CHAPTER - I

INTRODUCTION

1.1 Background of Study

The smooth continuity of development activities widely depends on the adequate supply of medium as well as long-term capital funds in productive investment projects, which is concerned with finance. The finance is directly concerned with conversion or accumulation of capital funds to meet the financial needs of various institutions. For efficient mobilization of financial resources, the financial market has an intermediary role to bridge funds from surplus units to deficit units through the trading of financial instruments. Financial instruments refer to the stock, bond, debenture and other financial assets those represent the right of the holder to receive future prospective benefits under the terms and conditions provided in the instrument.

Financial instruments are traded in the financial market. Investors can buy or sell securities at a price that varies little from the financial markets and facilitates the pricing discovery process. In other words financial market facilitates the transaction of financial assets like deposits, loan, bonds, securities, stocks, cheques, bills etc. Financial market refers to all the activities of financial institutions those transact on financial assets and liabilities.

Further, “Financial markets provide a forum in which suppliers and demanders of funds can transact business funds directly. Financial market constitutes money market and capital market.

The money market is created by a financial relationship between suppliers and demanders of short-term funds, which have maturities of one year or less. Most of the money market transactions are made in marketable securities, which are short-term debt instruments such as treasury bills, commercial papers and negotiable certificates of deposit issued by government, business and financial institutions. The money market exits because certain individuals, businesses, government and financial institutions having temporary idle funds wish to place in some type of liquid asset or short-term interest-earning instruments. At the same time, other individuals, businesses, government and financial institutions find themselves in need of seasonal or temporary fund. The money market thus brings together the suppliers and demanders of short-term liquid funds." *(Gitman, 1988:30-31)*

On the other hand, capital market is the place where financial claims and obligations are brought and sold that have maturity period of more than one year. We can further divide capital market into primary and secondary markets. In primary market, stocks and bonds are initially issue
d and sold (Initial Public Offering – IPO). This task may be undertaken by issuing firms and banking firms that purchase the securities from the issuing firms and sell them through an underwriting syndicate or group. On the other hand, secondary markets are those places where securities are subsequently traded that have been issued in the primary market. The majority of the market transactions occur in this market and proceeds do not go to the original issuers but to the owners of securities.

The stock exchange market or stock market is one of the forms of secondary market. It is a major component of the securities market and also the medium through which corporate sector mobilizes funds to finance the productive projects by issuing shares in the market. It is a place where shares of listed companies are transferred from one hand to another at a fair price through the organized brokerage firms. The stock market is a financial market, which probably has the greater glamour and is perhaps the least understood. Moreover, security (stock) market exists in order to bring together buyer and seller of securities to facilitate the exchange of financial assets. Hence, it creates and enhances liquidity in the securities.

Nepal's economy is in developing stage. In order to speed up this pace of economic development, financial sectors have crucial role, as they accumulate scattered savings for capital formulation. The public investors are interested to invest their money in financial instruments. All the prospective investors will not get the share of investment in financial securities issued by public companies in the primary market due to exceeds of demand to original offer. As a result, investors get opportunity to investment in the shares of institutions through stock exchange (one of the main components of secondary market) where a large volume of shares are traded among the investors every day. Whatever being traded larger volume of securities in market, investors' wants, knowledge and preference are the major factors which affect directly or indirectly on capital formation for institutional development.

In the Nepalese context, there is the lack of wider investment opportunities that provide good rate of return. So there exists a huge amount of unutilized saving funds with the investors. The rate of return they are getting from bank savings is not satisfactory enough since it lower than the rate of inflation. So, the investors are attracted by the increasing trend of good return of public companies mainly that of the joint venture commercial banks. Therefore, they are investing their saving funds in the common stocks of public companies with the expectation of higher capital gain in the future

So we can conclude that securities market can run only with the dealing of those financial instruments which fulfil investors' expectation. The investors, both existing and potential, and their preferences are highly dominant for existence of capital market and collection of fund for public companies.
That is why this study is focused on addressing the factors that affect investors while making investment decision on financial instruments. This study basically tries to answer some relevant questions such as: To which securities investors give more priority? What are the main reasons which attract the

investors to invest in particular security and particular industrial sector? Do they have right and enough knowledge for investment in securities?

1.2 Statement of The Problems

The number of public limited companies is increasing tremendously in response to the economic liberalization and globalization policies adopted by the Nepalese government. Most of institutions provide banking services, Corporative Finance service, insurance services, etc, and comparatively fewer institutions are participating in developmental works, manufacturing and processing, and others. Although opportunities are limited such institutions are mushrooming and competing with themselves intensely. After the emergence of NEPSE in 1997, the concept of capital market has been developed and growing rapidly within a short span of time. It is mandatory to enlist the public limited companies in NEPSE. Up to now, there are altogether 115 such companies, which are listed in NEPSE. NEPSE creates liquidity on shares of such companies issued in the primary market, and provides floor for trading of shares. Number of legislative provisions have been made, NEPSE, SEBO and Nepal Rastra Bank are monitoring the share market regularly for timely check and balance, investors' awareness campaign are frequently going to ensure right movement of the market. But, further more steps need to taken to lead the share market given vast development of technological advancement, mushrooming of new investors and actual financial position of the companies. In this connection, the study of investors’ interest, wants, expectations and preference towards investment decision is vital which is very complex and crucial task. Considering the situation the study has focused on addressing following issues:

⇨ What is the degree of investors’ preference for investment in different securities?

⇨ What are the main purposes that lead Nepalese investors to invest in securities?

- ⇨ What is the status of investors' preference regarding investment in different industrial sectors?
- ⇨ What are the affecting factors for the investors to make investment decision?

1.3 Objectives of The Study

As we are aware that the stock market of Nepal is gradually developing as per need of the economy developing but it is not sophisticated as in the market of advance countries. Therefore sustainability of stock market and fulfilment of investors' expectations should be considered for country economy development. In this context, it is relevant to address the investors' preferences for investment on financial instruments.

The specific objectives of this study are outlined as follows:

- ⇨ To identify, the investors' preference in choice of the financial instruments.
- ⇨ To examine the Nepalese investors' preference for investment in different institution sectors such as Bank, Finance Company, Insurance Company, Hotel and Tourism, Trading Company and Others.
- ⇨ To find out the specific factors, which affect the investors' decision.
- ⇨ To assess investors' awareness regarding the investment decision in selecting securities.

1.4 Significance of The study

This research is very useful to all the parties like security businesspersons, market makers, brokers, companies and investors etc. who are directly or indirectly involved in the stock market because it provides the guidelines to the stock market and potential investors to make investment decisions. Issuer company may also take the advantage of the study by examining the investors' psychology towards the investment in different financial instruments.

The investors are the sovereigns of security market so their needs and desires must be identified so that they can rightly be rewarded for the sacrifice from their part.

Academicians, research scholars, students and policy makers may be benefited from this study as it tends to gives some practical insights that can be very useful to turn the theoretical knowledge into practical field.

1.5 Limitation of The Study

As every research or study has its' own limitation, this study has some limitations as below:

- ⇨ The data and information required for this study is collected form both primary and secondary sources of information as and when required basis. But this study is mainly based on primary data.
- ⇨ The major portions of analysis and interpretation have been done on set of questionnaires that are filled by the targeted investors.
- ⇨ Only four financial instruments have been taken into consideration for the study (i.e. Equity Share, Preference Share, Debenture, Government Bond).
- ⇨ The study is focused on the analysis of Investors' preference with present and past circumstances of the stock market and investors in Nepal.
- ⇨ Only selected statistical tools have been used in the study.

1.6 Organization of The study

This study has been divided into five chapters, which are as follows:

Chapter I: Introduction

It includes general introduction, statement of the problem, objectives of the study, importance of the study, limitations of the study and organisation of the study.

Chapter II: Review of Literature

This chapter consists of the review of books, articles, journals, reports and other relevant materials.

Chapter III: Research Methodology

It covers on research design, population and sample, sources of data, data gathering procedure, analytical tools, etc.

Chapter IV: Data Presentation and Analysis

This chapter attempts to analyze and evaluate data with the help of analytical tools and interpret the results obtained.

Chapter V: Summary, Conclusion and Recommendations

It sums up the results obtained through analysis and recommends some suggestions.

CHAPERT - II
REVIEW OF LITERATURE

In this chapter, the basic literatures related to the research topic are reviewed. It includes prior theories and review of the empirical evidences of previous studies.

The first section of this chapter contains a brief description of the theories of the investment, risk and return. It includes the technical analysis, fundamental analysis and efficient market theories. The second section provides reviews on empirical experience of previous studies.

2.1 Conceptual Framework

2.1.1 Investment

Investment, in its broadest sense, means the sacrifice of current dollars for future dollars. Two different attributes are generally involved: time and risk. The sacrifice takes place in the present and is certain. The reward comes later, if at all and the magnitude is generally uncertain. In some cases the element of time predominates. In other cases risk is the dominant attribute. In yet others, both time and risk are important. *(Sharpe, Alexander, Bailey, 2001, 1)*

Investment is a subject of growing importance. Investors in general have to be careful in making best use of their funds. Taking the example of our own country, many investors face serious losses due to irrational investment behavior. But rational investors make investigation before investment and they can gain more from capital market. Investment here can be conceptualized to employing savings in securities to generate future income.

In capital market perspective, investment is making transactions in shares and debentures through the use of brokers since they facilitate trading in the stock exchange. But this may not be investment to an economist. An economist uses the term investment to have addition to nation's physical stock of capital like establishing new factories installing new machineries and addition to inventory. Since buying shares and debentures do not add to an addition to the stock of physical assets it does not constitute investment to an economist.

An entrepreneur thinks upon investment as profit generating vehicle. In this regard, investment is equated to the entrepreneurs' shelf –employment of funds in his business. As for instance, many entrepreneurs employ their capital in doing business. In financial institution's perspective, investment is the canalization of collected saving from savers by way of credit and loans to those who need for meeting their varying needs and purposes. To the government investment involves the resource mobilizing process in the various productive sectors of the economy.

Looking still in other way, investment implies the process of channeling investor's public funds in various securities issued by the government, companies, financial institutions, industries and many other undertakings through the intermediary network. In our country, many public limited companies have been successful enough to raise capital from capital market by issuing financial securities with higher commitment of returns to investing public.

From the above discussion, it is clear that the term investment is a word of many meanings having different implications to different people and institutions. After all, investment means employing money to generate more money in future. It is the sacrifice of current consumption of savings for future income available for consumption.

Return is the primary motive of investment, but it always entails some degree of risk. Buying common stocks, bonds of company, depositing money into bank account, buying a piece of land, gold or silver are examples of investment as all of them involve trade-off between risk and return. All these examples involve sacrifice of current consumption in expectation of future return. Hence they are investments. As such, the main objective of investment is to maximize the wealth or capital gain of an investor resulting from rise in market value of securities.

Further, Investment can be either a real investment or a financial investment. Investment in tangible assets like land and machinery is a real investment. It has productive capacity. But, investment in financial assets like common stocks and bonds is a financial investment. It does not directly pose the productive capacity. Financial assets are direct claims to the income generated by real assets. In this sense, the values of financial assets are by itself derived from the values of the underlying real assets of the firms and their effective utilization to exist profit.

Generally, investment is different from speculation based on time horizon and risk return characteristics of the investment. But, speculation has a very different kind of implication in investment. There can be no success of investment without speculation. As such, intelligent speculation is investment. But the true and genuine investor is interested usually in long-term investment with a good rate of return and earned on a consistent basis. The speculator seeks opportunity promising very large returns, earned rather quickly, so the investment period may be a few days to few months. Speculative investors are more interested in the abnormal, extremely high rate of return than the normal or moderate rate of return.

The growth of stock market in our country has provided investors with different alternative of invest in portfolio of securities such as shares of joint venture banks, finance companies, insurance, selected manufacturing and service and trading firm. Because of large speculative tendencies among investors, many had lost money due to very irrational behavior as shown from experience of our Nepal Stock Exchange *(Shrestha and Bhandari, 2005, 28).*

2.1.2 Investment Process

Investment process involves how an investor should make decisions about 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 decisions is the basis of the investment process:

2.1.2.1 Investment Policy

The first step, setting investment policy, involves determining the investor's objectives and the amount of his or her investable wealth. Because there is a positive relationship between risk and return for sensible investment strategies, it is not appropriate for an investor to say that his or her objectives to attempt to "make a lot of money". What is appropriate is for an investor to state that his or her objective is to attempt to make a lot of money while recognizing that there is some chance that large losses may be incurred. Investment objectives should be stated in terms of both risk and return, therefore. *(Sharpe, Alexander, Bailey, 2001, 10)*

This step in the investment process concludes with the identification of potential categories of financial assets to be included in the portfolio. This identification will be based on, the investment objectives, investable wealth and tax status of the investor. For example, usually it does not make sense for individual investors to buy preferred stock or for tax-exempt investors to investing tax-exempt securities. Investment policy is the milestone of the investment process. Without it, investors have no appropriate context in which to make investment decisions. Unfortunately, however, investment policy often receives the least attention from investors. Similarly, it may change during a span of time.

