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A STUDY OF INVESTOR'S BEHAVIOR IN NEPALESE STOCK MARKET**DR. SAROJ PANT****LECTURER****LAL BHADUR SHASHTARI DEGREE COLLEGE****HALDUCHAUR****AMIT DUMKA****DY. MANAGER (E&T)****GOVERNMENT MEDICAL COLLEGE****HALDWANI****ABSTRACT**

In the context of Nepal, security market are not very efficient and investors have not any uniformity in their investment decision. This paper attempts to explore various factors in explaining the behavior of investment decisions in Nepal and for prediction of the future prospects of Nepalese stock market in terms of investors' expectation. A survey was conducted on the sample of 98 respondents from different sectors of economy viz. service, manufacturing, hotels, education, health, food and beverages. The purposive sampling method was applied to select the respondents. The survey instruments were designed including a list of 48 questions with the use of different measurement scale including the Likert scale. The survey result shows that, it is quite evident that investors' not making informed investment decisions through the careful evaluation of available information. Most of the investors of the country have no access toward the secondary market opportunities. Almost all of the investors are purchasing shares in primary market only and there are not considering the risk involved in the initial public offering. The demand is not equitable both for securities and issuing sectors. They prefer common stock of banking sector followed by finance company and insurance company. Investors have not shown trust and faith in common stock and other securities issued by hotel and manufacturing sector. Traditionally, the purchase of land, construction of building and saving in the bank had been the major area of investment for the people but their attitude is changing toward shares, debentures and other new securities. However, there is a lack of sufficient, information therefore, most of the investors are forced just to run behind the market rumours and behave accordingly.

KEYWORDS

Investment Behavior, Investment Decision, Nepalese Investors.

INTRODUCTION

Earnings and investor's psychology are the two major factors that affect stock prices. In the long term, earnings may be the foremost driving force for stock prices. However, investor's psychology plays a considerable role in moving stock prices in the short run. Much of the finance theories are based on the conviction that individual investors behave in a rational approach and that all existing information is embedded in the investment cycle. The famous Efficient Market Theory makes two major predictions. The first prediction is equilibrium price of securities - that the market prices are always striving toward the intrinsic value. In their words, financial assets have an intrinsic value based on economic condition, expected cash flows and their level of risk. The second prediction is informational efficiency - that prices adjust rapidly to the arrival of new information and therefore, because news arrives randomly, past price changes do not predict future price changes. But there are very few investors for whom the prediction is entirely correct, they are rationale, reflection of new information is immediate and accurate on stock prices as per Efficient Market Theory. The theory does not consider the influence of human behavior in the investment practice. Behaviorally, investors give different preference to the identical investment alternative and under the similar situation. Some theories of behavioral finance had attempted to elucidate the influence of human emotions in their investment decision. Psychology primarily deals with human unreliability, logical mistakes and prejudiced decision. These mistakes can cause investors to form biased expectations regarding the future that, in turn, can cause securities to be mispriced.

The establishment and operation of the stock exchange market has opened door to small investors otherwise limited by prevailing opportunities and inability to assemble diverse sources. The only probable option left for them was bank deposits. Thus, enterprising and venturesome small investors were deprived of opportunities to invest. However, the establishment of the securities market in Nepal in 1985 and Nepal Stock Exchange Market in 1994, has opened an avenue to them. The Securities Exchange Board (SEBO) is operating since 1993. However, to what extent, their interest is being given attention has remained an issue of concern in Nepal.

Security market is a place where buying and selling of securities takes place in an organized way. The parties involved in security market are investors, intermediaries and specialists. Investors who are willing to buy or sell securities quickly may be searching good offers or accepting poor offers with higher risk and of higher return. Securities markets provide options to all categories of investors and make the financial market most competitive in developing countries. The position of liquidity and profitability and the degree of risk embodied on it are indicators taken into consideration while selecting the best options for investment. Intermediaries take temporary positions of securities during a time period in between a flow of buy orders and a flow of sales order and make earning from the variations in supply and demand positions. Commission for security transaction is another source of income of intermediary.

