities. Individual investors have an opportunity cost in obtaining investment information from reading publication, tracking stock prices, companies’ performance, building files on securities. This opportunity cost is the time and resources forgone that could have been used in other endeavors.
- II) **Institutional Investor:** Institutional investors are financial institutions or intermediaries that hold securities of other

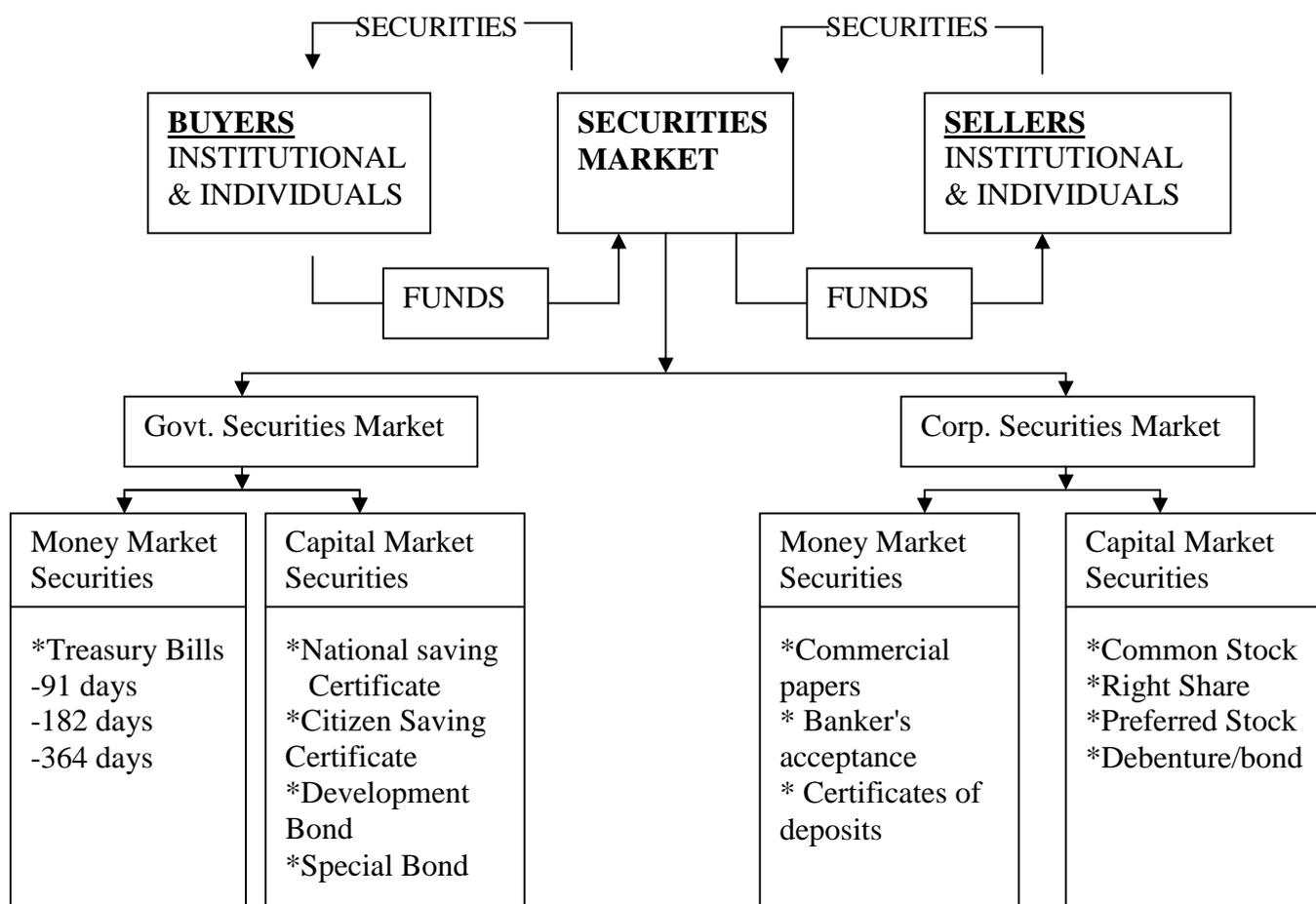
corporations. In very broad sense, institutional investors are simply financial intermediaries of any type.

New York stock Exchange, the largest stock exchange of the world, has define institutional investor as an "..... entity with large amounts to invest, such as investment companies, mutual funds, brokerages, insurance companies, pension funds, investment banks and endowment funds. Institutional investors are covered by fewer protective regulations because it is assumed that they are more knowledgeable and able to better protect themselves. They account for a majority of overall volume (<http://www.nyse.com>)". Institutional investors are managed by trained professional who are usually more aware than ordinary investors of the potential conflicts of interest and agency problems facing corporate management. They are thus better able to insist on legislation that protects the right of minority shareholders and ensure market integrity. They also have interest in promoting more effective corporate governance structure and in developing a more robust regulatory framework. Institutional investors can also exert effective pressure for more modern and efficient trading, clearing, settlement facilitating, including the creation of central securities depositories and book entry system. (The world bank, 2001)

In Nepal, institutional investors have not got specialized as we found in the developed countries. The major investing institutions in Nepal are:

- Commercial Bank
- Finance companies
- Insurance companies
- Citizen Investment Trust
- Investment Bankers
- Employee provident fund
- Collective Investment Scheme
 - i. NCM Mutual fund.
 - ii. Citizen Units Scheme (CUS).

Fig. 2.2: Securities Market Mechanism



Source: Subedi, 2004:28

B. On the other hand, the immediate subscription of stocks depends upon various types of investors. They are classified into various groups on the basis of investment time horizon as well. Some of them are long-term investors, some of them are primary issue investors and some of them are speculative investors ([http:// www.nrb.org.np](http://www.nrb.org.np)):

I. **Long term investor:** Investor under this category has wide time horizon exceeding a period of one year and his primary motive is to get returns in excess of the prevailing bank interest rates. The period of such investment normally varies from one to three years and profit to accrued are termed as long term capital gains. Conversely, a short-term investor look for short-term

gains and his primary motive is capital appreciation. [The time horizon in this case is normally 3 to 6 months].

- II. Primary issues investor:** Such category of investor associates themselves only with the initial public offering by any company raising capital. Such types of investors normally liquidate their holdings as soon as the security is listed in the stock Exchange to book their profit that may have accrued. In the stock Exchange terminology such an investor is called a stag.
- III. Speculator:** One who anticipates a rise/fall of price of securities in near future is called a speculator. Speculators could be of two types. A 'Bull' and another is 'Bear'. A 'Bull' speculator is one who anticipates a rise of price in near future and therefore, buys shares so that he can sell them at a higher price the market in termed bullish. A 'Bear' speculator is one who anticipates a fall of price of securities in near future. Speculators with bearish tendency sell securities so that they may purchase in future at lower price and earn profit. The market is then termed 'Bearish'.

2.1.7 Financial Instruments/ Securities

Any written document that gives formal expression to a legal agreement or act is known as instrument. Generally, financial instruments are financial assets which are investable. These instruments and market can be categorized in three ways. Firstly, the money market, which consists treasure bills, certificates of deposit, commercial paper, bankers' acceptances, Euro dollars, repos a reverses, federal funds, brokers' call, the LIBOR (Landon Inter Bank Offered Rates) market. Second is the fixed income capital market and it involves treasury notes & bonds, Mortgages and mortgage backed securities. And the third is equity securities, which consists of common stock and preferred stock (Bodie, Kane & Marcus, 1999:29).

Financial instruments are traded in the financial market. Investors can buy or sell securites immediately at a price that varies little from the financial

markets and facilitates the pricing discovery process. Buy and sell orders that flow from investors demand and supply preferences determine the price of securities in the security market. It plays a significant role in bridging the gap between the deficit and surplus units of society. The common stock, preferred stock, debentures and government securities are mainly used in terms of securities in Nepal. The preferred stock and debentures are not commonly used in Nepal. Basically the common stocks are traded through NEPSE. However, governmental securities are also important securities, which are issued by government through Nepal Rastra Bank.

2.1.7.1 Capital Market Instruments

Securities with an original maturity of over one year are traded in the capital market. Stock certificates, bonds, debentures, certificates of deposit with maturities over one years, collateralized mortgage obligations and beneficial interests in business trust are all capital market financial instruments most capital market financial instruments are readily transferable from one owner to another and there is a ready market for most of such instruments. Stock certificate e.g. are endorsed on their back and sent the transfer agent who cancels the old stock certificate and issue a new stock certificate in the name of the new owner. Some securities exist only in book entry form without issuance of any certificate, some securities are registered with certificates issued, and some securities are in bearer form. Those in bearer form require no endorsement. Physically handling a bearer security from owner to the new one completes transfer.

2.1.7.2 Money Market Instruments

Financial instruments in the money market have an original maturity of one year or less. Commercial paper, U.S. Treasury bills, negotiable certificates of deposit bankers' acceptances, short-term debt of Local government are financial types of financial instruments in the money market. The instruments of money market are characterized mainly by short duration, large volume of transaction of highly liquid instruments and deregulated

interest rates. The individual instruments are elaborated as follow (Shrestha 2003:322-324, Mirmire, vol. 212).

A. Call money or money at call and short Notice

Call money is the fund which can be borrowed as lent by the participants for the very short period of 1 day to 7 days and repayable upon the request of either party. If the duration is longer than 7 days or 7 to 14 days, it is called 'notice money'.

This is most important instrument in terms of volume of transaction an also the fact that rates in this market is indicative of conditions prevailing in money market, because the rates of other instruments are linked to the rates obtaining in call market. Since, call money deals do not entail any collateral security, the interest rates (quotes) are subject to high volatility.

B. Treasury Bills

Treasury Bills are short term promissory notes issued by the government through its central bank under discount and for fixed period. Generally, Treasury Bills are for 3 period of maturities, VI3. 91 days, 182 days, 364 days. Treasury Bills are issued at discount and the face value paid back at maturities. These are highly liquid and safe investment giving attractive yield. This is the most important instrument for hedging against volatility in call money market. Moreover, Treasury Bills help participant in parking their surplus fund to increase profitability and also to meet their liquidity requirements, outright purchase, outright sale and Tap Sale. Outright purchase, cent right sale, Tap sale and Repos (including Reverse Repos) are the secondary market instruments for T-bills available in Nepal.

C. Commercial Bills or Bills Rediscount Scheme

Commercial Bills are generally the trading bills accepted by commercial Banks. There bills are bought or sold at a discount rate and the face value will be realized from the drawer at maturity. It is very safe method of providing short term loan by the bank. The bank buys the bill of exchange of firms and

makes payment of those bills after deducting discount or interest. Commercial Banks get rediscounting facility from the central bank on such bills.

D. Certificate of Deposits (CD)

These are negotiable financial instrument issued by a banks documenting a deposit with principal and interest repayable to the bearer at a specified future date. These are issued at discount to face value of 90 days to 364 days duration and freely transferable from one to another holder if issuing bank get the endorsement from the existing holder. This is an important instrument for mobilizing bank funds by the commercial banks at low operational cost. It is safe and liquid investment option to commercial banks giving attractive returns to the short term investors. Nepal Bangladesh Bank is the first its kind taking this instruments into the action.

E. Commercial Papers (CP)

The commercial paper is the oldest of the money market instruments. It is unsecured promissory notes issued by the companies having strong financial position and credit rating to raise short term working capital requirements directly from the market instead of borrowing from banks. Commercial papers generally have the transactional duration of 3 to 6 months helping participants to raise and deploy funds for better profitability with minimum paper works. The commercial papers are principally traded in the primary market and possibility of resale in secondary market is limited.

F. Inter Bank Participation Certificates (IBPCs)

These are the short-term exchange of liquid assets between banks with no intermediary. These are issued at interest determined in the market and for certain maturity period. This is an important instrument both for issuer and lender. The issuer can tide away its temporary liquidity by issuing IBPC without diluting to asset and for the lender, it provides a safe investment opportunities with adequate return.

G. Repurchase Agreement (Repo)

This is an agreement between buyer and seller in the sale of securities to reverse the transaction in the future at a specified date and price Repo transactions are of recent origin, which has gained tremendous importance due to their short tenure and flexibility to suit both lender & borrower.

H. Banker's Acceptance

Generally Banker's Acceptance are a subset of exchange, which are guaranteed by accepting banks. Moreover, it is a time draft (post dated instrument) payable to a seller of goods, with payment guaranteed by a bank. A Banker's Acceptance is immediately negotiable and the seller can either receive discounted payment at the accepting bank or holds the draft until the date of maturity.

Some financial instruments do not involve lending or borrowing. Instead, they effect the transfer of funds from one economic entity to another the cheque drawn on a depository institution is the most important of this type of financial instrument.

2.1.8 Corporate Financial Instrument

In Nepalese financial market, two types of financial instrument are exist. First one is governmental security, which often issued for the internal debt required to the government. Second one is corporate financial instruments issued by public and private company. These corporate instruments are discussed below.

A. Common Stock or Ordinary Shares

The most important form of corporate stock in common stock or ordinary share. The common stock holders are the real owners of a firm. They invest on the firm with the expectation of return in future. IT is because, they receive only the residual left after satisfying the claims and obligations of the firm.

Common stock holders have the right to control the company through their voting rights, unless such rights are specifically with held, as in special

classes of 'non voting' shares. The common stock holders' legal rights may also include preemptive rights to maintain their proportion of equity when new stock is issued.

Common stock holders hope to receive a return based on two sources; dividend and capital gain. Dividend is received only if the company earn sufficient money and the board of directors seems it proper to declare a dividend. Capital gain arises from an advance in the market price of the common stock, which is generally associated with a growth in per share earnings. However, earning often do not grow smoothly over the time. It means, the market price of common stock is often subject to wide fluctuations, because it depends largely upon investors expectations of future earnings. (Fisher, 1995:11-12).