2.1.2.2 Security Analysis

The second step in the investment process is performing security analysis. It involves examining several individual securities within the broad categories of financial assets previously identified. One reason to examine securities is to identify those that seem miss priced. There are various approaches to security analysis. However, most of these approaches fall into one of two classifications. The first classification is technical analysis; analysts who use this approach to security analysis are called technicians, or technical analysts. The second classification is fundamental analysis; those who use it are known as fundamentalists, or fundamental analysis, in discussing these two approaches to security analysis, the focus will be first on common stocks and then on other types of financial assets.

In simplest form, technical analysis involves the study of stock market prices in an attempt to predict future price movements. Price are examined to identify recurring trends or patterns in price movements. Then more recent stock prices are analyzed to identify emerging trends or patterns that are similar to past ones. This analysis is done in the belief that these trends or patterns repeat themselves. By identifying an emerging trends or pattern, the analysts hope to predict accurately future price movements for a particular stock. *(Sharpe, Alexander, Bailey, 2001, 12-13)*

On the other side, fundamental analysis begins with the assertion that the true (or intrinsic) value of any financial assets equals the present value of all cash flows; the owner of the assets expects to receive. Accordingly, the fundamental stock analyst attempts to forecast the timing and size of these cash flows and then converts the cash flows to their equivalent present value using an appropriate discount rate. More specially, the analysts attempt to estimate the discount rate and to forecast the dividends a particular stock will provide in the future; this process is equivalent to forecasting the firm's earning per share and payout ratios. Once the true value of the common stock of a particular firm has been estimated, it is compared with the current market price of the common stock to determine whether the stock is fairly priced.

Stocks whose estimated true value is less than their current market price are known overvalued, or overpriced, stocks, whereas those whose estimated true value is greater than their current market price are known as undervalued, or under priced.

The magnitude of cause the strength of the true value and the current market price is important because the strength of the analyst's conviction that a given stock is miss priced will depend, in part, on it, fundamental analysts believe that any notable cases of miss pricing will be corrected by the market in the near future, meaning that prices of undervalued stocks will show unusual appreciation and prices of overvalued stocks will show unusual appreciation and prices of overvalued stocks will show unusual depreciation.

2.1.2.3 Portfolio Construction

The third step in the investment process, portfolio construction, involves identifying specific assets in which to invest and determining how much to invest each one. The issues of selectivity, timing, and diversification need to be addressed by the investor. Selectivity, also known as micro forecasting, refers to security analysis and focuses on forecasting price movements of individual securities. Timing, also known as macro forecasting, involves forecasting price movements of common stocks in general relative to fixed income securities, such as corporate bonds and treasury bills. Diversification, as mentioned earlier, involves constructing the investor's portfolio in such a manner that risk is minimized, subject to certain restrictions. Portfolio construction further should be rational and even qualitative analysis is must. *(Sharpe, Alexander, Bailey, 2001, 13)*

2.1.2.4 Portfolio Revision

The fourth step in the investment process, portfolio revision; concern the periodic repetition of the previous three steps. Over the time the investor may change his or her investment objectives, which, in turn, would make the currently held portfolio more optimal than previously held. The investor may create a new portfolio by selling certain securities and by purchasing others another motivation for revising a portfolio would be if the prices of securities changed- some securities that initially were not attractive may become attractive and others those were attractive at a time may no longer be so. The investor may want to add the former to his or her portfolio and eliminate the latter. Such decisions depend on, among other things, transaction costs incurred in making changes and the magnitude if the perceived improvement in the investment outlook for the revised portfolio. *(Sharpe, Alexander, Bailey, 2001, 14)*

2.1.2.5 Portfolio Performance Evaluation

The fifth step in the investment process, portfolio performance evaluation, involves determining periodically how the portfolio is performing in terms of the return earned and also the risk experienced by the investor, thus, appropriate measures of return and risk as well as relevant standards (or benchmarks) are needed. Different index, experience curve, and utility measurement can help in this regard.

2.1.3 Types of Investors

There are various types of investors in the market mainly categorized into two parts:

2.1.3.1 Individual Investors

A person who invests in securities is called individual investors. They have a job apart from investing in securities. Individual investors have an opportunity cost on obtaining investment information from reading publication, tracking stocks, prices, companies performance building files on securities. This opportunity cost is the time and resources forgone that could have been used in other endeavors.

2.1.3.2 Institutional Investors

Institutional investors are those investors, which is an institution or organization.

The institutional investors seek to derive the necessary information from stock recommendations, earning forecast, written reports, and overall performances when talking investment decisions.

2.1.4 Financial Instruments

Securities means shares, stock, debenture etc. issued by a corporate body or a certificate relating to unit saving scheme or group saving scheme issued by any corporate body in accordance with the prevailing laws or negotiable certificate of deposit or treasury bill issued by Government and it includes the securities issued under full guarantee of the Government or securities as prescribed by government by a notification publishes in the Nepal Gazette or receipts relating to deposits of securities as well as rights and interest relating to securities.

Financial instruments are traded in the financial market. Investors can buy or sell securities immediately at a price that varies little from the financial markets and facilitates the pricing discovery process. Buy and sell orders that flow from investor's demand and supply preferences determine the price of securities in deficit and surplus units of society. The common stock, preferred stock, debentures and government securities and 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. Government securities are also important securities, which are issued by government through Nepal Rastra Bank. The major financial instruments in Nepal are:

- Common Stock
- Debt
- Preferred Stock
- Government Securities

- **Common Stock**

Common stock represents an ownership position. The holders of common stock are the owner of the firm, have the voting power that among other things elects the board of directors, and have a right to the earnings of the firm after all expenses and obligation have been paid; but they also run the risk of receiving nothing if earning are insufficient to cover the obligations.

Common stockholders hope to receive a return based on two sources dividends and capital gains. Dividends are received only if the company earns sufficient money and the board of directors deems it proper to declare dividends. Capital gain arises from advancement in the market price of the common stock, which is generally associated with a growth in per share earnings. Because earnings often do not grow smoothly over time. This fact points the need for careful analysis in the selection of securities for purchase and sale, as well as, in the timing of these investment decisions, for common stock has no maturity date at which a fixed value will be realized.

When a company needs capital for expansion, it sells shares its stocks to the public. Most companies issue million numbers of shares so each share represents only a tiny piece of company. These shares are also transferable

The common stockholders of a corporation are its residual owners; their claim to income and assets comes after creditors and preferred stockholder have been paid in full. As a result, stock holder's return on investment is less certain than the return to a lender or to a preferred stockholder is not bounded on the upside as are returns to the others *(Prasanna, 1994, 72).*

Advantages of holding common stock are as follows:

1. Common stock provides ownership of the firm.
2. It provides control power.
3. Purchase of common stock gives the following rights to stockholders:
4.
   - Voting right
   - Participation in general meeting
   - Right getting information
   - Electing as a board of director
   - Participation in the profit and loss of the company
   - Transferring shares
   - Proxy representation

The disadvantages of holding common stock are as follows:

1. It is more risky than other securities
2. The rights may not be exercised in his or her best interest as individual investor represents very small proportion of total shares.
3. On liquidation, holders of common stock are last in the priority of claims. Therefore, the portion of capital they contribute provides a cushion for creditors, if losses occur on dissolution.
4. As an owner of firm, investor of common stock should bear legal responsibility, and personal liability.

Debt

The holders of a company's long-term debt, of course, are creditors. Generally, they cannot exercise control over the company and do not have a voice in management. If the debts contract, then these holders may be able to exert some influence on the direction of the company. Holders of long-term debt do not participate in the residual earnings of the company; instead, their return is fixed. Their debt instrument has a specific maturity, whereas a share of common or preferred stock does not in liquidation, the claim of debt holder is before that of preferred and common stockholders. Depending on the nature of the debt instrument, however, there may be difference in the claim among the various creditors of a company.

I) Debenture

The term debenture usually applies to the unsecured bonds of a corporation. Investor looks to the earning power of the corporation. 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

II) Subordinate Debentures

Subordinated debentures represent debt that ranks behind debt senior to these debentures with respect to the claim on assets. In the event of liquidation, subordinated debenture holders usually receive settlement only is all senior creditors are paid the full amount owed them. These holders still would rank a head of preferred stockholders in the event of liquidation. The existence of subordinated debentures may work to the advantage of senior holders, because senior holders are able to assume the claims of the subordinated debenture holders

III) Mortgage Bonds

A mortgage bond issue is separated by a lien on specific assets of the corporation-usually fixed assets. The specific property securing the bonds is described in detail in the mortgage, which is the legal document giving the bondholder a lien on the property. As with other secure lending arrangements, the market value of the collateral shows the market value of the bond issue by a reasonable margin of safety.

IV) Income Bonds

Income bonds provide that interest must be paid only when the earnings of the firms are sufficient to meet the interest obligations. The principal, however, must be paid when due. Thus the interest itself is not a fixed charge. Income bonds, historically, have been issued because a firm has been in financial difficulties and its history suggests that it may be unable to meet a substantial level of fixed charges in the future. More generally, however, income bonds simply provide flexibility to the firm in the event that earnings do not cover the amount of interest that would otherwise have to be paid. Income bonds are like preferred stock in that the firm will not be default if current payments on the obligations are not made. They have an additional advantage over preferred stock in that the interest is a deductible expense for corporate income tax computations, while the dividends on preferred stock are not.

The main characteristic and distinct advantage of the income bond is that interest is payable only if the company achieves earnings. Since earnings calculations are subject to differing interpretations, the indenture if the income bonds carefully define income and expenses. If it did not, litigation might result. Some income bonds are cumulative indefinitely (if interest is not paid, it accumulates, and it must be paid at some future date); others are cumulative for the first three to five years, after which they become non-cumulative.

Income bonds usually contain sinking fund provisions to provide for their retirement. The annual payment to the sinking funds ranges between ½ and 1 percent of the face amount of the original issue. Because the sinking fund payment requirements are typically contingent on earnings, a fixed cash drain on the company is avoided. Typically, income bondholders do not have voting rights when the bonds are issued. Sometimes, bondholders are given the right to elect some specified number of directors if interest is not paid for a certain number of years *(Weston and Copeland, 1990,178).*

V) Floating-Rate Notes

When inflation forces interest rates to high levels, borrowers are reluctant to commit themselves to long-term debt. Yield curves are typically inverted at such times, with short-term interest rates than long-term. One factor is that borrowers would rather pay a premium for short-term funds then lock themselves into high long-term rates for two or three decades.

Two risks are faced by those who defer long-term borrowing in hope that interest rates will soon fall. First, there is no assurance that rates will not rise even higher and remain unexpectedly high levels for an indefinite period. If long-term rates rise to 15 percent, for example, debt that looked expensive at 123 percent will seem like a bargain to a borrower who passed it up in the hope of waiting out the rates of crisis. Second, the short-term money may simply become unavailable.

The floating-rate not (FRN) was developed to decrease the risks of interest rate volatility at high levels. In an FRN, the coupon rate varies at a given percentage above prevailing short-or long-term treasury debt yields. The FRN rate is typically either fixed or guaranteed to exceed a stated minimum for an initial period and then adjusted at specified intervals to movements in the treasury rates. FRNs were first issued in the United States by Citicorp in 1974. The rate was set at a minimum of 9.7 percent for ten months and then adjusted semiannually to 1 percent above the current three month Treasury bill rate. Other firms followed Citicorp's lead. These early issues carried rates based on T-bill yields, and most allowed investors to "put" the FRN to the issuer at face value after a given date. Initial rates on the notes were well below the going rate on such short-term borrowing as commercial paper. In July 1974, the rate on three-month prime commercial paper was 11.9, while Treasury bills of comparable maturity where yielding 7.6 percent. Because interest tares were generally expected to decline, borrowers hoped that FRNs would also cost less over the life of the notes than fixed-rate long-term debt.

VI) Equipment Trust Certificates

Although equipment trusts financing is a form of lease financing. The certificates themselves represent an intermediate to long-term fixed income investment. This method of financing is used by railroads to finance the acquisition of rolling stock.

VII) Equity-Linked Debt

Sometimes the investors in the debt instruments of a company are given an option on common stock. With debt warrants, the debt holder has an option to purchase the common stock of the company and he or she continues to hold the instrument more attractive. A convertible bond is one that may be exchanged, at the option of the holder, into a certain numbers of shares of common stock of the corporation. The number of shares into which bond is convertible, is specified in the bond indenture, and these shares remain unissued until actual conversion.

Purchasing of debt provides the followings advantages and disadvantages to debt holders:

From the viewpoint of long-term debt holders, debt is less risky than preferred or common stock, has limited advantages in regard to income, and is weak in regard to control. To elaborate:

1. In the area of risk, debt is favorable (relative to preferred per common stock) because it gives the holder priority both in earnings and in liquidation. Debt also has a definite maturity and is protected by the covenants of the indenture.

2. In the area of income, the bondholder has a fixed return, except in the case of income bonds or floating rate notes. Interest payments are not continent on the company's level of earnings or current market rates of interest. However, debt does not participate in any superior earnings of the company, and gains are limited in magnitude. Bondholders actually suffer during inflationary periods. A 20-year, 6-percent bond pay $ 60 of interest each year. Under inflation, the purchasing power of this $60 is eroded, causing a loss in real value to the bondholder. Frequently, long term debt callable. If bonds are called, the investor receives funds that must be reinvested to be kept active.

