

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal belongs to one of the least developed and poorest countries in the world where the income level of people is far below than the basic level for sustenance. Most of the people derive their earnings from agriculture and hardly sustain their lives from little earnings thus generated, which is the sole reason behind perpetual poverty. This has compelled the concerned sector to stimulate on diversification of solely agro-based economy towards industry-based economy. So the government's and the non-government's efforts are oriented on poverty alleviation as well as on reduction of wide economic gap existing between rich and bourgeois. That's why resource mobilization from the haves to have-nots and from unproductive to productive sectors is regarded as a must for economic development. Thus, development of capital market by bringing the lenders and borrowers of fund together in an organized market has always been an effort. Keeping this in view, the government has introduced the liberalization policy with the dawn of democracy for the economic and financial development of the country. There is a provision that at least 15 to 20% of the shares should be provided to the small investors.

Hitherto, in budget part, government revenues are seemed insufficient to meet its regular as well as development expenditures leading it to deficit budget. The government, to some extent, has been meeting such difference by domestic borrowings as a major source of Deficit Financing. Likewise, the local government bodies such as municipalities and district development committees are in the process of issuing debt securities as a source of fund to finance their projects and to meet their expenses. Government securities are issued by Nepal Rastra Bank on behalf of the government and those include government bonds like Development bonds, national saving bonds and citizen saving bonds. The

total amount of government bonds outstanding was Rs. 28,241 million on mid-January 2006.

In ancient times, investments were only confined to purchasing of fixed assets such as land, building, etc, and speculative assets such as gold, silver, etc. As money circulation was very scarce or was not in effect, barter system was used for exchange of goods. Barter system still exists in the remote areas of the country. But today investment is viewed in different senses. There are a lot of financial instruments available for investing. Two kinds of investment alternatives are inherent for an investor. An investor either can invest in real assets or in financial assets. However, investment patterns, objectives and strategy may vary from investor to investor. But our prime focus is on investment of financial securities. While investing on financial instruments, it implies bearing of risk, and waiting for positive return.

Securities are financial assets that form the part of an investor's wealth. Common stocks, preferred stocks, bonds, convertibles, warrants, options, rights, futures, etc. are examples of securities. Security is not an age-old investment alternative in our country. The history of corporate securities in Nepal dates back to 1936 A.D. when Biratnagar Jute Mill issued 8,000 ordinary shares of Rs.100 each for the first time. A year later, Nepal Bank Ltd too issued ordinary shares of the same par value. Biratnagar Jute Mill was also the first corporate body to issue debentures of Rs.500 each in early 1936. Yet other significant developments related to capital markets were introduction of the Company Act in 1964, the first issuance of Government Bond in 1964, and the establishment of Securities Exchange Centre Ltd. in 1976.

Investors, from whom the corporation acquires funds, are the most important part of investment. They may be individuals, institutions – financial and non-financial, and other organizations. They spend their time, money and effort as well while investing in any asset – regardless of financial or real. What

investors do is that they invest their savings in the securities and take risk expecting compensating return in future course of time.

The place where the securities like stocks, bonds, etc are traded is known as securities market. On the basis of maturities of the securities traded, there are two types of security markets – capital and money market. Security market facilitates the process of transferring funds from savers to investors and acts as mechanisms created to facilitate the exchange of financial assets. Stated in another way, it is the place where financial assets are traded. Securities Exchange Centre was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. It is seemed that investors are lacking adequate information on the securities in the market to make decisions about what to buy or the price to pay. And being the emerging nations, the security market of Nepal is an inefficient market.

In early days of issuance, there were few investors, few securities to invest and the market mechanism was also not developed. Only stocks were considered as securities and dividends were anticipated in return. There had also been cases of over-subscription of securities in some companies in subsequent years. However, debentures were hardly accepted by the investors as securities. Later, bonds too were started to be issued and the market get little diversified. However, preference share was not found to be included in the list of corporate securities till the establishment of Company Act 1936. It was embodied as corporate security only in the Company Act 1964. In ancient times, people lacked information on investing in various financial instruments, choices were limited regarding securities to invest leading to difficulty in constructing portfolios and their performances evaluation as the number of stocks were few in the market. In fact, common people hesitated to invest their wealth in financial instruments.

Risk and return are the two most important aspects for conducting rational investment decision. Every rational investor attempts to minimize risk and maximize return. To do so, the investor must understand the concepts and measures of risk and return. Investors in Nepal are gradually getting conscious towards risk and return analysis. Investors may choose any securities – long-term and short-term, and may have different attitudes on the securities. Similarly, the return or reward may take several forms such as cash dividends or stock dividends (bonus shares) in case of stocks and regular cash inflows (interest receipts) in case of bonds and debentures. However, in case of short-term securities such as treasury bills, commercial papers, etc, the return is the difference between par value and the purchase price. Capital is the lifeblood of the business organizations. Every business enterprise requires short term, intermediate and long term capital for the smooth operation and expansion of the organizational activities. Among these types of fund, the long-term funds plays highly significant role for future growth and prosperity of the organizations. Most business organizations gather long-term funds from financial market.

➤ **Financial Market**

It is the place where the financial instruments are traded. Financial instruments include share, bond, debenture etc. It is a means to transfer funds from savers to those in need of funds. Financial experts have mentioned it as a brain of the entire economic system. The failure of the financial market obstructs the progress of the whole economy. Financial markets can be defined as the centres or arrangements, which provide facilities for buying and selling of financial claims and services. Specifically, financial market chiefly refers to money market and capital market. It facilitates the transfer of funds from the savers to those who wish to invest in capital goods.

➤ **Money Market**

It can be defined as short-term financial market, which facilitates liquidity and marketability of securities. It is the market for short-term marketable instruments having less than one-year maturity period.

Money markets are sometimes defined as organized and unorganised money markets. The organized or formal money markets provide an institutional mechanism for the transactions of short-term securities and commercial banks, finance companies and other saving/credit unions are the players in the money market. Local merchants, indigenous bankers and relatives come under the informal or the unorganised sector.

The development of efficient market requires the development of institutions, instruments and operating procedure that aids widening and deepening of the market and allocation of short-term resources with minimum transactions costs and delays.

➤ **Capital Markets**

Capital Markets play a vital role in the national economy. Capital market facilitates the allocation of funds between the savers and borrowers. This allocation will be optimum if the capital market has efficient pricing mechanism. If the capital market is efficient, the current share prices of the company fully reflect the available information and there will be no question of the share price being over or under priced. Capital market is concerned with the long-term finance. The funds collected in the market are raised and traded by long-term financial instruments such as equities and bonds.

Nowadays in Nepal too, securities are considered as the prime investment alternatives but mostly in urban and educated societies only. Today, there is an organized exchange market – *Nepal Stock Exchange* (abbreviated as *NEPSE*) for trading of securities from various corporate as well as government bodies.

) **Stock Exchange**

It is a market for long-term capital where both new capitals can be raised by companies and where existing shares can also be bought and sold. By providing a second hand market for investors to sell their shares, it facilitates the raising of new capital on the new issues market. The stock exchange also provides a market for government loans and securities, and increasingly involved in the buying and selling of securities in the overseas companies. On the market, the main operators are the market makers who trade in a group of share, and the stock brokers who act as agents for their clients, who are the investors who are actually buying and selling shares”.

New York Stock Exchange (NYSE), London Stock Exchange, Tokyo Stock Exchange, Paris Stock Exchange, Frankfurt Exchange, Toronto Stock Exchange are the biggest stock Exchanges of the world. Mumbai Stock Exchange is the largest stock and Nepal Stock Exchange (NEPSE) is the only organized stock exchange of Nepal.

Constituent of Capital Market in Nepal

➤ **Security Board, Nepal (SEBO/N)**

Security Board, Nepal was established on May 26, 1993, under the provision of the Security Exchange Act, 1983. It was established with the objectives of the promoting and protecting the interests of investors by regulating the securities market. It also assumes the responsibility of development of securities market in the country, besides the regulatory role. Security Board has identified the policy development, legal and regulatory reform, stand arising disclosers, bringing enforcement to insure compliance and promoting broad based market as priority area to reform. The private sector has also been participating equally in establishing a sound system of security exchange. In private sector – investors, listed companies, financial and market intermediaries and in government sector – Ministry of Finance, Registrar of Companies (Ministry of Industry, Commerce and Supply), Nepal Rastra Bank, Nepal Stock Exchange,

Federation of Nepalese Chamber of Commerce and Industries (FNCCI), Institute of Chartered Accountants of Nepal (ICAN) and Associations of Chartered Accountants have been playing vital role in promoting the capital market of the country.

The objectives of the Board are to promote and protect the interest of the investors by regulating the issuance, sale and distribution of securities and purchase, sale or exchange of securities, to supervise, look after and monitor the activities of the stock exchange and other related firms on securities business, and to render contribution to the development of the capital market by making securities transactions fair, healthy, efficient and responsible.

➤ **Nepal Stock Exchange (NEPSE)**

Along with the formation of Security Exchange Board, His Majesty's Government converted the Securities Exchange Centre Ltd. into Nepal Stock Exchange Ltd. (NEPSE) in 1993 with a view to reform the Capital market. It is a non-profit making organization operating under Securities Exchange Act 1983. Brokers and market makers operate on the trading floor as per the Securities Exchange Act rules and by laws of NEPSE. Nepal Stock Exchange started its trading operation on 13 January 1994 through its licensed members. The Securities Board was constituted in 1993 under Sec. 1 of the Securities Exchange Act 1983.

Its main objective is to provide essential policy direction for the systematic and regular exchange of securities and develop competitive stock exchange market by protecting and promoting the interest of the investors. Nepal Stock Exchange is a trading (operational) institution, whereas Securities Board is the regulatory body. Before the Board came into existence, the Securities Exchange Centre carried on both the functions. Though any corporate body Desirous to carry out the transaction of securities can submit application to the Board for obtaining the license, till now Nepal Stock Exchange Ltd. alone is representing the securities market in the country.

At present, there are 27 valid member brokers and 2 market makers who operate on the trading floor as per the Security Exchange Act, 1983, rules and by laws. At present there are 11 sales and issue managers and 2 dealer (Secondary Market). At present, 131 companies have listed their securities to make them eligible for trading. Besides this, NCM Mutual Fund enlisted its units to make them eligible to trade in the floor. NEPSE has adopted an “Open Out -Cry” system. It means transactions of securities are conducted on the open auction principle on the trading floor. The buying broker with the highest bid will post the price and his code number on the buying column, while the selling broker with the lowest offer will post the price and code number on the selling column on the quotation board. The market makers quote their bid and offer price on their own board before the floor starts. Once the bid and offer price match, contracts between the buying and selling brokers or between the brokers and market makers are concluded on the floor. NEPSE has fixed the trading days and hours during which the members are allowed to enter the floor to make the transactions.

Types of Trading	Days	Trading Time
Government Bond Trading	Sunday to Friday	10:30 A.M. to 11:30 A.M.
Regular Trading	Sunday to Thursday	12:00 NOON TO 2.00 P.M.
Odd lot Trading	Monday & Friday	2-3 Monday, 11 -12 Friday

NEPSE has fixed the board lot of 10 shares if the face value is Rs.100 or 100 shares if the face value is Rs.10. The transactions on regular trading should be done on at least one board lot. The transactions of less than 10 shares are permitted only on odd lot trading hours. NEPSE has adopted a T+3 systems, which mean that settlement of transactions, should be done within 5 working days following the transactions day. Settlement will be carried out on the basis of paper verses payment. The rate of brokerage on equity transactions ranges from 1 percent to 1.5 percent depending on the traded amount.

➤ **Securities Market**

In simple sense, securities market is the place where people buy and sell financial instruments. These financial instruments may be in the form of government bonds, corporate bonds or debentures, ordinary share, preference share etc. So far security market is concerned; it is an important constituent of capital market. It has a wide term embracing the buyers and sellers and all the agencies and institutions that assist the sell and resell of corporate securities. Although security market is concerned in few locations, they refer more to mechanism rather than to place designed to facilitate the exchange of securities. Security market can be defined as a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading. In order to allocate capital efficiently to maintain higher degree of liquidity in securities, the securities market should be efficient enough in pricing the shares solely by economic considerations based on publicly available information.

An efficient market is one where current price of the shares gives the best estimate of its true worth. Thus, the securities market is a place where shares of listed companies are traded or transferred from one to another a fair price through the organized brokerage system. The major function of securities market is a competitive price thereby, importing future market ability and liquidity. It is a medium through which scattered savings and scarce resources are transferred to productive areas that ultimately help in the economic development and industrialization of the nation.

Biratnagar Jute Mills Ltd. initiated the first public floatation of shares in the securities market in 1937. There were very few companies in Nepal issuing shares to the general public until another company Act came into operation in 1951. In the absence of developed security market in Nepal, the government was the sole issuing authority of Development Bonds and National Saving Certificates. Therefore, the securities generally in the market were mainly the government securities. Government securities are fully traded under the

management and supervision of Nepal Rastra Bank (NRB). Institutional Development of securities market in Nepal started from the year 1976 when Securities Exchange Centre (SEC) was established under the Companies Act with the joint Capital contribution of Nepal Rastra Bank and Nepal Industrial Development Corporation. The Industrial Policy of the Government also encouraged the promotion of securities exchange activities in Nepal. The main objective of the establishment of the Centre was to mobilize public savings and encourage the people to participate in the ownership of industries and business enterprises. As a securities market intermediary, its role was to organize and provide marketing facilities of channelling securities exchange business through the centre. Its activities included the purchase, underwrite and sale, directly or through the licensed brokers or sub-brokers of the Centre, the shares, stocks and debentures of public limited companies and also Development bond as well as Treasury bills issued by the Government.

Securities market can be further categorized into two groups as Primary Market and Secondary Market.

Primary Market denotes the market mechanisms for the original sale of securities time of their initial issuance. In other words, a market for newly issued securities is called primary market. Corporate bodies issue new securities in the primary market. Securities available for the first time are offered through the primary security market. The issuer may be a brand new company or one that has been in business for years. The securities offered might be a new type for the issuer or additional amount of security – used frequently in the past. The key is that these securities absorb new funds for the coffers of the issuer.

All the securities whether in the money market or capital market, are initially issued in the primary market. This is the only market in which the corporate or government issuer is directly involved in the transaction and receives direct

benefit from the issue, that is, the company actually receives the proceeds from the sale of securities.

Secondary Market is the market in which securities are traded that has been issued at some previous point of time. In other words, where outstanding securities are traded is referred to as the secondary market or more popularly known as the stock market. Share or stock is the major component of the securities market. Stock market is the medium through which corporate sector mobilizes funds to finance productive projects by issuing shares in the market. The efficient collection of small amounts of savings and transferring funds into the complete and efficient uses requires a well functioning capital market to facilitate the process. Thus, Secondary market deals with previously issued shares mainly traded through stock exchange, over the counter market or direct selling.

Secondary market in simple sense, are markets in which existing, already outstanding securities are traded between investors. It is the market that creates the price and allow for liquidity. If the secondary markets do not exist, the investors would have no place to sell the assets. Without liquidity many people would not invest at all. The function of the security market is to provide liquidity for the securities purchased in the primary market.

1.2 Statement of the Problems

Most of the people from rural areas are almost illiterate to securities. Also in urban areas, very few people with business and intellectual family backgrounds bear some knowledge on it. Concentration of wealth in a few hands is also one of the major reasons behind backwardness of societies. This is a nationwide problem. Based on disparity in income, living standard, and educational status, people in our country can be easily categorized into lower, medium and upper class. There is existence of wide economic gap between rich class and bourgeois. Investing on various financial instruments forming efficient

portfolios helps in reducing such gap by generating sufficient passive income to the small investors.

Investors in Nepal have been found relating it to gambling and speculation. However, it is very different from speculation and gambling. Rather, it is the process of rational decision-making. The investment process begins from setting investment policy to portfolio construction, revision and performance evaluation. Choice of securities for investors is extremely limited and confined to a few securities to construct and evaluate efficient portfolios. Due to state of utopia and over-expectation of getting rich overnight, people (mid-class) hesitate to invest in securities at first. Also most of the securities investors are seemed to behave irrationally. Instead, they invest in without proper analysis and judgment of the risk and return leading their decision to adhocism. There is presence of information gap, misguided attitude, and suspicious authenticity of the financial statements published by the institutions. Guided by these, the investors are seemed selecting the securities without proper guidance and analysis. As a result, they may incur losses or reap profits beyond their expectations, which are abnormal cases of investment.

While investing rationally in a security, the price and value of that security should be matched and taken decision accordingly. If the price of that security is greater than its value, it will be better to sell short or simply sell. Likewise, if the price is less than its value, it will be better to buy or invest in. This can only happen and the accurate price can be calculated only when the investors are provided with sufficient, authentic information required to calculate the real value of securities and their growth prospective. But in the context of Nepal, there is limited flow of information, non-transparency of the trading mechanisms, poor knowledge of securities analysis, and lack of consultancies for consultation to judge and value the securities. Thus, the problem is that the investors could not identify the profitable securities to invest in.

There is not any specific research study found to be conducted regarding investors, especially individual investors, in Nepal. So the attitude of the investors on securities and their preference of investment in securities over fixed assets are yet to be explored. Furthermore, there are limited numbers of securities to construct portfolios, and investors lack organization responsible for analysing the securities technically as well as fundamentally. Despite of the problems inherent, investors are attracted to securities investment, especially on stocks and government securities. However, the specific questions that are tried to answer through this research are:

- What is the attitude of investors on securities?
- What do the investors' prefer to invest in?
- What are the prospects and challenges of security investment in Nepal from the investors' viewpoint?
- Why do they invest in securities?
- What kind of earnings do the investors' desire?

1.3 Objectives of the Study

The general objective of conducting this research is to study the behaviour pattern, preferences and investing trend of people in regards to securities and analyze the prospective benefits to the Nepalese investors as well as prospective issuers. In this way, the objective is able to cover the whole capital market scenario of Nepal. However, the specific objectives behind conducting this research study are:

- To study on investors' attitude towards securities.
- To study the investors' participation and preferences of securities.
- To study the criteria adopted by the investors while making decision on securities.
- To reveal the anticipation and level of earnings desired by the investors from securities.
- To suggest people on having positive attitudes and making rational investment decisions.

1.4 Significance of the Study

In modern society, securities are considered as the important investment alternative. Its importance in the uplifting of nation's economy cannot be overlooked. In one way, it can mobilize the capital resources from savers to investors. It can be used to finance the development as well as business projects, which cannot be funded alone by the companies and corporations. On the other part, the investors may reap a benefit of capital appreciation and cash in return that may fulfil the different objectives of individual investors. There may be different objectives of investors behind investing in financial instruments. Some invest to ensure regular income for retirement age, some for children's education and some others for emergency fund. And such purposes induce them to invest in different types of financial assets.