B. Preferred Stock

Preferred stock, though not as popular with investors as bonds and common stock, offers unique features that make it attractive under certain circumstances. First, it is a hybrid security because it has characteristics of two types of securities: debt and common stock. Second, it is essentially a fixed-income security-preferred stock investors typically receive a fixed dollar dividend. (Cherries & Moses, 1999:404-405)

The preferred stock is not only a long-term source but also a permanent source of finance. The annual dividend is expressed as a percentage of per value of stock. However, for this the company should have declared dividend. In this sense, preferred stock is like a perpetual bond. A given rupees amount is to be paid each year by the issuer to the investor. This amount may be stated on a percent of the stock's per value or directly as a rupees figure. Preferred stock generally receives preferential treatment when it comes to dividends. Specified payment must be made on the preferred stock before any dividend may be paid to holder of the firm's common stock. Failure to pay a poeltered dividend in full does not constitute default, but up paid dividends are mually cumulated and paid later. (Sparpect. al, 1998:420).

C. Bonds/ Debentures

A bond is a type of fixed-income security issued by a borrowing entity in which the amount to be paid to the investor is specified in the investment contract or indenture. It is important to remember that a bond represents a debt of the issuer. Essentially, the issuer has borrowed funds and agreed to make specified payments to the bondholders that represent periodic interest payments and ultimately the repayment of principal. Since a bond is a liability of the issuer, the bondholders receive priority over common stockholders in two important ways. First, they have priority in receiving interest income each period; the issuer has a contractual obligation to make these distributions, even if the issuer's income is not adequate for the period. Second, the bondholders have priority in the event the issuer's assets are liquidated; since bonds are liabilities, funds from a liquidation must be used to pay these claims before any distribution can be made to preferred or common stock investors. (Cheney and Moles, 1992:314).

The term debenture usually applies to the unsecured bonds of a corporation. Investors look to the earning power of the corporation as their security. Because these general credit bonds are not secured by specific property in the event of liquidation the holder becomes a general creditor. Although the bonds are unsecured debenture holders are protected by the restrictions imposed in the indenture, particularly the negative pledge clause, which precludes the corporation from pledging its assets to other creditors. This provision safeguards the investor in that the borrower's asset will not be impaired in the future. However, debenture holders must look to the general credit of the borrower to meet principal and interest payments. Only well established and credit worthy companies are able to issue debentures and most corporate bonds and debentures are traded in the over the counter (OTC) market, unless the issuing firm has its stock listed on the stock exchange (Van Horne, 1999:512).

D. Convertibles

A convertible security is a bond or a share of preferred stock that can be converted at the option of the holder into common stock of the same corporation. The investor is provided with a fixed return from a bond or with a specified dividend from preferred stock. In addition, the investor has an option on the common stock. As a result, a company is able to sell a convertible security at a lower yield/habit would have to pay on a straight bond or preferred stock issue. (Van Horne, 2003:679).

Convertibles and preferred stock are the oldest hybrid securities. Preferred is debt like equity; a convertible is equity like debt. The holder of a convertible bond can exchange the security at his option for the common stock of the issuer in accordance with the terms of the bond indenture. Convertible can sell convertible bond at a lower coupon than it could sell straight debt or even mortgage bonds. The attraction of possible equity profits for the investor allows a lower coupon. Further on conversion its interest charges are reduced. Also, the company can often get a higher price for its stock by selling convertible bonds that will be converted to equity at a higher price in the future than today's price. Similarly, selling convertible bonds does not necessarily depress the price of outstanding shares today because there is no immediate dilution of the equity from the point of view of the investors, the convertible is also attractive. If the affairs of the company go badly and the stock prices does not raise, the investor is, as a bond holder, a creditor. This protects his or her position. (Walmsley, 1988:65).

Corporate investors receive favourable tax treatment on dividend income from common and preferred stock, but his favourable treatment is not available to the individual investors. For this reason, corporate investors prefer convertible preferred stock while individual investors prefer convertible bonds. Because they combine features of both fixed- income & common stock securities, convertibles have several characteristics.

) Conversion Ratio/ Price.

The ratio of exchange between the convertible security and the common stock can be stated in terms of either a conversion price or a conversion ratio.

) Conversion value & conversion premium.

The conversion value of a convertible security is the conversion ratio of the security times the market price per share of the common stock. And the conversion premium is the premium of conversion price over share price at the time of issuance.

) Call feature

Virtually all convertible securities have a call feature. As was true with straight debt or preferred stock, this enables the corporation to retire the security through paying the holders cash. Few convertible securities, however, are ever redeemed for cash. Instead, the purpose of the call is to force conversion when the conversion value of the security is above its call price.

In short, a convertible security is a debenture or preference share that can be changed into a specified number of common shares of the owner. A company is, in fact, intending to issue common shares in future whenever it offers of the convertible securities. The most notable feature of the convertible security is that it promises a fixed income associated with elementary or preference share as well as the chance of capital gains associated with common share after the owner has exercised his conversion option.

E. Warrants

A warrant is an option to purchase a specified number of shares of common stock at a stated price. When holders exercise options, they surrender the warrants. Warrants are often employed as "sweeteners" to a public issue of bonds or debt that is privately placed. As a result, the company should be able to obtain a lower interest rate than it would otherwise. For companies that are

marginal credit risks, the use of warrant may make the difference between being able and not being able to raise funds through a debt issue. Occasionally, warrants are sold directly to investors for cash. On other occasions they are used in the founding of a company as compensation to under writers and venture capitalists. Still the origin of most warrants is in connection with a debt issue, often a private placement (Van Horne, 2003:615).

Here are some features associated with warrants (Paul Schultz; 1993:681-96).

-) It is an option to buy common stock, often used to sweeten a debt issue for the investor.
-) It itself contains the provisions of the option. I provide the options regarding the proportion, exercise price and the duration.
-) The warrant must specify the date the option expires, unless it is perpetual having no expiration date. Because a warrant is only an option to purchase stock, warrant holders are not entitled to any cash dividends paid on the common stock, nor do they have voting power. If the common stock is split or a stock dividend is declared, the option price of the warrant usually is adjusted to take this change into account. Some warrants are callable after a period of time provided that share price exceeds some minimum price.

2.1.9 Government Securities

Specially having the motto of tackling the deficit budget of the country, Government has been issuing various securities to collect small and scattered funds from public. After all, government is the major consumer of financial resources of the country. Analysis and author after conducting may researchers have come to the conclusion that collecting funds from internal debt not so risky as compared to external debt. According to the, the funds transfers from one institution or person to another institution or person. In fact the funds circulates within the country promoting the economy of the country. Government issues long-term as well as the short term bonds. The quantity of

long as well short-term bonds depends upon the investment volume. The types of government securities in Nepal are as follows (Ibid: 6-10)

I. Treasury Bills (TBs)

It is the short-term government bond. It is issued to fulfill deficit budgetary system in Nepal. It normally matures in 90 days while some mature in 364 days. It is issued to collect scattered funds and to mobilize it in productive sector and also conduct fiscal and monetary policies. It is issued on the basis of auction so that any individuals and institutions can invest in Treasury Bills.

The face value on the Treasury bill is refunded to the holder after its fixed maturity period. It is normally taxable and five percent tax rate is deducted from income at the time of refunding face value at maturity period. The selling of treasury bills is through bidding system in the market. The investors have to clearly mention only bid price at the time of purchasing treasury bills. They may not mention interest rate. The holder of these bonds can keep collateral and funds can be taken against T-bills. The holders of T-bills can get 90% cash when the T-bills are used as collateral. The subscription of T-bills is high in the market since the inception of its first issuance. It is a general practice that the action paper, which is less than twenty five thousand, will not be accepted.

II. Development Bond

It is a sort of long term government bond. It has normally 5 years of maturity period. Individuals as well as institutions can hold it. It can be used as the collateral. Normally 90% amt is gettable while kept it as collateral with fixed minimum interest percentage payable in semi-annual basis. The income associated with this is taxable. It is the major source of government funds. They are issued to collect long term funds to counter the deficit budgetary system in Nepal. NRB, the central bank of Nepal has been issuing these bonds in the market on the behalf of the government.

III. National Saving Bonds

It is a long-term government bond. It has normally 5 years of maturity period. This bond can be owned by individuals, organizations, financial institutions etc except commercial banks. It can be purchased as the promissory note and interest is paid semi-annual basis which is fixed principle is refunded after its maturity period. It can be sold early from one person to another in the market. It can be used as the collateral in the case of development Bonds. These bonds are normally tax free bonds and have higher interest rate. Therefore, the national saving bonds have large volume of trading in the market.

IV. Citizen Saving Certificate

It is also a long-term government bond normally matures in five years period. All other inherent characters are similar to other long-term bonds but only difference is that it can not be used as collateral. It is taxable governmental bonds can be hold by individual as well as institutional investors with semi annual fixed interest payment.

V. Special Bond

It is issued on special occasions when government falls short of funds. Government makes the payment issuing special bonds instead of cash payment. It can be used as the collateral by the holding parties where they get only 50% amt when it is used as collateral.

2.1.10 Market for Governmental Securities

The history of public debt is not the traditional one. To some extent people has no power and inclination to provide the money as a loan to the government. People traditionally provide the human labour and goods to their rulers. People had compulsory to contribute to overcome emergency situation. The systematic debt market, for governmental securities begun after the enforcement of public debt Act 1960. In market both short-term as well as

long-term securities have found issued by government in Nepal (Bhatta, 2002:58)

Treasury Bill Market

Treasury Bills, probably the most popular money market instrument in Nepal, were sold for the first time in 1962. It may be issued for any maturity less than one year but Nepal Rastra Bank at present issues 91 days and 364 days T-bills. Ninety-days treasury bills are auctioned weekly on each Monday by NRB on behalf of Government of Nepal. Commercial banks bid for them and about 15 percent of the total amount is set aside for non-competitive bidders in which individuals and other financial institutions practice (Baral, 1999:12). Successful bidders are given the ownership certificates starting to record the ownership of the T-bills. The minimum subscription market is Rs. 25000. NRB provide the ready market for the trading of T-bills. The bills are sold at discount and redeemed at par value at maturity and the difference represents the interest, which fluctuates widely due to liquidity/illiquidity in the banking system. For eg, weighted average interest of 91 days treasury bills was 5.05% in mid-July 1989 which with many ups and down in between increased to 12.66% in next few years.

The treasury bills market has increased over the years. The quantity of treasury bills in the market was only Rs. 670 million in 1980 and reached to 41106.6 million in 2002. As ownership pattern, NRB's share was 35.3% while the share of financial and other corporation was 64.7% the weighted interest rate of treasury bills staged at 5.4% by the mid-march 2002 (Economic Survey, 2001/2002). Thus, Treasury bills consists the large volume of money market in Nepal.

Governmental Securities in the form of bond first appeared in mid-sixties. Since then, to meet the different kinds of special purpose and general purpose government bonds have been issued. Bond such as lend compensation bonds (LCB) issued in 1964 with the maturity period of 10 yrs where financial and

other corporation owned 54.10% and the individuals and private sector entities owned 27.7% (Economic Survey 2001/02).

NRB issues these bonds either directly to individuals or institutions or to licenced finance companies for retail distribution finance companies receive commission (0.5% at present) from the government for the service of primary market intermediation. Secondary market trading of bonds may be carried through authorized finance companies who charge certain commission from both buyers and sellers of the bonds. In return, they are required to maintain the registry of the bonds. Alternatively these securities may be transected between buyers and sellers through more endorsement. However, to ensure clean title and encourage secondary trading, transactions through the finance companies are encouraged (Baral 1999:13). NRB has made such arrangement that interest on securities are received semi-annually from the branches of commercial banks.

For the weekly transaction of Treasury Bills and NRB Bonds, secondary market has been handle by the Public Debt Department of NRB since 1995 with the view of strengthening the money market operations. For this market operation committee has been formed under the chairmanship of deputy governor of NRB in 1989 to manage the debt especially TB's and NRB bonds. As such, management of public debt, basically done by Public Debt Department of NRB with the guidance of open market operation (OMO) committee in Nepal (40 yrs of NRB, 1996:127). To mobilize capital and savings, this department also issues saving certificates government bonds, treasury bills and securities which are fully guaranteed by government.

2.1.11 Factors to be considered while investing in Securities

Investors should consider to select the securities which are affected factors such as good future prospects, risk factors reliable mgmt of the company, beneficial sectors, higher growth rate of the company etc. The investors who invest in he securities should compare the price and the value of the share or debt. The rules and regulation above cannot protect the investors' preferences.

The investors should know about the securities and the issuing companies' performances. Usually the following factors should be considered while making investment decisions.

- i. Risk and Return of Securities
- ii. Investment portfolio
- iii. Availability and Accessibility
- iv. Strength & Stability of income
- v. Liquidity & Mobility of Securities
- vi. Cash flow
- vii. Potential financial environment

2.1.12 Primary Basis of Investment Decisions.

2.1.12.1 Efficient Financial Market

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

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

Expressing more formally, market efficiency means that the unanticipated portion of the return earned on a security is unpredictable and over a sufficient number of observations, does not differ systematically from zero. The unanticipated portion is simply the actual return less that which was expected based on some fundamentals analysis. In short, market efficiency means the power of market in the aspects of maximizing value out of anticipated return. In other words, the market has no memory of past.

Analyzing the past does not support investors to earn future returns (weak-form market efficiency). Semi-strong form market efficiency advocates that there is no correlation with any publicly available information with returns. Finally, strong-form market efficiency, the anticipated return is not correlated with any information, be it publicly available or insider (Van Horne, 1999: 49-50)

2.1.12.2 Random Walk Model

The random walk model advocates that previous price changes are useless in predicting future prices or return changes. It means if we attempt to predict future price in absolute term using only historical price change information, we will not be successful i.e. successive price changes are independent. This independence implies that prices at any time will on the average reflect the intrinsic value because among other things, different investors evaluate the available information differently or have different insights into future prospects of firm. Professional investors and astute non-professional will seize upon the short-term or random deviation from the intrinsic value and through their active buying and selling of the stock in question will force the price back to its equilibrium position. Finally, the efficient market theory holds that, since price reflects all available information & since information arrives in a random fashion, there is little to be gained by any type of analysis whether fundamental or technical. It assumes that every piece of information has been collected & processed by thousands of investors & this information (both old & new) is correctly reflected in the price. Returns cannot be increased by studying historical data either fundamental or technical, since past data will have no effect on future prices (Fisher 1998:553).