3. In the area of control, the bondholder usually does not have the right to vote. However, if the bonds go into default, then bondholders, in effect, take control of the company *(Weston and Copeland, 1992, 128).*

Preferred Stock

Preferred stocks have fixed dividend and right of acquiring principal before common stock at the time of liquidation. "Preferred Stock is said to be a "Hybrid" security because it has features of both common stock and bonds. Preferred stocks are preferred with respect to assets and dividends. In the event of liquidation, preferred stockholders have a claim on available assets before the common-stockholders. Furthermore, preferred stockholders get their stated dividend before common stockholders can receive and dividends *(Surendra Pradhan, 2000, 411)*

Preferred stock provides the following advantages to the investor.

1. It provides reasonably steady income.
2. Preferred stockholders have a preference over common stockholders in liquidation; numerous examples can be cited where the preference position of holders of preferred stock saved them from losses incurred by holders of common stock.

3. Many corporations (for example, insurance companies) like to hold preferred stock as investment because 70 or 80 percent of the dividends received on these share is not taxable.

Preferred stock also has some disadvantages to investors:

1. Although the holders of preferred stock bear a substantial portion of ownership risk, their returns are limited.
2. Price fluctuations in preferred stock may be greater than those in bonds; yet, yields on bonds are sometimes higher than those on preferred stock.
3. The stockholders have no legally enforceable right to dividends.
4. Accrued dividend arrearages are seldom settled in cash comparable to the amount of the obligation that has been incurred.

Government Securities

Government issues various types of securities to fulfill and undertake the development works under the deficit budget and raises scattered funds from public. These securities are assumed to be less riskily as compared with external debt. Government issues securities internally and externally, the main source of internal debt is government bonds. NRB has been actively issuing various government securities in the country. It is one of the most important issuance of the government to maintain the deficit budgetary system of Nepal. The Government Securities, which are issued by NRB, are described in brief below.

1. Treasury Bills

It is the short-term government bond. It is issued to fulfill deficit budgetary system in Nepal. It normally matures in 91 days while some securities mature in 365 days. It is issued to collect scattered funds and to mobilize it in productive sector and conduct fiscal and monetary policies. It is issued on the basis of auction so that any individuals and institutions can invest in Treasury Bills.

2. Development Bonds

NRB has been issuing these bonds in the market. It is a long-term government bond. It has normally 5 years maturity period. The security holders can use it as collateral if they need money immediately. Institutional and individual investors purchase it. It has fixed and minimum interest percentage. The securities holder normally obtains 90 percent amount of total value if he keeps them on collateral. The income from these bonds is taxable.

3. National Saving Bonds

It is a long –term government bond. It has normally 5 years maturity period. Individuals, organization and financial institution purchase this bond expect commercial banks. In this bond, interest is paid semi-annual basis. It can be purchased as a promissory note. Principal is refunded after its maturity period. It has fixed interest rate, which can be sold easily from one person to another in the market. It can be used as collateral as in the case of Development Bonds.

4. Citizen Saving Certificate

It is also a long-term government bond. It has normally 5 years maturity period. It has fixed interest rate which is paid semi-annual basis. It cannot be used as collateral. Individual and institutional purchase can buy this bond. It is a taxable bond.

5. Special Bonds

This type of bond is issued on special occasions when government falls short of funds. The government can issue special bonds to those parties to whom government has to make payment. The holder can use it as collateral.

2.1.5 Market Risk and Return

Capital market are said to be efficient when security prices fully reflect all available information. In such a market, security prices adjust very rapidly to be new information.

The risk of a portfolio depends not only on the standard deviation of the individual securities comprising the portfolio but also on the correlation of possible returns. For a two-security portfolio, an opportunity set line describes the risk return trade off for various combinations. The diversification effect sometime causes the opportunities set line to bend back ward, with the minimum variance portfolio having a lower standard deviation than that of the least risky security.

The capital asset pricing model allows us to draw certain implication about expected return of specific security. The key assumptions in the model are perfect capital markets exist and that investors have homogeneous expectations. In this context, the relevant risk of security is its undiversifiable risk. This risk is described by the slope if the characteristic line, here security returns in excessive of the risk free rate are related to excess return for market portfolio, known also as beta, it is used as measure of the systematic risk of a security. The total risk of a security can be divided into unsystematic and systematic components. Systematic risk is risk that cannot be diversified away, for it affects all securities in the market. Unsystematic risk is unique particular security and can be eliminated with efficient diversification. *(Van Horn, 2000, 49)*

2.1.6 Sources of Investment Risk

Every investment involves uncertainties that make future investment returns risky. Here are some of the sources of uncertainty that contribute to investment risk.

- **Political Risks**

Political risk arises from the exploitation of a political weak group for the benefit of a politically strong group, with the effects of various to improve their relative position increasing the variability of return from the effected asset regardless of whether the charges that causes political risk are sought by political or by economic interests, the resulting variability of returns is called political risk if is accomplished through legislative, judicial for administrative branches of the government. Political risk can be international as well as domestic.

- **Industry Risk**

Industry risk is that apportion of an investments total variability of return caused by events that affect the products and firm that make up an industry. The stage of the industry's life cycle, international tariffs and or quotas on the products produced by an industry related taxes, industry wise labor union problems, environmental restrictions, raw material availability, and similar factors interact and affect all the firms in an industry simultaneously. As a result of these commonalities, the prices of the securities issued by competing firms tend to rise and fall together.

The above-mentioned uncertainties are the major sources of investment risk. Moreover, there might be numerous minor sources of investment risk. The just discussed major sources are of additive nature, which adds up to total risk i.e. variance.

2.1.7 Trade off Between Risk and Return

Risk is complicated subject and needs to be properly analyzed. The relationship between risk and return is described by investor perception about risk and their demand for compensation. No investor will like to invest in risky assets unless he is assured of adequate compensation for the assumption of risk. Therefore, it is the investors required risk premiums that establish a link between risk and return. In a market dominated by rational investor, higher risk will command by rational premiums and the trade off between the two assumes a linear relationship between risk and risk premium. *(Surendra Pradhan, 2000, 325)*

2.1.8 Factor to be Considered While Making Investment in Financial Assets

Investor should consider various factors before selecting securities such as good future prospects, risk factor, reliable management of the company, beneficial company, higher growth company etc. The investors who invest in the securities should compare the price and value of share. The rules and regulation alone cannot protect the investor's preferences. The investors should know about the securities and companies' performances. Normally the following factors should be considered in investment decision:

- Risk of securities
- Liquidity
- Availability and Accessibility
- Investment portfolio
- Stability of income and Cash flow
- Strength
- Mobility
- Cash flow

The investors are to be informed about the following before making investment in the Initial public Offerings (IPO):

- The investor should take the necessary information company's such as promoters, size of company, company's environment, Board of Director, and forecasted statements (Performa Balance Sheet) etc. from the Prospectus, Article of Association, and Memorandum of association of concerned company.

- To study the public announcement, the company should communicate through national daily newspaper before 7 to 15 days the opening of the issue of shares.

The investors are required to be informed on the followings before investment in the share in the secondary market.

- Keep the information of companies; return to shareholders the form of cash dividend, bonus share etc. and timely information about the company's earning per share, price earning ratio, future plan and growth of the company.

- Analyze the information notified to the investors in the notice board of SEBO and NEPSE about the companies.

- Study the articles related to the trading of shares and economic matters published in the different newspapers and magazines.

- Study the trading statements and financial analysis of listed companies published by NEPSE.

- Study annual reports and other information published by SEBO.

Like wise other specific matters to be considered while trading with securities are as follows:

1. Order Specification

Investors are required to give written purchase and sale order to broker in the format as prescribed by the Stock Exchange. The form for the order can be received from Broker Company.

2. **Subject Matter to Be Revealed Along With Order and the Time That the Order Remains Outstanding**

The name, type, number and price of the security must be described in the order specification. Like wise the time that the order will remain outstanding should also be described and in case such time is not specified the order will be assumed to remain outstanding for 15 days from the time such order is placed.

3. **To receive certification of the order given to the broker company**

After giving order to the broker company, the certificate should be taken from the concerned broker that identifies the broker to whom the order is placed.

4. **To receive the information of the execution of the order**

Broker Company must execute the order in the trading floor of stock exchange within the stipulated time. The information of such transaction must be forwarded to the investor in the time when the transaction takes place or in the day following the date of transaction.

5. **To give security or purchase price**

While investor receives the information of execution of his or her order from Broker Company the investor, within the five transaction days, requires paying purchase price if the order is to purchase security. If the order is to sell then he must submit the security and the certificate given by the seller of the security.

6. **Provision Regarding Buying or Selling of One Security In A Day in the Different Prices:**

Security of a company can be transacted in different prices in the same day.

7. Transaction Risk

Investor must be careful as to the possibility that the security may not be received in time. Such risk may arise due to the negligence of the Broker Company. If the broker company does not settle the transaction of the security within one-month investor should contact with stock exchange explaining such case.

8. My Word My Bond

Since security transaction is based on "my word my bond" the investor must forward related documents to the concerned parties. The risk that arises due to non-submission of the documents should be born by the concerned parties.

9. Right to Receive Information

Investor can take details of the buying or selling price of the security, commission of broker, amount he or she is entitled to receive etc. from the stock exchange. Investor should report to stock exchange in time for the problems he or she faces in course of dealing with Broker Company. The problems will be solved by the stock exchange if the problems are in the jurisdiction of the exchange.

2.2 Theories to Explain Stock Price

There are two approaches to explain share price fluctuations. Market efficiency is the basis for the both approaches. Conventional approach has considered that market is inefficient, which includes technical analysis theory and fundamental analysis of theory. Contrary approach was argued the market is efficient under which there are forms of efficient market hypothesis. "Prior to the development of the efficient market theory, investors were generally divided into two groups: fundamentalists and technician" (Reilly, 1986). Based on incorporation of various types of information set with spend and accuracy in pricing stock there are three forms of efficient market theories such as weakly efficient market or Random walk, semi-strongly efficient and strongly efficient market theory.

2.2.1 Technical Analysis Theory

Technical theory involves study of the past volume and price data of the stock in order to predict future price fluctuations. This approach studies various graphs and charts of the past share price and deduce from the analysis about the future price movement of seeking to interpret-past pattern on the assumption that history tends to repeat itself (Kean, 1983). Main assumptions of the technical theory are as follows (Levy, 1966):

- Price is determined by the interaction of demand and supply.
- Demands and supplies are governed by various factors, both rational and irrational
- Series of price content trends that persist for appreciable length of time.
- The change in trend caused by shifts in demand and supply are detectible in the analysis of past price and volume data, and
- The patterns tend to repeat it self.
- Technical analysis trend, which they believe to repeat in the future and recommended for the timely holding and disposing mechanism which is profitable or that recommended for short-term speculation based in its forecast of profitable patterns.
- The technicians usually attempts to predict short-term price movements and thus makes recommendations concerning the time of purchase and sales of either specific stocks or groups of stocks *(Alexander, Sharpe and Bailey, 1990).*

2.2.2 Fundamental Analysis Theory

Fundamental Analysis theory claims that at any point of time an individual stock has an intrinsic value, which is equal to present value of future cash flows from security discounted at appropriate risk, adjusted discount rate. “The value of common stock is simply the present value of all future income which the owner of share will receive" (Franscis, 1986) And the actual price should reflect the intrinsic value of the stock i.e. good anticipation of cash flows and capitalization rates corresponding to future time period. But in practice first, it is not known in advance what a stock's income will be in the future period, and second, it is not clear what the appropriate discount rate should for a particular stock. So fundamentalists attempt to reach best estimate of the intrinsic value of share by studying company's sales, profit, dividends, management competency, and numerous other economic and industrial factors, which determine its future income and prospect of business opportunities.

Since in world of uncertainty, the anticipation, of values cannot be known exactly, there will be disagreement on the option about the estimation among the market participations. Then actual prices fluctuate closely around the economic values of share, because too far than true value is profitable for the participants and they do not miss to exploit ht situation. Over the time, with continuous generation of new information related to company's coming prospect, the instructive value of changes. As a result, price stocks just to intrinsic value. The actual of securities therefore is considered to be function of a set of anticipation. Price changes as anticipation changes which in turn change as a result of new information (Bhalla, 1983). Whenever the stocks are priced over or under the true value of stock, the recommendation of sales or purchases is called for "after extensive analysis, the investors derive an estimate of the 'intrinsic' value of security, which is then compared to its market price. If the 'value' exceeds the market price, the security should be acquired and vice versa. (Reilly, 1986) following this rule they believe, above-average return can be attained, given that market is inefficient in pricing the share.

The two theories explained above have assumed that the pricing of the shares in the market is not efficient. Therefore, while making investment decision, technical analysis theory suggests for the right time of purchasing and selling whereas fundamental analysis theory recommends for the selection of appropriate stocks. Another approach to describe share price behavior has supposed that the market is efficient in pricing the share. The detail explanation of efficient market theory is followed in the following section.

2.3 Review of Journals and Articles

A Report published in Rising Nepal written be Arhan Sthapit in topics of Nepalese capital Market, August 29, 2008

"On an average, our market is not adequately sensitive, continuing a bullish trend; many market anomalies are to blame for it," *opines Dr. Manohar Krishna Shrestha. Dr. Shrestha is senior most professor of Finance watching Nepal's stock market.*

Warming bell Buoyed by market boom, many investors have gone on a stock-buying spree, *Prof. Shrestha warns*, "They have seemingly embraced a strong belief that the market would never decline, but it'll be very risky."