Regarding the problems inherent and stated above, this study may act as a guideline to introduce the securities issued in the market, and the earnings associated with them to the investors. On the basis of study of investment trend, behavioral analysis and investors' earnings preference, we can infer certain core ideas on investors' attitude towards securities. Thus, it will be beneficial for the potential investors and the prospective issuers too. As a result, the trading of capital market may expand both in volume and value. Instilling positive attitude on securities and enticing the investors on taking rational decision is thus its major significance. In another way, it may also help in bolstering the earnings of minority investors and thus helps reduce the widening gap prevailing in our society. Hence, somewhere there lies the potentiality and significance of conducting this study. The topic thus selected, the focus and the objective thus targeted through it are of vital importance to the existing as well as potential investors. If referred seriously, this may bring a drastic change in investors' current attitude and induce them to invest more rationally. Moreover, this study aims to inculcate in the investors mind for conduction of fair securities transaction through proper analysis of risk and return and comparison of price with value. This study may bring the investors

acquaintance on various terms related to securities, make them aware on their investment, provide a lot of information to the readers and also help a lot to further researchers.

1.5 Limitations of the Study

It is believed that to err is human and to admit is superhuman. So I admit that this study may not be totally free from errors and limitations but I can assure that such drawbacks will be minimized to a very extent. I think the study has carried the following limitations:

1. This study is based on primary as well as secondary sources of data. Accordingly, investors have not given the authentic and needed information as much as they are expected to be. They did not even respond to some questions. In such cases, certain intuitions have been made.
2. Most of the data will be on common stock investors and NEPSE has become the prime study area.
3. This is a descriptive research where the behavior and attitude of investors will be studied. So there will be more use of qualitative rather than the quantitative techniques of analysis. Thus, the use of statistical tools is limited.
4. All deciding factors of investment have not been incorporated.
5. Only individual investors have been considered, and the sample size is also quite low due to several constraints.

1.6 Organization of the Study

The whole study area has been divided into five different parts:

Chapter –I : Introduction

Chapter - II: Review of Literature

Chapter - III: Research Methodology

Chapter - IV: Data Presentation and Analysis

Chapter - V: Summary, Conclusion, & Recommendations

In this way, the whole research area is out rightly categorized into five parts and every part has been properly organized and prepared as proposed. Instead, necessary additions have been performed without violating the core topic structure.

CHAPTER - II

LITERATURE REVIEW

This chapter deals with the review of the existing studies related to research topic in more detail and descriptive manner. Under this part, compilation of the various texts, journals, articles reports, previous thesis and terminologies related to investors have been made.

2.1 Conceptual Framework

The individual investor's are always searching for better investment alternatives, which can maximize their wealth and assure better financial features. The investor's are in expectations of financial freedom in their life. Financial market with its wide range of security provides investor's investment alternatives that can make their cash flow secure and build healthy financial position. Their investment is basically based on the public information, which shows the real picture of the company. Investing on a particular security is neither a race nor a gambling but is a well planned and strategic phenomenon in which there is assumption of certain risks and returns. In light of importance of investor's awareness to make rational investment decision one have to be well familiar with the whole investment environment and their mechanism.

2.1.1 Investors

Investors are defined precisely as those who supply capital to the capital market. In financial parlance, they are known as individuals or institutions buying shares of stock in a firm or lending money to a business. They are the people who look forward to making money over a long period of time in the stock market. In fact, investors invest some portion or all of their savings in lucrative opportunities in an anticipation of making more return in future periods.

Individuals, firms, companies, groups, corporate bodies or institutions, state governments, provident funds and trusts, non-residents, and overseas corporate bodies holding securities of different kinds are called the eligible investors. On the basis of the number of securities held by them, they are divided as 'A' class investors and 'odd-lot' investors. The latter ones are also regarded as the men-in-the-street. [Francis Jack Clark, 2002:527]. However, our part of discussion is only on the individual investors.

Investors Classification

Investors in securities can be classified clearly into two kinds, they are: Institutional Investors and Individual Investors.

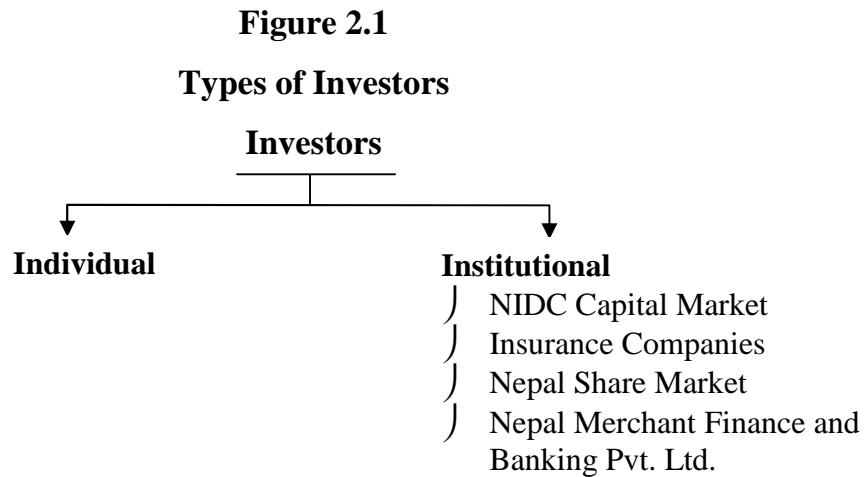
Institutional Investors

The institutional Investors are investor who collects fund from wide source and invest their capital in security in security market. The institutional investors have dominated the security market as they have large capital available to invest. The institutional investors take and advantage from the various profit available from the security market. The security market have been a good place to invest for institutional investors as it gives an opportunity to institutions to make their capital works or decrease non performing assets (NPA).

Individual Investors

Individual owns a portfolio of securities and becomes investor and the average individual investors in securities are a part-timer, with neither the ability nor the time to evaluate a large (and often complex) flow of information. Most individual investors have a job apart from investing. Individuals have an opportunity cost in obtaining investment information, such as reading, publication, tracking stocks prices, and building files on securities. These opportunities cost is the time and resources foregone that could have been used in other endeavors. It is not possible to depend on the earnings generated from securities investment. Mostly in Nepal, investors (individual) take it as one of

the probable sources of passive income. It is because the securities market development is still in infancy and the formation of portfolio, its analysis and selection on the basis of performance is irrelevant and almost impossible. So the individual investors take it as only as a part-time investment.



Institutional Investors in Nepal

Institutional investors are those who collect the fund for wide range of source and invest their capital in the security market. The institutional investors have dominated the security market and they have large capital to invest. They are investing organizations that trade large volumes of securities; thereby commanding reduced commissions and other special treatment. They are also the pullers of funds. A substantial portion of daily trading is for the account of institutional investors such as banks, trusts, pension funds, insurance companies, and mutual funds. Institutional Investors are firms that trade large volumes of securities, including mutual funds, banks, insurance companies, etc.

The major institutional investors existing in Nepal are as follows:

- a. NIDC Capital Market
- b. Nepal Share Market
- c. Nepal Merchant Finance and Banking Pvt. Ltd.
- d. Insurance Companies

2.1.2 Investment

An investment is a commitment of funds made in the expectation of some positive rate of returns. An investment involves sacrifices of current rupee for the future rupees. The sacrifice takes in present and is certain, whereas reward comes later and is uncertain. Every investment analysis entails some degree of risk-in the sense that it requires a present sacrifice for future uncertain benefit, under and investment analysis, examination of marketable securities such as common stocks, preferred stocks, bonds, put options, future contract on the traditional commodities, financial futures and other investment as well as the risks associated with each are performed.

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 certain. The rewards come later, if at all, and the magnitude is generally uncertain (Sharpe, W.F Alexander, Gordon J. Bailey, Jeffery, 2005:1).

Investment can be made in two kinds of assets viz: real assets and financial assets. Therefore, these assets act as the two different investment alternatives for investors. Investment in real assets involves investing in tangible assets such as land and building, gold, silver, vehicles, etc. Whereas investment in financial assets involves investing in financial instruments such as shares, debentures, government securities, etc. However we are not going to deal with the investment on non-financial sectors.

Investment is made in an anticipation of future return. Such a rate of return desired by the investors from their investment is certainly positive. The length of time from the date of investment to the final date is called planning horizon, investment horizon or holding period. In other words, investment implies the employment of the fund with the objective of realizing additional income or growth. And it includes sacrifice of current rupees and waiting for reward.

Thus investment is regarded as the function of risk and return. Every investor's main objective in making investment is to maximize ones wealth.

Financial asset is another name given to the financial instruments or securities. Investment in real assets requires a huge amount of capital, and the money thus invested becomes idle where there is very little probability of getting higher returns. If the situation and the market turn favorable only capital gain can be realized. There is also a great problem of liquidity of such assets. However, investing in financial assets is possible with a lower amount of capital, little effort to analyze and make decisions. Both the benefits of capital gain and normal gain can be reaped at a time.

Investing is about money in the same way that school is about education. It is not about chance or whims and not about fooling around, it is about having enough for the rest of your life. It is not about asset allocation and pie charts and financial planning. Investing about your life and being able to live the way you want to live.

2.1.3 Investors' Opinion on Securities

Investors' Opinion on securities means their feelings about investing in securities, their preferences of securities for investment purposes in regards to risk and rewards attached to it, their objectives behind investment, and their investment policies as well as their pattern and trend of investment. More specifically, their opinion on securities is reflected by their views, behaviors and their conception as well as perspectives on investing the securities available in the market. The investment objective may vary from investor to investor. And such objectives set by the investors guide their securities selection criteria and investment horizon. The investment objectives act as the corner stone of investment process. Some may invest in the securities just to set aside some portion of their savings to receive higher positive returns, some may invest to finance their children's education, and others may invest simply

to generate the desired wealth when it is needed or at the time of retirement. However, there is a consensus that most investments are undertaken to increase wealth. Also various theories suggest that investors do not have a single investment objective at any time. More succinctly, investors' attitude on securities means all the prospects, expectations, challenges, aspirations and perils that the investors feel at the time of investing in securities because of several factors such as changes in the market situation, political price and all changes in milieu of the securities behavior.

Moreover, the attitude means investors' desire, response and preference of the securities in regards to time and risk associated with the particular security. The holding and investment of securities are guided a lot by investors' preferences towards risk-taking and their future income anticipations. To some extent, the financial market dynamism and the economic situation of the whole nation guides a lot in shaping the securities investment pattern of investors.

Investors who can manage risk in stocks never fear investing. "No risk no gain" is their motto. Research and analysis reduces the risk. Hasty investors do not like to engage in technical and fundamental analyses because they are more dependent upon lady luck. The next important factor is the skill to buy and sell at appropriate times. The skill does not come overnight but those who have it can tell you when to act.

There might be several factors that induce investors to invest in securities and cause them to have positive attitude on securities. And these may result into growth and expansion of capital market. For the radical changes in the investors' attitude towards securities, it needs efficient flow of information, proper trading rules and mechanisms, and clear-cut policies regarding the securities investment.

2.1.4 Investors' Opinion Towards Risk

Risk is defined as the possibility of suffering some form of loss or damage. It is the chance of unfavourable event.

“Risk is defined as the variability of possible returns around the expected return of an investment”.

Risk and return are inseparable from each other. When we expect more return on what we have invested, there may be certainly more risk and uncertainty to meet that anticipation. Viewed in another way, the securities that have more risk and uncertainty of getting the expected return demand higher rate of return to compensate the risk associated with it.

On the basis of the risk taking and attitude towards risk, there are three kinds of investors namely, Risk-Bearer, Risk-Neutral, and Risk-Averter. Investors are risk-averter and they select the securities that maximize expected rate of return for any given level of risk or minimize risk for any given level of expected returns. Each investor has his one attitude toward risk and depends upon one's capacity as well as ability to tolerate a certain amount of risk. The real rate of return will provide a rate of return that compensates the investors for deferred consumption. An additional rate of return should be added to the risk-free rate of return that provides premium for additional risk bearing.

$$E(R_j) = R_f + RP_j \dots\dots\dots (1)$$

Where,

$E(R_j)$ = Required rate of return for asset j.

R_f = Risk-Free- rate of return.

RP_j = Risk premium for stock j.

A number of factors may contribute to investment uncertainty. The factors usually mentioned with respect to marketable securities are business risk, financial risk, liquidity risk, default risk, interest rate risk, management risk and

purchasing power risk. Risk is a difficult concept to grasp. Some of the statistical methods that can be used to measure risk of an underlying financial asset are discussed below:

The Range

The range is one of the traditional methods of measuring risk, which simply communicates the difference between the best possible return and the worst possible returns; it does not provide any information about the distribution of the rates of return between the extremes.

The range = Best possible rate of returns – Worst possible rate of returns.

The degree of risk of an underlying security is reflected in the magnitude of the difference. The smaller difference the lower will be the degree of risk.

The Standard Deviation

The standard deviation () is the other measure of investment risk. The smaller the standard deviation the lower will be the degree of risk of the stock. The formula for calculating the standard deviation is:

$$\text{Standard deviation ()} = \sqrt{\frac{(\text{R} - \text{E}(\text{R}))^2}{\text{N}}} \dots\dots\dots (2)$$

In the equation, R is the possible rates of returns, and E(R) is the average mean return and N is the number of observations. The variance can also be used to measure risk, which is the square of the standard deviation.

Total risk () can also be defined as the sum of systematic risk plus unsystematic risk. Systematic risk has its source factors that affect all marketable assets and thus cannot be diversified away. The sources of systematic risk are market-pervasive. The measure of systematic risk permits

an investor to evaluate an asset's required rate of return relative to the systematic risk of the stock. Unsystematic (or company-specific or unique) can be reduced through diversification. The relationships among total risk, systematic risk and unsystematic risk are shown below.

Total Risk (σ_j) = Systematic risk + Unsystematic risk;

With, Systematic risk = $\rho_{jM} \sigma_j$, and Unsystematic risk = $\sigma_j(1 - \rho_{jM})$.

In the equations ρ_{jM} is the correlation coefficient between the returns of a given stock 'j' and the return on market portfolio.

The Coefficient of Variation

The coefficient variation (CV) is another useful measure of risk. It is the standard deviation divided by the expected return, which measures risk in terms of per unit of return. It provides a more meaningful basis for comparison when the expected returns on two alternatives are not the same. If investors believe that the rate of return should increase with the increment in risk, then the coefficient of variation provides a quick summary of the relative trade-off between expected return and risk.

Coefficient of Variation (CV) = $\sigma_j / E(R)$

The Beta Coefficient

The beta coefficient (β_j), a measure of systematic risk, can be calculated by using the following formula.

Beta coefficient (β_j) = $\text{Cov}(i, M) / \sigma_M^2$

$\text{Cov}(i, M)$ is the covariance between the return of an individual asset and the returns of the market and σ_M^2 is the variance of the market returns. Stocks can be classified as aggressive or defensive or average depending on the value of beta coefficients. In general the CAPM indicates that an asset's required return should be related to the risk-free rate of return plus a risk-free return based on the beta of the asset (Francis Jack Clarke, 2002:273-277).

Beta Coefficient (β)	Stocks Classification	Degree of risk
Exactly 1	Average stock	Equally risky as the market
Greater than 1	Aggressive stock	More risky than the market
Less than 1	Defensive stock	Less risky than the market

Beta coefficient can also be related with the CAPM equation to determine the required rate of return of a given stock. The required rate of return (K_i) is the risk free rate of return (R_F) plus a risk premium $\{RP_M = E(R_M) - R_F\}$ based on the beta of the stock (β).

2.1.5 Investment Strategy

Investors can take two positions on securities viz: long position and short position.

Long Position & Short Position

Investors are said to take long position when they buy or own shares of stocks. However, there is not any provision for short trading of securities so that there is not any existence of short selling of securities in Nepal. It is because of underdeveloped and inefficient security market.

The Investment Environment

The investment environment encompasses the kinds of marketable securities that exist and the place and the process of buying and selling. The investment process is concerned with how an investor should proceed in making decisions about what marketable securities to invest in, how extensive the investments should be, and when the investments should be made.

To begin the investment environment, investment at first should be clearly defined.

A distinction is often made between investment and savings. Savings is defined as foregone consumption; investment is restricted to “real” investment of the

sort that increases national output in the future. Now, it is useful to make a distinction between real and financial investments. Real investments generally involve some kind of tangible asset, such as land, machinery, or factories. Financial investments involve contracts written on pieces of paper, such as common stocks and bonds. But the focus is on the various ways the resources come from to pay for the land and the construction of the apartments.

The investors' motive of buying the securities offered in the primary market is to trade those securities subsequently in the secondary market thereby making a profit. Although transactions in the secondary market do not generate for issuers, the fact that such a market exists makes the securities more attractive and thus facilitates real investment. Investors would pay less for new shares of common stock if there were no ways to subsequently sell them quickly and inexpensively.

There are three main elements of the investment environment: *securities* (also known as financial investments or financial assets), *security markets* (also known as financial markets), and *financial intermediaries* (also known as financial institutions).

2.1.6 Investment Policy

The old adage (saying, proverb) "If you don't know where you're going, any road will do" aptly applies to investing. When an investor is an individual or represents an institution, without a clear sense why investments are being made and how long-run goals are to be achieved, he or she is likely to pursue inefficient approaches that lead to unsatisfactory results. An investor needs a plan that directs his or her efforts. That plan is called an investment policy.

Investment policy is a combination of philosophy and planning. On the one hand, it expresses the investor's attitudes toward important investment management issues such as, "Why am I investing in the first place?" or "To

what extent am I willing to accept the possibility of large losses?” The answers to those questions will vary among investors in accordance with their financial circumstances and temperaments. Investment policy is also a form of long-range strategic planning. It delineates the investor’s specific goals and how the investor expects those goals to be realized. In this sense, investment policy comprises the set of guidelines and procedures that direct the long-term management of the investor’s assets.

Essentially, any relatively permanent set of procedures that guide the management of a plan’s assets fall under the rubric of investment policy. Nevertheless, a comprehensive investment policy should address a group of issues that includes (but is not restricted to):

Mission Statement

A description of long-run financial goals. For example, an individual might be focusing on savings for a child’s college education. A pension fund might be intended to accumulate sufficient assets to fund promised benefits.

Risk Tolerance

The amount of risk that an investor is willing to bear in pursuit of the designated investment missions. An elderly retiree may have a relatively low risk tolerance. Conversely, a well-defined pension fund with a young workforce may have a relatively high risk tolerance.