At the time of study conduction, there were 40 members/ intermediaries comprising of stockbrokers (27), issue and sales managers (10), security dealers (2) and market maker (1). In the security market, investors are termed as customers and customers may be individuals, firms, companies and organized institutions. Members start their work by taking orders from the customers for buying and selling their securities. Customers make agreement with issue manager, security dealer and market maker for underwriting and issue management of shares and against that they take service charge from customers. Stockbroker is a security businessperson who deals on behalf of the investors in buying and selling of securities of a listed company. Issue manager is a security businessperson who carries out functions relating to public issue of securities on behalf of the issuing company in the primary market.

Security dealer is a security businessperson who buys securities in his name at the primary market and sells them from secondary market (stock exchange) either in his own name, or on behalf of customers' name through stockbrokers. Market maker is a security businessperson who deals with bonds issued by the government or bonds issued as per the guarantee made by the government. It carries out functions relating to public issue of mutual fund, unit fund and buying and selling of equity shares in his name of at least three organized institutions with the objectives of providing liquidity for them.

In the context of Nepal, security market is not efficient and investors have not any uniformity in their investment decision. The objective of this study is to explore are limited for a few high-income class and clever investors only. The study can be helpful for prediction the future prospects of Nepalese stock market in terms of investors' expectation.

STATEMENT OF THE PROBLEM

The development of capital market is an important object for both the emerging and developed economies. As economic development and financial market mature, markets are expected to evolve to bring together the demander of the fund and supplier of the fund. Economic development and progress is not solely

dependent to the government but closely allied to the appearance of the financial markets and institutions that can marshal resources, accommodate payments, pool risks, allocate credit and monitor borrowers and equity interests. Such condition depends on the degree of reform and pattern of legal system.

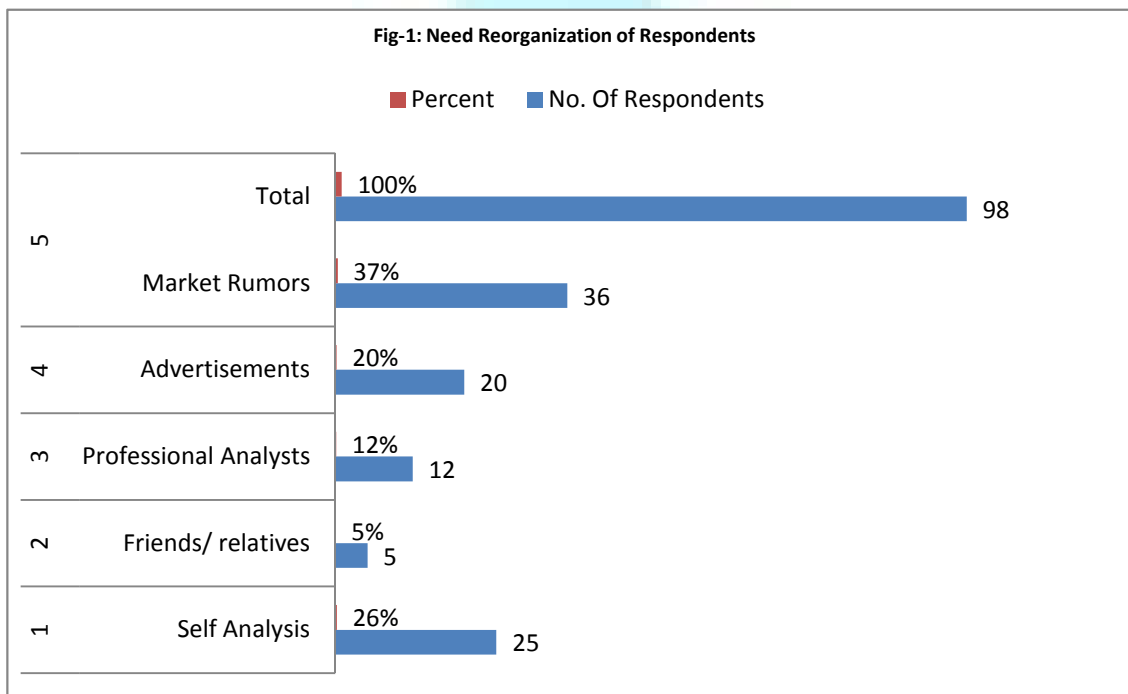
Realizing such prominent role of capital market, the government of Nepal is effortful to introduce necessary programmes and strategies to develop efficient capital market in Nepal by creating conducive investment atmosphere, reforming economic policies and adjusting regulatory and supervisory framework. The introduction of liberal economic policy in 1992 is a milestone in this regard. Necessary policies have been formulated to develop various savings and invest plans in order to mobilize small savings and to create legal support to suite the liberal economic policy. After the economic liberalization, the market scenario of Nepalese primary and stock market has been expanded in terms of both volume of fund raised and number of listed companies. Total fund raised and numbers of individual and institutional investors in the primary and secondary market have been expanded rapidly. This trend is an indication of bright future of stock market in Nepal.