Analysts say there are indications that the bullish trend has almost reached a point of probable decline, as the market functions like a cycle. "In the cycle, decline has to com e after the climax of boom, and irrational investors may fall into a trap of debacles," *Dr. Shrestha explains.*

A majority of investors are not well informed, they mostly go by market whims rather than market fundamentals while investing in stocks*, says Jeetendra Dagoal, a research schoral studing capital market efficiency in Nepal.*

Due to irrational behaviours, investors have encountered even investment shock-deaths or mental disorders as well as surprise deaths, *says Dr. Shrestha* "Our capital market history has an incident when a man got a shock death when he lost heavily from price decline of Gorakhkali Rubber Udyog share towards 2002.

In order instances, one may receive surprise shocks when price-rises bring him too much capital gain. “The ‘transformation effect of over-reaction’ is always detrimental, as too high an expectation of material gain may lead to physical damage and loss of mental peace,” *he adds.*

One of the anomalies is the irrational investment decision on part of the uninformed investors. “As per the Theory of contrary Opinions, most investors tend to be irrational: they keep buying when the stock price is on the rise and they go on panic selling when the price starts tumbling,” *Explains Dr. Shrestha*. “Barren’s law applies here, as it advises selling shares when their price is rising and it recommends buying while the price is dropping.

Likewise, when the investors are not well informed and rational, “***policy gaps*** cause more anomalies,” *says Rewat Bahadur Karki, General Manager of Nepal’s exchange NEPSE*. “In a way, there are gaps in Nepal Rastra Bank’s regulations such that ill-intentioned people create room for making rumours which mislead the investors.”

There is no specific NRB policy to exact the extent of issuing rights shares and upgrading finance companies to development banks and even commercial bank, he explains.

As a result, rumours on company up-gradation and rights share-issuance tempt investors to pour in more money; it only misleads the market, *says Karki.* “Even company directors and secretaries leak ‘insider’ information and secrecies.”

“They all are financial crimes, indeed,” *emphasizes analyst Dangol.*

“Issue of rights shares and company upgradation must be based on clear criteria of the company performance, and in a gradual, systematic way,” *Karki suggests*.

Anomalies also come from margin lending-related malpractices, Margin lending, a provision of funding investment by financial institutions against the collateral of securities in question, must not be allowed in the primary market, but in the secondary market trading; our way of margin lending for the IPO (initial public offering) purpose is against the international norms and practices.”

Anomalies have stemmed not only from the institutional sector, but also from the group of margin lending recipient investors, who as per an account hold average loans between Rs. 10 million to 100 million, *says Dr. Shrestha*. These investors keep taking more margin lending loans to apply for the IPOs, instead of repaying them (loans) when the market price are on the rise.

“These investors do so as they are tempted with the expectation of further price rise; but they will have double shocks when the market falls,” *adds Dangol*. “One, they get into the debt-trap with the swelling margin loans; and furthermore, they can’t sell the shares at a price good enough to settle the dues.”

During the bullish trend, they should sell their securities, and settle the principals and service their due interests; it’s all about the safe-harbour rule, *says Dr. Shrestha*.

Market anomalies, expert say, have partly resulted from weak law enforcement and monitoring of regulatory authorities like Nepal Sock Exchange (NEPSE), Securities Board of Nepal (SEBON) and central bank (NRB). “Their surveillance mechanism is not adequately strong, as they've failed to take stern action against those companies that neither allocated shares nor returned IPO investors' money for years, after they didn't come into operations; it's simply gross deception to the public investors in the primary market," *Prof. Shrestha Says*.

"Such defaulting companies include Himgiri Textiles, Ace Laboratory, Nimrod Pharmaceuticals, Colour Scan Nepal Ltd, Seti Cigarette Factory Ltd and Indreni Soybean Ind. Ltd."

The regulatory bodies have still a long way to go for ensuring effective disclosure of public information of the companies listed with the NEPSE. Shareholders, the real owners of the company, have the right to information. Although SEBON and NEPSE have constantly making appeals to ensure disclosure of information to the public, "an NRB statement has exempted the companies of the need to provide annual financial statement to shareholders citing the 'rising cost' factor," *Says Dr. Shrestha*. "It deprives people of their right to information and contradicts other regulatory bodies' campaign on 'investor education'."

A practice of using fake IPO applications is another anomaly that is extremely condemnable. Such investors affix fake signatures in share applications without the citizenship certificate-holders' consent. "Although it's illegal, authorities have found a lot of such malpractices in the primary market," *observes Dangol.*

"It's a welcome gesture that authorities rejected a number of fake applications during the IPO of Nepal Development and Employment Promotion (NDEP) Bank Ltd." *Dr, Shrestha Says.* "But they checked random samples only; instead they should scrutinise all the application exhaustively. So that the wrongdoers can be controlled.

Excessive paper works also hinder efficiency in the stock-trading business the authorities launched automation in the stock trading on November 5 Sunday 2007 to promote effective operation of the market. “It’s barely a kind of floor automation so far; the ‘central depository system’ should be promoted to increase efficiency,” *observes Prof. Shrestha.* Experts say there is need to improve work-system at the regulatory authorities. “Efficiency of brokers in clearing their jobs on time will significantly solve the inefficiency issue,” *adds NEPSE’s Karki*. “Brokers should also enhance their infrastructure and mechanism to inform investors correctly of the clearing process.”

In view of the current bullish market trend, sustainability of the market growth has been the most important issue that demands a number of proactive steps. Capital market should not be a gambling place, but a rational and calculative business.

Investors’ awareness, inter alia, is of the paramount importance; regulatory authorities have also done much in this regard, yet there’s a long way to go, say market analysts and academicians.

“It’s high time that investors become aware as the current bullish trend is likely to see market volatility and decline,” *suggests Dr. Shrestha*. “They should consider the market fundamentals and devise an investment strategy in terms of target book profit,” from their investment in securities.

Therefore, *Prof. Shrestha suggests* a ‘VIP’ dose: be Vigilant, Independent and Professional, while analyzing and investing in the market. “They should meticulously look into the company’s performance, in terms of earnings (earning per share, dividend per share), assets growth, capital adequacy norms, etc.

Similarly, to address the regulatory mechanism, "the BASSEL-2 modality will be implemented as the BASEL-1 has already done well," *assures NEPSE's Karki*. "Internet-based trading will be practiced once the 'Electronic Transaction and Digital Signature Act' is fully enforced."

Besides, there must be a Roster of Talents' comprising independent professionals who can contribute to the sustainable growth of the market by educating the public and advising the authorities on the capital market policy and plans, *says Dr. Shrestha*. "It can do wonders as good in Nepal as in foreign countries.

In essence, a well-functioning mechanism for monitoring and evaluation under the aegis of Securities Board of Nepal (SEBON) and NEPSE is essential; so is the compliance with global trends and practice. Efforts to promote real sector industry and mutual funds are imperative. These proactive steps shall enable Nepal to prepare its capital market for liberalization beyond 2010 as committed at the WTO.

An article published in Abhiyan Saptahik, written by Rabindra Bhattarai (Aarthik Abhiyan, Barsa 4, Anka 9, Kathmandu, 2065 Kartik 11-24)

It is obvious from decreasing trend of share market in line of emerging global economical crisis, inflation and increasing unemployment that share market has direct relationship with economy, companies and their revenue, employment and inflation. Nepalese investors should learn from world market at this point of time who are enjoying from the pile of right shares given by companies keeping the economy aside. Share market must be linked with economy. Nepalese investors should review the blind faith upon Banks and Financial Institutions. Nepalese investors has strong believe that Banks and Financial Institutions will always make good profit and they will never be bankrupted, and even if bankrupted Nepal Rastra Bank will protect them. That is why the investors have blind believe that there is no risk in investment in these sectors.

But the present scenario is not the same. Along with Lehman Brothers established 150 years ago, many companies are bankrupted in America. Billion of dollars invested in these companies have been converted into Zero balance. From this, Nepalese investors should learn a lesson in order to change their investment behavior. It is merely foolishness to invest in the shares of Financial Institutions by increasing the price luring from right and bonus shares. Other many financial institutions and investors should bear the result if any one Financial Institution has to face with bankruptcy.

Central Bank is the one which controls, regulates and tries to save from bankruptcy of the Financial Institutions but does not take any guarantee to pay back any paisa for the losses caused by bankruptcy. Financial Institution is also a company. So there is set of procedures for repayment of liabilities upon dissolution of the institution, where every stakeholder gets back their money on priority basis and shareholders get last priority. So there is no surety that every one gets back their money and there is no compulsion that every depositor must get back their deposit if financial institution is bankrupted. Bank and Financial Institution Regulation 2063 has clearly defined priority of getting back the money.

The immediate effect of world economic crisis does not seen in Nepalese economy. But if the same situation persists longer, it will have its effect in Nepali market in any form. Nepalese Economy is largely based on remittance. So if there is a cut in foreign employment, it can affect Nepal too. Similarly export business can be reduced. These all are the factors which have direct relation with the share market. That is why investor should be careful. There might be psychology effect in Nepalese investors with the declining international market.

Nowadays there one is widespread question among investors and other persons having interest in share market that *why share market is declining*? Annual General Meeting of most of the companies has not been completed and they are announcing bonus and right shares. But market trend is seen in reverse order compared to trend of preceding years when market price used to increase along with the announcement of bonus and right shares. Generally, in previous years, the market used to be in Bullish trend up to Poush after the completion of Annual General Meeting. But this year market has started to decline from Bhadra.

Up to Kartik 21, the NEPSE index is declined to 832.59 by 29.16% from highest point of 1175.38 at Bhadra 15. It may further decline based on analysis of Bearish trend of NEPSE index and psychology of market. Within two months, the index has declined by more than half, increased from Chaitra to Bhadra. Last year, the market started to decline from Poush 2 reaching to the point of 1064.09 which continued till Chaitra 17. NEPSE index increased by 472.41 points i.e. 67.20% from Chaitra 17 to Bhadra 15. There has no significant difference in the trend of decline after Bhadra 15. Just 129.62 point is remaining to reach the NEPSE index at last year's minimum point of 702.96.

After listing shares of Nepal Telecom (NTC), more ups and downs have been seen in the market. Share price of NTC began to decrease after the declaration of government policy of selling the remaining shares of NTC through secondary market with the fear of more decrease in price, ultimately leading to push down the whole NEPSE index. Similarly the market has been more affected by increment of capital gain tax and non-transparent government policy. Nepalese investors have belief in market trend rather than analysis of real financial position of a company. That is why, supply of share exceeded the demand in market because of psychological fear of investors when whole NEPSE declined remarkably due to more decrease in share price of single company and decrease in share price of that companies who announced bonus and right shares.

At the mean time, beginning of world economic crisis and decline in international share market along with bankruptcy of American companies also left psychological impact on Nepalese investors. As a result, the market is in decline trend every day, supply is increasing than demand and more negative rumor is spreading.

At same time decrease in share price after book closure along with high rated bonus and right share also helped to reduce NEPSE index. Huge decline has been seen in market because of not having adjustment system of bonus and right shares after book close. If both these share could be adjusted immediately in share market, there will be no remarkable impact in market after book close.

Share market is so sensitive because Nepalese investors make their investment as per market trend. If market price of some companies is increased whole market will be increased and similarly, if market price of some companies is decreased whole market will be decreased. It is the feature of Nepalese share market. Share price of one company affects the whole index. Share price of one company, after the book close, also affects the whole index. But reality is that revenue of one company does not affect revenue of another. Decrease in revenue and weak management of one company does not affect other. If investors invest on the basis of economy and company, it will not much affect the market. As per company and economy, there are possibilities of market increment rather than declining. Despite of crisis seen in world economy, immediate effect has not been seen and will not be in Nepalese economy. Therefore, there will not be condition of bankruptcy, reduction of revenue and increase in un-employment.

Our financial market is dominated by financial institutions, whose first quarter financial report analysis shows 60% increment of profit compared to figures of the same period of last year. And profit of almost other companies has been increasing. However, fearing mindset of investors though given such hopeful and good scenarios indicates that investors are investing in Market rather than in Company. Market is always so risky, hence to reduce investment risk; investment should be done on the basis of economy and company.

2.4 Review of Previous Thesis

Bharat Prasad Bhatta (1997) has also conducted research on the topic *Dynamics of Stock Market in Nepal*. The objectives of the research were as follows:

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

He has conducted in his research as follows:

The stock market and economic activities move in the similar direction. They influence each other. The development of the former is reflected in the latter. The stock market raises and mobilizes the invest-able 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.

The investors are interested to invest their resour4ces 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 doesn't have a good performance in Nepalese economy. Almost all firms in this sector have a good performance in Nepalese economy. Almost all firms in this sector have a sustained loss.

The secondary aspect of the stock market is not also functioning well in Nepal. There is almost no liquidity in the stock market for shares except that of banking and some finance and insurance sectors.

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 mobilization to finance the productive enterprises in Nepalese economy.

Nabaraj Adhikari (1999) has also conducted a research on *Corporate Dividend practice in Nepal*. The main objectives of the study were as follows:

- To explain whether companies paying larger dividends have a good financial position or not, whether the companies with higher payouts have an improved or not.
- Whether the companies with higher yield having an improved financial ratio or not.