Investment Objectives

The specific investment results that will indicate when the investment program has been successful. For example, an investor’s common stock portfolio might be expected to perform at least as well as a broad stock market index over a multilayer period.

Policy asset mix

The investor's long-run allocation to broad asset classes, such as stocks and bonds. This choice is by far the most important decision that the investor makes and should be consistent with the investor's mission, risk tolerance, and investment objectives.

Active Management

The extent to which the investor attempts to "beat" the market by hiring investment management firms that analyze and select individual securities or groups of securities expected to exceed the performance of specified benchmarks.

A critical of any investment policy involves the preparation of a written Investment Policy Statement (IPS). An IPS summarizes the investor's key investment policy decisions and explains the rationale for each decision. The level of IPS detail will vary among investors. Institutional investors, who typically have complex investment programs, should generally prepare more detailed statements than individual investors. Nevertheless, an IPS serves the same role for all investors: It enforces logical, disciplined investment decision making, and it limits the temptation to make counterproductive changes to an investment program during periods of market stress.

2.1.7 Review on basic terms associated with investment

It is imperative to become well acquainted with the terms and provisions mentioned below to have some attitude on securities.

"Securities" means shares, stocks, bonds, debentures, debenture stocks 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 His Majesty's Government and it includes the securities issued under full guarantee of His

Majesty's Government or securities as prescribed by His Majesty's Government by a notification published in the Nepal Gazette or receipts relating to deposits of Securities as well as rights and interest relating to Securities.

Securities Markets

Security market is the market where the trading of securities takes place. These are the mechanisms for channeling savings to the ultimate investors in real assets. The financial market can be classified in various ways. But the most common classification is to classify it as (i) money market and capital market, and (ii) primary market and secondary market.

There is an organization – SEBO/Nepal – solely responsible for advising HMG on the issues related to capital market and protecting investors' interest, monitoring and supervising securities transactions, conducting studies and researches related to capital market, regulating public securities, and organizing workshops, seminars and conferences. Besides, there are several organizations that act as the stake to the investors and the securities transaction. NEPSE is the solely market for secondary transaction of securities.

On a frequent basis, the commercial banks have dominated the share market in terms of volume and value of share trading.

Investment Alternatives or Financial Instrument available in Nepal

A wide range of investment alternatives is available to the investor in addition to corporate securities. However there is less varieties of hybrid instrument in Nepal but there are other investment, which can also considered which include precious metal and collectibles too.

As on end of FY 063/64, there are securities of 131 companies listed for trading in the Nepal Stock Exchange (NEPSE). Besides this, NCM Mutual Fund enlisted its units to make them eligible to trade in the floor. These include

a total of 128 common stocks from different companies and 3 debentures. Among the listed 125 common stocks, only 56 are included in the grade A companies on the basis of volume and value of their transactions in the market. Also not mentioned here are preference shares and Mutual Fund issued by some companies.

1. Common stock
2. Treasury bills
3. Certificate of deposit
4. Banker's acceptance
5. Government securities
6. Corporate bonds
7. Preferred stocks

1. Common Stocks

These are also known as ordinary Shares or equity shares. The shares of common stocks entitle to dividends from profits left after paying regular fixed interest to the debt-holders and dividends to the preference shareholders. Common stocks represent the ownership of a corporation but to the typical investor, a share of common stock is simply a piece of paper distinguished by two specific features:

- a. Dividends to its owners,
- b. Capital gain (due to price appreciation).

While claiming the right to the assets at the time of liquidation and the right to the earnings of the company, they come at the last of all. Therefore, they are considered as the riskiest of all available securities. But investors can earn higher returns to compensate the higher level of risk.

2. Treasury Bills

Treasury bills are short-term securities issued by the government which has a maturity period of maximum 91 or 182 or 364 days. They are normally issued

on denominations of '000' and are sold on discount basis. In Nepal, it has been issued only by the Nepal Rastra Bank on behalf of Nepal Government. There is no provision for participating individual investors in its issue.

3. Certificate of Deposit

A certificate of deposit (CD) represents a negotiable certificate issued by banks and other financial institutions in return for a term deposit. Certificates of deposits are highly liquid, almost risk-free and yield higher return than Treasury bills, so they are popular form of short-term investment for companies and individual investors. Investors who want frequent liquidity invest in certificate of deposit to get funds converted into cash quickly.

4. Banker's Acceptance

It is a *promissory note* issued by a firm and accepted by a banker. By accepting the note the bank promises to pay the holder of the note a stated amount of money at maturity.

5. Government Securities

To meet the uncovered expenses, government offers debt securities to the public from time to time. Those securities offered to the individual and institutional investors are the least risky ones and provide lower returns to the investors in comparison to the returns received from other corporate securities. Government securities of Nepal are issued by NRB, the central bank of Nepal, on behalf of the government. Treasury bills, Development bonds, National Saving bonds and Citizen Saving bonds are important types of government securities in Nepal. Financial institutions (like provident funds, insurance companies), business enterprises and individuals invest on them.

6. Corporate Bond

Corporate bonds (also termed as debentures interchangeably) are long-term debt securities issued by corporations. They are riskier than government and municipal bonds and hence offer higher return. Bondholders enjoy strong legal position to pay return and refund the principal amount at maturity date and

have priority over common stock and preferred stock in dividend and liquidation right. Bonds are suitable for investors who require fixed return on a consistent basis on their investment. They are traded in organized exchanges as well as over-the-counter market. *A bond is a long-term promissory note issued by a business or governmental unit. It is a piece of paper representing the amount borrowed and the term to be repaid. They have a term mentioned in the paper to be repaid the amount thus lent known as maturity period.* “Debenture means the bonds issued by the company under this act with its assets as collateral.”

Corporate bond has not been popular investment alternative in Nepal. There are only seven outstanding bonds (debenture) listed in Nepal Stock Exchange having paid up value of Rs. 1,000.00 each.

7. Preferred Stock

Preferred stock is a hybrid, fixed income security. It is also recognized as a hybrid security because it carries some characteristic of debt and some feature of equity securities. Preferred stockholders have priority over common stocks both at the time of claim of dividends and at the claim of the assets at the time of liquidation. It is suitable for investors demanding fixed return on their investment. Likewise other long-term securities, it is traded in organized exchanges as well as over-the-counter market. Companies in Nepal such as Necon Air, Birat Shoe Factory, Everest Bank, Jyoti Spinning Mills, etc. have issued preferred stock as a source of financing.

Figure 2.2

Investment alternatives for investors

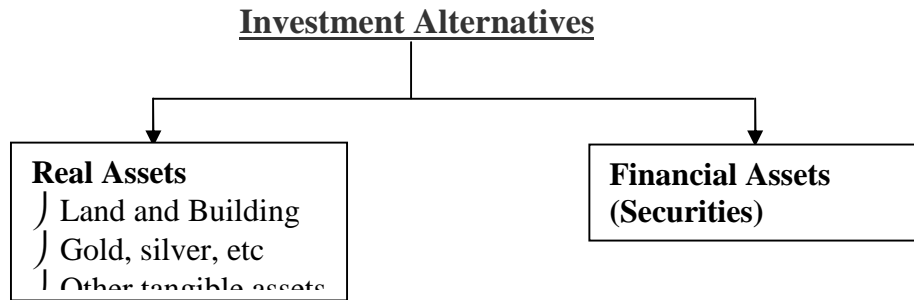
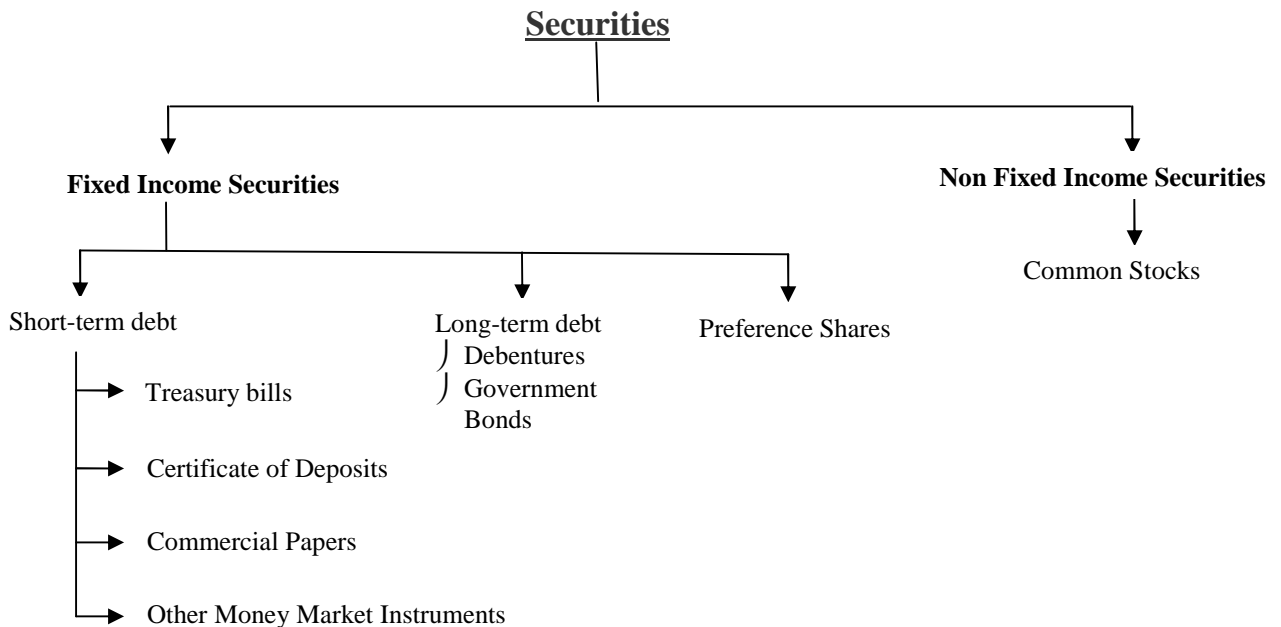


Figure 2.3

Types of Securities



(Source: Jack Clark Francis, *Investments: Analysis & Management*)

Investors' Perception of Market in terms of Risk

Bear market

Bear market in securities and commodities trading, signifies a declining market. A bear is an investor who expects prices to decline and, on this assumption, sells a borrowed security or commodity in the hope of buying it back later at a lower price, a speculative transaction called selling short. The term bear may derive from the proverb about “selling the bearskin before one has caught the bear” or perhaps from selling when one is “bare” of stock.

Bull Market

Bull market on the other hand in securities and commodities trading, means a rising market. A bull is an investor who expects prices to rise and, on this assumption, purchases a security or commodity in hopes of reselling it later for a profit. A bullish market is one in which prices are generally expected to rise.

- What make the investors to invest in the securities and how can the investment attitude be developed in their minds?
- What investors see before investing in the securities? How their level of awareness is determined and how can it be measured?

Various factors play a direct and positive role inducing investors to buy and hold the securities. Among them the name and fame of the company issuing the securities and their past performances in regards to the dividend distribution, earnings, etc, play the leading role. Besides, performing other analysis such as technical analysis and fundamental are conducted on the securities before investing as major criteria while investing on securities. The Nepalese securities market being an inefficient market, it becomes difficult to assess the market and deduce to a certain core idea on the basis of trend analysis.

Every investor being a rational investor is found to perform security analysis knowingly or unknowingly, calculate the prospective earnings and estimate the returns before investing in securities. However, they may be ignorance of different risk factors associated to it and may set back on awareness level. Moreover, some investors match the value and price of the securities and take decision for trading accordingly.

2.1.8 Factors to be considered before Investing in Securities

While investment policies needed to be formed, the investors need to consider many factors. Usually these are the factors to be considered in investment planning decision (J.K Shim & Siegel, 1989:256).

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

While investment policies needed to be formed, the investor needs to consider many factors. Usually, these are the factors to be considered in the investment planning decision.

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

- a. Security Of Principal
- b. Liquidity
- c. Stability of Income
- d. Strength (Leverage)
- e. Rate of Inflation
- f. Cash Flows
- g. Mobility
- h. Limited Management Requirements

2.1.9 Earnings associated with Securities

Earnings are synonymous to return, reward for waiting and risk taking. These words may be used interchangeably. To make any decision on investment regarding securities, the kind and the nature of earnings that come from such investment plays a crucial role. In other words, earnings are the basis of selection of the securities for investors. The returns or earnings that come from investment in different kinds of securities are given different names according to the nature of the securities. As there are two kinds of securities namely debt securities and ownership securities, the incomes generate from them are also named as fixed and non-fixed income.

Dividend

Corporations may pay out parts of their earnings to the shareholders as a return on their investment. Stock dividends, which are often paid yearly in the context of Nepal, are usually in the form of cash, but it may be additional shares or scrip.

Cash Dividend

The residual earnings (left after paying to the debt-holders, and preference shareholders if any) paid to the common stockholders also called equity shareholders or ordinary shareholders in the form of cash is known as cash dividend. It is paid to the shareholders in the form of Dividend per share (DPS). For this, first of all Earnings per share (EPS) is determined by the board of directors and are paid fully or retained fully or partially paid and partially retained in the company on the basis of growth perspective of company.

Stock Dividend: (Bonus Shares)

Instead of paying the dividend in the form of liquid cash, the board of directors of a company may decide to give the bonus shares or stock from the profits earned on the basis of shares held previously called stock dividend. Thus, it is the dividend paid to the stockholders in the form of extra or bonus stock.

Interest

Interest is defined as the cost of funds used in the business. It is paid to the lender of loans. In public companies, the debt-holders also called bond holders or debenture holders are paid in fixed amount as stated at the time of issue. It must be paid compulsorily irrespective of the profit or loss position of the company.

Capital Appreciation

It is the vital and the most counting part in the investment of securities. This concept is true and valid in case of common stocks only. However, it may also be happened in case of some debentures and preference shares. As defined earlier, it is the capital gain realized from selling a stock for more than its Purchase Price.

Both these methods of analysis of securities can be deduced and included under the term quantitative analysis. When a securities analyst focuses on a corporation's financial data in order to project potential future performance, the process is known as quantitative analysis. This methodology involves looking at profit and loss statements, sales and earnings histories, and the statistical state of the economy rather than at more subjective matters such as management experience, employee attitudes, and brand recognition. While some people feel that quantitative analysis by itself gives an incomplete picture of a company's prospects, advocates tend to believe that numbers tell the whole story.

To obtain the different types of profit, investors must adopt simple analytical concept of investing. Mostly, there are two types of analysis.

2.2.1 Fundamental and Technical Analysis

A. Fundamental Analysis

Fundamental analysis is one method, in which one studies the company's existing management/board/ executive, balance sheet, the income statement, the statement of sources and uses of funds, fixed assets and situation in the market. It is based on mathematical calculation on publicly available accounting figures. Fundamental analysis is good for long-term. It will help to identify companies that represent good value.

There are numerous techniques of determining the values of the stock. Among them, a couple of simplest techniques to the new investor are:

a. Earning-Per-Share (EPS)

EPS is calculated by dividing the corporation's total earnings or income by the outstanding number of shares of corporation.

b. Price – Earning – Ratio (P/E Ratio)

A corporation's price-earnings ratio is calculated by dividing the current price of a share of the company's stock by its earnings per share. These calculations represent fundamentals in the sense that they reflect the effectiveness of a company's business operation (EPS) and the market's current assessment of the company's worth in relation to its earnings (PE Ratio).

While making a decision to buy or sell a particular stock, expectation are formed regarding future fundamentals. If expectations about the corporation's operations improve and investors expect higher earnings per share, then the price of the stock is likely to rise. Investors expect that more people will want to buy shares to participate in the increased profitability. If, however, expectations turn pessimistic and shareholders anticipate lower earnings per share, then holders of the stock will try to sell their shares, reducing the stock's price.

B. Technical Analysis

Technical analysis is another method, in which one studies the companies, totally based on Data/Charts/Graphs, in which one identifies the trends the company has, and invests accordingly. Generally, we can say, technical analysis has some market forecasting abilities.

2.2.2 Role of information in shaping the attitude of Investors on Securities

This is the age of information and technology. The information and technology is one of the most powerful weapons in this twenty first century. The firm having the proper management and information system can compete among the other firms in the industry and also have more opportunity. So the businesses now a day invest more funds in the information system.

The invention in the field of information and technology like: satellite networks, Internet and Intranet have made information easier for every body anywhere and any time. The rival companies can compete with one another on the basis of available information about the competitor's business strategy.

Investment is done in the light of available information. The investor should be informed about the presence of investment alternative. The investor's should be informed about the growth potentially of business. The investor's should be provided with financial position of the company to make them invest.

While the investors must keep every information updated on every day and hour basis. Investors should invest wisely by getting all relevant and necessary information about the firm whose security they are holding. The buying holding or setting decisions are to be made on the basis of available information. Therefore there should be reliable information and proper analysis of information for rational decision.

There are two broad categories of information Internal and External. Internal information consists of data and events made publicly by firms concerning their operations. It mainly takes the form of interim and annual reports to the shareholders, and public and private statements of officers and managers of the firm. The principal information sources generated internally by a firm are its financial statements. The analysis does not course limit sample widely from many king of information.

External source of information are those generated independently outside the company. These sources provide supplement to company generated information by overcoming some of its bias, such as public pronouncement by its officers. The external information source also provides certain kinds of information not found in these materials made available by companies themselves (D.E Fisher et. al, 1972:189).

Information is not usually available to all parties in business in equal measures for example, the board of directors will know more about the future prospect of the business than the shareholders who have to rely on published information. This information asymmetry means that investors not only listen to the board's rhetoric and confident action. This signalling effect is most commonly seen in the dividend declaration and share dealing by the board. An increase in dividends signals that the company is expected to be able to sustain those levels of cash distribution in the future (R. Pike & Neale, 1998:23).

The market can only absorb and process the information offered to it. Indeed, information hoarding may even be interpreted adversely, if information about company performance and future prospects is jealously guarded. We should not be surprised if the valuation even of quoted companies appears somewhat haphazard (R. Pike & B. Neale, 1998:97).

Information helps the investors that effect the best investment decision taking among the available. Information affects price of securities of a company. Any information about the economy, industry or political environment also affects the price of the security. The political climate will be directly reflected in security market. As managers of the company have control on the firm's specific information they should provide such information to investors as soon as possible. But negative information is to be avoided as it gives negative signalling to market.

