

INVESTOR'S PREFERENCE AND AWARENESS IN FINANCIAL INSTRUMENTS IN NEPAL

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Abstract

The research aimed to examine the Nepalese investors' awareness and preference for investment in different sectors of investment. An analytical approach has been followed to analyze the related data and relationship among variables. This study mainly based on primary data. Information was collected through questionnaire. Mail questionnaire method of collection data are employed to collect primary data. Only 60 filled up questionnaires has been systematically analyzed.

It is imperative to conclude that investors seem to be less concern over social status and to be concern over sufficient return and less risk so far as the matter of investing in securities is concerned. Earnings per share (EPS), rate of return, dividend per share (DPS) and management of company are the consideration factor those can be regarded as the most important factor determining their choice of security. Dividend, capital gain, bonus share and liquidity are the major motivating factors for investors to invest in securities, whereas right share and voting rights is only important factors. The debt and preferred stock in Nepalese securities market have no provision of handsome return that compensates the perceived risk of investors. So, investors are less inclined toward these securities. The reason that these securities are illiquid and less marketable, investors tends to have negative attitude towards these securities. Most of the investors set the investment policy while investing in securities.

Key words: *Capital market, risk and return, right share, bonus share, ortfolio.*

Introduction

An investor is who makes an investment into one more category of asset-equity, debt-securities, real estate, currency, commodity, derivatives such as put and call options, etc. with the objective of making a profit (Narayana, 2012). Investors utilize investments in order grow their money and/or provide an income during retirement, such as with an annuity. Investors typically perform technical and/or fundamental analysis to determine favorable investment opportunities and generally prefer to minimize risk

while maximizing returns. Variety of investment stock, bonds, commodities, mutual fund, options, foreign exchanges, gold, silver, retirement plans, and real estate.

Financial instrument is traded in the financial market. Investors can buy or sell securities at a price that varies little from the financial markets and facilitates the price discovery process. In other words, financial market facilitates the transaction of financial assets like deposits, loans, bonds, securities, stocks, bills etc. financial market refers to all the activities of financial institutions those transact on financial assets and liabilities. Financial instruments are monetary contracts between parties. They can be created, traded modified and settled. They can be cash, evidence of an ownership interests an entity (share) or a contractual right to receive or deliver cash (bond). Further, financial market provides a forum in which suppliers and demanders of funds can transact business fund directly; financial market constitutes money market and capital market.

The money market is often accessed alongside the capital market. While investors are willing to take on more risk and have pretenses to invest in capital market, money markets are a good place to "park" funds that are needed in a shorter time period usually one year or less than one year. The money market provides a variety of functions for either individual, corporate or government titles. Similarly, a capital market is where the organization trading of securities and investments takes places. Capital market serves buyers and sellers of equity and debt instrument. Because capital is a crucial component of economy, capital markets are vital. Capital market is a market where buyers and sellers engage in trade of financial securities like bonds, stocks, etc. the buying /selling is undertaken by participants such as individual and institutions.

NEPSE creates liquidity on shares of such companies issued in the primary market, and provides floor for trading of share, numbers of legislative provisions have been made. NEPSE, SEBON, Nepal Rastra Bank are monitoring the share market regularly for timely check and balance, investors awareness campaign are frequently going to ensure right movement of the market. The study of investor's interest, wants, expectations and preference to ward investment decision is vital which very complex and crucial task is. Considering the situation the study has focused on addressing following issues: The main purpose of the study is to examine the Nepalese investors' preference and awareness for investment in different sectors of investment.

Review of Literature

Investment process involves how investors should make decisions about what marketable securities to invest in how extensive that investment should be, and when the investment should be made.

The first step of investment process is to set the investment policy. It involves determining the investor's objectives and the amount of his or her investable wealth. Investment objectives should be stated in terms of both risk and return (Ferson, 2006). The second

step of the investment process is to performance security analysis. The securities available to an investor for investment are numerous and of various types. The main purpose of conducting such examination is to identify those securities that currently appear to be mispriced. The third step in the investment process is the construction of portfolio. Construction of portfolio involves identification of specific securities in which to invest, along with the proportion of investable wealth to be put into each security. While constructing portfolio, the investor needs to address the issues of selectivity, timing, and diversification. Portfolio construction is all about investing in arrange of fund that work together to create an investment solution for investors (Guerard, 2010). The fourth step in the investment process is portfolio revision. Portfolio revision involves both realizing that the currently portfolio is not optimal and specifying another portfolio to hold with superior risk return characteristics. The investor must balance the costs of moving into the new portfolio against the benefits if the revision (Vikram, 2008). The last step of investment process is evaluating the portfolio performance. It involves determination of the actual performance of a portfolio in terms of risk and return and comparing the performance with that of an appropriate "benchmark" portfolio. Choosing investing is just the beginning of your work as an investor. As these investments to see how they are together in your portfolio to help your progress toward your goals (Rajarajan, 2003).