- Whether the difference between dividends and stock prices, dividend payout affect the share prices of finance and non-finance sectors differently or not.
- The motives or paying cash and stock dividends whether dividend is a residual decision or not.
- If there are any types of company’s announcements of earnings on market price of a share.
- Whether legal restriction on share repurchases should continue to prevail or not.
- Kind of dividend policy should be followed by Nepalese enterprises.

The major findings of the study were as follows:

Stocks with larger ratio of dividend per share to book value per share have higher liquidity. However, liquidity position of stocks paying higher dividends is also more variable as compared to stocks paying lower dividends. Stocks with larger ratio of dividend per share to book value per share have lower leverage ratios. It shows that companies paying higher dividends are reluctant to employ higher degree of leverage in their capital structure. Leverage ratios of stocks smaller dividends are also more variables as compared to stocks paying higher dividends.

When the difference between dividends and profitability is studied, it revealed that stocks with larger ratio of dividend per share to book value per share have higher profitability. However, these profitability ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends. Positive difference is observed between the ratio of dividend per share to book value per share also have higher turnover ratios. However, turnover ratios of stocks paying larger dividends are also more variable that of stocks paying smaller dividends.

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There is also a positive difference between the ratio of dividend per share to book value per share and interest coverage. Stocks with higher ratio of dividend per share to book value per share also have higher interest coverage. A positive difference is found between payouts and quick ratio. It may be due to more reduction of quick assets rather than current assets when more dividends are paid out. The position of current ratio of stocks paying larger dividends is also more variable as compared to stocks paying lower dividends. Where as a negative difference observed between dividend payouts and earnings before tax to net worth. On the other hand, there is a positive difference between dividend payouts and earning before tax to total assets. However, the return on both of total assets and net worth is more variable for stock paying higher dividends. There is a negative difference observed between dividend payouts and earnings before tax to net worth. On the other hand there is positive difference between dividend payouts and earning before tax to total assets and net worth is more variable for stock paying higher dividends.

The difference between dividend payouts and turnover ratios has been observed to be positive. Stocks with larger dividend payouts have higher turnover ratios. However, turnover ratios of stocks paying larger dividend are more variable. Positive difference is also observed between dividend payouts and interest coverage.

When studied the difference between dividend per share to market price per share ratio and liquidity ratio, the study revealed that the stocks with larger ratio of dividend per share to market price per share have higher liquidity. Liquidity positions of stocks paying larger dividends are also more variable as compared to stocks paying lower dividends.

Tekendra Bhattrai (2000) conducted a study entitled *Risk and Return Analysis of Listed Manufacturing Companies in Nepal*. The main objective of this study is to identify whether the risk of companies can eliminated through diversification or not.

The main findings of this study are:
Nepalese companies do not compensate investor rightly through return for the amount of risk they assumed. The investor should purchase under price stock like stock of Bottlers Nepal Ltd. But should sell overprice stock like that of Arun Vanaspati Udyog and Jyoti Spinning Mills. Investors should be careful about the systematic risk of the common stock instead of total risk as measured by the standard deviation.

Laxmi Pokharel (2000) 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 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 information.

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 weakness of executive bodies with regards to investors protection.

In this 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 particular and 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 right. They could be victimized but they did not complain at concerned authority.

He further added the main ground of investors deceiving are insiders trading mal-motion on the prospectus, wrong financial statement of company, wrong auditing reports, wrong performance details, and public information. Besides these, various grievances like wrong details on underwriting and listing the share, delay on return of 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.

Bidur Khadka (2002) has conducted a research on *The Share Price Behavior (Analysis of Financial Institutions)* . The specific objectives of the study were as follows:

- To examine and evaluate the relationship of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.
- To analyse the degree of risk involved in the common stocks investment of the sampled companies.
- To identify whether stocks of the sampled companies equilibrium priced or not.
- To present some recommendations based on the findings of the study.

The main findings of the study were as follows:

Findings based on the Correlation Coefficient Analysis

1. NBBL's MPS has higher positive relationship with EPS and NWPS which is significant at 5 percent level, whereas it has negative relation with DPS.
2. NSBL's MPS is negatively correlated with major financial indicators. Further, the negative relationship between MPS and DPS is significant at 5 percent level.
3. NGBL's MPS is reversely correlated with EPS and NWPS; whereas it is not significant except DTER.
4. HBL's MPS is negatively correlated with major financial indicators. But it has higher positive relationship with DTER and DR, which is statistically significant at 1 percent and 5 percent levels respectively.

5. NIBL's MPS is negatively correlated with main financial indicators.
6. NFCL's MPS has positive relationship with major financial variables except DPR, with which it has opposite relationship. But no such relationship is statistically significant.
7. AFCL's MPS has positive correlation with main financial variables except DPR, with which it has negative relationship. But no such relationship is statistically significant.
8. As far as AFCL1 is concerned, its MPS is positively correlated with most of the financial indicators except ROE which is negative. But the relationship is not significant.
9. UFCMCL's MPS has negative relationship with main financial indicators, but such relationship is not statistically significant.
10. NHMFCL's MPS has higher positive relationship with EPS and ROE which is statistically significant at 5 percent and 1 percent levels.

Findings based on the Simple Regression Analysis

1. Only in the case of NBBL and NHMFCL, the variation in dependent variable MPS is highly depended upon the independent variables EPS.
2. Only NBBL's MPS has the highest dependency upon NWPS since the regression model is statistically significant. In the case of other companies, NWPS will not be the affecting factor in bringing changes in MPS.
3. The simple regression model of MPS on DPS is only logical in the case of NFCL that provokes higher influence of DPS to fluctuate MPS since it is statistically significant. So far as other nine companies are concerned, there is no logical explanation of dependency of MPS on DPS.
4. No companies' MPS is explained by the variation in DPR as depicted by the regression F-statistics.

5. The regression model of MPS on ROE is only fitted for NHMFCL. Other remaining companies' MPS cannot be influenced by changes in ROE.

Findings based on the Multiple Regression Analysis of MPS on EPS and NWPS

1. EPS and NWPS can have major influence in explaining MPS of NBBL, HBL, NFCL and AFCL1, i.e. 91.1, 72.3, 73.9 and 97.2 percent respectively, but the relationship is statistically insignificant.
2. In the case of NSBL, EPS and NWPS may have normal influence on MPS, i.e. 51.1 percent, but this relationship is statistically significant at 5 percent level.
3. The rest of the companies' MPS is weakly affected by variation in EPS and NWPS, and their relationship is not significant.

Findings based on the Analysis of MPS on DPR and ROE

1. AFCL1 and NHMFCL's MPS is highly influenced by to variation in DPR and ROE as shown by the coefficient of determination, and such interrelationship is significant at 5 percent level.
2. About 67.2, 75.7, 71.8, 90.9 and 64.8 percent of the variations are found in MPS of NBBL, NSBL, NGBL, NIBL and AFCL respectively, but the relation is statistically insignificant.
3. In the case of the rest of the companies, very low percentage of variation in MPS is influenced by DPR and ROE, which is insignificant.

Findings based on the Risk and Return Analysis

1. NBBL's common stock is yielding the highest realized rate of return (84.8%); whereas it is the lowest (6.36%) in case the of NSBL.
2. As regards total risk, UFCMCL's common stock consists of the highest 96.10 percent of total risk, which is the riskiest, whereas NSBL's stock is the least risky as it consists only 16.97 percent of total risk. Similarly, NBBL, NHMFCL and AFCL's stocks fall in second, third and fourth riskier positions. The rest of the companies' stocks involve similar total risk on average.
3. With the coefficient of variation analysis, it is clearly depicted that there is the highest percentage of per unit risk for NSBL, whereas it is the lowest for NBBL
4. UFCMCL's stock is more aggressive to market changes as revealed by the highest beta coefficient of 2.26. Similarly, AFCL, NHMFCL, NBBL and AFCL's stocks are also aggressive since their respective beta coefficients are 2.09, 1.74, 1.5 and 1.03. The stocks of other companies are defensive as they make less response to the market changes.
5. The common stocks of all companies' returns are positively correlated with the market return besides in the case of NSBL. NSBL's return is negatively correlated with market return.
6. AFCL's stock consists of the highest 47 percent of the market related systematic risk, whereas NSBL's stock the lowest of only 1 percent.
7. All companies common stocks, except NSBL, are underpriced since their realized rate of returns are higher than the respective required rate of returns. NSBL's realized rate of return is lesser than the required rate of return, so it is overpriced.

Sudip Upadhyaya (2004) has conducted a study similar to the present one entitled *Investors' Preference and Financial Instruments* putting the objective of study as:

- To study the preferences of investors in the financial instruments.
- To assess investors' awareness regarding the investment decisions in selecting securities.
- To analyze the investment trend in the security market of Nepal, and
- To suggest some practical recommendations on the basis of the findings of the study.

He gives the following important remarks in regard to the investors' preferences from the analysis, it seems that the Nepalese investors' prefer common stocks when making investment decision. The common stock has the largest chunk of trading in the market. The main attraction of common stock is due to return: dividend of the company. The stocks of banking sectors have the largest amount of trading in the market or the market capitalization of common stock of banking sectors is very high. Hence, the preference of investors is on common stock of banking sector.

The investors give the second priority to the government securities because the government securities are taken as risk less investment. The Nepalese investors least prefer the preferred stocks and debenture. It was found that from the primary data, no attraction of investors is the main reasons of the Nepalese companies for not preferring to issue debenture and preferred stock frequently. The market capitalization of the securities shows that the Nepalese security market is in development stage since the capitalization is in increasing trend.

The Nepalese investors do not seem aware in regarding investment in the security market. They don't analyze the risk and return before making any investment in any securities. They invest their money just by observing the market trend, which is very unscientific in Nepalese context because Nepalese security market is not in equilibrium. The investors are feeling the existing rules and regulations regarding sufficient and timely information from the companies where they have invested their money.

Another study conducted by Chandika Oli (2006) entitled *Stock Market Behavior in Nepal* gives some important insight into the Nepalese stock market. Main objective of this study are:

- To identify the trend and development of stock market and economic growth.
- To assess the relationship of stock market indicators with different macro economic indicators.
- To recognize the affect of factors of macro environment (cultural and political) upon stock market with the degree and significance.

Mainly findings of this study were as follows:

Since the ratio of market capitalization to GDP very low for the periods, stock market size is not yet sufficient to show its impact on nation's economy. On the other, trend of turnover ratio and value of share traded to GDP ratio show that stock market in Nepal is very small relative to its economy, and stock market in Nepal is yet to make its presence felt in the national economy.

Nepalese stock market is highly dominated by the largest companies in terms of turnover, as the concentration ratio is very high.

Stock volatility as measured by twelve month rolling standard deviation and stock volatility ratio give the basis to conclude the inability of Nepalese stock market to handle risk relatively to volume of stock in Nepal. It is interesting to note that none of these indicators viz. capitalization ratio to volatility ratio reveals a consistent trend, indicating that the development of stock market in Nepal lacks a definite direction and is not guided by clear cut policies and action, due to low volume of shares traded and wide fluctuations, the stock market in Nepal has been highly illiquid and volatile. Scrutiny of difference of NEPSE due to industrial sectors reveals that NEPSE index due to industrial sectors are significantly differ each other. This further confirms the conclusion that Nepalese stock market is highly concentrated to one or group of the industrial sector(s). It is the banking sector at which the market is highly concentrated.

Run test indicates cyclical variation in stock prices over the 12-year periods. It is, perhaps, due to the inconsistent price movement in Nepalese stock market. Observing the pattern of variation the price for closing date of coming year may happen to be positive if the same trend continues. The analysis of run test further confirms the results that there are wider fluctuations of average stock price in stock market.

Nepalese stock market cannot handle large volume of tracings with less price swings. As there are very week positive relationship is observed in Nepalese stock market between volatility and value of shares traded.

Numbers of listed companies have been found to have greater impact upon NEPSE index than value of stock traded and number of stock traded. However NEPSE index is also positively influenced by number of stock traded and value of stock traded.

NEPSE index remains unaffected by the advent of cultural event like Dashain. However it is affected by the political events as the results of two different political events suggested so. On the other way NEPSE index carries the political information but fails to carry the cultural information. On the basis of findings she recommends the following:

Turnover ratio, value traded ratio to volatility and concentration indicates the illiquidity and high risk in equity investment. To correct this problem acquisition and dissemination of information relating to stock market component is a must.

The country should initiate the policies to reduce cost of mobilization of savings and to facilitate the investments as there is positive impact of total savings on NEPSE index Investors should be provided with wider variety of securities to meet their risk return preferences so that, unlike in present situation majority of the nation’s population participate actively in buying and selling of securities that causes the stock market to be developed and nation’s economy, in turn, will be spur.