Importance of Information

Investment in security is well guided by the constant flow of information. The security issuing company should be well in good financial position to make security a good one. The securities are not just bought because it is attractive or sold by attractive company. The reasons of analysis of information are as follows:

- To get information about companies performance, it's sales, profit and its products.
- To know about the performance of the company in compare to another company in same industry.
- To have information about the state of business life cycle of whole industry in which the company operates.
- To have necessary information about government policy on legislation likely to be passed, or taxation to be imposed or any promotional or controlling activities of government which affect the corporate health and market price of securities.
- To have knowledge of consumer behaviour and life style spending pattern to see the demand and supply of money in market. For e.g.: during Dashin General setting of securities is increased to have enough cash for festive occasion and supply of security of securities increase and price declines.

In developing countries like ours, investors do not properly understand the risks and return of investing in stock market. This leads to increase the saving into bank deposit rather than direct investment in shares by individual investor. In order to make informed decisions investors must have access to accurate and timely information. Investment in the absence of proper information and ability for analysing the securities leads to investment, which is done in black. The investment becomes a gambling or a game of chance if the securities turned good and investor gained and vice versa.

Investors put their money in share expecting reasonable return to earn from it. Such returns in the form of both dividend appreciation and capital appreciation should be reasonable enough to attract them. Dividend as a prime motivator is worthy enough to attract the investors to make the investment decision if provided enough and regularly. But the dividend and calculation is not so easy to analyse. Black epitomizes the lack of consensus by stating the harder one look at the dividend picture and more it seems like a puzzle, with pieces that don't fit together (F. Black, 1976).

Source of Information

As information is based for investing it is clear that information is vital. The investors both institutional and individual are to be alert about all relevant information of issuing company. They should have daily update of information for buy hold and sell decision.

Large flow of information is available to invest from companies that specialize in providing investment in information and advice. Investor can subscribe these services or they can read at least some of at free of charge at library at office of their selected broker. Although some of these services offer both information and invest advice. Investor can assess financial information and form a variety of investment information services such as, continues flow of report on a daily weekly and monthly as well as semi annually basis (Charles P. Jones, 1988:90).

According to Palat Raghu (1991) The usual sources of information can be as follows:

-) The media
-) Insider
-) Stock broker
-) Tip from colleagues, friends and acquaintances
-) Professional investment consultant
-) The annual report of the company

The Media

Media includes all written, oral and audiovisual media that are available in country. The media in Nepal have been developing a lot during past decades. We can't find many newspaper and even business magazines, which provide a special column or pages on market watch. The television channels have been broadcasting separate business news programmed and even radio and F.M stations are also including a market watch these days.

The source of information's from media is as follows:

Published Sources:

1. Annual report of NEPSE/SEBO
2. National daily newspapers.
3. Companies AGM reports/financial statements
4. Monthly business magazines like business age, the boss
5. Financial weekly highlights in weekly papers
6. Economic survey
7. Journal of economy and finance
8. Journal published by central bank and others.
9. Published of stock analyst
10. Book/booklets

Television Channels: Like NTV, NTV METEO, and Kantipur etc.

Radio and F.M Stations.

Insiders

Insiders are persons who are aware of news that that would shortly cause the price of the share soar or fall. If one acts on insiders information and purchase or sell share (depending on the news) he can make a fortune and this is often, done. Insider is any person who is or was connected with the company with the company or is deemed to have connected with the company and who is reasonably expected to have access by virtue of such connection unpublished price sensitive information in respect of securities of company or who has received or has access to such unpublished price sensitive information. Insider information is usually known as only a few- the director and senior's officials. Many may guess but only a few actually known if the information is accurate. Insider can be divided into two categories. These are as follows:

I) Primary Insider

The primary insider has direct access to obtain the unpublished price sensitive information. Any person to obtain information as direct connection of the indoor management.

II) Secondary Insider

Secondary insider means that who has obtained the price sensitive information due to the relation which close relatives include family persons and other relatives of the family. They will flow the information that is not given to public.

C. Stock Broker

Stockbrokers are register member of formal stock exchange like NEPSE. They are the only medium for trading securities. The securities are bought and sold through the hand broker. Stockbrokers are also valuable source of information as they are in touch with the performance of the companies to news on the

economy and the industry at all times. Most investors do seek their advice and base their decision on investment on the suggestion made by their brokers. There are also people and investors who have thought the brokers positively because of their favourable impression and good business handling and advise. There are different types of brokers in the markets; those are full time brokers and active brokers, skilled brokers and unskilled brokers in the markets; those are full time brokers and active brokers, skilled brokers and unskilled brokers available. A few words of warning are given as below:

The information is provided by broker may also be based on rumour and tips which may be untrue. The forecasting of market price given by brokers is generally based on technical i.e based on historical performance trend projection etc. They rarely makes fundamental or value analysis. Stockbroker can exploit both seller as well as buyer to do their selling and buying because no matter if the market goes up or down the broker will have commission on sales and buys as well.

D. Tip's from Colleagues' Friend and Acquaintances

Nepalese market can be declared as a rumour sensitive market whenever there are little bit problem in political environment the prices generally rises among daily consumable goods. We people by the nature driven by rumour and suggestions more than we usually make a research. Investor though varies references they believe much so we take these groups as our source of investment tip.

E. Professional Investment Consultants

These are experts who can guide us regarding buying and selling of stocks. They suggest as about right security and right times for trading. They help in use in portfolio management and their suggestion and guidance can be expensive as well.

F. Annual Report

The annual report of security issuing companies can be of great help, as they will show their financial start and growths potentiality. The annual report will help us for valuation of the stocks.

While the annual report of security Board, NEPSE will help us to get idea about the trend and market move to forecast future trend in market.

2.2.3 Sources of Investment Risk

Every investment that we have certain risk as they are made under uncertainty even fixed income securities there are certain risks that are associated with the time value of money. The rupees we have now is worth more in value a rupee we have a year after so there are various in investment they are as follows:

1] Interest Rate Risk

The interest rate risk is defined as variability of return caused by changes in the market interest rate. The change in market interest rate can affect the value of bonds like when the market rate increases the value of bond decreases and vice versa.

2] Purchasing Power Risk

Purchasing power risk is caused by variability of return investors suffer because of inflation. As the inflation raises the amount of goods and services available with the money expected is decreased.

3] Bull-Bear Market Risk

When the market price of securities starts increase along with market index like NEPSE INDEX the securities prices starts to raise giving enough benefits to the holder and as it reaches maximum height loses prices and securities holder will lose their money.

4] Management Risk

The management of company can effect a lot in financial health of company as their decision can cause a price of stock raise and fall is a risk of management's error that shareholder's might have to bear. So it is hard to predict whether management is working for common welfare of shareholder's wealth maximisation.

5] Default Risk

The default risk is that risk which is generated by change in financial integrity. When a company issued security it moves either further away from bankruptcy or closer to it, which is reflected in security market.

6] Liquidity Risk

The risk that caused by variability in return due to discount commission that has to be paid in order to liquidate the securities and the time taken to liquidate. The liquidate are those which can be liquidate in no time negligible discounts and commission.

7] Political Risk

Political risk tends to effect business operation in case of contracting activities done for environment protection and other controls. The political policy guides company's well-being or illness which can effect business operation and is reflected in security market.

8] Industry Risk

The industry is a group of business that operates in same environment, which are affected by same factor. e.g the tourism industry and all business in that industry are affected. The stage in business life cycle of industry plays a role for the health of company.

2.2.4 Right of a Company's Shareholders as an Investor

Being shareholder the investors not just an investment. He gets some rights, which are as follows:

- To get certificate of share holding on allotment in due time.
- To receive copy of annual report containing balance sheet, profit and loss a/c and other financial report including auditors report.
- To receive a invitation for attending Annual General Meeting.
- To receive cash and stock dividend in due time once they are approved by the Annual General Meeting.
- To apply to company law board to call the Annual General Meeting in case of any dissatisfaction but majority have to be maintained.
- To receive copy of minute of AGM after commencement of AGM.
- To apply for the winding up of the company and to receive the refusal proceeds.

The right of the shareholders are ground as collective and specific right as follows:

A] Collective Right

- Right to approve/disapprove books of account.
- Right to give suggestions to the management.
- Right to appoint auditor.
- Right to approve the change in memorandum and article of association.
- Right to approve or reject the proposal submitted.
- Right to gather other shareholder to support and appose management.

B] Specific Right

- Right to seek book of account.
- Right to see shareholders list.
- Right to participate in AGM.
- Right to put his/her comment regarding management activity.
- Right to rate for the election of representatives.

- Right to get major decision made by management.
- Right to get major decision made by the management.
- Right to get price sensitive information.
- Right to trade/speculate.
- Right to trade/speculate.
- Right to get market benefits.
- Right to get dividend.
- Right to get residual amount at the time of liquidation..

2.3 Review of Previous Studies

2.3.1 Reviews from Journals and Magazines

A substantial literature in cognitive psychology establishes that people are usually overconfident and specially, that they are confident about the precision of their knowledge. Psychologists also find that people systematically overweight some type of information and overweight some others. The effect of confident depend on how information is distributed in a market and on who is overweight. Trading volume increases when price takers, insiders or market maker are overconfident. This is the most robust effect of overconfidence. Overconfident traders can cause market to under-react to the information of rational traders leading to positive serially correlated returns. A review of the psychology literature on inference finds the people systematically underweight abstract, statistical and highly relevant information and overweight salient, anecdotal and extreme circumstance, such as Initial Public Offerings (IPOs) under-react in others such as earnings announcement, dividend initiations and omissions, and brokerage recommendations.

“A trader’ s information is more precise than it actually is, but people overweight their own contribution to past positive outcomes recalling information related to their successes more easily than that related to their failures. The healthiness of information is weighted depends not only on overconfidence but also on the nature of information.”

Psychologists find that when making judgments and decisions, people overweight salient information (i.e. information that stand out and captures attention).

People also give too much consideration to how extreme information is and not enough to its validity. They often behave as though information is to be trusted regardless of its source, and make equally strong or confident inferences, regardless of the information's predictive value. Whether the information is accurate and fully reliable or alternatively out-of date, inaccurate and based on hearsay may, matter little. They overweight information that is consistent with their existing beliefs, are prone to gather information that supports these beliefs and readily dismiss that does not.

They are more confident in opinions based on vivid information and cases, and salient examples mere heavily than relevant, abstract, statistical base-rate information. In addition to tinder weighting base-rate information, people underestimate the importance of sample size and of regression to the mean, that is, the tendency of extreme outcomes to be followed by outcomes closer to the population mean.

In general then, it might expect people to convert to less relevant, more with strong human interest, a rumor while under-reacting to important abstract information. In particular, one might expect people to underestimate the importance of single statistical that summarize a large sample or relevant data (e.g., corporate earnings).

In securities market the feedback is often slow and noisy. There are even be as trade -off between speed and clarity of feedback whereby short-terms traders get quicker, but noisier, feedback, and long-term traders receive clearer feedback but must wait for it. This paper looks at what happens in financial market when people are overconfident and concluded that overconfidence is

costly to society. Overconfident traders do not share risk optimally; they expand too many resources, on information acquisition and they trade too much. These are deal weight losses. Overconfidence increases trading volume and market depth, but decreases the expected utility of confident traders. Overconfident traders increases volatility, though overconfident market makers may dampen it. Price taking traders, who are overconfident about their ability to interpret when there are many overconfident traders, market, tend to under-react to the information and overreact to salient, but less relevant information. Like those who populate them, markets are predictable in their biases (Terrance Odean, Journal of Finance, 1998:887).

Windfield & Curry (1995), “Small investors is far loss exposed low risk than if his eggs were in one or two baskets-for oven the most highly regarded companies have boon known to go into liquidation. Modem financial theory suggests that diversification should be one of the prime objectives of the investors. The public is increasingly aware of the need of professional management. This in part reflects increased advertising and other promotional activities initially by unit trust groups, more recently by the life Insurance Companies”.

The investor should be aware of but not daunted by, the fact that investment markets. Professional investors in particular, largely dominate the stock market. As a consequence, grossly undervalued investment are rarely easy to come by moreover, h/she should beware of books subtitled how I made million and statements such as you can have a high return with no risk. Success involves planning-clearly establishing one’s objectives and constraints. Investment should be looked at in terms of what they contribute to overall portfolio, rather than their merits in isolation. “If a man look sharply and attentively, he shall see fortune, for though he be blind, yet is not invisible.

The investor should beware of such amateurs. However convincing the take-over story based on 'inside' knowledge seems, however much the friend employed by a large company claims to know about its current progress and however much the man on the train has made out of a particular share, he should either ignore what they say, or at least evaluate it carefully. The tale about the take-over may be true; it may merely be rumor. Few people in large companies can see whole picture of their company's activities. And a large profit on a purchase may only mean that the top price has been reached rather than that further appreciation is indicated.

An investor should be familiar himself with the range and use of various types of investment, and aware of the current investment climate, so that he can evaluate and assess the advice he receives returns.

Success in investment can never be guaranteed. Too many factors outside the investor's control can influence the value of his investment. Inflation is one of these: yet it is essential that every investor have part of his capital in a cash investment, which by its definition is not inflation-proof. Because market forces can bring down the price of ordinary shares in the short-term, even while inflation is rampant, to depend on ordinary shares for additional cash in emergencies is fool hardly. But the investor can be relatively successful if he sets out with a sensible approach, and if he is prepared to spend some time and trouble on the selection of investments. "A summary of requirements for as successful investment policy might be as follows:

- a) Suitability
- b) Crisis-Proof
- c) Diversification
- d) Flexibility
- e) Timing
- f) A balance view.

“Every investment, of whatever type, must be suitable for the investor and for inclusion in the investment portfolio. This presupposes that each investor is aware of the nature of proposed investment, as only then can suitability be judged”.

Strangely enough, whereas hardly anyone buys an overcoat to protect him against the weather without trying it on to see if it fits, many people buy an investment to protect them against inflation without the slightest idea whether it fits for their requirements or not.

Palat (1991), “If a man loses his money in the stock market it is almost always because of his own greed, stupidity or gullibility. It is certainly never the fault of the exchange and is very rarely the fault of his broker”.

Gotejmann (1999), “Man is by nature avaricious. He is hungry for tips that he can use for his profit. And a race, one loves to give tips. And nowhere is the giving and the quest for tips more frequent than among individuals active in the stock market”.

Investors want to make more money in the future. The key measure of benefit-derived from a security is the rate of return. “The investor return is a measure of growth in wealth resulting from that investment. The growth measures are expressed in percentage form to make it comparable across large and small investors. Stock return may be riskier or more volatile, but this concept from statistics, called standard deviation, is a single measure. Allowing for quantifying asset returns by risk and it also provides the basis for investment decision about portfolio choice.

Ghimire (2002), The essence of the message is that investors should be careful at this time while investing in the secondary market. For example, buy Standard Chartered Bank Nepal Ltd's share when they come down to Rs. 1500 because

the dividend yield then will be more than 7 %. Investors should be considered also while investing in the primary market. Do not get excited to heavy investment on primary issue because the allocation would be low and you may have to wait for six months before the scrip you invest on will be open trading on the secondary market. Even then it will not offer price sufficient to compensate for the wait.

Shrestha (2000), study on “why share market is inactive, problems and measures” found that “ Investors are noticing about the negligence of public limited companies that have raised funds from share market by providing sufficient assurance of return investment within a desirable time framework as promised in prospectus. But despite so many years say 2 to 4 years company management is simply taking lame excuses of the problems which may have to face in real business world. Actual results have lagged behind from that of the estimated results exhibited in prospectus at the time of floating shares to the investing public.

There have been no liabilities imposed on the concerned promoters and directors signing the prospectus to compensate the investors for providing misleading information in prospectus to attract sales of shares.

Almost all the companies are not capable to perform the activities efficiently so as to generate the forecasted profit in Nepal. The companies, while appealing for the subscribing the shares forecast higher earning and dividend policy but they become unable to do accordingly in the future. This helps reduce the confidence limit of the investors in the Initial Public Offering. ‘Even the concerned authorities have not seemed to thoroughly scrutinized the contents of prospectus to avoid false presentation of facts in prospectus to save investors from purchasing shares of fake companies with doubtful management background of promoters. But, investors are of the viewpoint that such things should have been made clear earlier so that on the basis of that reliable

information they made investment decision. Because of their faith on company promoters and directors, they have invested to get return on their investment. The growing tendency of company management not to consider the reliable demand of investors to get return on the shares of companies. Investors could not get any return from many of the listed companies as they are promising better return in prospectus.

Even the most reputed and promising companies managed by a handful of professional is not managing and behaving well to regard the protection of investors by providing timely and adequate return on their investment. Take the case of the sample of some companies in the report where management is excellent and manned by professional cadre; the return on investment has not yet been generated to investing public. But at the time management has been enjoying higher perquisite facilities and allowances by playing on the money of the shareholders.

Shrestha has opined that at present growing number of shareholders are demanding information from the brokers regarding the intrinsic value of the company's share with accurate fundamental and technical analysis. It means that investors must be aware about the stock information from their brokers. Business Manager (2000).” A real long-term successful investor in shares has to have a very look to the companies where he/she wants to invest in. This takes effect and line but the return for the effort can highly attractive”.

2.3.2 Review of Books and Newspaper Articles

Of the total transaction, the commercial bank group captured 66.97 percent while Finance group captured 21.01 percent. Similarly, the insurance group captured 10.13 percent and the development bank group captured 1.71 percent. This shows that most of the investors like to buy the shares of the commercial banks, and the trading of the finance companies shares is on the rise day by day. The investors prefer the finance companies shares.

Prof. M. K. Shrestha (1992) in this book “Shareholders Democracy & Annual General Meeting (AGM) feedback” has focused various relations to protect of shareholders expectation. “Success of companies directly depend on the protection of their owners, but now can this be accomplished in main question. Thus, it is necessary to develop a possible guideline for enhancing the efficiency for the public limited companies to contribute directly in growth of national economy on one hand and ensuring handsome return to the shareholders on the other hand to make their investment meaningful and worthwhile”.

At present, overall shareholders democracy in terms of protection of their interest is basically focused on the payment of satisfactory dividend and the maximization of shareholders wealth by appreciating the value of the share they hold.

Shrestha (2049), entitled “Shareholders Democracy & AGM Feedback”, The encouraging and growing confidence of shareholders over their investment seek an independent inquiry of disclosed contents of prospectus. This helps to satisfy a minimum standard of faith on investment in shares relying on the pros and cons of prospectus. It is, therefore, important to disclose everything in prospectus, which could reasonably influence the mind of the prudent investors. Various annual general meetings by different public limited companies reveal a greater gap between disclosure made in the prospectus and actual results, which were reported. In this context the expression of disclosure philosophy and investigation of frauds in prospectus need to be reconciled to check the growing problems in development of the capital market in Nepal.