2.1.12.3 Fundamental Analysis

Fundamental analysis involves working to analyse different factors such as economic influences, government action, company's information, its

competitors etc. The fundamentals analyst determine the intrinsic value of stock. The intrinsic value in the true economic work of financial asset. The fundamentalists maintain that any points of time every stock has an intrinsic value which should in principle be equal to the present value of the future stream of income from that stock discounted at an appropriate risk related rate of interest (Bhalla, 1995:283).

2.1.12.4 Technical Analysis

The technical analysis theory is based on previous market information and it assumes that the history tends to repeat itself. It is believed that knowledge of past patterns of share prices will help to predict future prices under similar circumstances. The technical analyst usually attempts to predict short term price movements and thus makes recommendations concerning the timing of purchase and sales of either specific stock or group of stocks or stock in general. It is sometimes said that fundamental analysis is designed to answer the questions "What?" and technical analysis to answer the question "When?". Technical analysts maintain that the price of a share at any time (present price) is the balance struck buyers & sellers at a point in time price movements take place on account of diverse internal & external factors (profits, political environment, predictions & the like). Prices stabilize when equilibrium between buyers & sellers is achieved. They believe that a record of price movements over a period of time in the past supports the future prediction of general price level. As a whole theory is based on the assumptions that history repeats itself. Human nature does not change and that is likely to respect his patterns of past movements will repeat themselves in the future (Raghupalat, 1991:172)

2.2 Review of Previous Study

2.2.1 Review of Foreign Research/Articles

There is no similar behavioural study about investors' preference has been found but close to this topic are taken as literature review under foreign research review.

A. Study of Sushi Bikchandani & Sunil Sharma (2001)

The study carried out by the researchers entitled "Herd Behaviour in Financial Markets" has analyzed the investor's attitude, activities & their behaviour to the financial markets. Their research study was published in IMF staffs papers (vol. 47, no 3). Their studies have been done in the context of developed countries. In this context the evidence suggests that investment managers do not exhibit significant herd behaviour and that the tendency to herd is highly correlated with a manager's tendency to pursue momentum investment strategies. More empirical work needs to be done on emerging markets where, as the evidence suggests, one is likely to find greater tendency to herd. In these markets where the environment is relatively opaque because of weak reporting requirements, lower accounting standard, tax enforcement of regulations and costly information acquisition, information cascades and reputational herding are more likely to arise. Also, because information is likely to be revealed and absorbed more slowly, momentum investment strategies could be potentially more profitable. According to their studies, "Examination of herd behaviour is likely to remain difficult since the requisite data will not be available even equipped with more sophisticated measures. There is always in information asymmetry between any borrower & lender, and some element of an agency problem when owners of funds delegate investment decisions to professional managers. Therefore, there will always be some possibility of information cascade and of reputation and compensation based herding. Disclosure rules, timely, provision of data and better designed compensation contracts may make markets & institutions more transparent. And the development of futures and forward markets may

bring information about market expectations into the public domain. However, in a relatively transparent environment, changes in the situation of economic units is likely to bring forth similar responses from many if not most, profit maximizing investors, but this behaviour would reflect the reaction to publicly available information in well functioning markets. Greater transparency makes it more likely that prices will closely track fundamentals: it does not necessarily imply that transparency will reduce price volatility."

B. Study of R.R. Garside

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

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

A healthy capital market is democratic and egalitarian. It shows no respect for class or cast. It does not acknowledge hierarchy when the price of share falls, it falls for all those who hold it. Financial analysts may have doctorate in math, but some of the best traders of equities, futures and options have been near a university."

C. Article of J. Agrawal (2006)

J.Agrawal on his article described, "Capital market is a crucial element in the national economy. Its role in reinvigorating and boosting the economic activities in the country holds significant. The strategic plan released by security board can, to a great extent, energize the investors' dealer by increasing investors interest in it. Security market experience both boom and

boast soon the beginning of securities trading through brokers' members in the stock exchange floor. Though the market started to function quickly boosting the prices of shares to an unexpected level, it could not sustained.

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

2.2.2 Review of Unpublished Master Degree Thesis

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

2.2.2.1 Study of Mr. Bachhu Ram Dahal

Mr. Bachhu Ram Dahal had conducted a study on "A Stock Market Behavior of Listed Joint Stock Companies in Nepal" for the partial fulfillment of masters of Business Studies. The specific objectives of the study were:

-) To study and analyze the investors views regarding the decision on stock investment.
-) To study and examine the signaling factors' impact on stock price with the help of NEPSE index,

The study undertaken by him had the following significant findings:

-) Most of the Nepalese investors preferred the stocks of commercial banks.
-) The stock market in Nepal is in developing stage as investors were not well aware about the investment.
-) The trading system in NEPSE trading floor is traditional rather systematic.
-) The investors were not satisfied with the return on their investment.

-)] The main motivating factor of Nepalese investors for owning shares was to receive the dividends.
-)] It was found that investors in the stock market make the investment decision on the basis of market price of shares.
-)] It was also found that rumors are the most predominate factor to determine the market price of share.
-)] Market signaling effects had played major role in fluctuation of the stock price.

2.2.2.2 Study of Mr. Bhadrakali Pokharel

Bhadrakali Pokharel submitted the thesis entitled "Legal Provision to the Protection of Investors under the Nepalese Law and an Analytical and Critical Study". The following points were taken as the objectives of study.

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

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

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

In the study, Pokharel found that Nepal had drafted various laws to protect the interest of investors on the scattered forms – acts, regulation and byelaws. But there was still an absence of a particular/separate legislation for the protection of investors. Likewise, Nepalese investors were not governed under the

corporate norms and values due to lack of proper knowledge of their rights. They could be victimized but they did not complain at concerned authority. He further added, "The main ground of investors deceiving are insider trading, wrong financial statements of company, wrong auditing reports, wrong performance details and public information. Beside these, various grievances like wrong details on underwriting and listing the share, delay on returnable money, delay on distribution of bonus shares, dispatching proper information to shareholders or potential investors misusing the application money are the main deceiving groups of investors in Nepalese context."

2.2.2.3 Study of Mr. Ram Prasad Poudyal

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

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

Mr. Poudyal described "Public debt is assets to the government in solving the economic monetary and budgetary problems which are to be addressed by the state as per the situation. In addition people pride themselves in their financial contribution to the nation through the public debt. But in other sense if it is not used properly, it hurts the people. The government of Nepal has been collecting funds by selling various government securities. The main reason is to recover deficit budgetary system. The trend of borrowing is increasing

every year. Major findings included in the Mr. Poudyal research were as follows:

-) The government has adopted budgetary system in the name of development functions. Treasury bills, development bonds, national saving bonds and special bonds are debt-borrowing instrument in Nepal.
-) Nepal has been suffering capital shortage since the first budget speech of Nepal.
-) The government has been following liberal policy in the matter of collecting funds. The main objective of internal borrowing is to collect idle funds from people.
-) Enormously increasing magnitude of public debt is becoming a great challenge for the nation.
-) Between the period 1984/2007 the average annual growth rate of total outstanding public debt (only internal debt) is 16%.
-) The borrowing policy has creating problems of increasing government interest rate so that it should allocate more amounts for interest service motive.

2.2.2.4 Study of Mr. Meg Nath Pandey

Meg Nath Pandey had also conducted a study titled “Legal and Institutional management for Investors’ Protection in Capital Market of Nepal”, in the year 2002. The study has the following objectives:

-) To study and analyze the existing legal provisions regarding investors’ protection in Nepalese capital market.
-) To assess the development of capital market in Nepal.
-) To recommend for improvement in legal and institutional arrangements for protection in Nepalese Capital Market.

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

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

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

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

2.2.2.5 Study of Mr. Bharat Prasad Bhatta

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

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

The main conclusions of his research were:

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

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

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

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

2.3 Research Gap

It is found in the process that no specific research has yet been undertaken on the subject primarily related to the investors' preferences in choice of financial instruments & sectors in Nepal which a behavioural study itself. Fact of the matter is that to have efficient financial market, the another side of the market; investors and their behaviours have to be tested before jumping into the arena of capital market. Specially in reference to Nepal, where awareness regarding investment is very poor and accessibility is limited to bunch of people, it is always necessary to test the attitudes of investors. Generally, the

flow of investment on common stock is high in Nepalese context but it is realized that a comprehensive study is necessary considering other types of financial instruments like bond/debenture, preferred stock, governmental securities etc. Therefore, a attempt is made to find out the investors preferences and the factors affecting them in contemporary period in Nepal.

CHAPTER III

RESEARCH METHODOLOGY

This chapter deals with the methodology adopted in this study. It is mainly designed to make the research work more effective so as to achieve the stated objectives efficiently. This chapter includes research design, population and sample, nature and sources of data, data collection and processing technique, data analysis tools, statement of hypothesis and limitation of methodology.

3.1 Research Design

Research design is the plan and structure, and the strategy of the investigation conceived so as to obtain answers to research question to control variance (Kerlinger, 2000: 275). This study aims to assess the investors' preference in choice of these financial instruments for the investment purpose. The required secondary data have been collected from various sources covering a period of 12 years from 193/94 to 2006/07. The survey investigation of 50 respondents is taken as sample to collect the primary data. To conduct the study, descriptive cum analytical research approach has been adopted. Descriptive has been utilized mainly for conceptualization of the associated preference of investors in choice of financial instruments in Nepal. Analytical approach has been followed mainly to analyze relationship among preference and financial instruments of different sectors.

3.2 Nature and Sources of Data

This study is based on primary data as well as secondary data. These two types of data have been collected from different sources. Discussions and interview with existing and potential investors, staff members of NEPSE and

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

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

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

3.3 Population and Sample

Individual investors, market makers, brokers, staff members of SEBO/N and NAPSE, and other related parties to securities market are the total populations of this study. Purposive and stratified sampling methods have been used to select the samples.

- a. **Purposive Sampling:** In this method, there is a deliberate selection of samples, based on the judgment of an individual entrusted with the job. The representative ness of the sample can also be achieved if the selection is objective and proper judgment is exercised by an expert in the field who knows the limitations of such selection.
- b. **Stratified Sampling:** In this method, the population is divided into a certain number of groups called strata then samples are drawn randomly from each group or stratum. The division of population into Strata called stratification, is usually done in such away that:
 -) There is greater homogeneity within each stratum.
 -) The differences are as market as possible between various strata.
 -) There is minimum of overlapping in various strata.

For this study propose, total population is divided into three strata, individual investors, market makers/ brokers and staff member of NEPSE, SEBO/N. Thereafter, samples were drawn from each strata using purposive smapling.

The samples under study are as follows:

S.No.	Categories	Samples	Responses
1	Individual Investors	20	20
2	Market makers/ Brokers	20	20
3	Staff members of NEPSE, SEBO/N	10	10
	Total	50	50

There are numerous numbers of individual investors. Total population size of investors includes all those independent individual investors' affiliated with security market and only 20 of them are selected for this research according to stratification. There are altogether 24 brokers and one issue managers and at security dealer (Appendix IV), these all have been categorized into a group of brokers/ market makers. Altogether 20 of them are taken as the samples. In the case of NEPSE, SEBO/N, total 10 staff members have been taken as the sample.

3.4 Data Collection Technique

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

3.5 Data Analysis Tools

The collected data and information through primary as well as secondary sources correspondingly have been tabulated, categorized and analyzed by using appropriate statistical and financial tools. Tick mark and open-end questions are included in the questionnaires. Many concerned personalities were interviewed in the course of collecting data to get relevant information.

Data from questionnaires have been gathered and tabulated systematically and then have been analyzed using percentage. The responses of related parites of questionnaires have been presented according to question patterns in the columns of table with observed and expected frequencies. These observed and expected frequencies have been tested using chi-square test.

Chi-squire Test

While testing hypothesis other statistical tools like Z, t, F are called parametric test because they all are based on assumption about the parameter of the population from which sample are drawn, hence they are called parametric test. But in using t^2 – statistic, there is no assumption made about the parameters of the population from which samples are drawn. Therefore, it is called non-parametric.

Application of t^2 - statistic is mostly in.

- i. Testing the goodness of fit, and
- ii. Testing of independence between attributes.

Conditions for applying Chi-square test:

1. The frequencies used must be absolute not relative.
2. The total number of observations must be at least 50.
3. The expected frequency of any item or individual cell must not be less than 5.

In testing of hypothesis. Expected frequencies were calculated by applying following formula while using Chi-square.

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

Where,

RT = Row Total

CT = Column Total

N = No. of observation

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

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

Where,

O = Observed Frequency

E = Expected Frequency

3.6 Hypothesis Testing

In order to achieve the research objective, 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).

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

3.7 Limitation of the Methodology

For the analysis, primary data collected through closed- end questionnaire through distributing it to the different responding groups. So there may be reporting error may exist in the process. Shortage of time reliability of information provided by concerned parties, lack of research experience might be the major limitations of used methodology.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Presentation and Analysis of Data

This chapter deals with the analysis of available data whether they are primary or secondary to meet the research objectives and presentation of proceed data in elucidated framework. This chapter is divided into three distance sections. The first section includes the presentation and analysis of Secondary data. The second section includes the presentation and analysis of primary data collected from different respondents and third section encompasses the major findings of the study.

4.1.1 Analysis of Secondary Data

The Secondary data have been used to analyze the undertaken study. The necessary data are collected from the various sources. The 'Annual Report' of SEBO/N, other publications of SEBO/N, annual reports of NEPSE, trading reports of NEPSE, various publication of NRB, Economic survey of Ministry of Finance, government of Nepal, Publication of bankers club of NRB, previous related study, published articles of different authors, journals, newspapers & the related web-sites are sources of secondary data. The main purpose of the study is to examine the preferences of investor in choice of financial instruments of various sectors, awareness & investment trend in Nepalese security market.