2.5 Research Gap

Efficient Securities market is not only the output of interaction of institutions involved and mechanism of process of trading securities, however it is also the thing that is influenced by the investment habit, psychology and awareness of investors. Investors' behavior changes with the passage of time. So, does their preferences and priorities. This study examines the current trend of investors' perception and attitude about the market and provides fresh findings and recommendations. In this connection, this study contributes something new toward the securities market that is not sought yet by surveying the psychology and awareness of investors investing in various types of securities. This sort of study of identifying investors' perception and awareness is a new and challenging in itself but is also an opportunity to learn and identify investors from their innermost. In previous studies and researches are limited to macro subjects of the economy and nation. Obviously, their findings and conclusions does not include, perhaps the most important one, psychological aspects of the investors. Investment itself is also psychological and behavioral activity. It has wider influence in the world of investment than any other factors. So, this study, in true sense, fills the gap of ignorance with knowledge for the seekers. More specific studies as to the investors’ attitudes and perception in the security market related field, for example in the field of policies and operational issues, is necessary opening up the new and challenging research avenues for researchers.

CHAPTER – III

RESEARCH METHODOLOGY

This chapter presents all the necessary steps to be followed throughout this research work in order to achieve and accomplish the objective of the study. This chapter presents outline of the nature and sources of data, sample selection & classification of variables, techniques and steps adopted in analyzing and interpreting the data.

3.1 Research Design

Current research applies analytical and descriptive techniques to evaluate and analyze the investors' preferences toward financial instruments. Therefore, current research is both analytical and descriptive. It is analytical in the sense that it uses different analytical tools to analyze the investor's preferences toward financial instruments similarly it is descriptive in the sense that it clarifies different aspects of investors' preferences toward financial instruments. As per the nature of the research, primary data have been used.

3.2 Source of Data and Collection Procedure

Mainly needed primary data and information are collected through questionnaire. Mail questionnaire method of collection data are employed to collect primary data. Needed secondary data that support the study have been collected from the various published and unpublished sources.

3.3 Population and Sample

Total of 240 Questionnaires are distributed among 60 each investors at Arnapurna Securities Pvt. Ltd., Arun Securities Pvt. Ltd., Agrawal Securities Pvt. Ltd. and Sweta Securities Pvt. Ltd., considering 240 investors as population for this study. Among them 52 filled up questionnaires are randomly selected as a sample for analysis.

3.4 Tools for analysis of data

Median value

The median is the middlemost or most central item in the set of numbers. In other words, the median is a single value which divides the total number of observations into two equal parts such that 50 percent of items lie below median value. It is used to show the importance of respondents towards the events. If respondents opine their response from one extreme to another extreme (i.e. “satisfied very much’ to ‘dissatisfied very much’), the median can be used to identify their importance (Prachan, 2003).

CHAPTER – VI
DATA PRESENTATION AND ANALYSIS

This chapter presents the data relevant for making contemplated comparisons and analysis. This chapter also related to a number of closely related operations, which are performed with the purpose of summarizing the collected data and organizing them in such a manner that they answer the research questions. Investors' preferences, reason for preferring one security over others, level of satisfaction they enjoy by buying security and awareness of investors about general issues of security market etc. are the issues to be presented and analyzed here in this chapter.

4.1 Investors' Preferences and Type of Securities

An important thing in Nepalese capital market is to know what kinds of security do investors prefer most. In this very regard, Investors are identified in terms of what type of security they prefer most given the certain number of securities those are generally in Nepalese market. Investors are provided four different types of securities and are asked to rank them in the scale of 1 (Most preferred) to 4 (Least Preferred) as per their preference to invest. The results of their rakings are appeared as in the table 4.1 below.

Table: 4.1

Status of Investors' Preference and Type of Securities

S.N.	Types Securities	Rank				Median value	Overall Rank
		1	2	3	4		
1	Common Stock	34	14	4	-	0.76	1
2	Preferred Stock	6	16	14	16	2.11	3
3	Debentures/Bonds	2	6	14	30	3.08	4
4	Government Bonds	10	16	20	6	1.62	2

Source: Field Survey, 2009, Kathmandu

The table no 4.1 shows that the investors most preferred security is common stock with lowest median value of 0.76, followed by government bonds, preferred stock and debentures respectively. From the table it is clear that median values of common stock, preferred stock, debentures and government bonds are 0.76, 2.11, 3.08 and 1.62 respectively.

Figure: 4.1

Percent of Respondents Rating The Given Types of Securities as First Rank

Out of the total respondents 65 percent investors rank Common stock as first (most preferred) ranked security to invest which is presented in above chart. Whereas 19, 12 and 4 percentage investors rank Government Bonds, Preferred Stock and Debentures/Bonds in first rank respectively.

As median value stand for indicating the concentration of respondents, for common stock the most of respondents are centered to the 1 rank since the median value is the lowest of 0.76. Hence it can be regarded that the common stock is the most preferred financial instruments among Nepalese investors. The second preference of Nepalese investors goes for government bonds and third preference to preferred stock and debenture is the kind of securities that is least preferred by Nepalese investors.

4.2 Industrial Sectors and Their Attractiveness

There are different industrial sectors one can invest in but which is the most attractive is the issue to be addressed here. Investors are provided with the following industrial sectors and are asked to rate them as per their willingness to invest in the sector. The results of their ratings are presented in the table no. 4.2.

Table: 4.2

Industrial Sectors and Their Attractiveness

S.N.	Industrial Sectors	Rank							Median Value	Overall Rank
		1	2	3	4	5	6	7		
1	Bank	38	11	2	1	-	-	-	0.68	1
2	Finance	3	24	10	11	3	1	-	1.85	2
3	Hotel	4	4	2	14	16	6	6	4.05	4
4	Manufacturing & Processing Company	3	2	4	6	10	21	6	4.44	6
5	Insurance Company	2	6	20	7	9	8	-	2.64	3
6	Trading Company	2	1	8	11	10	16	4	4.13	5
7	Others		4	6	2	4		24	6.25	7

Source: Field Survey, 2009, Kathmandu

The table no. 4.2 shows that the most attractive sector for Nepalese investors is the Bank sector, as the median value (0.68) for this sector is the least in comparison with other six sectors. Finance sector is the next most attractive sector after Bank sector with 1.85 median value. This finding supports the growing tendency of investment in this sector. The median value of Insurance, Hotel, Trading, Manufacturing/Processing, and Other sectors are 2.64, 4.05, 4.13, 4.44, and 6.25 respectively indicating the consecutive priority of investors for their choice of investing in different industrial sector is concerned. Our current economy shows that manufacturing industries are affected more harshly than financial sectors owing to different macro forces such as political instability, deadlock and national insecurity prevailing in the country. This might have induced the investors to go for financial sectors rather than manufacturing and other sectors.

4.3 Investors' Investment objectives

Investment objective is the foundation of investment. On the basis of objective investors make a decision regarding selection of security, performance evaluation and time horizon of investment. The investment objective of investors is not only a basis to identify investors' investment psychology but also a milestone to set investment related policies and to set price and other features of securities. In this regard the investors are identified on the basis of what type of objective they bear in mind while investing in securities. Investors are asked to rank following major objectives in order of their importance to them. The detail results of investors are given in the table 4.3.

Table: 4.3

Investors' Investment Objective

S.N	Investment Objectives	Rank					Median value	Overall Rank
		1	2	3	4	5		
1	Sufficient Return	34	11	5	2	-	0.76	1
2	Less Risk	10	21	13	6	2	1.52	2
3	Marketability	4	11	22	13	2	2.03	3
4	Social Status	4	9	12	23	4	2.52	4
5	Other, if any	-	-	-	8	22	3.60	5

Source: Sample Survey, 2009, Kathmandu

Investors’ objectives to invest imply the major psychological reason for investing in securities. These simply explain for what purpose investors tend to invest i.e. either it is to maximize return, to enhance their social status, or to minimize the possible risk. The table above shows that out of the given objectives ‘sufficient return’ is the type of investors’ objectives for which they are attracted most in comparison with others. Out of the total respondents 65 percent investors rank this objective as the most important which is presented below the chart.

Figure: 4.2

Percent of Respondents Rating The Given Objectives as First Rank

Median value is also the lowest to all i.e. 0.76 which indicates the concentration of most of investors in this option. The second most important objective for the investor is ‘less risk’, as the median value of this option is least of all the option except that of the first option. Although there are 19 percent of investors ranking this option as first, the overall median value is lower than all other option except the first option. So ‘less risk’ is another important aspect next to sufficient return for Nepalese investors. On the basis of median value after the sufficient return and less risk, investors want security having features of good marketability and thereafter they seek security that enhances their social status. Whereas eight percent investors rank 1 position for both marketability & Social Status features.

From this analysis investors seem less concern over social status and more concern over sufficient return and less risk.

4.4 Considerable Factors for Taking Investment Decision.

Theoretically investment decision should be guided by basic financial indicators in order to minimize investment risk. For this study purpose respondents are given following considerable factors for making tick mark as per their importance for investment decision. The results are as follows.

Table:4.4

Considerable Factors for Taking Investment Decision

S.N.	Statement	1 Most Important		2 Important		3 All Right		4 Less Important		5 Least Important		Total
		No.	%	No.	%	No.	%	No.	%	No.	%	
1	Earning Per Share (EPS)	**24**	**46**	22	42	4	8	2	4	-	-	52
2	Dividend Per Share (DPS)	14	27	26	50	10	19	2	4	-	-	52
3	Book Value Per Share (BVPS)	12	23	**30**	**58**	6	12	2	4	2	4	52
4	Market Price Per Share (MPS)	**31**	**60**	19	37	2	4	-	-	-	-	52
5	Rate of Return	12	23	**18**	**35**	12	23	10	19	-	-	52
6	Capital Structure	10	19	**24**	**46**	12	23	2	4	4	8	52
7	Nature of Company	18	35	**20**	**38**	4	8	6	12	4	8	52
8	Management of Company	**28**	**54**	16	31	-	-	6	12	2	4	52

Source: Sample Survey, 2009, Kathmandu

The table no. 4.4 shows eight various factors to consider while taking investment decision. Out of total respondent 31 (60%) investors consider Market Price Per Share (MPS) as the most Important factor. Whereas 28 (54%) and 24 (46%) investors consider Management of Company and Earning per Share as the most important factors. Similarly, Book Value Per Share (BVPS), Rate of Return, Capital Structure and Nature of Company are considered as important factors by 30 (58%), 18 (35%), 24 (46%) and 20 (38%) investors respectively. However respondents are given 1 to 5 (from Most Important to Least Important) level of options. Most of the investors consider all factors as Most Important and Important. This shows that most of investors consider all given factors while they taking investment decision.

4.5 Basic Motivating Factors for investment

Factors those affect or determine the choice of security may be innumerable depending upon the status of security market in the country and investors' psychology. As a matter of fact nothing can fully explain the motivating factors those affect the choice of the investors in buying security notwithstanding here an attempt has been made to identify some of the important factors that may affect their choice. Given the following important seven factors influencing the choice of security investors are asked to prefer them giving 1 for Most Important/Motivating to 5 for least Important/Motivating factor. The results of their preference are appeared as follows:

Table: 4.5

Basic Motivating Factors for Investment

S. N.	Statement	1 Most Important		2 Important		3 All Right		4 Less Important		5 Least Important		Total
		No.	%	No.	%	No.	%	No.	%	No.	%	
1	Capital Gain	**38**	**73**	6	12	2	4	2	4	4	8	52
2	Liquidity	3	6	9	17	**17**	**33**	11	21	12	23	52
3	Dividend	8	15	13	25	**20**	**38**	8	15	3	6	52
4	Right Share	**27**	**52**	15	29	6	12	4	8	-	-	52
5	Bonus Share	**31**	**60**	11	21	7	13	2	4	1	2	52
6	Voting Right	4	8	9	17	11	21	**15**	**29**	13	25	52
7	Social Status / Prestige	8	15	**25**	**48**	6	12	8	15	5	10	52

Source: Sample Survey, 2009, Kathmandu

The Table No. 4.5 shows seven motivating factors for investment preferred by investors, out of them capital gain is the first most important motivating factor, followed by Bonus Share and Right Share. As per above table 38 (73%) investors think to capital gain as most important factor for investment, 31 (60%) and 27 (52%) investors take Bonus Share and Right Share as most important factors. Social Status/Prestige is in forth rank for which 25 (48%) investors preferred as important factor for investment. Dividend and Liquidity are in 5th and 6th priority for which 20 and 17 investors preferred as all right. Voting right is placed the last motivating factors to attract investors for investment in securities for which 15 and 13 investors preferred as less important and least important motivating factors respectively. From the above analysis we can conclude that the investors' investment decision is highly influence by short term gain such as capital gain, bonus share and right share.

4.6 Limitation of Debentures and Preferred Stock

Debentures and preferred stock are not used as commonly as common stock in Nepalese market which is also cleared from part 4.1. What are such reasons that get the Nepalese investors feel so alienated with debt security is a question to be analyzed. The answer perhaps will be the solution in itself to correct the problems that has been apparent in Nepalese bond market. Followings are some of the major problems in investing these sorts of securities.