Pistolese (1993), The stock market is well known for episodes of mass emotions. At times, euphoric buying propels the market upward like a rocket. On less happy occasions, panic selling causes it to fall like a boulder crashing down a mountain. In either of these situations, many people make emotional

decisions and later after the supercharged atmosphere has calmed down, come to regret their actions.

Gitman (1985), Every investor reacts to a certain price level of a stock according to his own cognitive nature, investing involves making decisions whose outcomes are unpredictable. Investors have experienced many hazards due to emotional decision in stock investment. They respond in their own way to risk and return offered by different stocks. Risk arises from imperfect knowledge of incomplete data. It is defined as a probability of occurrence of unfavorable outcomes.

The true owners of business firms are the common stock holders who invest their money in the firm only because of their expectation of future returns. A common stock holder is something referred to as a residual owner, since in essence he or she receives what is left after all other claims on the firm's income and assets have been satisfied. As a result of this generally uncertain position, the common stock holders expect to be compensated with adequate dividends and capital gains.

Chandra (1995), Common stock has one important investment characteristic and one important speculative characteristic. Their investment value and average market price tend to increase irregularly but persistently over the decades as their net worth builds up through the reinvestment of undistributed earnings. However, most of the time common stock are subject to irrational and excessive price fluctuations in both directions as the consequence of the ingrained tendency of the most people to speculate or gamble, i.e. to give way to hope, fear and greed.

Francis (1998), securities are marketable financial instruments that bestow on their owners the right to make specific claims on particular assets. An individual security provides evidence of either creditorship or ownership

depending on whether it is a bond. In contrast stockownership represents a cash investment in the future of a corporation; the investor owns a part of the corporations and shares in its profits.

2.3.4 Reviews of Previous Thesis

A study conducted by S.K Shrestha on the public response to primary issue in Nepal reveals that the scope of primary market in recent days is burgeoning by leaps and bounds. Even the general investors are boisterously pumping up their savings in the new issue of shares causing over subscription to a great deal. He found that capital market is encouraging since many public limited companies including joint venture banks have been successful in tapping capital through the floating of shares to the general public. The positive response of the investors to the companies is a direct manifestation of the growing public confidence in the primary market.

L. Pandey (2001), entitled “Public response to Primary Issue of Shares in Nepal”, was objectively conducted to analyze the pattern of public response to shares and concluded that public response is high due to lack of opportunities for investment in other fields. Despite this, public are attracted towards shares than other sectors, basically to increase their value of investment, be it dividend, capital gain or bonus share. Due to delay in allotment, refund of money, delivery of certificate and listings of shares in the stock exchange, people are starting to lose confidence. Some companies have not been listed even after the prescribed time period, for e.g (Oriental Hotel Limited has not been listed even after 8 months of having closed its issue).

He found that the dynamism of the stock market has been greatly reduced by the domination of long-term shareholders, who prefer holding the shares with the hope of increasing their wealth. This can be justified by small number of shares that are traded on the stock market, even though this reduces the dynamism of the stock market the investors have been very few rather no alternative to holding shares.

The general public simply taps everything that comes on their way, regardless of the promoter's background and the company's feasibility. Each and every company that came into the market has been successful in tapping of the capital from the market and the issue closed within the minimum stipulated time of seven days with huge over subscriptions. Issues of some foreign collaboration banks were over-subscribed to an extent of 19 times and this was because simply overwhelming to the company concerned as well as to the managers which led to delays in allotment of shares, refunding and distribution of shares certificate to the allotted public. An empirical term, the shares of 27 days companies were placed in the market after the establishment of full fledged stock exchange. This issue amount is Rs. 533.81M whereas 442841 applicants applied for the shares but only 132815 were allotted its shares.

B.H Bhattarai, titled "Dividend Decision and its impact on Stock Valuation" was objectively conducted to analyze the variables such as profit, dividend, retain earnings, growth rate and other relevant variables to show the relationship between the value and other ingredients affecting it. In his study the researcher had found out that the dividend payment is not regular in Nepalese companies. So, there was negative correlation between market price of shares and stockholders required rate of return. Since most of the banking sector is managed by the foreign management companies under the technical and management contract so it may be the research subject to find out whether the investors are mainly focused on banking sector mainly because of the dividend reason that is regular in this sector or there is more than that.

He also conducted that the market price is considerably higher than the actual net worth in Nepalese companies, but Bhattarai had taken only ten companies (Four banks, two insurance/finance companies and four manufacturing/trading) sector and concluded that investors (10 not have adequate knowledge on how to evaluate value of shares before investing on it). Besides he found that investment policy is not disclosed to the shareholders of the organization and

government is silent on inefficiency of companies and no legislation is passed regarding dividend. So, he concluded by saying that investors have high perception of protection of their interest by joint venture companies established under foreign collaboration in comparison to other sectors.

But, Bhattarai had taken only ten companies (four banks, two insurance/finance companies and four manufacturing/trading) for research study. Bhattarai had only used the five-year data from 1990-1994, he had considered only dividend related factors, which affect the Income of the shares but not studied the services of brokers as one of many factors affecting the effective price formation of the shares.

B.P Bhatta, in his thesis entitled “Dynamics of Stock Market in Nepal” has focused on the behavior of stock price in Nepalese Stock Market. His research was objectively conducted to find out the impact of the secondary market on primary market and vice versa. In order to evaluate stock prices, the price earning information was not made available timely to the investors. The investors could not identify the good and bad stocks. They only speculative behavior of the investors regarding, the future stock period led to set the stock price in the market lack of value judgment to determine the stock prices in the serious problem of the Nepalese Stock Market. This is mainly due to the inability of the regulatory bodies of the stock market to regulate the market mechanism and failure to win the faith of investors. This problem can be solved only when the read determination of stock price are diagnosed and identified. He also conducted that the liquidity in the Nepalese stock market is very poor and the trading of only about fifty percent of the listed stocks take place in the stock exchange when the market is in boom.

Bhatta in his study said that the variation in ht data was also found when comparing with different source. He primarily based his analysis on secondary data. He also did not use any of the primary data collecting tools. Lie

tremendously used different ratios to calculate the financial status of the companies under study.

Thesis titled “Current Status and Problem of Stock Market in Nepal” submitted by R. Pant, concluded that investors confidence in Nepal Stock Market relatively low because of the stock market is volatility, low return on investment, inadequate information, lack of financial markets instruments and investors not knowing about the risk of stock market investment. Pant used only five year data starting from 1992/93 to 1996/97. She focused her study mainly on the secondary source of data.

T.R Pathak entitled “Protection of investors in the Capital Market in Nepal” has concluded to know that how far the investors are protected and in what extent it could be changed in the rule and regulation of the listed companies for the safeguarding of the investors’ interest and development of the capital market. These two elements are independent of the capital market automatically protected. So listed companies, concerned authorities and associated investor’s organization has to think to change present situation of the capital market for the progress and prosperity of the capital market too.

B. Pokharel entitled “Legal Provision to tile protection of investors under the Nepalese Law”. He has mainly conducted to analyze the trend of implementation of Nepalese legal provisions in regard to investors protection and to find out tile legal lacunas and weakness of execution bodies in regard to investors protection.

In his study, Pokharel found that Nepal has been forming laws to protect the interest of the investors on the scattered forms in various Acts, regulation and byelaws but there is still absence of a particular, specific and separate legislation for the protection of investors. Likewise, Nepalese investors are not governed under the corporate norms and valued due to lack of proper

knowledge of their rights. They can be victimized but they do not complain at concerned authority. He has focused only legal provision. Rule and regulation alone would not be able to protect the interest of investors. They should be able to analyze and evaluate reliable information to provide by the company and concerns. The above section already mentions i.e. factors to be considered before taking their investment decisions is also important.

Besides, the legal provision is not only all thing, it is only supporting feedback but also investors should be also clear to invest their money in the stock, before investment in shares, every investor knows about the reliable market information form the particular company and compares the price and value, which is profitable.

Pokharel had based his research mainly on the secondary source of data. The research was mainly based on the descriptive and diagnostic in its theoretical point in view rather on particular bases.

2.4 Research Gap

After reviewing the literature review I felt an encouragement to conduct research on individual investor's. I found that there is lack in study of individual investor and their behavioral aspect in investment. I found no research have so far been conducted which truly reflects the behavioral aspect and activity of individual investor investment world. So this study on “Investors’ Opinion on Securities and Their Anticipation of Earnings” is made to explore the behavioral of the individual investors. The study is conducted to find out how an individual investor takes decisions to invest. This study focuses on individual investor's preference to invest in different available alternatives. The study is also perform to measure different individual parameter that can effect individual investment behavior.

In this way this research is concluded to fill a gap of research in behavioral aspect of individual investors.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Research Design

In order to conduct any type of research, a well-set research design is indispensable to meet the objectives of the study. In general, research design means definite procedures and techniques, which guides the study and provides ways for research viability. It is arrangements for collection and analysis of data. To achieve the objectives of this study, both descriptive and analytical research design have been used. The data have been collected, presented, organized, and analyzed. In addition various descriptive techniques have been adopted to evaluate attitude of investors on securities. Based on those, some generalizations have also been made and necessary recommendations have been provided at the end. The collected primary data had been represented in the tabular form, sorted and organized, infiltrated, analyzed, and concluded. As far as possible, the numerical data had been revealed in respective suitable diagrams such as pie-charts, bar diagrams, etc.

3.2 Data Collection Procedures

Convenient sampling method has been implemented for the collection of data. The total numbers of questionnaires distributed for getting responses were 50. However, I have been able to collect the data from 40 individuals.

Data have been collected using two sources viz: primary and secondary as depicted below. The secondary data have been assembled, organized and filtered. It is followed by the collection of primary data by using interviews and questionnaires. As implied by the nature of thesis, primary source of data is in mainstream.

A. Secondary Data Collection

It is an indispensable source of data for literature reviewing. Various abstracts from websites, textbooks, articles, journals and publications related to securities and its investors were consulted and reviewed in various institutions, organizations and concerned people as well. I think this will certainly help in understanding the current trend of investment and attitude of investors towards securities along with the returns desired by them. In this way, the literature part will be prepared.

B. Primary Data Collection

On this part of data collection, both structured/unstructured questionnaire methods have been used. The related individuals – existing and potential investors – were given the schedule of questionnaires to fill in through direct personal visit. Primary data were acquired using questionnaires and personal interviews from investors, brokers and staffs of NEPSE and SEBO/N. However, the individuals had been selected on a random basis. As far as possible, efforts are organized to minimize or avoid biasness and technical errors. Also, the related experts had been consulted frequently. In the course, direct e-mail or telephone enquiries had also been used. Moreover, NEPSE and SEBO/Nepal were visited frequently. Thus, I would like to assure that most of the data are of primary in nature regarding the subject matter as per the requirement of this thesis.

Some inferences and generalizations have been made in the course of preparation of report as demanded by the situation. For the purpose of organization of data, some modifications have also been levied without manipulating the core intention of the respondents.

CHAPTER -IV

DATA PRESENTATION AND ANALYSIS

4.1 Tabular Representation of Data

Table 4.1

Tabular Representation of Data

Investors	Type of securities Invested	Risk preference (Attitude towards risk)	Source of information	Occupation	Form and type of earnings preferred	Consulting related financial experts (yes/no)
	Common stocks	Risk averter	Newspapers	Service	CD & CA	No
	Common Stocks	Risk neutral	Newspapers	Engineer	CD & CA	No
	CS & Debentures	Risk averter	Stockbrokers & Newspapers	Consultancy	CA & BS	No
	Common stocks	Risk seeker	Newspapers & friends	Student	CA & BS	Yes
	Common stocks	Risk seeker	Stock brokers, Newspapers	Business	BS & CA	Yes
	Common stocks	Risk averter	Friends, relatives, news	NA	CD & CA	No
	CS & Debentures	Risk seeker	Nepse, journals and newspapers	Business	CD, BS & CA	Self study
	Common stocks	Risk averter	Newspapers & Fin. statements	Student	CD & CA	Self study
	Common stocks	Risk neutral	Stock Brokers	NA	CD	No
	Common Stocks	Risk averter	Newspapers & Media	Govt. Service	CD, BS & CA	No
	Common Stocks	Risk averter	Newspapers & relatives	Housewife	CD	No
	Common stocks	Risk averter	Newspapers, friends & rumors	Govt. service	CD & CA	No
	CS & Debentures	Risk seeker	Newspapers & rumors	Business	CD & CA	No
	Common stocks	Risk averter	Stockbrokers & News	Business	BS & CA	Self study

	Common stocks	Risk averter	Newspapers	Service	CA & BS	Self study
	Common Stocks	Risk averter	Stockbrokers & Newspapers	Business	BS & CA	Yes
	Common stocks	Risk averter	Friends & Newspapers	Mgmt. Student	CD & BS	No
	Common stocks	Risk bearer	Stock Brokers, Newspapers	Service		No
	Common stocks	Risk averter	News, friends & rumors	Mgmt. Student	CA & CD	Self study
	Common stocks	Risk averter	Stockbrokers, Newspapers	Construction Co.	CD	Yes
	Common stocks	Rational risk seeker	Friends, newspapers	Service (Nepal SBI Bank)	BS	Little bit
	Common stocks	Risk averter	Stockbrokers & newspapers	Business	CD & CA	Yes
	Common stocks	Risk neutral	Newspapers	Business	CD & CA	No
	Common stocks	Risk averter	Financial statements, News	Govt. Service	CD & CA	Yes
	Common stocks, debentures & Pref. shares	Risk seeker	Stock Brokers, NTV, newspapers,	Business	Int., CD, BS, & CA	Self study
	Common stocks	Risk seeker	Newspapers and Friends	Business	CD & BS	No
	Common stocks	Risk averter	Stock Brokers	Service	CD	Yes
	Common stocks	Risk averter	Newspapers & Nypse	Govt. Service	CD & CA	No
	Common stocks	Risk averter	Brokers, friends, etc	Service	CD & BS	Self study
	Common stocks	Risk bearer	Friends, newspapers, etc.	Mgmt. Student	CD, BS & CA	Self study, evaluation
	Common stocks	Risk averter	Stockbrokers & Newspapers	Service		No
	Common stocks	Risk seeker	Newspapers	Business	CD, CA & BS	No
	Common stocks	Risk seeker	Stock Brokers, Whims & Rumors	Business	CD & BS	No
	Common stocks	Risk seeker	NTV, Newspapers	Engineer	CD	No
	Common stocks	Risk averter	Newspapers & friends	Mgmt. Student	CA & BS	Self study
	Common	Risk seeker	Newspapers &	Business	BS &	No

	stocks		friends		CA	
	Common stocks	Risk seeker	Friends, Relatives	Student	CD, BS & CA	No
	Common stocks	Risk seeker	Stock Brokers	Business	CD & BS	No
	Common stocks	Risk neutral	Newspapers & friends	Consultancy	CD & CA	Self study
	Common stocks	Risk averter	Newspapers	NA	CD & BS	No

Note: CD – Cash dividend, CA – Capital Appreciation, BS – Bonus Shares, Int.

– Interest, NA – Not Available, and CS - common stocks.

4.2 Interpretation of Data (closed-end type questions)

The table above depicts that 17.5 % of the total sampled investors were found to consult the related firms and financial experts before investing in the security of any kind. They were found to extract information, take suggestions, depend upon others analysis and analyze themselves the better securities to invest in and made investment accordingly as suggested by such experts and consulting firms. Their decisions are guided by such firms and agencies. In our context, the broker companies are acting as the financial consultants. 55% of the investors neither consult financial experts and firms nor do they perform self-study with the proper financial indicators and ratios while making investment decisions. Their decisions on investment can be said as adhoc based on rumors and whims. For those investors, friends and relatives are the major sources of information in the market. Besides these, there are also investors comprising 25% of the total who make decisions on their own through self-study and self inspection of the past performances of the securities. They are the rational investors most of whom belong to the student of management or business persons. They are well acquainted with the parameters of financial analysis.

Among the total investors, only very few are the frequent visitors of the NEPSE and are informed of the activities, listings and delisting regularly. As per table 3, 22.5% of the total investors are the frequent visitors of NEPSE. They are actively engaged on trading and investment of securities. 45% of the total investors almost never visit NEPSE and are not informed of the activities and listings frequently and timely. Once they invest in the securities, they wait for the higher and consistent cash dividends as their earnings regardless of augmentation in the price. Their category belongs to part time investment. 32.5% of the investors visit NEPSE occasionally and show little interest in the activities and listings of the securities. They also take the security as part time investment. One-third of the investors belong to this category. They have little time to study, analyze and trade the securities frequently.

The table portrays that 22 out of 40 investors are risk averse in nature. None of the investors want to bear risk without any windfall gain. Everywhere in the part of the security investment, they seek risk. However, the table clearly delineates that 15 out of 40 are risk seekers. And the rest 4 out of the 40 sampled investors are indifference to risk. The risk seekers are ready to tolerate risk in an anticipation of positive higher returns. They are willing to take higher risks in an anticipation of higher returns.

Table 4.2
Securities preferences of the Individual Investors

Types of securities invested	No of people	% of investors	Comment
Treasury bills	none	-	Individuals are not allowed
Common stocks only	38	95	Highly preferred and known to public
Preference shares only	none	-	Almost non-existence/uninformed
Debentures only	none	-	Prospective market
Common Stocks and debentures	2	5	Debenture market is not developed
Other govt. securities	NA	-	Not available

In Nepalese context, all of the investors are found to invest in common stocks. Only some of them are found to invest in the debentures and preference shares issued by the company along with common stocks. Till today, security means common stocks or simply stocks in the minds of investors. Only common stocks are popular in the market and thus the companies have issued common stocks as the major source of capital. Very few companies have issued debentures and the debenture market has not been well developed in Nepal. Only some companies have used debentures as the outer source of funds in tandem with the shares of common stocks. However, the use of preference shares in the capital funding is very low because of its unpopularity among the investors. Its trading in the secondary market is almost non-existent. Other

short-term securities like Treasury bills, commercial paper, etc are not found to be invested by the sampled investors. Commercial papers have not been found to be issued by any companies of Nepal. On the part of Treasury bills, the individual investors are not allowed to invest in it.

Out of the 40 respondents, almost 95% of them were found to be invested only in common stocks, especially from commercial banks. 1 out of 40 sampled individuals was found to invest in the preference shares, debentures and common stocks. Beside, these sample persons, I had asked personally to some other people visiting the NEPSE. They answered that they didn't know anything about this mechanism and thus came there to learn at first and then invest if they found reliable. Moreover, they replied that they were ignorant to the procedures of investment in NEPSE and were indifferent to securities of any sector till that period.