4.1.1.1 Number/ Amount of Issue Approved

As per the provision of the Securities Exchange Act,1983 and regulation and guidelines made there under, the issuing company should register the securities in SEBO/N and get issue approval before going to public. From the fiscal year 2001/02 to 2006/07 SEBO has approved 148 issues of securities.

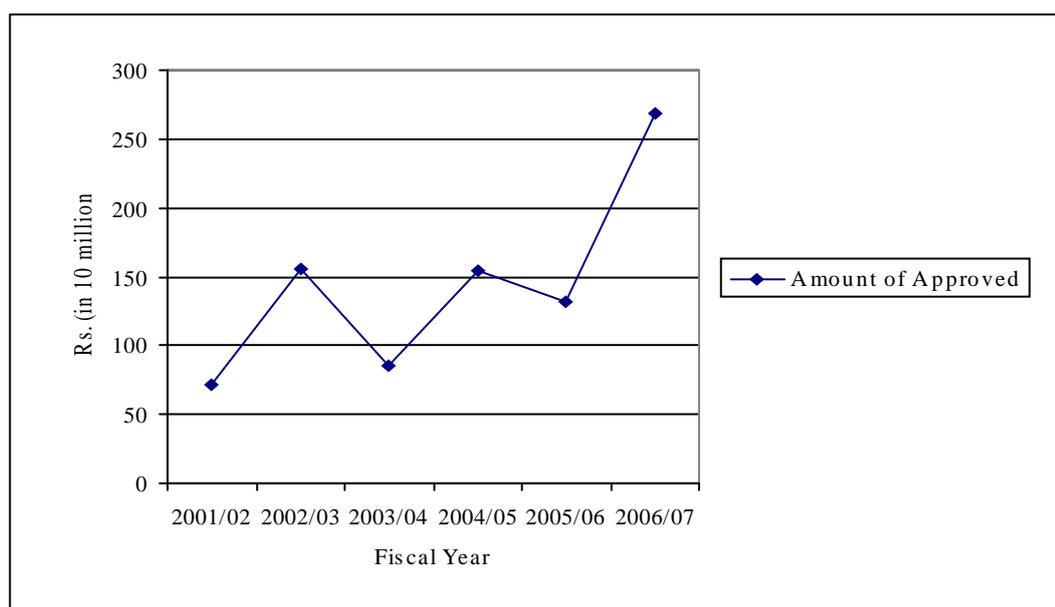
Table 4.1
Amount of Issue Approved

Year	No. of Issue	Rs. In 10 million
		Amount of Approved
2001/02	9	71.72
2002/03	16	155.51
2003/04	17	85.36
2004/05	16	154.72
2005/06	12	131.58
2006/07	34	269.21

Source: SEBO/N, Annual Report, 2006/07.

Above table shows that the amount of issues approved by the SEBO/N during the period of 2001/02 to 2006/07. The highest amount of issued approved was Rs.269.21 (amount in Rs.10 million). Where as in the year 2001/02, nine issues were approved with Rs. 71.72 (amount in 10 million). The trend analysis of issue approval is presented graphically below.

Fig. 4.1
Amount of Issue Approved



4.1.1.2 Sector wise issue approved

During the period of 2001/02 to 2006/07 SEBO/N approved different types of securities of different sector for public issue. The detail situation of the issue approved of such sectors have been presented in Table

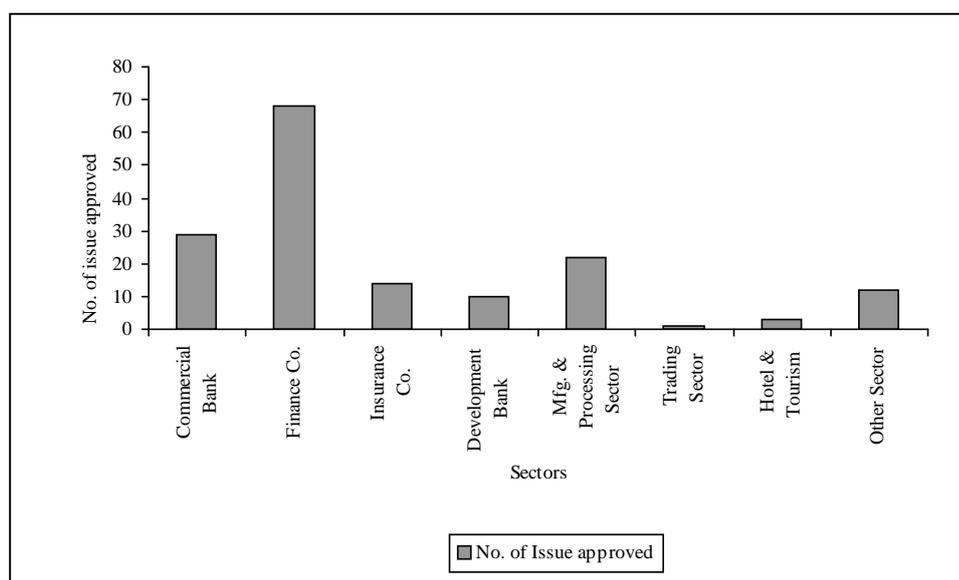
Table 4.2
Sector wise issue Approved (F/Y 1995/96 to 2006/07)

Sectors	No. of Issue approved	% of Issue.
Commercial Bank	29	18.23
Finance Co.	68	42.76
Insurance Co.	14	8.80
Development Bank	10	6.28
Mfg. & Processing Sector	22	13.83
Trading Sector	1	0.63
Hotel & Tourism	3	1.88
Other Sector	12	7.55
Total	159	100.00

Source: SEBO/N, Annual Report, 2006/07.

Above table shows that SEBO/N accepted the various sector issues for going public. While analyzing the table, finance company hold the top position with 68 approval while commercial bank with 29 approval is second position. Mfg. & processing sector has 22 approval where as insurance company has 14 approval. Out of 159 approval trading & hotel sector have least no. with 1 & 3 respectively.

Fig. 4.2
Sector wise issue Approved (F/Y 1995/96 to 2006/07)



4.1.1.3 Listed Companies by the end of F/Y 2006/07

Table 4.3

Listed Companies by the end of the fiscal year 2006/07

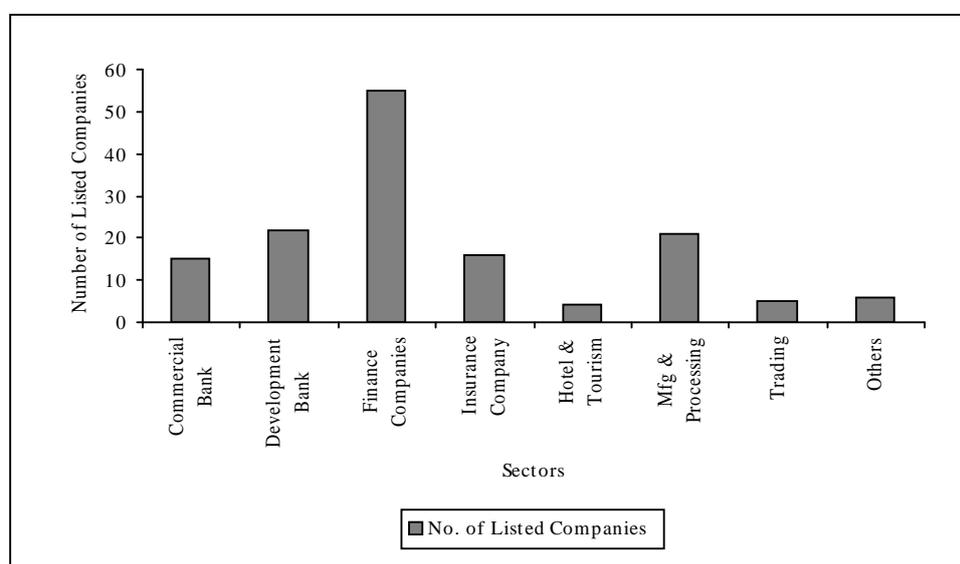
S.N.	Sector	No. of Listed Companies	%
1	Commercial Bank	18	11.46
2.	Development Bank	29	18.47
3	Finance Companies	62	39.49
4	Insurance Company	17	10.82
5.	Hotel & Tourism	4	2.55
6.	Mfg & Processing	18	11.46
7	Trading	3	1.91
8	Others	6	3.82
	Total	157	100.00

Source: Annual Report of SEBO/N.

By the end of fiscal year 2007/08, 157 companies were listed for capital market trading. There were 18 commercial bank available for investors on capital market holding higher portion of market capitalization. Finance companies also hold the significant number in capital market (62) where as twenty nine development banks has shown there existence among the bulk number of investors. Insurance, Hotel, Mfg & processing, Trading & others were also attempting to attract the focus of investors through capital market. But contribution of market capitalization was relatively lower to these sectors of investment.

Fig. 4.3

Listed Companies by the end of the fiscal year 2006/07



4.1.1.4 Market Capitalization

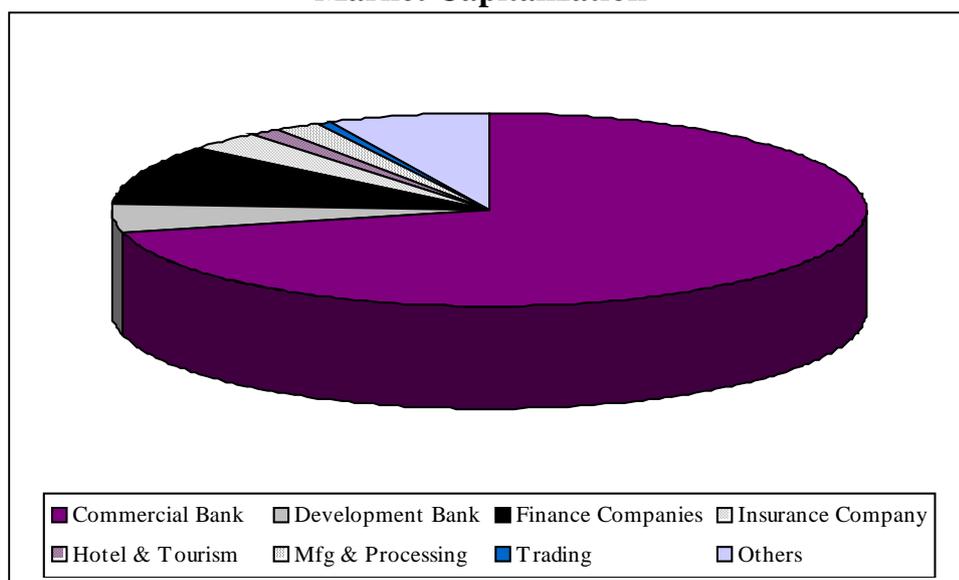
Table 4.4
Market Capitalization

S.N.	Sector	Market Capitalization	%
1	Commercial Bank	25995.53	70.98
2.	Development Bank	1799.78	4.91
3	Finance Companies	3767.44	10.29
4	Insurance Company	1124.14	3.06
5.	Hotel & Tourism	480.96	1.31
6.	Mfg & Processing	751.69	2.05
7	Trading	117.02	0.32
8	Others	2588.19	7.07
	Total	36624.75	100

Source: Annual Report of SEBO/N, 2007/08.

Fig. 4.4

Market Capitalization



Market capitalization of commercial bank is highest i.e. Rs.25995.93 million. It means majority of market capitalization is covered by commercial bank. In the other hand finance companies stood second with 10.29% of total market capitalization. Development bank, insurance company, hotel & tourism, Mfg. & processing, trading & other sectors have 4.91%, 3.06%, 1.31%, 2.05%, 0.32% & 7.07% of market capitalization respectively.

4.1.2 Analysis of Primary Data

This section includes the presentation and analysis of primary data collected from different respondents consisting individual investors, brokers and markets makers and staff members of NEPSE and SEBO/N. The collected data have presented in the table and analyzed according to the objectives of the study.

4.1.2.1 Investors' Preference: Instrument Wise

Table 4.5

Investors' Preference: Instrument Wise

S.N.	Research Variables	Individual Investors		Broker/ Market Makers.		NEPSE/ SEBO/N		Total	
		NOS	%	NOS	%	NOS	%	NOS	%
1	Equity Shares	13	65	11	55	5	50	29	58
2	Preference Shares	2	10	1	5	1	10	4	8
3	Debenture/ Bonds	1	5	2	10	1	10	4	8
4	Government Securities	4	20	6	30	3	30	13	26
	Total	20	100	20	100	10	100	50	100

Source: Field Survey.

(Each cell of the table has been converted into percentage because each cell most not be less than five while fitting chi-square test to have goodness of fit.)

It has been noticed from the above table that majority of the respondents (58%) prefer investing on equity share. Government securities stand second on preference hierarchy with 26% while Debenture & preference share get 8% each on percentile distribution of preference. More over, most of the investors from each responding group prefer corporate equity share for their investment.

Hypothesis Testing

To test the hypothesis whether there is significant difference or not among the opinions of different segment, chi-square test has been used. The computed chi-square value is 1.5218 and the critical value at 5% level of significance for degree of freedom (d.F) $V = 6$ is 12.592 (Appendix II). The computed

value is less than the critical value. Therefore, it can be stated that there is no significant difference in the opinions of different responding groups. Thus, the responses of different groups are more or less similar regarding the investors' preferences. Hence equity share gets the significant preference of the investors.