Table: 4.6

Limitation in Investing in Debt and preferred Stock

S.N.	Statement	1		2		3		4		5		Total
		Strongly Agree		Agree		All Right		Disagree		Strongly Disagree		
		No.	%	No.	%	No.	%	No.	%	No.	%	
1	No provision of handsome return that compensates the perceived risk of investors.	**21**	**40**	10	19	10	19	7	13	4	8	52
2	These financial instruments provides only certain return	11	21	**17**	**37**	13	21	7	13	4	8	52
3	Overburden of legal formalities	9	17	8	15	**19**	**37**	8	15	8	15	52
4	Due to the lack of professional practices.	9	17	10	19	**20**	**38**	7	13	6	12	52
5	Lack of marketability and liquidity	10	23	**19**	**33**	10	19	8	15	5	10	52
6	No legal protection in favor of investors	2	4	13	25	**18**	**35**	10	19	9	17	52
7	Due to the lack of wide varieties of these kinds of securities	**27**	**52**	13	25	5	10	4	8	3	6	52

Source: Field Survey, 2009. Kathmandu

While investors are asked to give their views as to the reasons in terms of their agreement or disagreement, the result appears as in the table above. Comparing the percentage value of obtained date, 27 (52%) investors strongly agree with the reason to less or no use of debt or preferred stock that does not provide wide variety in their kinds. So investors are less inclined towards these securities. Similarly 21 (40%) investors strongly agree that these securities provide less return than it actually required compensating the risk inherent in these securities.

The reason such as liquidity and less marketability tend investors to have negative attitude towards these securities. Of course there are no provisions for investors who do require adjustable return as per the market rate of return. As a result they also agree that the securities provide stable return and this sometime seems unreliable as the market may create good opportunity to earn extra return if the same investment is made in other area. Among the various disadvantages investors are less vexed at the overburden of legal formalities, lack of professional practices and legal insecurity.

4.7 Bond preference

Bond market is not as in the height of stock market. However, there are so many types of bonds that meet the investors' need and get them propel to invest in these securities but what is such bond that can win the investors' psychology is the main question to be addressed. Investors are given the bond option having following alternative features and asked which of these they like most. The results of their views are provided in table below:

<u>Table: 4.7</u>

Preference of Alternative Bonds

S.N.	Observations	Rank				Total	Median Value	Overall Rank
		1	2	3	4			
1	Bond that gets you participates in profits and or loss (income bond).	9	16	16	11	52	2.02	3
2	Bond that adjusts promised interest rate according to the rate in the market (floating rate).	6	12	19	15	52	2.22	4
3	Bond that is pledged against the firm's assets (mortgaged bond).	21	12	9	10	52	1.15	1
4	Simple debt that pays regular interest (simple interest).	16	12	8	16	52	1.36	2

Source: Field Survey, 2009, Kathmandu.

From the table above one can observe that with lowest median value i.e. 1.15, most of investors like such bond that is pledged against the firm's assets i.e. mortgaged bond. Like wise mortgage bond is the most favored bond followed by simple interest bond, income bond and floating rate bond. The result of the survey has also been presented in the chart below. It shows that out of the total respondents 16 (40%), 21 (31%), 9 (17%) and 6 (12%) investors rate as first rank to mortgage bond, simple interest, income bond and floating rate respectively. This shows that firms should not only issue bond of traditional nature but they should also add some feature(s) in bond to pull bond market up to the inspiring level.

<u>Figure: 4.3</u>

Percent of Respondents Rating The Given Types of Bonds as First Ranking

4.8 Attraction for Preferring Government Securities

As per the analysis in part 4.1 investors are inclined more towards government bonds than corporate bonds and preferred stock. In course of identifying the reason for preferring government security following analysis is done. On the other way, it is needed to identify what are such features of government security that make the investors prefer the security. As an attempt towards that end following alternative features of government bonds are presented and asked to rate them as per their importance giving 1 to most important and 5 to least important.

Table: 4.8

Attraction for preferring Government Security

S. N.	Factors	Rank					Total	Median Value	Overall Rank
		1	2	3	4	5			
1	Risk Free/Safe	31	8	4	3	6	52	0.84	1
2	Advantage for Portfolio Construction	6	21	7	3	15	52	1.74	2
3	High Interest Rate	7	9	12	19	5	52	2.36	3
4	Less Legal Formalities	3	7	15	9	18	52	2.63	5
5	Protection Against Malpractices	5	7	14	18	8	52	2.48	4

Source: Sample Survey, 2009, Kathmandu

The result gives the information that the most important feature of government security to propel investors to purchase these securities is it is risk free. There are 31 respondents who rate this features as 1, this resulted into the median value of 0.84 indicating that most of the investors tend to rate this feature as most important factor for selecting this security. Next to this, investors' favor this security for it being advantageous to construct portfolio with median value 1.74 as it can be used to uplift the opportunity set thereby provides more wide risk return space. Like wise as per the overall ranking based on median value high interest rate is in the third ranking as its median value is 2.36. Median value of 'protection against malpractices' and 'less legal formality' are 2.48 and 2.63 respectively indicating the less attractive features inherent in the government security.

4.9 Investment processes

Investment processes are the sequential steps of making investment decision and going through these processes over the investment horizon. Whether or not Nepalese investors follow the investment processes is analyzed and interpreted in this section. Investors are provided with the following five investment processes and asked to mark yes if the respondents follow the process or processes. The results of their markings are presented in the table below:

Table: 4.9

Investment Processes as followed by Investors

S.N.	Investment process	Ranking						
		Yes	**%**	**No**	**%**	**Don't know**	**%**	**Total**
1	Set investment policy	25	48	17	33	10	19	**52**
2	Analyze security	29	56	16	31	7	13	**52**
3	Portfolio construction	19	37	23	44	10	19	**52**
4	Portfolio Revision	13	25	21	40	18	35	**52**
5	Portfolio performance evaluation	11	21	25	48	16	31	**52**
Total		**97**		**102**		**61**		**260**

Source: Field Survey, 2009, Kathmandu

Among the investors 25 (48%) investors set investment policy and remaining don't. Likewise 29 (56%) investors analyze security before making investment decision remaining 44 % don't. The interesting result is that most of the respondents do not construct portfolio deliberately either they do not know about it or they simply do not construct portfolio. Similarly respondents who revise and evaluate their portfolio are also minimum. Here, out of the total respondents only 25% revise portfolio, 40% do not and still another 35% of investors even don't know about it.

The last step in investment process is portfolio performance evaluation. Regarding this step too Nepalese investors seem alienated, as there are only 21% of respondents who evaluate performance of portfolio and other 48 percent do not evaluate and remaining 31 percent do not know as to this.

4.10 Investors General Awareness in Investment

To know the general investors awareness as to the functioning of the security market and its components, different types of questions were developed and asked. The questions and the number of respondent giving correct answer and wrong to these questions are presented in the table below:

Table: 4.10

Number of Investors with Right and Wrong Answer

S. N.	Questions of General Awareness	No. of respondents				
		Right Answer	**%**	**Wrong Answer**	%	**Total**
1	While placing order of share through Broker Company, if you did not mention the time period of the order to remain outstanding. Which legal provision is relevant in this regard?	21	40	31	60	52
2	What sort of information do you generally take before having filled the order specification? Please make a tick mark.	13	25	39	75	52
3	If you did not receive sales proceeds from the concerned broker company within which period do you report it to stock exchange?	27	52	25	48	52
4	If your order is purchase order and you did not receive financial security within the given time periods. Which of the following statement is true in this regard?	24	46	28	54	52

Source: Field Survey, 2009, Kathmandu

As shown in the table the number of respondents with correct answer for question number one is 21 out of the total respondents of 52 which results into 40% indicating the percentage of respondents with correct answer and this shows that investors are less aware towards the general functioning of security market in the country.

Number of Investors with right and wrong answer are also presented in chart below:

<u>Figure: 4.4</u>

Number of Investors with Right and Wrong Answer

The second question is related to the necessary information to be taken from Broker Company after having filled the order specification. The numbers of respondents with right answer for this question are 13 which is 25% only, indicating few investors are aware as to the information to be taken from Broker Company. The number of respondents with correct answer for question number 3 is only 27, and this is the 52% out of the total respondents.. Like wise number of respondents with correct answer for question number 4 is only 24. This result is so dismal as so few of the respondents are concern over the general information as to the security market and it's functioning

In Nutshell the analysis above spells that Nepalese investors need to be more aware towards the security market and its functioning mechanism. Because the current state of their seriousness over security market seem to be less reliable and insecure.

4.11 Major Findings

On the basis of the whole issues dealt here in this research, following major findings can be pointed out:

Analysis of investors' preferences reveals that common stock is the security that is most preferred by the investors, followed by government bonds, preferred stock and debentures respectively. Median values of common stock, preferred stock, debentures and government bonds are 0.76, 2.11, 3.08 and 1.62 respectively. As these median values stands for indicating the concentration of respondents, for common stock the more of respondents are centered to the 1 scale resulting into median of 0.76. Thus it can be conducted that the common stock is most preferred financial instruments among Nepalese investors. Similarly, second preference of Nepalese investors goes for government bonds, third preference to preferred stock and debenture is the security that is least preferred by Nepalese investors.

Analysis of attractiveness of industry sector show that for Nepalese investors' most attractive sector is banking sector, as the median value for this sector is 0.68. Thus the respondents are centered for the first ranking as opposed to others. Finance sector is the next most attractive sector to banking sector for Nepalese investors. This finding supports the growing tendency of investment in this sector. The median value of Insurance, Hotel, Trading, Manufacturing/processing, and other sectors are 2.64, 4.05, 4.13, 4.44 and 6.25 respectively indicating the consecutive priority of investors so far as their matter of investing in different industrial sector is concerned.

Investors' objectives to invest imply the major psychological reason for investing in securities. These simply explain for what purpose investors tend to invest that is either it is to maximize the return, to enhance their social status, or to minimize the possible risk. The findings of analysis is that out of the given types of objectives 'sufficient return' is the investors' objectives for which they attach most in comparison with others. Out of the total respondents 65 percent investors rank this objective as the most important. Looking at the overall rank computed on the basis of median value is also lowest to all that is 0.76 which indicates the concentration of more number of investors' in this option. The second most important objective for the investor is less risk, as the median value of this option is least of all the option except that of the first option. So, less risk is another important aspect next to sufficient return for Nepalese investors. After the sufficient return and less risk investors want security having features of good marketability and thereafter they seek security that enhances social status.

In this analysis investors seem to be less concern over social status and to be more concern over sufficient return and less risk regarding investment in different types of securities.

The analysis that has performed to find out factors to consider while taking investment decision. Out of total respondent 31 (60%) investors consider Market Price per Share (MPS) as the most Important factor. Next to this 28 (54%) and 24 (46%) investors consider Management of Company and Earning per Share as the most important factors. On the other hand, Book Value Per Share (BVPS), Rate of Return, Capital Structure and Nature of Company are considered as important factors by 30 (58%), 18 (35%), 24 (46%) and 20 (38%) investors respectively. However respondents are given 1 to 5 (from Most Important to Least Important) level options, most of investors consider all factors as Most Important and Important. This shows that most of investors consider all given factors while they taking investment decision.

Out of seven motivating factors for investment preferred by investors, capital gain is the first most important motivating factor, followed by Bonus Share and Right Share. As per analysis 38 (73%) investors preferred to capital gain as most important factors for investment, then 31 (60%) and 27 (52%) investors preferred Bonus Share and Right Share as most important factors. Social Status/Prestige falls in forth priority for which 25 (48%) investors think as important factor for investment. Dividend and Liquidity are in fifth and sixth priority for which only 20 and 17 investors marks them as all right. Voting right seems as the last motivating factor to attract investors for investment in securities for which 15 and 13 investors term them as less important and least important motivating factors respectively.

The analysis that has been performed to find out reason for less or not use of debt or preferred stock shows that the reason to less or no use of debt can be attributed to the cause that debt or preferred stock does not provide wide variety in their kinds. So investors are less inclined towards these securities. Similarly the second thing investors views that these securities provide less return than it actually required compensating the risk inherent in these securities. The reason that these securities are illiquid and less marketable tends investors to have negative attitude towards Debentures and preferred stocks. Of course there is no provision for investors who does require adjustable return as per the market scenario. As a result they also agree that the securities provides stable return and this sometime seems unreliable as the market may create good opportunity to earn extra return if the same investment is made in other area. Due to this very feature of these securities Nepalese investors do not want to invest in these types of securities. Among the various disadvantages investors are less vexed at the overburden of legal formalities, lack of professional practices and legal insecurity etc.

Among the given option of different type of debt security, with lowest median value i.e. 1.15, most of investors like such bond that is pledged against the firm’s assets i.e. mortgaged bond, followed by simple interest bond, income bond and floating rate bond. It shows that out of the total respondents 16 (40%), 21 (31%), 9 (17%) and 6 (12%) investors rate as first rank to mortgage, simple interest, income bond and floating rate respectively. This shows that firms should not only issue bond of traditional nature but they should also add some feature(s) in bond to pull bond market up to an inspiring level.

The most important feature of government security to propel investors to purchase is it is risk free. There are 31 respondents those rates this features as first (due to lowest value of median 0.84) indicating that most of the investors rate this feature as most important factor influencing in the choice of security. Next to this, investors’ favor this security as being advantageous to construct portfolio with median value of 1.74 as it can be used to uplift the opportunity set thereby provides more wide risk return space. Likewise as per the overall ranking based on median value high interest rate is in the third ranking as its median value is 2.36. Median value of ‘protection against malpractices’ and ‘less legal formality’ are 2.48 and 2.63 respectively indicating the less attractive features inherent in the government security.