Table 4.3
Desired form of earnings from Securities Invested

S. N.	Types of earnings	No of investors	Comment
1.	Regular fixed income/interest	2	Less Preferred
2.	Regular Cash dividend only	5	Moderately preferred
3.	Both Cash dividend & bonus shares	10	Highly preferred
4.	Both Cash dividend & Capital appreciation	8	Moderately preferred
5.	Cash dividend, bonus shares & capital appreciation	12	Highly preferred
6.	Bonus shares only	1	Less Preferred
7.	Bonus shares & Capital Appreciation	2	Less Preferred
	Total	40	

The table 4.3 clearly depicts that all investors like to receive the earnings in the form of capital appreciation. It is an implied term while investing in securities, especially common stocks. Most of the respondents belong to the middle class families, however some are also from lower and some are from higher middle

class level. As all the investors invest in common stocks, earnings associated with common stocks in various forms are found in major part to be preferred by the investors.

Moreover, the table above depicts that some investors don't prefer cash dividend on a regular basis. This doesn't matter to them if the company fails to pay the cash dividend but the price of the security of that company should have augmented so that they may reap a gain of capital appreciation. Bonus shares instead of cash dividend are preferred by most of the investors. However, for most of the investors anticipating higher rate of dividends, securities distributing higher rate of dividends are considered as better securities with better performance.

The above statement depicts that investors are willing to take minimum risks only if they are assured of getting higher positive returns. Their expectations about securities risk and returns are the sole factors for shaping the demand and supply of securities i.e. market price of the stocks. In this way, expectation is the main cause of the price formation mechanism. Price is the function of expectations about the future cash flows, and various risk factors.

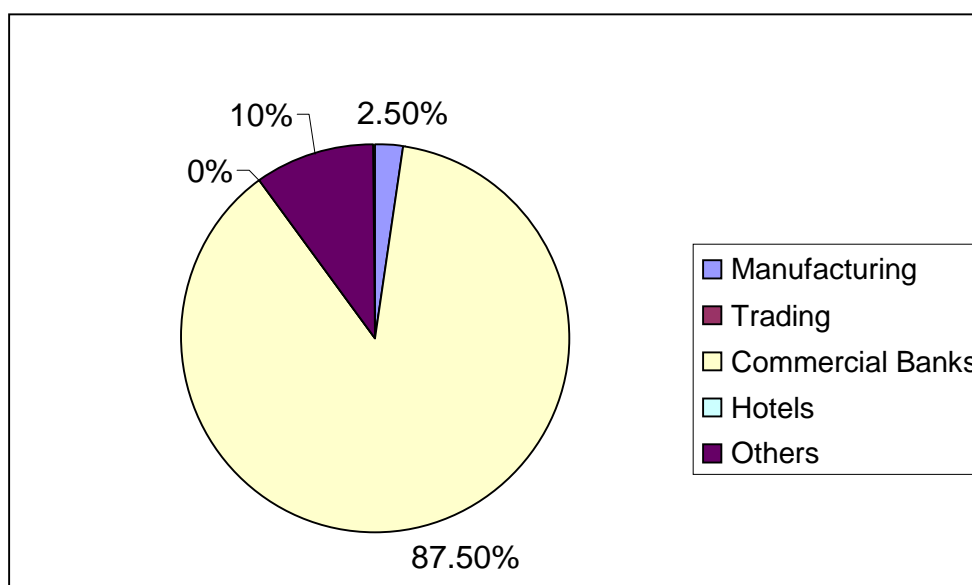
Again, the table no. portrays that most of the investors of the securities prefer cash dividend and capital appreciation than any other forms of earnings. As the number of investors in the debt securities is low, it can be regarded that they don't like to earn a fixed income investing a fixed portion. They can bear risk in anticipation for higher unlimited future earnings and likely changes in the price of the security, especially stocks.

Table 4.4
Sector-wise preference of securities by Investors

Sector of shares	No of investors	Comment
Manufacturing	1	Very less preferred
Trading	NA	Not preferred
Commercial Banks	35	Highly preferred
Hotels	NA	Not preferred
Others*	4	Less preferred

* Others include the shares from finance companies, insurance companies, etc.

Figure 4.1
% of Investors Preference of Securities of various Sectors



The figure 4.1 clearly depicts that 87.5% of the investors have invested and are desirable to invest only in the shares from commercial banking sector. The investors feel protected and assured to invest in the shares of commercial banks. In other words, 87.5% of the investors were found to invest solely in the shares of commercial banks. 10% of the investors were found to invest in the other sectors shares. Other sectors include shares of finance companies, insurance companies, development banks, etc. Only 2.5% of the total investors invested in the shares of manufacturing companies. However, these investors made investment in these sectors in the past days. Today,

they are trying their best to sell the securities they own. In this way, only the securities from commercial banking sector, selected finance and insurance companies, etc and a few from manufacturing and trading sectors are preferred by the investors to make investment. In case of primary offerings, the investors only prefer to invest in the shares of A graded commercial banks and finance companies. The investors who still own the securities of other sectors beyond A graded categories have shown pessimistic attitude and they are desirable to sell them and purchase the shares of commercial banks and finance companies instead. The data revealed above clearly depicts that the securities from commercial banking sectors are preferred by the recent and prospective investors. Investors feel safeguard and protected while buying this sector shares. They don't hesitate to invest in the primary offerings of commercial banks. This is because the commercial banks have a very high level of credibility in the market as compared to the performance of other sectors.

Table 4.5

Detection of the level of Earnings Anticipated by the Investors

Level of earnings anticipated	No of investors	% of investors
5-10%	-	0
10-15%	5	12.5
15 – 20%	10	25
20-25%	18	45
25 % and above	7	17.5
Total	40	100

Figure 4.2

Investors Anticipation of Earnings

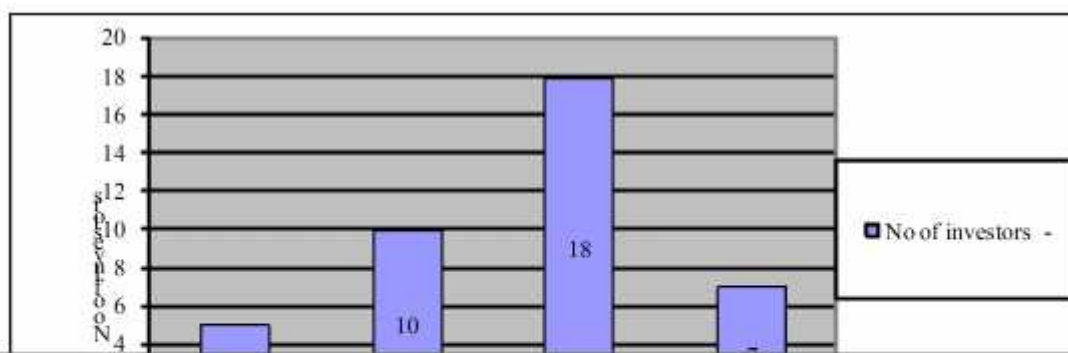
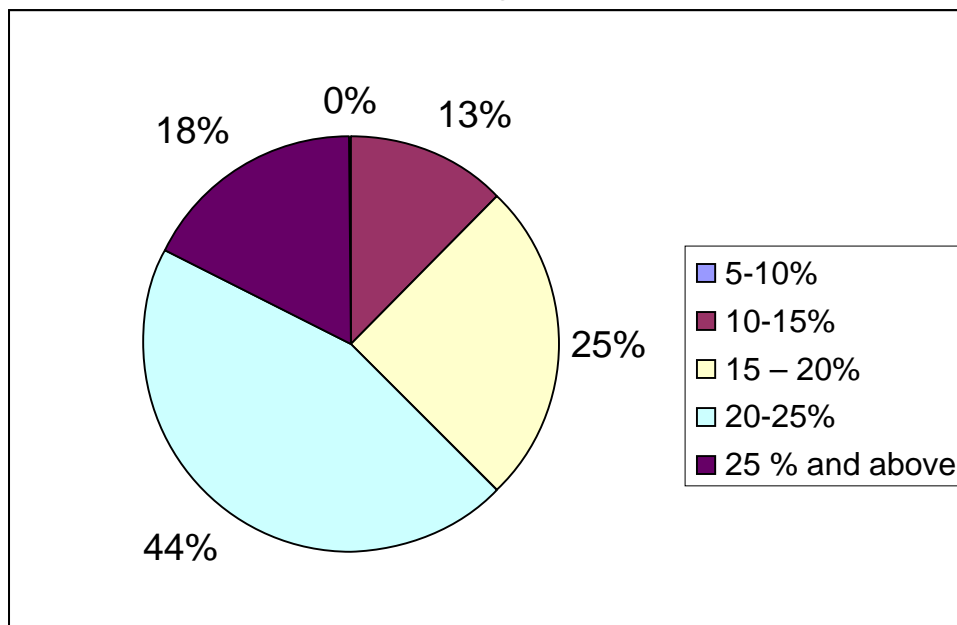


Figure 4.3
Percentage of Investors



It is the nature of beings to anticipate higher returns without limit from what they have invested. However, in the sense of rational judgment and decision in the expectation of earnings, the most likely anticipation of the stockholders' level of earnings ranges between 20 – 25 %.

The data presented in the table delineates that none of the investors want to receive the cash dividend below 10 % as return from common stocks. If it doesn't be so they prefer stock dividend instead of cash. Also it doesn't seem any matter if the company retains all of their earnings for its own use such as expansion, refunding, etc. But it does matter to them the increase in the value of capital they invested initially. Almost of the investors of common stocks don't hesitate to receive cash dividend. However,

some of the investors don't like to receive cash but like to receive bonus shares. All of the investors (100 %) desire capital appreciation and they responded that it is the implied expectation while investing because this is the factor which is useful in secondary trading of securities.

Table 4.6
Community wise Participation of Investors

Caste	No of investors	Percentage investors
Newars	19	45%
Brahmans	18	42.5%
Chhetris	3	12.5%
Others	-	-
Total	40	100%

Others include Chhetris, and other minority communities. The table 4.6 obviously depicts that 45% of the total investors belong to Newar community. Investors from Brahman community comprise 42.5% of the total investors. Similarly, Chhetris participation is quite lower which is confined to 12.5% and the other castes from minority groups are almost non-existent in this sector. This depicts the sample. On the basis of above table, it can be generalized that Newars are forward in business and have better knowledge of the prospective benefit from securities investment.

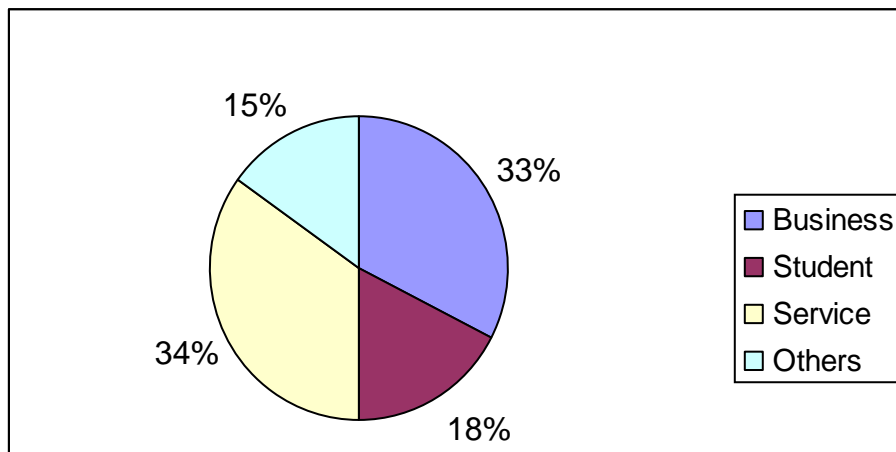
Table 4.7

Investors classification by occupation

Occupation	No of investors	Percentage investors (%)
Business	13	32.5
Student	7	17.5
Service	14	35
Others	6	15
Total:	40	100

Figure 4.4

Pie chart revealing percentage of investors on the basis of their occupation



The classification as depicted in the table purports to categorize the investors and the test of the knowledge of the different class structure by occupation about security investment. About one third of the total individual investors are from business sector. However, in the course of interaction, it was found that people who did not have any particular work or regular profession also claimed their profession as business. And the regular visitors of NEPSE are from this sector. The full time investors who take security investment as their major profession are also from this sector. But there are very few people who make security investment and trading as their major profession. Most of the investors are part timers. It is clearly seemed that only some privileged castes and the people from business sector are quite familiar to the benefits of security

investment than others. The participation of the investors from service sector is the highest of all. This shows the data. Out of the sampled investors, about 18% are students and most of them belong to management faculty. The students from other faculties have rare participation as compared to that of management. The investors from other sectors – households and sundry – comprise of 15% of the total individual investors. They don't know anything about securities – how these are issued, why to invest in securities, etc. Individual investors share in the capital market is quite low both in volume and value.

4 out of 40 investors related securities investment to gambling, 16 respondents related it to grand speculation and 2 didn't answer it, 14 were indifference to the term speculation and investment, and the rest 4 gave the desired answer. The last ones are the rational investors who differentiate between speculation and investment, seeking aside the gambling. In addition, they answered that security investment can be a wise speculation but cannot be the gambling.

4.3 Analysis and Presentation of Open-end Questionnaires

Investors' opinion on investing in primary offerings and in secondary market:

) Of the investors hesitates to invest in the initial public offerings issued in the market. They doubt upon the better performance of the companies issuing such IPOs and are feared on trading such securities in the secondary market. However, some are found interested to invest in the primary securities in an anticipation of selling them in the secondary market at a certain higher price than that purchased in the primary market.

70% of the sampled investors like to invest in the securities at the secondary market. It is because they can observe the trend of the past performances of the available securities, analyze them and decide to invest the securities accordingly.

Attitudes on investing in securities: (Is it same as speculation or gambling?)

) Regarding the answer to this question, respondents have given mixed feeling about it. Out of the 40 respondents, only 37 responded to it. Some investors have been found taking the security investment very lightly. They are unaware of risk and return, price formation mechanism, and capital appreciation. For such kinds of investors, the term speculation and investment is indifferent to each other. While few are found relating it to gambling also. Only few investors have good knowledge on the difference among these three. And these terms differ from each other on the basis of quality and quantity of the extracted information, and the duration of investment.

Criteria of investment and the factors that they take into consideration before or while investing in the securities

) The criteria of investment differ from one investor to another. Every individual is different from other so is the criteria of investment, preference of the securities, and attitude differs from one investor to another. Nevertheless, there are some common key points and decisions that are found to be performed by the most of the investors while investing in the securities.

The investors who are the regular visitors of the NEPSE are found to be the investing high class investors while the sampled individuals do not include any odd-lot investors.

In addition to the factors the investors take into consideration while selecting the security and making investment on it, some investors have been found to observe, predict and analyze the political situation also. This is because political risk has become the major risk factor today that is very hard to predict. Some investors are ready to bear higher amount of risk and

uncertainties if they found probability of getting higher returns. 38 out of 40 investors reported that they observe and analyze the financial picture of the company which they are going to invest in. 35 respondents reported to have observe the historical trend of the company's performance. 34 out of the sampled 40 investors have revealed that they study a series of the price behavior from the past to present. Only 8 investors have been found to be familiar with the term portfolio and Some are found to be acting very wisely and therefore they can be considered as the rational investors. 10 out of 40 sampled persons have knowledge on both the methods of analyzing security fundamentally as well as technically. They include 4 management students and 6 from business sector. 30 sampled investors also do perform analysis on their part but they are ignorance of the term technical and fundamental analysis. However, all investors thoroughly analyze, observe, and judge the performances of the company either by themselves or through the help of others before investing. Investors generally look at goodwill and management of the company issuing such security. The criteria of selection of security, preference, and the factors the individuals take into consideration varies from investor to investor. However, the most common points can be enumerated as follows:

- Company's prospect of growth
- Goodwill and management of the company
- Promoters of the company
- Company's five year forecast
- Security analysis
- NEPSE Index
- Portfolio formation

Simply go on investing in the company's shares which seeks profitable. During the course of thesis, it is found that all people extract information, analyze in their best ways and then only invest on that. But the real difference lies on the knowledge of various analyzing criteria and selection of the securities.

Some of the investors have also been found to study and analyze the past trend of dividend. Most of the investors have been found to be enticed to invest in the regularly transacting securities especially securities of Grade A companies. Also in such listings of the companies, the sectors of the securities are sought.

Problems faced by Investors Regarding Securities Investment and Trading

) 90% of the investors reported that they had faced innumerable problems from the date of investment to selling of securities. They had to face problems regarding correct information, projected data manipulation, trading procedure and other ambiguous rules presence in NEPSE. In addition, their grievance as per their responses was lack of credibility in the financial statements and projected statements especially when they were going to invest in the Initial public offerings.

There are innumerable problems that the investors have to face while purchasing and selling of securities. Monitoring and regulation part of the companies by the concerned bodies are not found efficient. For most of the companies, projected earnings and statements do not match at all. Some investors as reported by them incurred a heavy loss in an anticipation of getting higher returns due to manipulated projected statements and performances opened for investors. This is due to lack of proper implementation of rules and regulations and effective monitoring. There is only one secondary market for trading of securities. And only Grade A companies securities are traded. So there is a great problem in the selection of the securities. Most of the investors want to sell the low graded or lower performing securities and they want to buy the better performing securities which have growth prospective. As a result, there is always scarcity of securities for the potential buyers to invest in the desired securities, especially from commercial banking sector. However, there are plenty of securities available from various sectors for which there is shortage of potential buyers. It means that there is a great problem of liquidity for

securities not excluded in A grade companies. Thus, it had become problem for them to sell the security at the time of extreme need for cash.

70% of the respondents wrote that most of the companies listed in the secondary market listings are not trustworthy. One has to be suspicious and careful while investing in the securities of the companies opened for the first time to public as there is always a fear of getting untrue picture and manipulated information in the form of projected financial statements and performances. Consideration of the other internal factors of the organization such as internal management, promoters, goodwill of the issuing company also need to be done while making investing decisions. In concluding words, some companies were found to reveal unrealistic pictures in their projected statements. In fact, these are the problems due to inefficiency and inability of regulatory bodies as they are responsible to monitor the activities of the companies. Hence, these factors cause difficulty in trading. In Nepal, there is neither possibility of full time investment nor sufficient and developed capital market.

Yet another problem experienced by most of the investors is uncertainty of returns. Viewed from the investors' point of view, there is too much risk of getting uncertain returns and the fall in the price of the securities.