4.1.2.2 Sectoral Preference of Investors

Table 4. 6

Sectoral Preference of Investor

S.N.	Research Variables	Individual Investors		Broker/ Market Makers.		NEPSE/ SEBO/N		Total	
		NOS	%	NOS	%	NOS	%	NOS	%
1	Banking	10	50	11	55	6	60	27	54
2	Finance Co.	4	20	4	20	2	20	10	20
3	Insurance Co.	2	10	3	15	1	10	6	12
4	Hotel & Tourism	1	5	1	5	-	-	2	4
5.	Mfg/ Processing Co.	1	5	-	-	1	10	2	4
6.	Trading Company	-	-	-	-	-	-	-	-
7.	Others	2	10	1	5	-	-	3	6
		20	100	20	100	10	100	50	100

Source: Field Survey.

With respect to sectoral preference of investor, majority of the opinion (54%) supported banking sector investment. Where as 20% of investors prefer finance companies. With 12%, 4%, 4% & 6% insurance co. Hotel & Tourism, Mfg/ Processing Co & others get less preference of investors. Fact of the matter is that Trading Company does not get single favour from the investors. In short, Banking Investment is considered to be no. one in sectoral hierarchy.

Hypothesis Testing

To test whether there is significant difference or not among the responses of different responding groups on sectoral investment, chi-square, test has been carried out, here the computed value of chi-square is 4.9482 and the critical value (Table Value) at 5% level of significance with (d.F) V= is

21.06(Appendix II). Here the computed value of t^2 test is less than the critical value. It means the opinions of all responding groups are similar and there is no significant difference among the responses regarding the sectoral preference of investors.

4.1.2.3 Risk & Return Analysis before making Investment

Table 4. 7

Risk & Return Analysis before making Investment

S.N.	Research Variables	Individual Investors		Broker/ Market Makers.		NEPSE/ SEBO/N		Total	
		NOS	%	NOS	%	NOS	%	NOS	%
1	Yes	9	45	9	45	5	50	23	46
2	No	10	50	8	40	4	40	22	44
3	No Comment	1	5	3	15	1	10	5	10
	Total	20	100	20	100	10	100	50	100

Source: Field Survey.

Respondents were asked whether they analyze risk and return before making any investment. Majority of the respondent (46%) stated that they do analyze certain aspect of investment before making any investment is financial instruments of different sectors. 44% them state that they kept themselves indifference while making investment even they were consciously trading on risks. Where as 10% of respondents don't make any comments on this regard.

Hypothesis Testing

While carrying out chi-square test, the computed value of it is 1.544 & the critical value at 5% level of significance for d.F (V) = 4 is 9.488 (Appendix II). Since the computed value is less than the critical value. Therefore, opinions of different groups are similar and null hypothesis is accepted that is, there is no significant difference in the opinions with respect to risk & return analysis before making investment in securities.

4.1.2.4 Purpose of Making Investment.

Table 4.8

Purpose of making Investment

S.N.	Research Variables	Individual Investors		Broker/Market Makers.		NEPSE/SEBO/N		Total	
		NOS	%	NOS	%	NOS	%	NOS	%
1	Profit	13	65	13	65	6	60	32	64
2	Marketability	1	5	1	5	1	10	3	6
3	Social Status	2	10	1	5	1	10	4	8
4.	Above All	4	20	5	25	2	20	11	22
	Total	20	100	20	100	10	100	50	100

Source: Field Survey.

In response to the purpose of making investment, 64% of the respondents pointed out that profit many purpose of making investment. 6% of the respondent revealed that marketability is the reason for making investment where as 8% of them goes for social status. Moreover, 22% them have recognized profit, marketability & social status aspects as the driving forces of investment.

Hypothesis Testing

While carrying out chi-square test, the computed value of its is 1.7306 and the critical value at 5% level of significance for d.F. $V = 6$ is 12.592 (Appendix II). Since the computed value is less than tabulated value, it means Null hypothesis is accepted with respected to the similarity among the responses of different responding groups.

4.1.2.5 Primary Basis of Investment Decisions

Table 4.9

Primary Basis of Investment Decisions

S.N.	Research Variables	Individual Investors		Broker/Market Makers.		NEPSE/SEBO/N		Total	
		NOS	%	NOS	%	NOS	%	NOS	%
1	Fundamental Analysis	3	15	3	15	1	10	7	14
2	Technical Analysis	11	55	13	65	6	60	30	60
3	Randomwalk Model	4	20	3	15	2	20	9	18
4.	Others	2	10	1	5	1	10	4	8
	Total	20	100	20	100	10	100	50	100

Source: Field Survey.

In response to the primary basis of investment decisions, majority of the respondents i.e. 60% stated that they follow the result of technical analysis before making investment. Random walk model & fundamental analysis stand second & third respectively in response to the above questions. In the process, 8% of them adopt any other measures to make investment other than fundamental, technical & random walk model. From each group, majority of the respondents assume that technical analysis is the primary basis of making investment.

Hypothesis Testing

While testing hypothesis by using chi-square test, null hypothesis is accepted since computed value is 1.423 is less than tabulated value i.e. 12.592 (Appendix II) with 5% level of significance for d.F $V = 6$. It indicates that there is no significant difference among the responses of different responding groups.

4.1.2.6 Satisfaction from Return

Table 4. 10

Satisfaction from Return

S.N.	Research Variables	Individual Investors		Broker/Market Makers.		NEPSE/SEBO/N		Total	
		NOS	%	NOS	%	NOS	%	NOS	%
1	Yes	6	30	5	25	3	30	14	28
2	No	10	50	12	60	5	50	27	54
3	No Comment	4	20	3	15	2	20	9	18
	Total	20	100	20	100	10	100	50	100

Source: Field Survey.

While asking whether they were satisfied or not with the return on their investment, majority of the respondents (54%) revalued that there is no any comprehensive basis for satisfaction. While 28% of the respondents are pretty satisfied with their returns and 18% of respondents keep themselves quite on this mater. One noticeable fact is that majority of respondents of each group are found themselves under line of satisfaction.

Test of Hypothesis

While testing hypothesis using chi-square, the computed chi-square value is 1.4016 which is less than critical value 9.488 with 5% level of significant for d.f.v = 4 (Appendix II). It means there is no significant different among the opinions of each respondent groups.

4.1.2.7 Investors Awareness Regarding the Investment Opportunities in Security Market

Table 4. 11

Investors Awareness Regarding the Investment Opportunities in Security Market

S.N.	Research Variables	Individual Investors		Broker/Market Makers.		NEPSE/SEBO/N		Total	
		NOS	%	NOS	%	NOS	%	NOS	%
1	Yes	8	40	7	35	5	50	20	40
2	No	12	60	11	55	4	40	27	54
3	No Comment	-	-	2	10	1	10	3	6
	Total	20	100	20	100	10	100	50	100

Source: Field Survey.

Investors' awareness and participations lead the security market to the better level. In reference to Nepal, comparatively our security market is in infant stage where awareness is poor relatively with respect to awareness of investment opportunities. Majority of the respondents (54%) stated that Nepalese security market still lacking adequate information. In the other hand, 40% of respondent are relatively satisfied with the functioning of security market on information & awareness, while 6% of the respondents don't share there opinion on this regard. If the responses of different groups are compared, the majority of the respondent stated that the investors are not aware regarding the investment in financial instrument in the Nepalese market.

Hypothesis Testing

To test the hypothesis whether there is significant difference between the opinions of different groups, chi-square test is used where computed value of chi-square is 1.2602 & the critical value at 5% of level of significance for d. f., $V = 4$ is 9.488(Appendix II) Since the computed value of chi-square test is less than the critical value. It means, there is no significant difference between the opinions of different respondent groups regarding the awareness of investors in Nepalese Security market.

4.1.2.8 The Influencing Factors

Table 4.12
The Influencing Factors

S.N.	Research Variables	Individual Investors		Broker/ Market Makers.		NEPSE/ SEBO/N		Total	
		NOS	%	NOS	%	NOS	%	NOS	%
1	Returns	12	60	10	50	5	50	27	54
2	Profit	2	10	5	25	2	20	9	18
3	Rumors/ Heresay	1	5	1	5	-	-	2	4
4.	Company Performance	5	25	4	20	3	30	12	24
	Total	20	100	20	100	10	100	50	100

Source: Field Survey.

In response to the question about the influencing factors, majority of the respondents revealed that the 'Returns on Investment' is the primary influencing factor. In the hierarchy, company performance, profit stand second and third respectively. In general majority of the respondents from each category state that return from financial instruments of different sector is the main influencing factor of the investors.

Hypothesis Testing

While testing hypothesis whether there is significant difference among the opinion of different groups, the compute chi-square value is 1.1508 and the critical value is 12.592 at 5% level of significant with d.f., $V = 6$. Here computed value is less than the critical value. It means there is no significant difference among the responses regarding influences factors.

4.1.2.9 Availability of Information

Table 4. 13

Availability of Information

S.N.	Research Variables	Prof. Investors		Broker/ Market Makers.		NEPSE/ SEBO/N		Total	
		NOS	%	NOS	%	NOS	%	NOS	%
1	Yes	4	20	8	40	4	40	16	32
2	No	14	70	10	50	6	60	30	60
3	No Comment	2	10	2	10	-	-	4	8
	Total	20	100	20	100	10	100	50	100

Source: Field Survey.

In response to the availability of information to the investors from the organization, majority of the respondents (60%) stated that the investors are not getting sufficient information on regarding the investment timely. 32% of the respondents are pretty satisfied with the information are pretty satisfied with the information cycle while 8% of them do not make any comment on this regards. Noticeable factor is that, majority of the respondents from each group opined that the investors are not getting sufficient timely information from organization where they have been making investment.

Hypothesis Testing:

While testing hypothesis, chi-square test has been used, the computed chi-square value is 5.7820 & the tabulated critical value at 5% level of significance for degree of freedom d.f., $V = 4$ is 9.488 (Appendix 2). The computed value of chi-square is smaller than critical value. Therefore it can be concluded that there is no significant difference among the opinion of different responding groups.

4.1.2.10 Sufficiency of Rules & Regulations from Government

Table 4.14

Sufficiency of Rules & Regulation from Gov.

S.N.	Research Variables	Prof. Investors		Broker/ Market Makers.		NEPSE/ SEBO/N		Total	
		NOS	%	NOS	%	NOS	%	NOS	%
1	Yes	2	10	5	25	2	20	9	18
2	No	17	85	15	75	7	70	59	78
3	No Comment	1	5	-	-	1	10	2	4
	Total	20	100	20	100	10	100	50	100

Source: Field Survey.

Respondents were asked whether the existing rules & regulations regarding the investment in Nepalese capital market are sufficient or not, majority of the respondents i.e. 78% stated that they are not sufficient though considering future prospects. While 18% of them have faith on sufficiency of rules & regulation. But 4% of them did not make any comments. In this aspect the majority of respondents from each group replied that the existing provisions of government are not sufficient to protect the investment in the security market.

Hypothesis Testing

Chi-square test has been used to test whether there is significant difference among the opinion of different groups or not the computed chi-square value is 3.058 and the critical value at 5% level of significance for d.F., $V = 4$ is 9.488 (Appendix II). Since the computed value is less than the critical value. It means there is no significant difference among the opinions of different responding groups.

4.1.2 11 Main Attraction of common stock

Table 4.15

Main Attraction of common stock

S.N.	Research Variables	Individual Investors		Borker/ M.Makers		NEPSE, SEBO/N		Total	
		NOS	%	NOS	%	NOS	%	NOS	%
1.	Dividend	13	65	12	60	6	60	31	62
2.	Participation in Mgmt	4	20	3	15	2	20	9	18
3.	Rights of Shareholders	2	10	3	15	1	10	6	12
4.	Bulk transaction	1	5	2	10	1	10	4	8
	Total	20	100	20	100	10	100	50	100

Source: Field Survey

In response to the question about main attraction of common stock, majority of the respondents (62%) opined that dividend is the main factor of attraction on common stock investment. Likewise, 18% of them stated that management participation is the another driving force. In the process, 12% of them opined that rights of shareholders are the factor of attraction. Above all, majority of the respondents from each group commonly stated that the main attraction of common stock is the dividend.

Hypothesis Testing

To test the hypothesis or whether there is significant difference among the opinions of different responding groups regarding the main factor of attraction on common stock, chi-square test has been used. The computed value is 1.4275 and the tabulated value is 12.952 (Appendix) with 5% level of significance where degree of freedom (V) equal to 6.

Here, computed value is less than tabulated critical value. It means Null Hypothesis is accepted; there is no significant difference among the opinions of different responding groups.

4.1.2.12 Reasons for not Issuing Debenture Preference Shares

Table 4.16

Reasons for not issuing Debenture Preference Shares

S.N	Research Variables	Individual Investors		Brokers & Market		NEPSE/SEBO/N		Total	
		NOS	%	NOS	%	NOS	%	NOS	%
1.	Less attraction	12	60	10	50	6	60	28	56
2.	Limited returns	4	20	5	25	3	30	12	24
3.	No. participation in Mgmt	4	20	3	15	1	10	8	16
4.	Lack of information	-		2	10	-	-	2	4
5.	Others (if any)	-	-	-	-	-	-	-	-
	Total	20	100	20	100	10	100	50	100

Source: Field Survey.

While asking question about not often issuing other financial instruments other than common stock, majority of the respondents (56%) stated that there is no attraction of the investors. 24% of them opined that limited returns are just get on the way while 16% of them stated that there is chance of taking part in management. Above all, majority of the respondents of each sections, stated that less attraction of the investors is the central reason for not issuing Debenture/preference shares in Nepal oftenly.

Hypothesis Testing

Chi-square test has been used to test hypothesis on opinions of different responding group regarding the existence of significant difference or not. The computed chi-square value is 0.8123 and the critical value at 5% level of significance for d.F.v=8 is 2.592. The computed chi-square is less than critical value. So, there is no significant difference among the opinions of different responding groups.

4.1.213 Attraction to Government Securities

Table 4.17

Attraction to Government Securities

S. N.	Research Variables	Individual Investors		Brokers & Market		NEPSE/SEB O/N		Total	
		NOS	%	NOS	%	NOS	%	NOS	%
1.	Risk free return	14	70	16	80	6	60	36	72
2.	High interest rate	6	30	4	20	4	40	14	28
3.	Rumors/Hear say	-	-	-	-	-	-	-	-
4.	Others	-	-	-	-	-	-	-	-
5.	Total	20	100	20	100	10	100	50	100

Source: Field Survey.