Despite these efforts and development, what are the motivating factors behind the buying or selling securities in the stock market of the respondents? What are the investor's preferences and sector-wise preferences toward different securities available in Nepalese stock market of the respondents? What are the buying motives, size of the investments, demand-supply and potential major factors considered by the investors for investment decision and the expectations of the respondents?

NEED RE-COGNIZATION

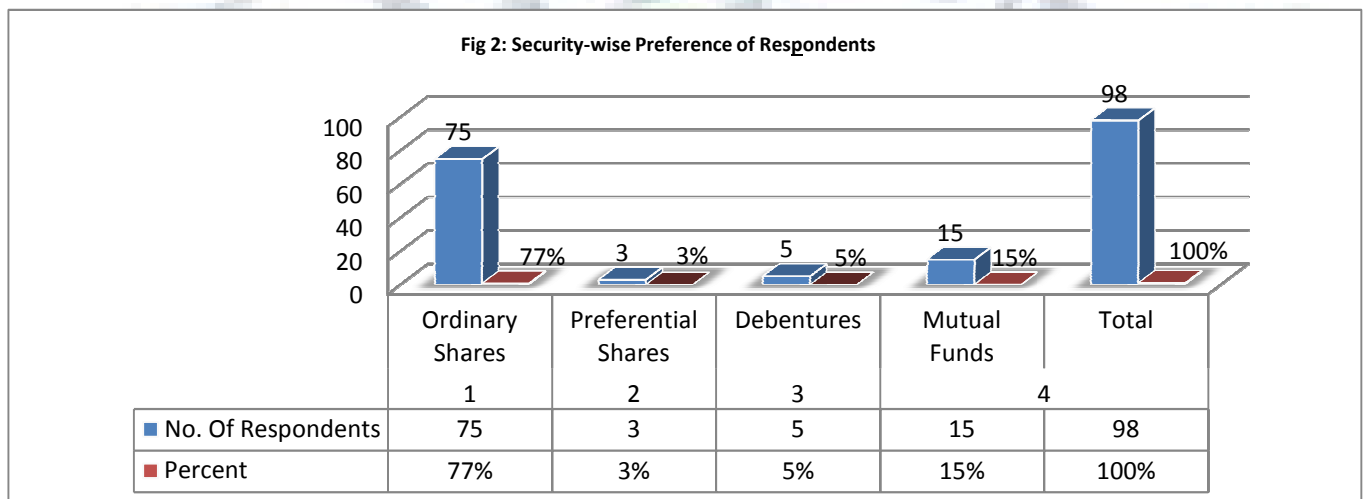
For analysis of investor's responses toward Nepalese stock market, responses from 100 individual investors were obtained through personal interviews (via telephonic conversation/video-chatting/e-mail) and through the administration of questionnaires. The first question asked to respondent was concerned with factor that motivated them to buy a share of a particular company.