Out of the total respondents 25 (48%) investors set investment policy and remaining do not set. Likewise 29 (56%) Investors analyze security before making investment decision and remaining 44 % does not analyze security. Here the interesting result is that most of the respondents do not construct portfolio deliberately either they do not know about it or they simply do not construct portfolio. Like wise the number of respondents who revise and evaluate their portfolio is also minimum. Here out of the total respondents 25% revise portfolio but next 40% do not and still another 35% of investors even don’t know about the revision of portfolio.

The last step in investment process is portfolio performance evaluation. For this step too Nepalese investors seem alienated, as there are only 21% of respondents who evaluate performance of portfolio and other 48 percent do not.

The analysis that has performed to find out general awareness of investors shows that the number of respondents with correct answer for question number 1 is only 21(40%) out of the 52 respondents. This shows that investors are less aware towards the general functioning of security market in the country.

The second question is related to the necessary information to be taken from Broker Company after having filled the order specification. Only 13 (25%) respondents could give the right answer indicating lesser investors show interest on information of Broker Company. The number of respondents with correct answer for question number 3 is only 27, which respondents 52%. Like wise number of respondents with correct answer for question number 4 is only 24 i.e. 46 percent.

Analysis of general awareness of investors towards security market and its functioning shows that investors are less aware towards the general functioning of security market in the country.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter attempts to summarize, give conclusive and suggestive end to the whole study. As essence to the study, the conclusion and suggestion would be of great help for the concerned parties. This chapter is divided into difference parts namely summary, conclusion, recommendation and suggestion, which are as follows:

5.1 Summary

This study is mainly related to identify the Nepalese investors' preference and attitudes toward different kind of financial securities such as common stock, bond, government securities and preferred stock etc. This study is mainly exploratory as it attempts to explore the status of investors' attitude toward securities. The important inferences have been drawn on the basis of sample size of 52 respondents applying different statistical tools and techniques of analyzing and presenting the data. Every constituents of the capital market may take advantage of this study for restructuring the operational and policy issues in respect to the capital market. Main findings of the study can be summarized in the manner below:

Study of investors' preferences toward particular securities reveals that common stock is the kind of security that is most preferred by the investors, followed by government bonds, preferred stock and debentures respectively.

Analysis of attractiveness of industry sector shows that for Nepalese investors most attractive sector is Bank sector, as the median value for this sector is the lowest of all. Finance sector is the next most attractive sector to banking sector. This finding supports the growing tendency of investment in this sector.

Analysis to identify the objective of holding particular security shows that out of the given kind of objectives 'sufficient return' is the kind of objective for which investors attach most in comparison with others. The second most important objective for them is less risk, as the median value of this option is least of all the option except that of the first option. So less risk is another important aspect next to sufficient return. After the sufficient return and less risk investors want security having features of good marketability and thereafter they seek security that enhances social status.

The analysis that has performed to find out the considerable factors for taking investment decision shows that most of investors consider Market price per share, Management of company and Earning per share as most important factors and remaining are important factors.

The main motivating factor to invest in security is that it entitles holders the capital gain. Among the various factor the most preferred factor is that capital gain. Next to this, Bonus share is the second factors and Right share is the third factor in terms of the perceived importance of Nepalese investors. In this way Social Status, Dividend and Liquidity are in fourth, fifth and sixth priority. Voting right is in last to attract the investors to invest in security.

The analysis that has performed to find out reason for less or no use of debt or preferred stock shows that the reason to less or no use of debt can be attributed to the cause that debt or preferred stock does not provide wide variety in their kinds so investors are less inclined towards these securities. In this way the second thing investors agree upon is that these securities provide less return than it actually required for compensating the risk inherent in these security. The reason that these securities are illiquid and less marketable, investors tends to have negative attitude towards these securities. Of course there are no provisions for investors who do require adjustable return as per the market rate of return. As a result they also agree that the securities in question provide stable return and this sometime seems unreliable as the market may creates good opportunity to earn extra return if the same investment is made in other area. Due to this very feature of these securities Nepalese investors do not want to invest in. It is perhaps due to them being high risk and return investors. Among the various disadvantages investors are less vexed at the overburden of legal formalities, lack of professional practices and legal insecurity etc.

Given the option of different type of debt security most investors like such bond that is pledged against the firm's assets i.e. mortgaged bond. On the other way mortgage bond is the most favored bond followed by simple interest bond, income bond and floating rate bond..

The most important feature of government securities to propel investors to purchase these securities is it is risk free. It being advantageous to construct portfolio as it can be used to uplift the opportunity set thereby provides more wide risk return space. Like wise as per the overall ranking, High Interest Rate is in the third ranking. 'Protection against malpractices' and 'less legal formality' is less attractive features inherent in the government security.

Among the investors 25 (48%) investors set investment policy and remaining don't. Likewise 29 (56%) investors analyze security before making investment decision remaining 44 percent don't. The interesting result is that most of the respondents do not construct portfolio deliberately either they do not know about it or they simply do not construct portfolio. Similarly respondents who revise and evaluate their portfolio are also minimum. Here out of the total respondents only 25 percent revise portfolio, 40 percent do not and still another 35 percent of investors even don't know about it.

The last step in investment process is portfolio performance evaluation. Regarding this step too, Nepalese investors seem alienated, as there are only 21 percent of respondents who evaluate performance of portfolio and other 48 percent do not evaluate and remaining 31 percent do not know about it.

The analysis that has performed to find out general awareness of investors towards security market and its functioning shows that investors are less aware towards the general functioning of security market in the country.

5.2 Conclusion

This study is mainly exploratory as it attempts to explore the status of investors' attitude toward securities .On the basis of the whole study following conclusive end can be provided to this study:

- Analysis of investors' preferences towards the financial securities paves the way to conclude that Nepalese investor's most preferred security is common stock. The most important characteristic that attracts investors to this security is that it allows investors to actively participate in the earnings. Like wise they prefer this security more as compared to other security, for it being more marketable.

- It is imperative to conclude that investors seem to be less concern over social status and to be more concern over sufficient return and less risk so far as the matter of investing in securities is concerned.

- The debt and/or preferred stock in Nepalese securities market do not provide wide variety in their kinds. So investors are less inclined towards these securities. The reason that these securities are illiquid and less marketable, investors tends to have negative attitude towards these securities.

- Return pattern, Management of company and Nature of company are the consideration factor those can be regarded as the most important factor determining their choice of security.

- Capital gain, Right share and Bonus Share are the major motivating factor for investors to invest in securities, whereas Social status/Prestige comes in important factors only.

- Government bond is less risky and this attributes of the security attracts to invest in. Next to this, investors favors this security for it being advantageous to construct portfolio as it can be used to uplift the opportunity set thereby provides more wide risk and return space.

- Most of the investors analyze security while investing in securities. Most of the respondents do not construct portfolio deliberately either they do not know about it or they simply do not construct portfolio.

- Investors are less aware towards the general functioning of security market in the country. This result is so dismal as few respondents are concern over the general information as to the security market and it's functioning.

5.3 Recommendations

- To issue common stock as a source finance is relatively easy for Issuer Company since investors like to hold common stock as compare to other securities. However, debt market should be upgraded so that issue of debt capital would be easy, as any company with equity capital only cannot take advantages of leverage.

- Debt and preferred stock are the kind of securities that are less preferred by Nepalese investors because of less variety. This demand for dynamic debt market with a good maturity mix of the debt securities. For this, policy making body and other related institution should pay their attention.

- Investors prefer to invest in those securities whose overall company performance is outstanding. This suggests that development of security market is not only the matter of investor's awareness but also a thing of company's performance. This calls for the new initiatives from the part of Nepalese companies to enhance their performance.

- Investor seem to be less aware as to security market and its functioning, this calls for the initiation of the awareness program to make prospective investors fully aware and informed as to the security market.

- Investors actively concerned over are amendment and strict implementation of current rules and regulations in order to accelerate the current status of Nepalese security market.

- Current condition of stock trader and market seems lacking professionalism hence it needs to be professional in trading stock in the market, like wise security services are bounded in the capital city only. This need to be corrected by expanding the services in outskirts to that propels all the people in the country to participate in the investment activities that may result into the more developed security market.

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APPENDIX - I

QUESTIONNAIRE FOR STUDY

I humbly request you to fill up the questionnaire for facilitating me to conduct a study entitled ***"A STUDY ON INVESTOR'S PREFERENCES FOR INVESTEMENT IN FINANACIAL INSTRUMENTS".*** Your precious views and opinions would be vital in order to accomplish this study for fulfillment of the requirement of Master's Degree in Business Studies (MBS). All the information contained in the questionnaire will be only for the purpose of study and kept confidential.

Name :

Address :

Occupation :

Gender : Male ☐ Female ☐

Amount of Investment: 1-10 Lakh ☐ More than 10 Lakh ☐

Respondent Code :

....

1 Please rank the following financial instruments available in Nepalese financial market from the view point of your preference for investment.

1	2	3	4
Most preferred	Preferred	Less Preferred	Least preferred

Rank

1. Common stock ……………………………..… ☐
2. Preferred stock ……………………………..… ☐
3. Debentures/Bonds ……………………………..… ☐
4. Government Bonds ……………………………..… ☐

2. How would you rank the following investment sectors in order of their attractiveness for investment?

Rank

1. Bank ……………………….…
2. Finance ……………………….…
3. Hotel ……………………….…
4. Manufacturing and Processing Company ……………………….…
5. Insurance Company ……………………….…
6. Trading Company ……………………….…
7. Others ………………………..

3. Which of the followings best matches with your investment objectives? Please rank in order of their importance to you.

1. Sufficient return ……………………...…
2. Less risk ……………………...…
3. Marketability ……………………...…
4. Social status ……………………...…
5. Other, if any ……………………...…

4. Following are some considerable factors for taking investment decision. Please make tick mark in the cell as per following scheme?

1= Most Important **2**= Important **3**= All Right **4**= Less Important **5**= Least Important

S. N.	Statements	1	2	3	4	5
1	Earnings per Share (EPS)					
2	Dividend per Share (DPS)					
3	Book Value per Share (BVPS)					
4	Market Price per Share (MPS)					
5	Rate of Return					
6	Capital Structure					
7	Nature of Company					
8	Management of Company					

5. **There are some basic motivating factors for investment as mentioned in the table. Please make tick mark in the cell based on given scheme?**

1= Most Important **2**= Important **3**= All Right **4**= Less Important **5**= Least Important

S. N.	Statements	1	2	3	4	5
1	Capital Gain					
2	Liquidity					
3	Dividend					
4	Right Share					
5	Bonus Share					
6	Voting Right					
7	Social Status / Prestige					

6. **How far do you agree/disagree with the following reasons of not using debt and preferred stock as frequently as a common stock? Please make a tick mark in the appropriate number as per the following scheme:**

1= Strongly Agree, **2**= Agree, **3**= All Right, **4**= Disagree, **5**= Strongly Disagree

S. N.	Statements	1	2	3	4	5
1	No provision of handsome return that compensates the perceived risk of investors.					
2	These financial instruments provides only certain return					
3	Overburden of legal formalities					
4	Due to the lack of professional practices.					
5	Lack of marketability and liquidity					
6	No legal protection in favor of investors					
7	Due to the lack of wide varieties in these kinds of securities					

7. If you prefer bond, what are the types do you prefer most? Please rank them in order of their importance.

S.N.	Types Of Bonds	Rank
1.	Bond that gets you participates in profit and loss. (Income Bond)	
2.	Bond that adjusts promised interest rate according to the rate in the market. (Floating Bond)	
3.	Bond that is pledged against the firm's assets (Mortgaged Bond)	
4.	Simple debt that pay regular interest. (Simple Interest Bond)	

8. What are the main attraction of government securities? Please rank in order of their importance.

1. Risk free/safe ……..……………………..
2. Advantages for portfolio construction ……..………...…………..
3. High interest rate ……..……………………..
4. Less legal formalities ……..……………………..
5. Protection against mal practices ……..……………………..

9. Do you follow the following procedures for investment? Please, make tick mark in the appropriate box.

	Yes	No	Don't know
1. Set investment policy			
2 Analyze security			
3. Portfolio construction			
4. Portfolio revision			
1. Portfolio Performance Evaluation			

10 While placing order of share through Broker Company, if you did not mention the time period of the order to remain outstanding. Which of the following legal provision is relevant in this regard?

1. The order will be assumed to remain outstanding for 15 days.
2. The order will be assumed to remain outstanding for 10 days
3. The order will be assumed to remain outstanding for 7 days.
4. The order will automatically be terminated.
5. The order is put aside to execute in the future.
6. Don't know.

11. What sort of information do you generally take after having filled the order specification? Please make a tick mark.

1. Certificate that describes you have submitted the order form to broker
2. Information as to the execution of order.
3. Financial aspects of the broker company.
4. Procedures of transaction of the securities.
5. Information about listed company.
6. Overall position of the Security market.

12. If you did not receive sales proceeds from the concerned broker company within which period do you report it to Stock exchange?

1. Within 7 or 8 transaction days.
2. Within 8 or 9 transaction days.
3. Within 15 days.
4. Within 23 days.
5. Don't know.

13. If your order is purchase order and you did not receive financial security within the given periods. Which of the following statement is true in this regard?

1. Such case should be reported to stock exchange within one month.
2. Such case should be reported to stock exchange within 8 days.
3. Such case should be kept secret.
4. Nothing one can do with such a case.
5. Don't know.

THANK YOU FOR GIVING YOUR VALUABLE TIME!