Respondents were asked what was the main attraction of Nepalese investors is making investment on government securities majority of the respondents (72%) opined that risk free return is the main attraction of government securities. While 28% of them stated that high rate of interest in comparison to other corporate securities is the main driving force. Generally majority of the respondents from each group indicate that risk free return is the major driving force for making investment on government securities.

Hypothesis Testing

To test whether there is significant difference between the opinions of the individual investors, broker/ market makers and NESPE, SEBO/N, chi-square has been used. Hence, computed que-square value 0.4838 and critical value is 5.991 (Appendix II) on 5% level of significance for d.f., $V = 2$. The computed value of qui-square is less than critical value. Hence, there is no significant difference among the opinion of difference responding groups

4.1.2.14 Some difficulties to make Investment in Nepalese Security Market.

The respondents were asked what are the difficulties that the investors are facing in Nepalese security market. The major difficulties that the respondents are raising are listed below:

1. There is no further alternative financial instrument except ordinary share of the banking sector. When, investors wish to purchase other financial securities, though all do not wish, they have no choices.
2. There is a tendency of not publishing the financial statements and other information required to make investment in shares of listed companies.
3. The brokers and market makers don't provide the advices to the clients where necessary.
4. There is a lengthy paper work process to make trading of the securities in the secondary market of Nepal.
5. Lack of computer aided technology for analyzing the securities and very few numbers of security analysts or firms involved in forecasting market bonds and future price of the securities, they feel difficulties to take right investment decisions at right time.
6. Though the NEPSE is adopting T+5 day transaction strategy, the share transfer process is very time consuming and tough.
7. Trading system in the floor of NEPSE is very conservative, traditional and unscientific (... it is improving gradually).
8. The existing rules and regulation of government are insufficient for protecting investor's rights in security market.
9. The investors are not aware of their investment and future prospect because they are not getting sufficient and timely information.
10. The trading system of securities in NEPSE is traditional to date, E-transaction system should be used effectively for the investors residing outside Kathmandu.

4.1.2.15 Suggestion from respondents to solve the above difficulties in the security market

The respondents were also requested to suggest some practical measures that can help eliminating those problems and developing Nepalese securities market. The suggestions made by them have been summarized below:

1. The government or the concerned authorities should create such an environment for the public companies to raise funds through issuing debentures and preferred stocks in order to provide the investment alternatives to the investors other than common stocks.
2. The government or the concerned authorities should disseminate the required information on timely manner regarding the listed company's financial status and shares to the general people.
3. The brokers and market makers should provide the advices to the clients about the investment opportunities.
4. Lengthy paper work process to buy or sell the securities should be removed and very transparent system should be adopted.
5. There should be computer-aided technologies for analyzing the securities. There should also be financial consultant agencies to provide financial assistance to the existing as well s prospective investors when they feel.
6. The process of share transfer should be shortened.
7. The trading system should be computerized. There should be provisions of making transactions via. Internet. This will help making transactions for the existing as well as prospective investors residing out of Kathmandu valley also.
8. The existing rules and regulation of government are insufficient for protecting investors' investment in security market. Hence, the government should draft new rules and regulations to make the trading scientific and transparent.

9. The investors should be made aware regarding their existing and future prospect. In addition, security market should disseminate sufficient and timely information.

4.2 Major Findings of the study

The main objective of the study is to assess the investors' preference in choice of financial instruments & sectors in Nepal. After the in debt analysis of primary as well as secondary data, major findings of this study are summarized as follow:

4.2.1 Findings after analyzing Secondary Data

- I. After the establishment of security board of Nepal, Nepalese financial market has been boosted to better level with mass participation of investors & different issuing sectors.
- II. The market capitalization of the different financial securities showed that common stock had the largest chunk of trading in the market. Here, it can be said that Nepalese investors are trading on common stocks more. 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 sectors
- III. Issuance of bond/debentures and preference shares are very rare. Issuance of bond/debenture made by Shree Ram Sugar Mill in the fiscal year 1997/98 is the first step in the public issue of the debt instruments and Himalayan bank limited in the fiscal year 2001/2002 (Himalayan bank with the coupon rate of 8%) was the significant made to the Nepalese security market.
- IV. The first issue of preference share was made by Necon Air Limited in the Fiscal Year 1993/94. Thereafter, preferred stock issued by Birat Shoe Limited, Taragoan Regency Hotels Limited & Everest Bank Limited in the fiscal year 1993/94, 1997/98 & 2001/02 respectively.

4.2.2 Findings after analyzing Primary Data

- I. Majority of the Nepalese investors preferred the equity share for investment while government securities stand second to the equity shares (even government securities are rarely traded) where as comparatively preferred stocks and debentures are least preferred.
- II. Majority of the respondents while asking about the sectoral preference, banking sector is the primer investment sector.
- III. Majority of the respondents stated that the investors do not make risk return analysis before making any investment decision. In the process, recommendation of friends and relatives, whim & hearsay are considered first to the risk return analysis.
- IV. In context to Nepal, profit is the main purpose of making investment.
- V. According to the responses of the respondents the primary basis of investment decisions is technical analysis.
- VI. The investors are 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.
- VII. Major portion of the respondents opined that investors' awareness is not satisfactory regarding investment opportunities in security market in Nepal.
- VIII. The major influencing factor for making investment decision is returns that could be realized in future time. And organizational performances & prospects are also considered as the other influencing factors.
- IX. The majority of the respondents of the different groups stated that the Nepalese investors are not getting sufficient and timely information from the issuing companies.
- X. With respect to the sufficiency of Rules & Regulations from the government/government authority, it was found that the existing rules & regulations are not sufficient to protect the investors' investment in the security market.

- XI. Majority of the respondents from different groups stated that 'Dividend' & Participation in management are the main attraction of common stock.
- XII. Majority of the respondents opined that less attraction of the investors is the central reason for not issuing Debenture, Preference shares in Nepal.
- XIII. It was noticed that risk-free return is the major driving force for making investment on government securities.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Capital market provides the best investment opportunities to the investors and plays the vital role in mobilizing saving in more productive manner. The basic objectives of this study are to study and analyze the investors' preference in financial instruments. In the process, this study also analyzes the investors' awareness regarding the investment decision in the Nepalese security market. Study is primarily based on the primary data because behavioural understanding of the investors is the focus of the study. However, secondary data have also been used to support the study. For collecting the primary data, the schedule of questionnaires were developed & distributed to the investors of different segments of the study. The given information from the respondents are tabulated and analyzed.

Percentage and chi-squared (behavioural test) test has been used to analyze the primary data. With 95% level of confidence to test whether there is significant difference between the opinions of the different responding groups or not.

Market capitalization of the different financial securities showed that common stock of banking sectors had the largest chunk of trading in the security market in Nepal. Comparatively, financial instruments other than common stocks are rarely issued in Nepal because of the less attraction of the investors. In the process, it is found that investors are not using proper financial analysis before making any investment decisions. Recommendation and market whim are considered as the primary influencing factors. Respondents are not satisfied with the sufficiency of Rules & Regulations regarding investors' protection in the security markets. But exaggerated financial statements & inside-trading are getting on the way of efficient financial market.

Government Securities are also becoming preferable in the market with risk-free return.

Overall, Nepalese security market is in developing trend and the investors are also interested on having better information magnitude. If the concern bodies are aware enough timely to protect from malfunctioning of the market, saving of the investors can be better used with higher productivity.

5.2 Conclusions

After analyzing the perception of the investors through this study; it is noticed that Nepalese security market is in developing stage. Increasing number of issue approval, participation of bulk investors, growing structure of trading volume and trend of considering securities market as the one of the section of better investment shows that surplus fund is now going to be productive through the different mechanism of securities market. Above all following conclusions can be drawn after analyzing major findings of the study.

- 5.2.1 While testing the chi-square statistics to measure the behavioural aspects of Nepalese investors of different strata regarding the choice of financial instruments and sectors following conclusion can be drawn on the basis of major findings of the study.
- 5.2.2 Majority of the Nepalese investors prefer equity share to make investment because long term value maximization opportunities, participation in the management and the substantial returns as dividend are generally associated with equity share.
- 5.2.3 Banking sector of Nepal is the most premier sector of investment. The establishment of banks, increasing number of transaction in the floor of NEPSE and the participation of investors shows that, Nepalese investors can throw themselves into the arena of banking sectors even without analyzing the basic fundamental financial analysis.

- 5.2.4 In the process, market whim and recommendation is found the major influencing factor of making investment. It shows that the level of investment education is ridiculously lacking our financial environment. Inside trading and individual benefits may be boosted under such circumstances. With respect to this phenomena, authorities should stand tall for implementation of rules and regulation for protecting investors in security market.
- 5.2.5 Nepalese investors are not getting timely information from the issuing organizations. Manipulated financial statement and untimely information may pull our security market toward unprecedented clashes.
- 5.2.6 Even investment on security market is increasing, from the major finding: investors are not satisfied with respect to returns. It can be conclude that Nepalese investors desire spontaneous returns on their investment.
- 5.2.7 Government securities are also preferred by investors because risk free nature is strongly associated with such securities. In the investment hierarchy, debenture and preference shares hold the nominal portion of preference. Therefore, such securities are not issuing regularly.
- 5.2.8 Above all, equity shares of banking sectors are capturing the attraction of the investors in Nepal even they are believing that asymmetric information are showing their exposure in the market and there is no countering mechanism with strong rules and regulations which can educate investors.

5.3 Recommendations

Nepalese security markets is in growing stage. After the establishment of security Board of Nepal, the flow of funds from surplus unit to deficit unit is getting bigger and bigger. In the process of developing efficient market, behaviour of investors plays vital role. Their participation is another half

of successful security market. In reference to Nepal, where propensity to consume is very high because of the lower level of income, saving is not the habit of mass population. But people are now more aware of using whatever the saving they have in better manner. Under such circumstances security market can play vital role by bringing both deficit and surplus unit together. Unfortunately government of Nepal and its concern authorities are not keeping them self in security market promotion. Investors should be encourage in making investment in security by developing congenial in investment environment. Government policies regarding the financial sector reforms and security market development can generate unprecedented investment environment.

Specially in this indicates, the flow remittance is getting bigger and bigger which is boosting the liquidity of the people, where encouraging investment opportunities can mobilized the liquidity of the people in more productive manner. After carrying out this study it is noticed that, the majority of investors are not making investment best of fundamental analysis. Market whim and recommendations are major contributing factor for bringing investors to the security market. Over subscription of shares of certain sectors shows that people of Nepal are motivating themselves to the security market. Therefore security market of Nepal is in between the extremely prosperous future, if authorities act transparently and it can face clashes, If concern bodies don't react timely. The specific recommendations based on the findings of the study are summarized below:

- 5.3.1 The Nepalese investors are not getting the required information from the companies where they have invested their money. Hence, concerned authorities should be liable to disseminate the required information to the general public through appropriate means.
- 5.3.2 Under the study, it was found that the brokers and market makers are not making appropriate suggestions. Considering this fact, they are required to provide assistance and make investors aware on their investment. Furthermore, the government concerned public limited

companies, market makers, brokers, and other intermediaries are required to make the awareness programs for general people regarding the investment opportunities in the securities market.

- 5.3.3 Lengthy paper work process to buy or sell the securities should be removed by very short and transparent system.
- 5.3.4 In Nepal, it is found that there are no professional firms providing financial assistance and advice to the existing as well as prospective investors. Hence, the government should arrange for creating such environment for the development of financial professionalism.
- 5.3.5 Computer-aided technologies should be adopted for analyzing the securities. It is felt that the NEPSE should computerize its transaction system (now in the move). There should be provisions of buying and selling securities through Internet, which will attract the prospective investors residing outside the Kathmandu valley to make investment through centrally located secondary market of Nepal—NEPSE. By computerizing the trading system of NEPSE, the funds from unproductive sectors out of Kathmandu valley can be diverted to the capital market of Nepal.
- 5.3.6 The existing rules and regulations related to security market and transactions have been felt insufficient. This is why the government should amend the existing rules and regulations to make the trading scientific and transparent for protecting investment.
- 5.3.7 The security exchange centers around the world are autonomous and publicly owned. Many secondary markets are established according to the need of the time. However, there is only one secondary market in Nepal i.e. Nepal Stock Exchange Limited. The government has already adopted the liberalized economic policy. Some government corporations are progressing after privatization. Hence, NEPSE should also be privatized. In effect, the professionalism will be reflected and the growth can be realized immediately.

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APPENDIX I

RESEARCH QUESTIONNAIRE

Dear Sir/Madam

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

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

Thank you!

Researcher

Mukti Raman Parajuli

Tribhuvan University

Prithwi Narayan Campus

Pokhara

Name:

Address:

Office:

Qualification:

Date:

Please place () mark on the selected option and express your ideas and views where necessary.