The responses of investors have been presented in Fig-1. As revealed by Fig-1, most of the Nepalese investors responded that their motivator factor behind the buying or selling securities in the stock market is market rumours. Out of 98, 36 respondents opened that they bought shares when there is buying pressure in the stock exchange and sold their shares when other people started to sell. On the other hand, out of the 98, 25 respondents opined that they purchased shares as per their self analysis. These respondents were employee of banking and financial institutions, business persons and students of post graduated level especially from the faculty of management and economics. About 20% of the respondents were stimulated for buying shares through advertisement and nearly 05% from the advice of relatives and friends and 12% of respondents bought or sold shares with the help of professional experts.



INVESTORS PREFERENCE

The second question was aimed to know the preference of respondents toward different securities available in Nepalese stock market. The responses received from respondents has furnished in Fig-2.



A majority of respondents viewed that they prefer ordinary shares in comparison of preference share and debentures. Out of 98, 77% investors responded such view. Only 03% of the respondents opined that they prefer preference shares and 15% respondent preferred buying the units of mutual fund. From the analysis of respondents view, it can be concluded that most of Nepalese investors are attracted by the ordinary shares and preference shares and debentures are not popular among Nepalese investors whereas the Mutual Funds are also attracted by the Nepalese investors.

SECTOR-WISE PREFERENCE

The preference of all the selected investor is not unique with regards to different sectors. Investors have top priority for investing in banking sectors followed by finance and insurance sector. On the other hand, investors are not attracted to invest in the shares of hotels and manufacturing sector. Following table explains the responses of 90 shareholders selected for interview.

TABLE-3: SECTOR-WISE PREFERENCE OF RESPONDENTS

Sl.No.	Sectors	No. Of Respondents	Percent
1	Commercial Banks	47	48%
2	Development Banks	10	10%
3	Financial Companies	11	11%
4	Insurance Companies	17	17%
5	Hotels	2	2%
6	Trading companies & Others	2	2%
7	Manufacturing companies	7	7%
8	Others	2	2%
Total		98	100%

About 48% of the responded preferred the securities issued by commercial banks and 17% respondents viewed that they want to invest in the shares of insurance companies whereas 11% and 10% respondents preferred shares of Development Banks and financial Institutions. The proportion of respondents preferring shares of hotel, trading companies and manufacturing companies were less than 10%. The reason behind such priority is the increasing market value of shares and regularity in payment of dividend as well as bonus shares.

NATURE OF SECURITY MARKET

The expected return on securities cannot be attained unless these securities are bought and sold in the secondary market. However, a strong majority of the respondents expressed their view that they are stimulated to purchased shares from the primary market.

TABLE-4: PLACE OF SECURITIES PURCHASED

Sl.No.	Markets	No. Of Respondents	Percent
1	Primary	62	63%
2	Secondary	20	20%
3	Both	16	16%
Total		98	100%

As depicted by above table, more than 63% of the respondents had purchased the securities at the time when companies offered new issues and only 20% of the respondents acquired in the secondary market. The initial public offering is too much riskier in comparison of trading in secondary market. However, all of the respondents expressed the view that they ignored the risk of initial public offering. About 16% of the respondents bought the securities both from the primary issue and from the secondary market.

BUYING MOTIVES

The motive of buying securities differs from investors to investors. Some investors seek growth stock. The investors interested in companies that have high potential for earning growth and they buy securities for holding not for immediate selling. Some investors are value investors who look for the stocks that the market has overlooked.

Value doesn't mean cheap as in low per share price, but under priced relative to the value of the company. They buy share for capital gain and sell when the price is higher than the purchase price. The final category of investors is income investors who invest in the securities of the companies paying high and consistent dividends. The companies that qualify for the income investor tend to be large and well- established. People in retirement are fond of this category. The motives of buying securities of Nepalese investors have been presented in Fig-3.