Investors' interest and reasons behind preference of securities over real assets and the Purposes of their investment

(This question was not included in the list of the questionnaires given to the respondents. But it had been informally asked to the investors at the time of filling such questionnaires. The answer to this question was as follows :)

) The main reason behind preference of securities investments over real assets investments are that the former one is good source of passive income and higher return; it requires low amount of capital to invest in financial assets. In

addition, investors' hesitate to deposit their funds in the banks as banks nowadays are paying very lower rate of interest. Investors in Nepal don't have specific objective behind investing in securities. They simply go on investing with the rumors and whims in the market. In Nepal it is not possible to take securities investment as the prime job. They invest without gaining much information and knowledge. The extent of their knowledge for analysis was found to be confined to the rate of dividends paid by the companies and the price of the securities in the past periods. Individual investors in Nepal neither have much time nor have sufficient knowledge and resources to study and invest in the securities. Most of them took it as only a part time job, which could be a good source of passive income if the situations turned out favourable. According to the investors, speculation is possible from securities and not from investment in real assets.

4.4 Major Findings

1. The prime sources of information for all the investors interested in securities transaction are newspapers and NTV. For the regular visitors of NEPSE and professionals, stockbrokers are the main source of information.
2. Friends and relatives are also the major sources of information.
3. There is still lacking sufficient and genuine information for trading of securities.
4. Most of the investors are risk averse. But the investors reveal three types of attitudes towards risk. Some believe in the slogan 'no **risk no gain** ', they are the risk seekers. Some are indifference to risk; they bear it if it comes in the course of business and don't go after taking risk. The third one likes to avoid risk. They don't want to bear risk. They can be satisfied with the lower returns than bearing more risk.
5. The caste Newars has dominance in the business sector and securities investment too. But the Brahmans and Chhetris participation is also

high. Investors from backward societies and minority groups are backward too even in terms of securities investment.

6. The existence of other securities besides common stocks is almost non-existent. It is because common stocks are quite familiar and popular among the investors from the investment point of view in the market.
7. Among the common stocks issued, the stocks from the commercial banking sector are more popular.
8. Only few companies have gathered strength to issue debenture and preference shares. Most of the individual investors hesitate to invest in the debentures issued by the companies because of its non-flexibility in its earnings.
9. Nepalese securities market is underdeveloped. There are limited numbers of securities of listed companies to construct, analyze and choose portfolios.
10. Security investment, speculation and gambling are the three clearly distinguished and fundamentally different terms.
11. In Nepalese context, all of the investors are found to invest in common stocks. Only some of them are found to invest in the debentures and preference shares issued by the company along with common stocks. Till today, security means common stocks or simply stocks in the minds of investors. Only common stocks are popular in the market and thus the companies have issued common stocks as the major source of capital. Only some companies have used as the outer source of funds in tandem with the shares of common stocks.
12. All the investors like to receive the earnings in the form of capital appreciation. It is an implied term well investing in securities, especially common stocks. The findings show that the securities have not regular fixed income but regular cash dividend. Most of the investors anticipating higher rate of dividends, securities distributing higher rate of dividends are considered as better securities with better performance.

13. Investors have desired to invest only in the shares from commercial banking sector. The investors feel protected and assured to invest in the shares of commercial banks. There are few investors investing in trading sector. Likewise only few investors invest in hotels and other sectors. In this way, only the securities from commercial banking sector, selected finance and insurance companies etc and a few from manufacturing and trading sectors are preferred by the investors to make investment.
14. The rational investors expect the level of earnings ranges between 20 to 25 %. All of the investors desire capital appreciation and the responded that it is the implied expectation while investing because this is the factor which is useful in secondary trading of securities.
15. The study shows that 45% of the investors belongs to Newar community. Investors from Brahmin community comprise 42.5% of the total investors. Similarly, Chhetris participation is quite lower which is confined to 12.5% and the castes from minority group are almost non-existent in this sector. The study also shows that Newars are forward in business and have better knowledge of prospective benefit from securities investment.
16. Out of the total investors, one third of the total investors are from business sector. However, in the course of interaction, it was found that people who did not have any particular work or regular profession also claimed their profession as business and the regular visitors of NEPSE are from this sector. The full time investors who take security investment as their major profession are also from this sector. But there are very few people who make security investment and trading as their major profession. Most of the investors are part timer.
17. The study also shows that 4 out of 40 investors related securities investment to gambling, 16 respondents related it to grand speculation and 2 didn't answer it, 14 were indifference to the term speculation and investment, and the rest 4 gave the desired answer. The last ones are the

rational investors who differentiate between speculation and investment, seeking aside the gambling.

18. The investors who are the regular visitors of NEPSE are found to be the investing high class investors while the sampled individuals do not include any odd-lot investors.
19. Investors generally look at goodwill and management of the company issuing such securities. The criteria of selection of security, preference, the factors and the individuals take into consideration vary from investor to investor.
20. Most of the investors have been found to be enticed to invest in the regularly transacting securities especially securities of Grade A companies.
21. Primary data were acquired using questionnaires and the personal interviews from investors, brokers and staff of NEPSE and SEBO/N. However, the individuals had been selected on a random basis. Also the related experts had been consulted frequently. Moreover, NEPSE and SEBO/N were visited frequently. Thus, I would like to assure that most of the data are of primary in nature regarding the subject matter as per the requirement of this thesis.
22. The secondary data have been assembled, organized and filtered. It is followed by the collection of primary data by using interviews and questionnaire. Primary source of data is in mainstream. Various abstracts from websites, textbooks, articles, journals and publications related to securities and its investors were consulted and reviewed in various institutions, organizations and concerned people as well. I think this will certainly help in understanding the current trend of investment and attitude of investors towards securities along with the returns desired by them.

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<http://www.nrb.org> and <http://www.sebonp.com>

Appendix - 1
Investors' Opinion on Securities and Their Anticipation of Earnings
Questionnaire for Sample Survey

Dear respondents,

The questions hereunder are forwarded to you for your valuable information required in connection to my research study on “**Investors' Opinion on Securities and Their Anticipation of Earnings**”. I assure you that your views and responses acquired under this questionnaire will be kept confidential and used for the study purpose only. Therefore, you are requested to feel easy in responding the queries. Your cooperation in this matter is highly appreciated.

Thank you!

.....

Researcher

A. Investor's Profile:

Investor:

Telephone :

Address:

Date of Investment :

Occupation:

Age/Gender:

B. Investor Behavioural Analysis

1. What kind of securities do you prefer to invest in?

Common Stocks

Preference Shares

Debentures

Government Securities

2. Are you regularly informed of the companies listed in NEPSE?

Yes

No

Little bit

3. What are your relevant sources of information for securities investment and selling?

Friends Relatives

Stock Brokers Whims and Rumours

Other Media Please specify

4. Do you find that the concerned regulatory authorities frequently monitor the performance of the companies?

5. What is your opinion about investing in primary offerings and secondary securities in terms of risk?

6. Out of shares listed, what sector of securities is lucrative for investment?

Manufacturing

Trading

Commercial Banks

Hotels

Others

7. What kind of return do you expect and like to get from the investment you made in securities available in Nepal?

Regular fixed income/interest

Cash Dividend

Bonus Shares

Capital appreciation

8. If you don't mind please mention the level of earnings you anticipate from securities, especially from common stocks?

5-10%

10-15%

15-20%

20-25%

25% and above

9. Are the returns projected in the companies' prospectus and the actual earnings you have been receiving matching well?
10. What do you think of investing in securities? Do you take it as same as speculation or gambling? What is your opinion on it?
- Yes
- No
11. What kinds of problems have you been facing regarding securities investment? Where do the problems arise while investing or selling securities?
12. Do you consult some experts (related consultants) before investing?
13. Please kindly mention your criteria of investment and the factors you take into consideration while investing on securities?

Thank You for your kind response.

Appendix – 2
Nepal Stock Exchange Ltd.

Listed Companies on 15 th July 2008 (Asar 31, 2065)				
S.No.	A. Listed Companies Names	Listed Shares	Paid up Value	Total Paid up Value
Commercial Banks:				
1	Nabil Bank Ltd.	4909950	100	490995000
2	Nepal Investment Bank Ltd.	8013526	100	801352600
3	Standard Chartered Bank Ltd.	4132548	100	413254800
4	Himalayan Bank Ltd.	8108100	100	810810000
5	Nepal SBI Bank Limited	6478032	100	647803200
6	Nepal Bangladesh Bank Ltd.	7199260	100	719926000
7	Everest Bank Ltd	3780000	100	378000000
8	Bank of Kathmandu Ltd.	6031413	100	603141300
9	Nepal Industrial & Co. Bank Ltd.	6600000	100	660000000
10	Machhapuchhre Bank Ltd.	8216513	100	821651300
11	Laxmi Bank Limited	6100000	100	610000000
12	Kumari Bank Ltd.	6250000	100	625000000
13	Lumbini Bank Ltd.	5000000	100	500000000
14	Nepal Credit & Com. Bank Ltd.	7000000	100	700000000
15	Siddhartha Bank Limited	5000000	100	500000000
	TOTAL	92819342		9281934200
Manufacturing and Processing:				
16	Morang Sugar Mills Ltd.	35827	100	3582700
17	Bottlers Nepal (Balaju) Ltd.	1948887	100	194888700
18	Biratnagar Jute Mills Ltd.	68750	160	11000000
19	Nepal Lube Oil Ltd.	203936	100	20393600
20	Nepal Vanaspati Ghee Udhog Ltd	101250	100	10125000
21	Raghupati Jute Mills Ltd.	1806966	100	180696600
22	Butwal Spinning Mills Ltd.	1306693	100	130669300
23	Gorakhkali Rubber Udhog Ltd.	3833400	75	287505000
24	Jyoti Spinning Mills Ltd (ord.)	1270288	100	127028800
25	Arun Vanaspati Udhog Ltd.	550343	100	55034300
26	Bottlers Nepal (Terai) Ltd.	1210000	100	121000000
27	Harisiddhi Brick and Tile Fac.Ltd.	18650000	10	186500000
28	Birat Shoe Ltd.(Ord.)	165000	100	16500000
29	Uniliver Nepal Ltd.	920700	100	92070000
30	Nepal Khadya Udhog Ltd.	90000	100	9000000
31	Himgiri Textile Industries Limited	480000	100	48000000
32	Shree Bhrikuti Pulp& Paper Ltd	3500000	100	350000000
33	Fluer Himalayan Limited	262102	75	19657650
34	Shree Ram Sugar Mills Ltd	3045990	100	304599000
35	Nepal Bitumin and Barrel Udyog	210680	100	21068000
36	Himalayan Distillery Ltd.	4130000	100	413000000
	TOTAL	43790812		2602318650

Hotels:				
37	Yak and Yeti Hotel Ltd. (Ord.)	2209208	100	220920800
38	Soaltee Hotel Ltd.	8697187	10	86971870
39	Taragaon Regency Hotel Ltd.	7449875	100	744987500
40	Oriental Hotel Ltd.	5000000	100	500000000
	TOTAL	23356270		1552880170
Others:				
41	National Pro.& Eco. Dev. Centre Ltd.	77355	100	7735500
42	Nepal Film Dev. Co. Ltd.	446623	100	44662300
43	National Hydro Power Co. Ltd.	6606630	100	660663000
44	Butwal Power Co. Ltd.	8390577	100	839057700
45	Chilime Hydro Power Co. Ltd.	7296000	100	729600000
	TOTAL	22817185		2281718500
Tradings:				
46	Salt Trading Corporation	247777	100	24777700
47	Bishal Bazar Co. Ltd.	273000	100	27300000
48	Nepal Byapar Bikash Co. (Koshi) Ltd.	56018	100	5601800
49	Nepal Trading Ltd.	50000	50	2500000
50	Nepal Welfare Company Ltd.	41000	50	2050000
	TOTAL	667795		62229500
Insurance:				
51	Nepal Insurance Co. Ltd.	1026984	100	102698400
52	Rastriya Beema Sansthan	828999	100	82899900
53	National Life & Gen. Ins. Co. Ltd.	300000	100	30000000
54	Himalayan Gen. Ins. Co. Ltd.	300000	100	30000000
55	United Insurance Co. (Nepal) Ltd.	600000	100	60000000
56	Everest Insurance Co. Ltd.	900000	100	90000000
57	Premier Insurance co. Ltd.	300000	100	30000000
58	Neco Insurance Co. Ltd.	550000	100	55000000
59	Alliance Insurance Co. Ltd.	500000	100	50000000
60	Sagarmatha Insurance Co. Ltd.	561000	100	56100000
61	NB Insurance Co. Ltd.	1000000	100	100000000
62	Nepal Life Insurance Co. Ltd.	2500000	100	250000000
63	Life Insurance Co. Nepal Ltd.	2500000	100	250000000
64	Prudential Insurance Co. Ltd.	1000000	100	100000000
65	Lumbini General Insurance Co. Ltd.	1000000	100	100000000
66	Shikhar Insurance Co. Ltd.	1250000	100	125000000
	TOTAL	12866983		1286698300

Finance:				
67	Nepal Finance and Saving Co. Ltd.	200000	100	20000000
68	NIDC Capital Markets Ltd.	750000	100	75000000
69	National Finance Co. Ltd.	1045767	100	104576700
70	Nepal Share Markets Ltd.	1600000	100	160000000
71	Annapurna Finance Co. Ltd.	800000	100	80000000
72	Kathmandu Finance Limited.	330000	100	33000000
73	Peoples Finance Limited.	623941	100	62394100
74	Union Finance Co. Ltd.	725153	100	72515300
75	Citizen Investment Trust	400000	100	40000000
76	Nepal Aawas Bikas Beeta Co. Ltd.	638207	100	63820700
77	Narayani Finance Limited	501109	100	50110900
78	Ace Finance Company Ltd.	1260000	100	126000000
79	Yeti Finance Company Ltd.	250000	100	25000000
80	Gorkha Finance Ltd.	300000	100	30000000
81	Samjhana Finance Co. Ltd.	225000	100	22500000
82	Universal Finance Ltd.	375000	100	37500000
83	Nepal Housing & Merchant Fin. Ltd.	544500	100	54450000
84	General Finance Ltd.	220000	100	22000000
85	Maha Laxmi Finance Ltd.	660000	100	66000000
86	Lalitpur Finance Ltd.	506250	100	50625000
87	Goodwill Finance Co. Ltd.	500000	100	50000000
88	Paschimanchal Finance Co. Ltd	506000	100	50600000
89	Pokhara Finance Ltd.	400000	100	40000000
90	Lumbini Finance Ltd.	600000	100	60000000
91	Nepal Mer. Banking & Finance Ltd.	2000000	80	160000000
92	Siddhartha Finance Limited	520000	100	52000000
93	Alpic Everest Finance Co. Ltd.	600000	100	60000000
94	Nepal Bangladesh Fin. & Leasing Co. Ltd.	500480	100	50048000
95	United Finance Ltd	600000	100	60000000
96	International Leasing & Fin. Co. Ltd.	1200000	100	120000000
97	Shree Investment Finance Co. Ltd	560000	100	56000000
98	Central Finance Co. Ltd.	360000	100	36000000
99	Nepal Shree Lanka Merchant Bank Ltd.	1000000	100	100000000
100	Premier Finance Co. Ltd	240000	100	24000000
101	Nava Durga Finance Co. Ltd.	220000	100	22000000
102	Butwal Finance Ltd	500000	100	50000000
103	Janaki Finance Ltd.	400000	100	40000000
104	Standard Finance Ltd.	660000	100	66000000
105	Om Finance Ltd.	500000	100	50000000
106	Cosmic Merchant Banking & Finance Ltd.	750510	100	75051000
107	Fewa Finance Co. Ltd.	500000	100	50000000
108	KIST Merchant Bank. & Finance Ltd.	1000000	100	100000000
109	World Merchant Bank Ltd	600000	100	60000000
110	Birgunj Finance Ltd	660000	100	66000000
111	Capital Mer. Banking & Finance Ltd.	700000	100	70000000
112	Everest Finance Ltd,	200000	100	20000000

113	Prudential Bittiya Sanstha Ltd.	500000	100	50000000
114	Shrijana Finance Ltd.	100000	100	10000000
115	Royal Mer. Banking & Finance Ltd.	550000	100	55000000
116	Guheshwori Mer. Banking & Finance Ltd.	500000	100	50000000
117	IME Financial Institution Ltd.	500000	100	50000000
118	Bhajuratna Fin. & Saving Co. Ltd.	350000	100	35000000
	TOTAL	30731917		3033191700
Development Banks:				
119	Nepal Industrial Dev. Corp.	2978784	100	297878400
120	Nepal Development Bank Ltd.	1600000	100	160000000
121	Development Credit Bank Ltd.	2400000	100	240000000
122	Nirdhan Utthan Bank Ltd.	274317	100	27431700
123	Chhimek Vikash Bank Ltd.	100000	100	10000000
124	Paschimanchal Bikash Bank Ltd.	200000	100	20000000
125	Diprox Development Bank Ltd.	116000	100	11600000
126	Gandaki Development Bank Ltd.	500000	100	50000000
127	Business Dev. Fin. Inst. Ltd.	300000	100	30000000
128	Siddhartha Vikash Bank Ltd.	500000	100	50000000
129	Bhrikuti Vikash Bank Ltd.	214000	100	21400000
130	Sanima Vikash Bank Ltd.	3200000	100	320000000
131	Narayani Industrial Dev. Bank Ltd.	200000	100	20000000
132	Bageshwori Dev. Bank Ltd.	300000	100	30000000
133	Sahayogi Vikash Bank Ltd.	200000	100	20000000
134	Gurkha Dev. Bank Ltd.	3200000	100	320000000
	TOTAL:	16308673		1630867300
	GRAND TOTAL	243504999		21746440520

Preference Shares:

S. No.	Companies Name	Listed Shares	Paid up Value	Total Paid up Value
1	Everest Bank Ltd.	1400000	100	140000000
	TOTAL	1400000		140000000

Mutual Fund:

S. No.	Companies Name	Listed Unit	Paid up Value	Total Paid up Value
1	NCM Mutual Fund	10000000	10	100000000
	TOTAL	10000000		100000000

Corporate Bond:

S. No.	Companies Name	Listed Unit	Paid up Value	Total Paid up Value
1	Himalayan Bank Debenture	360000	1000	360000000
2	Nepal Inv. Bank Bond 2067	300000	1000	300000000
3	Everest Bank Rinpatra 2061	300000	1000	300000000
4	Bank of Kathmandu Bond 2069	200000	1000	200000000
5	Nepal Inv. Bank Bond 2070	250000	1000	250000000
6	NIC Bond 2070	200000	1000	200000000
7	Nepal SBI Bank Rinpatra 2070	200000	1000	200000000
	TOTAL	1810000		1810000000

Government Bond:

S. No.	Companies Name	Listed Unit	Paid up Value	Total Paid up Value
1	Bikash Rinpatra 2067	5000000	100	500000000
2	Bikash Rinpatra 2067 'Ka'	10000000	100	1000000000
3	Bikash Rinpatra 2067 'Kha'	7500000	100	750000000
4	Bikash Rinpatra 2067 'Ga'	7500000	100	750000000
5	Bikash Rinpatra 2072	7500000	100	750000000
6	Bikash Rinpatra 2075	12000000	100	1200000000
7	Bikash Rinpatra 2075 "Ka"	21000000	100	2100000000
	TOTAL	119100000		11910000000

Delisted Companies For Year 2063/64

S. No.	Companies Name	Listed Shares	Paid up Value	Total Paid up Value
1	Nepal Battery Co. Ltd.	125425	100	12542500
2	Juddha Match Factory	80000	40	3200000
3	Nepal Plywood & Bobin Co. Ltd.	110589	16	1769424
4	Himal Cement Co. Ltd	453115	100	45311500
5	Sayapatri Color Lab	34910	100	3491000
6	Nepal Med Ltd.	110849	100	11084900
7	Ace Laboratories (Nepal)	272448	100	27244800
8	Bansbari Leatherage	500000	100	50000000
9	Necon Air Ltd.	1792000	100	179200000
10	Nepal United Co.	52901	100	5290100
11	Plastic Trading Co.	20000	100	2000000
12	Nepal Byapar Bikas Co.	94929	75	7119675
	TOTAL	3647166		348253899

Appendix – 4
Nepal Stock Exchange Ltd.
Calculation of all Equity NEPSE Index

S.No.	Companies Name	Stock Symbol	Listed Shares	Paid up Value	Total Paid up Value	Today's Closing Stock	Yesterday's Closing Stock	Difference Price
Commercial Banks								
1	Nabil Bank Ltd.	NA BIL	6,873,930	100	687,393,000	5275	5250	25
2	Nepal Investment Bank Ltd.	NI B	12,039,154	100	1203915400	2450	2431	19
3	Standard Chartered Bank Ltd.	SC B	6,807,840	100	680,784,000	6830	6860	-30
4	Himalayan Bank Ltd.	HB L	12,162,150	100	1,216,215,000	1980	1980	0
5	Nepal SBI Bank Limited	SBI	8,734,791	100	873,479,100	1511	1511	0
6	Nepal Bangladesh Bank Ltd.	NB B	7,442,000	100	744,200,000	1001	1001	0
7	Everest Bank Ltd	EB L	3780000	100	3780000000	3132	3195	-63
8	Bank of Kathmandu	BO K	6,031,413	100	603,141,300	2350	2340	10
9	Nepal Industrial & Co. Bank	NI CB	7920000	100	7920000000	1284	1310	-26
10	Machhachapuchhre Bank Ltd	MB L	8216513	100	8216513000	1265	1265	0
11	Laxmi Bank Limited	LB L	7320000	100	7320000000	1113	1113	0
12	Kumari Bank Ltd	KB L	9000000	100	9000000000	1005	1015	-10
13	Lumbini Bank Ltd.	LU BL	7500000	100	7500000000	6310	609	22
14	Nepal Credit & Com. Bank	NC CB	13490400	100	13490400000	457	456	1
15	Siddhartha Bank Limited	SB L	8,280,000	100	828,000,000	1152	1110	42
16	NMB Bank Ltd.	NM BF	10,000,000	100	1,000,000,000	930	923	7
17	Development Credit	DC	11,074,000	100	1,107,400,000	855	860	-5

	Bank Ltd.	BL	560	0	6,000			
Total			146672		146677			-10
			751		5100			
Manufacturing & Processing								
18	Bottlers Nepal Ltd.(Balaju)	BN L	1,948,8 87	10 0	194,888 ,700	700	700	0
19	Nepal Lube Oil Ltd.	NL O	203,93 6	10 0	20,393, 600	250	250	0
20	Nepal Vanaspati Ghee Udhog Ltd	NV G	101,25 0	10 0	10,125, 000	300	300	0
21	Raghupati Jute Mills Ltd.	RJ M	1,806,9 66	10 0	180,696 ,600	100	100	0
22	Butwal Spinning Mills Ltd.	BS M	1,306,6 93	10 0	130,669 ,300	18	18	0
23	Gorakhkali Rubber Udhog Ltd.	GR U	3,833,4 00	75	287,505 ,000	39	39	0
24	Jyoti Spinning Mills Ltd (ord.)	JS M	1,270,2 88	10 0	127,028 ,800	27	27	0
25	Arun Vanaspati Udhog Limited	AV U	550,34 3	10 0	55,034, 300	58	58	0
26	Bottlers Nepal (Terai)Ltd.	BN T	1,210,0 00	10 0	121,000 ,000	700	700	0
27	Harisiddhi Brick and Tile Fac. Ltd.	HB T	18,650, 000	10	186,500 ,000	4.2	4.2	0
28	Birat Shoe Ltd.(Ord.)	BS L	165,00 0	10 0	16,500, 000	28	28	0
29	Uniliver Nepal Ltd.	UN L	920,70 0	10 0	92,070, 000	410 0	4100	0
30	Nepal Khadya Udhog Ltd.	NK U	90,000	10 0	9,000,0 00	231	231	0
31	Shree Bhrikuti Pulp& Paper Ltd	SB PP	3,500,0 00	10 0	350,000 ,000	50	50	0
32	Fluer Himalayan Limited	FH L	262,10 2	75	19,657, 650	75	75	0
33	Shree Ram Sugar Mills Ltd	SR S	3,045,9 90	10 0	304,599 ,000	100	100	0
34	Nepal Bitumin and Barrel Udyog	NB BU	210,68 0	10 0	21,068, 000	64	64	0
35	Himalayan Distillery Ltd.	HD L	4,130,0 00	10 0	413,000 ,000	100	100	0
Total			43,206,		2,539,7			0
			235		35,950			
Hotels								
36	Yak and Yeti Hotel Ltd.(Ord.)	YH L	2,209,2 08	10 0	220,920 ,800	600	600	0
37	Soaltee Hotel Ltd.	SH L	8,697,1 87	10	86,971, 870	236	236	0
38	Taragaon Regency Hotel	TR H	7,449,8 75	10 0	744,987 ,500	68	68	0

39	Oriental Hotel Ltd.	OH L	5,000,0 00	10 0	500,000 ,000	185	185	0
Total			23,356, 270		1,552,8 80,170			0
Others								
40	Nepal Film Dev. Co. Ltd.	NF D	491,28 5	10 0	49,128, 500	38	38	0
Total			491285		491285 00			0
HydroPower								
41	National Hydro Power Co.	NH PC	7,000,0 00	10 0	700,000 ,000	198	296	-98
42	Butwal Power Co. Ltd.	BP CL	8,390,5 77	10 0	839,057 ,700	155 9	1418	141
43	Chilime Hydro power Co.	CH CL	7,296,0 00	10 0	729,600 ,000	156 2	1420	142
Total			22,686, 577		2,268,6 57,700			185
Tradings								
44	Salt Trading Corporation	ST C	247,77 7	10 0	24,777, 700	331	331	0
45	Bishal Bazar Co. Ltd.	BB C	491,40 0	10 0	49,140, 000	220 1	2290	-89
46	Nepal Trading Ltd.	NT L	50,000	50	2,500,0 00	56	56	0
47	Nepal Welfare Company Ltd.	N WC	41,000	50	2,050,0 00	94	94	0
Total			830,17 7		78,467, 700			-89
Insurance								
48	Nepal Insurance Co.Ltd.	NI CL	1,026,9 84	10 0	102,698 ,400	350	350	0
49	Rastriya Beema Sansthan	RB S	828,99 9	10 0	82,899, 900	190 0	1900	0
50	National LifeInsu. Co.Ltd.	NLI CL	300,00 0	10 0	30,000, 000	900	900	0
51	Himalayan Gen.Insu. Co.Ltd.	HG I	630,00 0	10 0	63,000, 000	345	345	0
52	United Insurance Co.(Nepal)Ltd.	UI C	600,00 0	10 0	60,000, 000	315	315	0
53	Everest Insurance Co. Ltd.	EIC	900,00 0	10 0	90,000, 000	291	291	0
54	Premier Insurance co. Ltd.	PIC	300,00 0	10 0	30,000, 000	300	300	0
55	Neco Insurance Co.	NI	550,00	10	55,000,	129	129	0

		L	0	0	000			
56	Alliance Insurance Company Ltd.	AI C	500000	10 0	50,000, 000	154	154	0
57	Sagarmatha Insurance Co.Ltd	SIC	561000	10 0	561,000	306	306	0
58	NB Insurance Co. Ltd.	NB IL	1,000,0 00	10 0	100,000 ,000	106	106	0
59	Nepal Life Insurance Co. Ltd.	NL IC	2,500,0 00	10 0	250,000 ,000	166 9	1669	0
60	Life Insurance Co. Nepal	LIC N	2,500,0 00	10 0	250,000 ,000	101 2	1012	0
61	Prudential Insurance Co.	PIC L	1,000,0 00	10 0	100,000 ,000	200	200	0
62	Lumbini General Insurance	LG IL	1,250,0 00	10 0	125,000 ,000	112	112	0
63	Shikhar Insurance Co. Ltd.	SIC L	1,250,0 00	10 0	125,000 ,000	446	446	0
64	Siddhartha Insurance Limited	SIL	1,000,0 00	10 0	100,000 ,000	253	253	0
Total			166969 83		1,669,6 98,300			0
Finance								
65	Nepal Finance and Saving Co. Ltd.	NF S	300,00 0	10 0	30,000, 000	475	475	0
66	NIDC Capital Markets Ltd.	NC M	1,012,5 00	10 0	101,250 ,000	901	901	0
67	National Finance Co. Ltd.	NF C	1,568,8 18	10 0	156,881 ,800	105 0	1050	0
68	Nepal Share Markets Ltd.	NS M	4,320,0 00	10 0	432,000 ,000	167 0	1700	-30
69	Annapurna Finance Company Ltd.	AF C	2,016,0 00	10 0	201,600 ,000	147 0	1470	0
70	Kathmandu Finance Limited.	KF L	379,50 0	10 0	37,950, 000	285	285	0
71	Peoples Finance Limited.	PF CL	840,00 0	10 0	84,000, 000	699	686	13
72	Union Finance Co. Ltd.	UF CL	725,15 3	10 0	75,000, 000	805	805	0
73	Citizen Investment Trust	CIT	600,00 0	10 0	60,000, 000	438	438	0
74	Nepal Aawas Bikas Beeta Co. Ltd.	NA BB	706,18 0	10 0	70,618, 000	699	699	0
75	Narayani Finance Limited	NF L	666,99 0	10 0	66,699, 000	111 6	1116	0
76	Yeti Finance Company Ltd.	YF L	250,00 0	10 0	31,250, 000	245	245	0
77	Gorkha Finance Ltd.	GF LK	300,00 0	10 0	30,000, 000	200	200	0

78	Samjhana Finance Co. Ltd.	SF C	225,00 0	10 0	22,500, 000	102	102	0
79	Universal Finance Ltd.	UF LK	602,18 4	10 0	60,218, 400	283	283	0
80	Nepal Housing & Merchant Fin.	NH MF	804,40 2	10 0	80,440, 200	780	780	0
81	General Finance Ltd.	GF L	242,43 4	10 0	24,243, 400	140	140	0
82	Maha Laxmi Finance Ltd.	MF L	800,00 0	10 0	80,000, 000	119 1	1191	0
83	Lalitpur Finance Ltd.	LF C	759,37 5	10 0	75,937, 500	795	795	0
84	Goodwill Finance Co. Ltd.	GF CL	500,00 0	10 0	105,000 ,000	633	633	0
85	Paschimanchal Finance Co. Ltd	PF C	506,00 0	10 0	55,660, 000	293	293	0
86	Pokhara Finance Ltd.	PF L	600,00 0	10 0	80,000, 000	657	657	0
87	Lumbini Finance Ltd.	LF LC	600,00 0	10 0	90,000, 000	285	285	0
88	Siddhartha Finance Limited	SF L	520,00 0	10 0	52,000, 000	134 3	1343	0
89	Alpic Everest Finance Company Ltd.	AE FL	780,00 0	10 0	78,000, 000	572	582	-10
90	United Finance Ltd	UF L	750,00 0	10 0	75,000, 000	935	935	0
91	Nepal Bangladesh fin. & Leasing	NB FL	1,440,0 00	10 0	50,048, 000	610	610	0
92	Shree Investment Finance Co. Ltd	SIF C	672,00 0	10 0	84,000, 000	568	568	0
93	Central Finance Co. Ltd.	CF CL	780,00 0	10 0	78,000, 000	740	755	-15
94	Nepal Shree Lanka Merchant Bank	NSL MB	1,000,0 00	10 0	100,000 ,000	124	124	0
95	Premier Finance Co. Ltd	PF CL L	331200	10 0	47,520, 000	443	443	0
96	Nava Durga Finance Co.Ltd.	ND FL	395507	10 0	45,594, 800	306	306	0
97	Butwal Finance Ltd	BF L	696,72 1	10 0	69,672, 100	103 2	1032	0
98	Janaki Finance Ltd.	JFL	400,00 0	10 0	40,000, 000	277	277	0
99	Standard Finance Ltd.	ST FL	726000	10 0	145,200 ,000	930	930	0
10 0	Om Finance Ltd.	OF L	700,00 0	10 0	70,000, 000	437	437	0
10 1	Cosmic Mer.Bank & Fin.	CM BF	750,51 0	10 0	75,051, 000	182	182	0

10 2	Fewa Finance Co. Ltd.	FF CL	700,00 0	10 0	70,000, 000	426	426	0
10 3	KIST Merchant Banking & Finance Ltd.	KM BF	2,000,0 00	10 0	200,000 ,000	998	979	19
10 4	World Merchant Bank Ltd	WM BF	600,00 0	10 0	60,000, 000	990	980	10
10 5	Birgunj Finance Ltd	BJF L	726,00 0	10 0	72,600, 000	132 0	1320	0
10 6	Capital Mer. Bank & Fin	CM B	3,220,0 00	10 0	322,000 ,000	127 0	1274	-4
10 7	Everest Finance Ltd.	EF L	200,00 0	10 0	20,000, 000	200	200	0
10 8	Prudential Bittiya Sans	PFI L	500,00 0	10 0	50,000, 000	275	270	5
10 9	Shrijana Finance(Bittiya Sa	SF FIL	140,00 0	10 0	14,000, 000	107	107	0
11 0	Royal Mer. Bank.& Fin	RM BFI	604,12 1	10 0	60,412, 100	535	540	-5
11 1	Guheyswori Mer. Bank. Fin	GM FIL	616,81 3	10 0	61,681, 300	865	865	0
11 2	IME Financial Institution	IME FI	1,000,0 00	10 0	100,000 ,000	148 0	1480	0
11 3	Bhajuratna Fin.& Sav. Co. Ltd.	BFI L	350,00 0	10 0	35,000, 000	122	122	0
11 4	Patan Finance Ltd.	PFL BS	500,00 0	10 0	50,000, 000	250	250	0
11 5	Imperial Financial Inst. Ltd.	IFIL	500,00 0	10 0	50,000, 000	641	654	-13
11 6	Civil Merchant bittyta sanstha	CMB SL	500,00 0	10 0	50,000, 000	775	770	5
11 7	ICFC Bittyta Sanstha Ltd.	ICFC	749,35 4	10 0	74,935, 400	710	710	0
11 8	Nepal Express Finance Limited	NEFL	500,00 0	10 0	50,000, 000	415	415	0
11 9	Kuber Merchant Bittiya Sanstha Ltd.	KMB SL	500,00 0	10 0	50,000, 000	699	686	13
Total			43,172, 762		4,317,2 76,200			-12
Development Banks								
12 0	Nepal Industrial Dev. Corp.	NI DC	2,978,7 84	10 0	297,878 ,400	120	120	0
12 1	Nepal Development Bank	ND B	3,200,0 00	10 0	320,000 ,000	302	300	2
12 2	Nirdhan Utthan Bank Ltd.	NU BL	790,72 1	10 0	79,072, 100	134	134	0
12 3	Chhimek Vikash Bank Ltd.	CB BL	310,00 0	10 0	31,000, 000	265	265	0

12 4	Paschimanchal Bikash Bank	PD BL	1,000,0 00	10 0	100,000 ,000	511	511	0
12 5	Diprox Development Bank	DD BL	174,00 0	10 0	17,400, 000	175	175	0
12 6	Gandaki Dev. Fin. Inst.	GD BL	500,00 0	10 0	50,000, 000	884	884	0
12 7	Business Development Bank Ltd.	BD BL	300,00 0	10 0	30,000, 000	510	510	0
12 8	Siddhartha Development Bank Ltd.	SDB L	1,075,7 25	10 0	107,572 ,500	152 5	1525	0
12 9	Bhrikuti Vikash Bank Limited	BB BL	239,57 2	10 0	23,957, 200	150	150	0
13 0	Sanima Vikash Bank Ltd.	SB BL	3,200,0 00	10 0	320,000 ,000	143 0	1430	0
13 1	Narayani Industrial Dev. Bank	NA BBC	200,00 0	10 0	20,000, 000	189	189	0
13 2	Bageshowori Dev. Bank	BBB LN	300,00 0	10 0	30,000, 000	800	800	0
13 3	Sahayogi Vikas Bank	SB BL J	200,00 0	10 0	20,000, 000	236	236	0
13 4	Gurkha Development Bank	GD BNL	3,200,0 00	10 0	320,000 ,000	860	877	-17
13 5	Annapurna Bikash Bank	ABB L	600,00 0	10 0	60,000, 000	615	618	-3
13 6	Swabalamwan Bikash Bank	SWB BL	250,00 0	10 0	25,000, 000	160 1	1601	0
13 7	Ace Development Bank	ACED BL	3,200,0 00	10 0	320,000 ,000	856	856	0
13 8	Himchuli Bikash Bank Ltd.	HBB L	300,00 0	10 0	30,000, 000	177 6	1776	0
13 9	Xcel Development Bank	EDB L	200,00 0	10 0	20,000, 000	823	823	0
14 0	Malika Development Bank	MDB L	500,00 0	10 0	50,000, 000	145 5	1455	0
14 1	Birat Laxmi Development Bank	BLD BL	500,00 0	10 0	50,000, 000	754	754	0
14 2	Infrastructure Development Bank Ltd.	IDB L	800,00 0	10 0	80,000, 000	887	887	0
Total			33,396, 789		3,339,6 78,900			-18
Grand Total			321131 842.00		294657 99820			56