1. Which of the following financial instruments is more preferred by the investors?
 - a. Equity Share
 - b. Preference Share
 - c. Debenture/ Bonds
 - d. Governmental Securities

2. In your opinion, which is the most preferable investment sector in Nepal?
 - a. Banking
 - b. Finance company
 - c. Insurance Company
 - d. Hotel and Tourism sectors
 - e. Manufacturing and Processing sectors
 - f. Trading sectors
 - g. Other (If any)

3. When making investment, do the Nepalese investors make risk return analysis?
 - a. Yes
 - b. No
 - c. No comment

4. For what purpose do the investors want to invest in securities?
 - a. Profit
 - b. Marketability
 - c. Social Status
 - d. Above all

5. What is the primary basis of investment decision in securities to the investors?
 - a. Fundamental Analysis
 - b. Technical Analysis
 - c. Random Walk Analysis
 - d. Others (if any)

6. Are the investors satisfied with the return from their portfolio in the security market?
 - a. Yes
 - b. No
 - c. No comment

7. Are Nepalese investors aware of making investment opportunities in security market?
 - a. Yes
 - b. No
 - c. No comment

8. In your opinion, which of the following is the main influencing factor for making investment?
 - a. Investment returns
 - b. Profit
 - c. Rumors
 - d. Company's overall performancee. Others, (if any)

9. Are the Nepalese investors getting sufficient and necessary information from the companies where they are making investment?
 - a. Yes
 - b. No
 - c. No comment

10. Are the rules and regulation of the government sufficient to protect the investors' investment in the securities market?
 - a. Yes
 - b. No
 - c. No comment

11. In your opinion, what is the main attraction of common stock?
 - a. Dividend
 - b. Participation in the management
 - c. Rights of shareholders
 - d. Bulk transaction

12. As we look into the 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. Less attraction of investors
 - b. Limited returns
 - c. No participation in management
 - d. Lack of information
 - e. Others (if any)

13. What is the main attraction of government securities?
- | | |
|-----------------------------|-----------------------|
| a. Risk free return/ safety | b. High interest rate |
| c. Rumors/ hearsay | d. others (if any) |
14. What is your opinion on difficulties to make investment in Nepalese security market, list them.
- | | |
|-------|-------|
| _____ | _____ |
| _____ | _____ |
15. What is your suggestion on solving the existing difficulties of Nepalese security market?
- | | |
|-------|-------|
| _____ | _____ |
| _____ | _____ |

Thank you

APPENDIX II

Calculated and Critical Value of Chi-Square Test

QN.	Individual Investors	Broker/Market maker	NEPSE/ SEBON	Total	Calculated Chi-Square	Critical Value (5% Level)	Remarks
Q.1							
1.	13	11	5	29			
2.	2	1	1	4			
3.	1	2	1	4			
4.	4	6	3	13			
Total	20	20	10	50	1.5218	12.592	NHA
Q.2							
1.	10	11	6	27			
2.	4	4	2	10			
3.	2	3	1	6			
4.	1	1	-	2			
5.	1	-	1	2			
6.	-	-	-	-			
7.	2	1	-	3			
Total	20	20	10	50	4.9482	18.307	NHA
Q.3							
1.	9	8	5	22			
2.	10	9	4	23			
3.	1	3	1	5			
Total	20	20	10	50	1.8406	9.488	NHA
Q.4							
1.	13	13	6	32			
2.	1	1	1	3			
3.	2	1	1	4			
4.	4	5	2	11			
Total	20	20	10	50	1.7306	12.592	NHA
Q.5							
1.	3	3	1	7			
2.	11	13	6	30			
3.	4	3	2	9			
4.	2	1	1	4			
Total	20	20	10	50	1.413	12.592	NHA
Q.6							
1.	6	5	3	14			
2.	10	12	5	27			
3.	4	3	2	9			
Total	20	20	10	50	1.4016	9.488	NHA
Q.7							
1.	8	7	5	20			
2.	12	11	4	27			
3.	-	2	1	3			
Total	20	20	10	50	1.2602	9.488	NHA
Q.8							
1.	12	10	5	27			
2.	2	5	2	9			
3.	1	1	-	2			
4.	5	4	3	12			
Total	20	20	10	50	1.1508	12.592	NHA

Q.9								
1.	4	8	4	16				
2.	14	10	6	30				
3.	2	2	-	4				
Total	20	20	10	50	5.7820	9.488	NHA	
Q.10								
1.	2	5	2	9				
2.	17	15	7	39				
3.	1	-	1	2				
Total	20	20	10	50	3.058	9.488	NHA	
Q.11								
1.	13	12	6	31				
2.	4	3	2	9				
3.	2	3	1	6				
4.	1	2	1	4				
Total	20	20	10	50	1.4275	12.592	NHA	
Q.12								
1.	12	10	6	28				
2.	4	5	3	12				
3.	4	3	1	8				
4.	-	2	-	2				
5.	-	-	-	-				
Total	20	20	10	50	0.8123	12.592	NHA	
Q.13								
1.	14	16	6	36				
2.	6	4	4	15				
3.	-	-	-	-				
4.	-	-	-	-				
Total	20	20	10	50	0.4838	5.991	NHA	

Note: NHA means Null Hypothesis Accepted.

APPENDIX III

Listed Companies by the End of Fiscal Year 2007/08

S.N. Listed Companies	Stock Symbol	Listed Shares	Par value	Total paid-up value
1 <u>Nabil Bank Ltd.</u>	NABIL	9,657,470	100	965,747,000
2 <u>Nepal Investment Bank Ltd.</u>	NIB	16,060,651	100	1,606,065,100
3 <u>Standard Chartered Bank Ltd.</u>	SCB	9,319,664	100	931,966,400
4 <u>Himalayan Bank Ltd.</u>	HBL	12,162,150	100	1,216,215,000
5 <u>Nepal SBI Bank Limited</u>	SBI	8,734,791	100	873,479,100
6 <u>Nepal Bangladesh Bank Ltd.</u>	NBB	7,442,000	100	744,200,000
7 <u>Everest Bank Ltd</u>	EBL	6,388,200	100	638,820,000
8 <u>Bank of Kathmandu</u>	BOK	8,443,979	100	844,397,900
9 <u>Nepal Industrial & Co.Bank</u>	NICB	11,404,800	100	1,140,480,000
10 <u>Machhachapuchhre Bank Ltd</u>	MBL	13,146,420	100	1,314,642,000
11 <u>Laxmi Bank Limited</u>	LBL	10,980,861	100	1,098,086,100
12 <u>Kumari Bank Ltd</u>	KBL	10,782,720	100	1,078,272,000
13 <u>Lumbini Bank Ltd.</u>	LUBL	9,995,000	100	999,500,000
14 <u>Nepal Credit & Com. Bank</u>	NCCB	13,908,900	100	1,390,890,000
15 <u>Siddhartha Bank Limited</u>	SBL	8,280,000	100	828,000,000
16 <u>NMB Bank Ltd.</u>	NMBF	11,000,000	100	1,100,000,000
17 <u>Development Credit Bank Ltd.</u>	DCBL	11,074,560	100	1,107,456,000
18 <u>Global Bank Limited</u>	GBL	10,000,000	100	1,000,000,000
Total		188,782,166	1,800	18,878,216,600
Finance				
19 <u>Nepal Finance and Saving Co.Ltd.</u>	NFS	300,000	100	30,000,000
20 <u>NIDC Capital Markets Ltd.</u>	NCM	1,012,500	100	101,250,000
21 <u>National Finance Co. Ltd.</u>	NFC	1,568,818	100	156,881,800
22 <u>Nepal Share Markets Ltd.</u>	NSM	4,320,000	100	432,000,000
23 <u>Annapurna Finance Company Limited</u>	AFC	2,016,000	100	201,600,000
24 <u>Kathmandu Finance Limited.</u>	KFL	759,000	100	75,900,000
25 <u>Peoples Finance Limited.</u>	PFCL	840,000	100	84,000,000
26 <u>Union Finance Co. Ltd.</u>	UFCL	750,000	100	75,000,000
27 <u>Citizen Investment Trust</u>	CIT	600,000	100	60,000,000
28 <u>Nepal Aawas Bikas Beeta Co. Ltd.</u>	NABB	1,382,195	100	138,219,500
29 <u>Narayani Finance Limited</u>	NFL	2,136,517	100	213,651,700
30 <u>Yeti Finance Company Ltd.</u>	YFL	625,000	100	62,500,000
31 <u>Gorkha Finance Ltd.</u>	GFLK	300,000	100	30,000,000
32 <u>Samjhana Finance Co. Ltd.</u>	SFC	225,000	100	22,500,000
33 <u>Universal Finance Ltd.</u>	UFLK	602,184	100	60,218,400
34 <u>Nepal Housing & Merchant Fin.</u>	NHMF	1,607,387	100	160,738,700

35	<u>General Finance Ltd.</u>	GFL	242,434	100	24,243,400
36	<u>Maha Laxmi Finance Ltd.</u>	MFL	800,000	100	80,000,000
37	<u>Lalitpur Finance Ltd.</u>	LFC	759,375	100	75,937,500
38	<u>Goodwill Finance Co. Ltd.</u>	GFCL	1,154,741	100	115,474,100
39	<u>Paschimanchal Finance Co. Ltd</u>	PFC	556,600	100	55,660,000
40	<u>Pokhara Finance Ltd.</u>	PFL	800,000	100	80,000,000
41	<u>Lumbini Finance Ltd.</u>	LFCL	900,000	100	90,000,000
42	<u>Siddhartha Finance Limited</u>	SFL	520,000	100	52,000,000
43	<u>Alpic Everest Finance Company Limited</u>	AEFL	780,000	100	78,000,000
44	<u>United Finance Ltd</u>	UFL	1,500,000	100	150,000,000
45	<u>International Leasing & Fin. Co.</u>	ILFC	6,480,000	100	648,000,000
46	<u>Shree Investment Finance Co. Ltd</u>	SIFC	1,008,000	100	100,800,000
47	<u>Central Finance Co. Ltd.</u>	CFCL	780,000	100	78,000,000
48	<u>Nepal Shree Lanka Merchant Bank</u>	NSLMB	1,000,000	100	100,000,000
49	<u>Premier Finance Co. Ltd</u>	PFCLL	475,200	100	47,520,000
50	<u>Nava Durga Finance Co.Ltd.</u>	NDFL	455,948	100	45,594,800
51	<u>Butwal Finance Ltd</u>	BFL	696,721	100	69,672,100
52	<u>Janaki Finance Ltd.</u>	JFL	400,000	100	40,000,000
53	<u>Standard Finance Ltd.</u>	STFL	1,452,000	100	145,200,000
54	<u>Om Finance Ltd.</u>	OFL	700,000	100	70,000,000
55	<u>Cosmic Mer.Bank & Fin.</u>	CMBF	750,510	100	75,051,000
56	<u>Fewa Finance Co. Ltd.</u>	FFCL	700,000	100	70,000,000
57	<u>KIST Merchant Banking & Finance Limited</u>	KMBF	20,000,000	100	2,000,000,000
58	<u>World Merchant Bank Ltd</u>	WMBF	720,000	100	72,000,000
59	<u>Birgunj Finance Ltd</u>	BJFL	726,000	100	72,600,000
60	<u>Capital Mer. Bank & Fin</u>	CMB	3,461,500	100	346,150,000
61	<u>Everest Finance Ltd.</u>	EFL	200,000	100	20,000,000
62	<u>Prudential Bittiya Sans</u>	PFIL	1,000,000	100	100,000,000
63	<u>Shrijana Finance(Bittiya Sa</u>	SFFIL	140,000	100	14,000,000
64	<u>Royal Mer. Bank.& Fin</u>	RMBFI	1,342,544	100	134,254,400
65	<u>Guheyshwori Mer. Bank. Fin</u>	GMFIL	986,901	100	98,690,100
66	<u>IME Financial Institution</u>	IMEFI	1,250,000	100	125,000,000
67	<u>Bhajuratna Fin.& Sav. Co. Ltd.</u>	BFIL	385,000	100	38,500,000
68	<u>Patan Finance Ltd.</u>	PFLBS	500,000	100	50,000,000
69	<u>Imperial Financial Inst. Ltd.</u>	IFIL	500,000	100	50,000,000
70	<u>Civil Merchant bittyta sanstha</u>	CMBSL	500,000	100	50,000,000
71	<u>ICFC Bittyta Sanstha Ltd.</u>	ICFC	2,997,416	100	299,741,600
72	<u>Lord Buddha Financial Institutional Limited</u>	LBFIL	750,000	100	75,000,000
73	<u>Sagarmatha Merchant Banking & Finance Limited</u>	SMBF	500,000	100	50,000,000
74	<u>Kaski Finance Limited</u>	KAFIL	500,000	100	50,000,000
75	<u>Merchant Finance Company Limited</u>	MFCL	300,000	100	30,000,000
76	<u>Reliable Investment Bittiya Sanstha Limited</u>	RIBSL	825,000	100	82,500,000

77	<u>Shikhar Bittiya Sanstha Limited</u>	SBSL	500,000	100	50,000,000
78	<u>Nepal Express Finance Limited</u>	NEFL	800,000	100	80,000,000
79	<u>Kuber Merchant Bittiya Sanstha Limited</u>	KMBSL	500,000	100	50,000,000
80	<u>Prabhu Finance Company Limited</u>	PRFL	1,600,000	100	160,000,000
Total			82,940,491	6,200	8,294,049,100

Hotels

81	<u>Yak and Yeti Hotel Ltd.(Ord.)</u>	YHL	2,209,208	100	220,920,800
82	<u>Soaltee Hotel Ltd.</u>	SHL	9,566,815	10	95,668,150
83	<u>Taragaon Regency Hotel</u>	TRH	7,449,875	100	744,987,500
84	<u>Oriental Hotel Ltd.</u>	OHL	5,000,000	100	500,000,000
Total			24,225,898	310	1,561,576,450