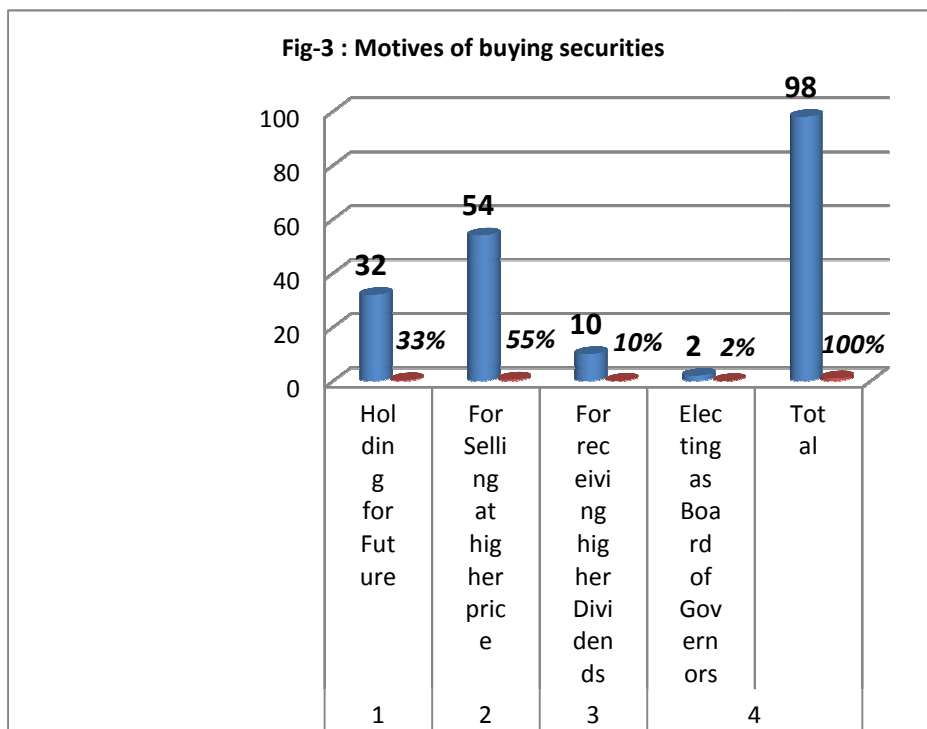


Fig-3 depicted that out of 98, 33% respondents opined that they purchased securities for the purpose of holding in future. 55% respondents expressed their view that their aim of buying securities was selling the stock at higher price. Out of the total respondents, only 10% were motivated for receiving regular dividend and about 02% respondents bought shares for the motive of electing in the election of board of directors. From this analysis it can be concluded that a majority of the Nepalese investors buy securities for the purpose of selling in futures when the price of securities increases. On the other hand, very few investors are interested to hold securities for becoming the candidate for board of directors.

SIZE OF INVESTMENT

For the aim of exploring the purchasing capacity of Nepalese investors, following information was obtained:

TABLE-6: SIZE OF INVESTMENT

Sl. No.	Amount (Rs)	No. of respondents	Percent
1	Up to Rs 100,000	30	30.61%
2	Rs 100,001 to Rs 200,000	26	26.53%
3	Rs 200,001 to Rs 300,000	13	13.27%
4	Rs 300,001 to Rs 400,000	10	10.20%
5	Rs 400,001 to Rs 500,000	9	9.18%
6	Above Rs.500,000	10	10.20%
	Total	98	100.00%

Source: Field survey

As per the data tabulated in above table, it is observed that most of the Nepalese investors are small investor. Out of the total, one third if the respondents articulated their view that their investment in securities was up to Rs 100,000 and about one fourth of the respondents expressed that they were able to invest up to Rs 200,000. About 19 respondents out of the total 98, viewed that their investment in shares was between the ranges of Rs 300,000 to Rs 500,000. From the view point of investment, there were only 10 respondents investing more than Rs 500,000 in financial assets.

DEMAND FOR AND SUPPLIES OF SECURITIES

The stability of effective stock market depends upon the consistency between the demand for securities and supply of these securities. All of the respondents expressed the view that they were able to buy or sell as the desired quantity in the secondary market. However, most of the respondents complained that they became unable to buy securities in primary market. The responses of selected investors have been shown in the following table:

TABLE-7: INVESTORS DEMAND FOR AND SUPPLY OF SECURITIES IN THE PRIMARY MARKET

Sl.No.	Shares applied	No. OF Respondents	% of Respondents	Shares Allotted	No of Respondents	% of Respondents
1	Up to 100	38	38.8%	No allotment	50	51.0%
2	101-200	22	22.4%	Up to 100	30	30.6%
3	201-300	15	15.3%	101-200	6	6.1%
4	301-400	9	9.2%	201-300	2	2.0%
5	401-500	4	4.1%	301-400	3	3.1%
6	501-600	10	10.2%	401-500	4	4.1%
				Above 500	3	3.1%
	Total	98	100.0%		98	100.0%

Out of the 98, more than 50% of the applicants for shares could not get any shares from the initial public offering. Out of the 38 applicants who applied for less than 100 shares, 30 applicants received the shares as per their demand. Similarly, Out of the 22 applicants applying for 100 to 400 shares, only 11 applicants received the shares. The number of applicants demanding more than 500 shares observed to be 10 and 30% of them received shares from the primary issue. From this analysis it can be concluded that most of the Nepalese investors are small investors and they are interested in buying, on average, 100 shares. From the supplied side, issuers are allotting large proportion of share either the applicant for less than 100 shares or to applicants for more than 500 shares.

MAJOR FACTOR CONSIDERED BY INVESTORS

Professional investors buy and sell securities through the fundamental and technical analysis. However, general investors make the invest decision on the basis of published information of the concerned company. None of the selected respondents are professional; therefore, most of investors make decision on the basis of published data such as stock market indicators, earning per share, dividend per shares, market price per share etc. The views of respondents have been presented in the following table-8:

TABLE-8: FACTOR CONSIDERED WHILE PURCHASING SECURITIES

Sl.No.	Factors	No. of respondents	Percent
1	Market Index	10	10.20%
2	Net Worth	8	8.16%
3	EPS & DPS	5	5.10%
4	Market Price of Shares	12	12.24%
5	Management of Company	5	5.10%
6	Industry Nature	43	43.88%
7	Market Noise	15	15.31%
Total		98	100.00%

From the analysis of responses it was found that majority of the investors made investment decision on the basis of nature of industries without any analysis of financial condition specially while making investment in the shares of commercial banks, finance companies and insurance companies. About 15% of respondents opined that their buying decision is based of market rumours and 12% of the respondents viewed that they made purchasing decision on the basis of changes in market price per share. 10 % of the investors were found to watch the stock index and only 5% made the investment decision through the analysis of earning per share and dividend per share. The proportion of respondent making investment decision after the analysis of management of the companies is negligible. This analysis helps to draw a conclusion that there is no risk for commercial banks, insurance companies and finance companies to issue securities in the stock market and investors are self-confident about the prosperity of these sectors. However, trading companies, manufacturing concerns and hotel sectors are still unable to win the confidence of investors.

FUTURE EXPECTATION OF RESPONDENTS

On the basis of existing stock market condition the investors responded the following views regarding their future plan for buying securities in case of primary issue.

TABLE-9: FUTURE EXPECTATION OF RESPONDENTS

Sl.No.	Sectors	Banking		Finance		Insurance		Hotels		Manufacturing	
		18	18.4%	25	25.5%	22	22.4%	81	82.7%	75	76.5%
1	Min 50 shares	18	18.4%	25	25.5%	22	22.4%	81	82.7%	75	76.5%
2	Up to 100	25	25.5%	37	37.8%	50	51.0%	15	15.3%	16	16.3%
3	101-400	47	48.0%	28	28.6%	20	20.4%	2	2.0%	7	7.1%
4	401 and above	8	8.2%	8	8.2%	6	6.1%	0	0.0%	0	0.0%
		98	100.0%	98	100.0%	98	100.0%	98	100.0%	98	100.0%