Manufacturing & Processing

85	<u>Bottlers Nepal Ltd.(Balaju)</u>	BNL	1,948,887	100	194,888,700
86	<u>Nepal Lube Oil Ltd.</u>	NLO	203,936	100	20,393,600
87	<u>Nepal Vanaspati Ghee Udhog Ltd</u>	NVG	101,250	100	10,125,000
88	<u>Raghupati Jute Mills Ltd.</u>	RJM	1,806,966	100	180,696,600
89	<u>Butwal Spinning Mills Ltd.</u>	BSM	1,306,693	100	130,669,300
90	<u>Gorakhakali Rubber Udhog Ltd.</u>	GRU	3,833,400	75	287,505,000
91	<u>Jyoti Spinning Mills Ltd (ord.)</u>	JSM	1,270,288	100	127,028,800
92	<u>Arun Vanaspati Udhog Limited</u>	AVU	550,343	100	55,034,300
93	<u>Bottlers Nepal (Terai)Ltd.</u>	BNT	1,210,000	100	121,000,000
94	<u>Harisiddhi Brick and Tile Fac.Ltd.</u>	HBT	18,650,000	10	186,500,000
95	<u>Birat Shoe Ltd.(Ord.)</u>	BSL	165,000	100	16,500,000
96	<u>Uniliver Nepal Ltd.</u>	UNL	920,700	100	92,070,000
97	<u>Nepal Khadya Udhog Ltd.</u>	NKU	90,000	100	9,000,000
98	<u>Shree Bhrikuti Pulp& Paper Ltd</u>	SBPP	3,500,000	100	350,000,000
99	<u>Fluer Himalayan Limited</u>	FHL	262,102	75	19,657,650
100	<u>Shree Ram Sugar Mills Ltd</u>	SRS	3,045,990	100	304,599,000
101	<u>Nepal Bitumin and Barrel Udyog</u>	NBBU	210,680	100	21,068,000
102	<u>Himalayan Distillery Ltd.</u>	HDL	4,130,000	100	413,000,000
Total			43,206,235	1,660	2,539,735,950

Others

103	<u>Nepal Film Dev.Co. Ltd.</u>	NFD	491,285	100	49,128,500
104	<u>Nepal Doorsanchar Company Limited</u>	NTC	150,000,000	100	15,000,000,000
Total			150,491,285	200	15,049,128,500

HydroPower

105	<u>National Hydro Power Co.</u>	NHPC	7,000,000	100	700,000,000
106	<u>Butwal Power Co. Ltd.</u>	BPCL	8,390,577	100	839,057,700

107	<u>Chilime Hydro power Co.</u>	CHCL	7,296,000	100	729,600,000
Total			22,686,577	300	2,268,657,700
Tradings					
108	<u>Salt Trading Corporation</u>	STC	247,777	100	24,777,700
109	<u>Bishal Bazar Co. Ltd.</u>	BBC	491,400	100	49,140,000
110	<u>Nepal Trading Ltd.</u>	NTL	50,000	50	2,500,000
111	<u>Nepal Welfare Company Ltd.</u>	NWC	41,000	50	2,050,000
Total			830,177	300	78,467,700
Insurance					
112	<u>Nepal Insurance Co.Ltd.</u>	NICL	1,026,984	100	102,698,400
113	<u>Rastriya Beema Sansthan</u>	RBS	995,138	100	99,513,800
114	<u>National LifeInsu. Co.Ltd.</u>	NLICL	1,320,000	100	132,000,000
115	<u>Himalayan Gen.Insu. Co.Ltd.</u>	HGI	1,008,000	100	100,800,000
116	<u>United Insurance Co.(Nepal)Ltd.</u>	UIC	600,000	100	60,000,000
117	<u>Everest Insurance Co. Ltd.</u>	EIC	1,012,500	100	101,250,000
118	<u>Premier Insurance co. Ltd.</u>	PIC	1,020,000	100	102,000,000
119	<u>Neco Insurance Co.</u>	NIL	1,100,000	100	110,000,000
120	<u>Alliance Insurance Company Limited</u>	AIC	599,862	100	59,986,200
121	<u>Sagarmatha Insurance Co.Ltd</u>	SIC	785,400	100	78,540,000
122	<u>NB Insurance Co. Ltd.</u>	NBIL	1,000,000	100	100,000,000
123	<u>Nepal Life Insurance Co. Ltd.</u>	NLIC	3,000,000	100	300,000,000
124	<u>Life Insurance Co. Nepal</u>	LICN	2,500,000	100	250,000,000
125	<u>Prudential Insurance Co.</u>	PICL	1,000,000	100	100,000,000
126	<u>Lumbini General Insurance</u>	LGIL	1,250,000	100	125,000,000
127	<u>Shikhar Insurance Co. Ltd.</u>	SICL	1,250,000	100	125,000,000
128	<u>Siddhartha Insurance Limited</u>	SIL	1,000,000	100	100,000,000
Total			20,467,884	1,700	2,046,788,400
Development Banks					
129	<u>Nepal Industrial Dev. Corp.</u>	NIDC	2,978,784	100	297,878,400
130	<u>Nepal Development Bank</u>	NDB	3,200,000	100	320,000,000
131	<u>Nirdhan Utthan Bank Ltd.</u>	NUBL	790,721	100	79,072,100
132	<u>Chhimek Vikash Bank Ltd.</u>	CBBL	510,000	100	51,000,000
133	<u>Paschimanchal Bikash Bank</u>	PDBL	1,000,000	100	100,000,000
134	<u>Infrastructure Development Bank Limited</u>	IDBL	800,000	100	80,000,000
135	<u>Diprox Development Bank</u>	DDBL	226,200	100	22,620,000
136	<u>Gandaki Bikas Bank Limited</u>	GDBL	500,000	100	50,000,000
137	<u>Business Development Bank Ltd.</u>	BDBL	2,100,000	100	210,000,000
138	<u>Bhrikuti Vikash Bank Limited</u>	BBBL	587,559	100	58,755,900
139	<u>Sanima Vikash Bank Ltd.</u>	SBBL	3,840,000	100	384,000,000
140	<u>Narayani Development Bank Ltd.</u>	NABBC	250,000	100	25,000,000

141	<u>Clean Energy Development Bank Limited</u>	CEDBL	3,200,000	100	320,000,000
142	<u>Triveni Bikas Bank Limited</u>	TBBL	500,000	100	50,000,000
143	<u>Purwanchal Grameen Bikash Bank Limited</u>	PGBL	600,000	100	60,000,000
144	<u>Pashupati Development Bank Limited</u>	PSDBL	2,000,000	100	200,000,000
145	<u>Bageshori Dev.Bank</u>	BBBLN	330,000	100	33,000,000
146	<u>Sahayogi Vikas Bank</u>	SBBLJ	200,000	100	20,000,000
147	<u>Gurkha Development Bank</u>	GDBNL	4,800,000	100	480,000,000
148	<u>Annapurna Bikash Bank Limited</u>	ABBL	1,919,750	100	191,975,000
149	<u>Swabalamwan Bikash Bank</u>	SWBBL	250,000	100	25,000,000
150	<u>Ace Development Bank Limited</u>	ACEDBL	4,575,432	100	457,543,200
151	<u>Himchuli Bikash Bank Ltd.</u>	HBBL	900,000	100	90,000,000
152	<u>Malika Bikash Bank Limited</u>	MDBL	500,000	100	50,000,000
153	<u>Siddhartha Development Bank Limited</u>	SDBL	1,075,725	100	107,572,500
154	<u>Biratlaxmi Bikash Bank Limited</u>	BLDBL	500,000	100	50,000,000
155	<u>Excel Development Bank Ltd.</u>	EDBL	200,000	100	20,000,000
156	<u>Nepal Development & Employment Promotion Bank Limited</u>	NDEP	3,200,000	100	320,000,000
157	<u>Subhechha Bikas Bank Limited</u>	SUBBL	400,000	100	40,000,000
Total			41,934,171	2,900	4,193,417,100

APPENDIX IV

List of Securities Businesspersons

S. N.	<i>Name of Securities Businessperson</i>	<i>Address</i>	<i>Tel. No.</i>	<i>Fax No.</i>
Broker				
1	Kumari Securities (P) Ltd.	POB 20189, Dillibazar, Ktm.	4418036	4418369
2	Arun Securities (P) Ltd.	POB 8136, Putlisadak, Ktm.	4419051	4420572
3	Opel Securities (P) Ltd.	Baluwatar, Ktm.	4423509	
4	Market Securities and Exchange Co. (P) Ltd.	Dharmapath, Ktm.	4248973	
5	Agrawal Securities (P) Ltd.	POB: 4760 Sankardev Marg, Ktm	4430780, 229739	
6	Aashutosh Brokerage & Securities (P) Ltd.	Khichapokhari, Ktm.	4227510, 4220276	4240162
7	Pragyan Securities (P) Ltd.	POB: 10087, Gaushala, Ktm.	4491683, 4498234	
8	Malla and Malla Stock Broking Co. (P) Ltd.	Dillibazar, Ktm.	4414263, 4416050	
9	Annapurna Securities Service (P) Ltd.	Putalisadak, Ktm.	4419051	4420572
10	Nepal Stock House (P) Ltd.	POB: 8978Anamnagar, Ktm.	4245012	4255732
11	Primo Securities (P) Ltd.	POB 748, Putalisadak, Ktm.	4230787	4226507
12	Khandelwal Stock Broking Co. (P) Ltd.	Tahachal, Ktm.	4284943	
13	Sagarmatha Securities (P) Ltd.	Kha 2/450, Putalisadak, Ktm.	4242548	
14	Nepal Investment & Securities Trading (P) Ltd.	Maitidevi, Ktm.	4413201, 4495450	
15	Sipla Securities (P) Ltd.	6/50 New Road, Ktm.	4255782	4255580
16	Midas Stock Broking Co. (P) Ltd.	W.No. 13, Kalimati, Ktm.	4414263, 4416050	
17	Siprabi Securities (P) Ltd.	POB 5705, Kupondol, Ktm.	5530701	
18	Sweta Securities (P) Ltd.	RadhaKuti Arcade, Putalisadak, Ktm.	4444791	
19	Asian Securities Ltd.	Kha2- 691, Adwait Marg, Ktm.	4240609, 4258160	4241817
20	Sri Krishna Securities Ltd.	Dhakhwa Building, New Road Ktm.	4224262, 4222209	4224262
21	Trishul Securities & Investment Ltd.	POB 1874, Putalisadak, Ktm.	4440708	4438197
22	J.F. Securities (P) Ltd.	POB 20946, Putalisadak, Ktm.	4231339	
23	Premier Securities Co. Ltd.	POB: 11185, Ramshahpath, Ktm.	4231339	4266422
Issue Manager				
1	National Finance Company Ltd. (NFC)	Pako, New Road, Ktm.	4228380,	4222920

<i>S. N.</i>	<i>Name of Securities Businessperson</i>	<i>Address</i>	<i>Tel. No.</i>	<i>Fax No.</i>
			4242302	
2	Ace Development Bank (ACE)	Naxal, Ktm.	4441110	4249477
3	NIDC Capital Markets Ltd. (NCML)	Kamal Pokhari, Ktm.	4423219/398	4423401
4	Citizen Investment Trust (CIT)	Putalisadak, Ktm.	4228759, 4240598	4240645
5	NMB Bank Limited (NMB)	Babarmahal, Ktm.	4246160	4246156
6	Nepal Finance Limited (NEFINSCO)	Kamaladi, Ktm.	4220031, 4247020	4241237
7	Nepal Share Markets & Finance Ltd.	Putalisadak , Ktm.	4252332, 4267597	4430109
<i>Issue Manager and Securities Dealer</i>				
8	United Finance Ltd. (UFL)	Darbar Marg, Ktm.	4241648/49	4241645

Source: Annual Report, SEBO/N.

APPENDIX V

Securities Market Indicators (Fiscal Year 1995/96 - 2006/07)

(Rs. in Ten Million)

Securities Market Indicators	Fiscal Year											
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Number of Issue Approved	12	12	5	12	5	9	9	16	17	16	12	34
Total Amount of Issue Approved (Rs.)	25.42	29.37	33.22	46.24	25.80	63.03	71.72	155.51	85.36	154.72	131.58	269.21
Total No. of Public Issue	10	12	5	12	5	6	9	12	18	14	14	29
Total Amount of Public Issue (Rs.)	17.40	29.37	33.20	46.24	25.80	32.69	41.05	144.14	55.65	102.75	162.68	244.33
Paid-up Value of Listed Securities (Rs.)	296.18	335.85	447.65	495.98	648.74	734.74	816.52	968.50	1256.01	1340.49	1677.18	2000.86
Market Capitalization (Rs.)	1296.30	1229.50	1269.80	1428.90	2350.80	4312.33	4634.94	3470.39	3524.04	4142.48	6136.59	9681.37
Annual Turnover (Rs.)	105.43	21.56	41.62	20.26	150.00	115.70	234.42	154.06	57.58	214.43	450.77	345.14
% of Turnover on Paid up Value	5.60	6.42	9.30	4.09	23.12	15.75	28.71	15.91	4.58	16.00	16.88	17.25
% of Turnover on Market Capitalization	8.13	1.75	3.28	1.42	6.38	2.68	5.06	4.44	1.63	5.18	7.35	3.57
% of Market Capitalization on Nominal GDP at Market Price	6.17	5.14	4.71	4.93	7.12	11.77	11.78	8.56	8.09	8.77	12.06*	17.35#
Market Day	242	240	239	237	231	240	231	246	238	243	236	228
Average Daily Turnover (Rs.)	0.44	0.09	0.17	0.09	0.65	0.48	0.10	0.63	0.24	0.88	1.91	1.51
Total Number of Listed Companies	79	89	95	101	107	110	115	96	108	114	125	135
Number of Company Traded	53	59	67	68	69	69	67	69	81	92	102	110
Number of Shares Traded ('000)	3901	2954	9443	1195	4857	7674	4989	6005	2428	6468	18434	122.22
Number of Transaction	21472	17943	12428	15483	15814	29136	46095	42028	69163	85533	106246	97374
Number of Listed Securities ('000)	58247	65880	85193	90107	105632	114057	124971	122685	159958	161141	194673	226540
NEPSE Index (points)	195.48	185.61	176.31	163.35	216.92	360.70	348.43	227.54	204.86	222.04	286.67	386.83
Exchange Rate (selling) (U.S. \$1 = Rs.)	49.59	50.94	56.80	57.30	68.25	68.80	71.10	75.40	75.35	75.00	70.94	74.69

* Revised Estimate of GDP

Preliminary Estimate of GDP

Includes additional sale of units of Citizen Unit Scheme

**Includes issue approved Rs.39.05 , registered & prospectus approved Rs.91.59, registered rights issue Rs.124.15 & Citizen Unit Scheme Rs.14.42

Source: Economic Surveys of Government of Nepal, SEBON Annual Reports and NEPSE Trading Reports.