As per above table, almost all of the investors selected for interview responded their willingness to invest in the stock to be issued in future by banking sector, followed by the finance and insurance sector. In addition, a majority of investor's were stimulated to apply for 100 to 400 shares of banking sectors and their proportion was 48% followed by 25.5% for finance company and 18.4% for insurance company. On the other hand, more than 75% of the respondents had no desire for investing in shares of manufacturing trading and hotel sector and the rest of them expressed their view that they would purchase only 50 shares (minimum requirement) of these sectors.

On the overall observation of investor's responses, it is quite evident that investors' not making informed investment decisions through the careful evaluation of available information. Most of the investors of the country have no access toward the secondary market opportunities. Almost all of the investors are purchasing shares in primary market only and there are not considering the risk involved in the initial public offering. The demand is not equitable both for securities and issuing sectors. They prefer common stock of banking sector followed by finance company and insurance company. Investors have not shown trust and faith in common stock and other securities issued by hotel and manufacturing sector. Traditionally, the purchase of land, construction of building and saving in the bank had been the major area of investment for the people but their attitude is changing toward shares, debentures and other new securities. However, there is a lack of sufficient, information therefore, most of the investors are forced just to run behind the market rumours and behave accordingly.

RECOMMENDATIONS/SUGGESTIONS

From the findings of this study it would be useful to draw following suggestions that would be helpful to the investors, entrepreneurs, operators of the stock market, regulators, policy makers and other stakeholders for making rational decisions and implementing programmes more effectively:

1. For the operation of efficient stock market, sufficient number of financial assets should be available. However, Nepalese stock market is limited to government bonds and ordinary shares of public limited companies. Issuer's requirement and investors' attitude toward various financial assets are changing and the scope of new financial instruments such as different types of corporate and government bonds, preferred stock, convertible. Securities, mutual fund schemes and derivative securities is increasing. For introduction new and innovative instruments, the government and concerned authorities should play the role of catalyst. Similarly, foreign investors are not allowed to invest in the stock market; therefore, appropriate policies are essential for attracting the foreign investment in Nepalese stock market.
2. The activities of Nepal Stock Exchange Limited in the capital city of the country. For providing equitable investment opportunities to all the people of the country, the policy of operating either regional stock exchanges or establishing the network of over-the counter market should be formulated and implemented. The numbers of securities businesspersons are only 23 since the inception of NEPSE. If the number of market players is very few, it will create the monopolist stock market which helps to promote fraudulent and scandalous activities. Therefore, the number of securities businesspersons should be increased as soon as possible through the formulation of appropriate policy regarding the qualification, responsibilities, experience and ethical code of conducts of market participants.
3. Information plays a critical role in the development of a dynamic, competitive, credible, faire, efficient, transparent and responsible stock market. The existence of credible rules must be supported by a vigorous enforcement program which has the ability to respond to misconduct in the market.
4. Most of the Nepalese investors are making decisions of on the basis of market rumors. The government and other concerned regulatory bodies cannot protect investors from the loss resulted by their irrational decision. However, government and other concerned authorities should be responsible for creating the environment for making informed investment decision. Therefore, government should initiate to establish an effective credit rating agency and investors protection authority which can help to both individual and corporate investors to make rational investment decision and to protect them from the fraudulent behavior of market player.
5. From the analysis of public response rate toward different sectors it is revealed that public showed the highest response toward the issue of insurance companies followed by finance companies and commercial banks and lowest response toward manufacturing, hotel and other sectors. One of the causes of increasing public response to insurance companies is the political insurgency of the country. For the security of both public and private properties including vehicles, importance is given to the life and non-life insurance and the premium rate of the insurance companies' increases in abnormal rate. On

the other side, hire purchase and consumer loan became a new phenomenon for Nepalese customers and most of these functions are carried by finance companies. Due-to these reasons, insurance and finance sectors became able to attract the investors.

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