Factor to be considered while making investment in financial instruments

Investing is not an easy; investor should consider various factors before selecting securities such as good future prospects, risk factor, reliable management of the company, beneficial company, higher growth company etc. There are risky, illiquid, long-term investments. So, one need to do a lot work upfront to increase your odds of success (Sajay, 2012). Investment portfolio should consist of products that match your need and work to words achieving your goals. Normally the following factors should be considered in investment decision risk and return of securities, liquidity, availability and accessibility, investment portfolio, taxes, age and investment objectives.

Pokharel (2018) showed investors preference on stock market NEPSE. The study is based on survey method using structured questionnaire. The results demonstrated that investors were found to have investment interest in secondary market. The reasons for selecting shares are mostly liquidity and high rate of earning. The investors' perception regarding the influencing factors for the investment decision in secondary market of NEPSE is the advice of brokers and then movement of indices. The news in daily newspaper and market sentiments are viewed as least influencing factors for investment decision.

Basnet (2019) aimed that financial instrument's standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances

in which financial assets and financial liabilities should be offset. The principles in this Standard complement the principles for recognising and measuring financial assets and financial liabilities in IFRS 9 financial instruments, and for disclosing information about them in IFRS 7 financial instruments: disclosures.

Investment itself is also psychological and behavioral activity. It has wider influence in the world of investment than any other factors. So, this study has examined the current trend of investor's perception, preference and attitude about the market and provides fresh findings and recommendations. In this connection, this study contribute something new toward the securities market that is not sought yet by surveying the psychology and awareness of investors investing in various types of securities. This sort of study of identifying investors' perception, preference and awareness is a new and challenging in itself but is also an opportunity to learn and identify investors from their innermost.

Research Methodology

Research methodology describes method and process applied in the entire aspect of the study has been presented.

Research design

This study followed descriptive and analytical research design. An analytical approach has been followed to analyze the related data and relationship among variables. Similarly, it used descriptive in the sense that it clarifies different aspects of investors' preference toward financial instruments.

Source of data and collection procedure

This study is based on primary data. Data were collected through questionnaire. Mail questionnaire method of collection data are employed to collect primary data. Currently there are 50 broker companies in capital market of Nepal (www.nepse.com.np, 2022). Among them this research has selected 5 broker companies with highest involvement of investors Sweta Securities Pvt. Ltd., Crystal Kanchanjungha Securities Pvt. Ltd., Kalika Securities Pvt. Ltd., Secured Securities Ltd. and Asian Securities Pvt. Ltd. In these broker companies there were total 23000 investors with valid DEMAT account, among them 60 filled up questionnaires has been systematic analyzed.

Data analysis and presentation

Responses from the collected data were statically analyzed and interpreted. Using the statistical package for the social sciences (SPSS) into frequencies with the corresponding percentages, median, table, diagrams and graphs etc. to illustrate the results of the study.

Results and Discussion

Investors' preferences, reason for preferring one security over others, level of satisfaction they enjoy by buying security and awareness of investors about general issues of security market etc. are the issues to be presented and analyzed here in this chapter.

Investors preferences and types of securities

An important thing in Nepalese capital market is to know what kinds of security do investors prefer most. In this very regard, investors are identified in terms of what type of security they prefer most given the certain number of securities those are generally in Nepalese market. The results of their takings are appeared as in the table 1 below.

Table: 1 : Status of Investors' Preference and type of Securities

S.N.	Type of Securities	Rank					Median value	Overall rank
		1	2	3	4	5		
1.	Common stock	48	8	4	-	-	1.00	1
2.	Preferred stock	3	27	22	2	6	2.50	2
3.	Debenture/Bond	3	13	13	20	11	4.00	3
4.	Government Bond	3	4	28	15	10	4.00	4
5.	Others	3	8	6	9	34	5.00	5

Source: Field Survey, 2022, Kathmandu

Table 1 shows that the investors most preferred security is common stock with lowest value of 1, followed by preferred stock, debenture, government bonds and others respectively. From the table it is clear that medial values of common stock, preferred stock, debentures, government bonds and others are 1, 2.5, 4, 4 and 5 respectively.

Investor's investment objectives

Investment objective is the foundation of investment. On the basis of objective investors make a decision regarding selection of security, preference evaluation and time horizon of investment. The detail results of investors are given in table 2.

Table 2 : Investors' Investment Objectives

S.N.	Investment Objectives	Rank					Median value	Overall Rank
		1	2	3	4	5		
1	Sufficient Return	37	21	-	-	2	1.00	1
2	Less Risk	17	20	15	7	1	2.00	2
3	Marketability	5	15	25	15	-	3.00	3
4	Social Status	1	3	16	31	9	4.00	4
5	Other, if any	-	1	5	6	48	5.00	5

Source: Sample Survey, 2022, Kathmandu

Investors objective to invest imply the major psychological reason for investing in the securities. These simply explain for what purpose investors tend to invest i.e. either it is to maximize return, to enhance their social, or to minimize the possible risk. The table above shows that out of the given objectives "sufficient return" is the type of investors objectives for which they are attracted most in comparison with others. Out of the total respondents 62 percent investors rank this objective as the most important which is presented below the chart.

The considerable factors for taking investment decision

Theoretically investment decision should be guided by basic financial indicators in order to minimize investment risk for this study purpose respondents are given as per their importance for investment decision. The results is presented in table 3:

Table 3 : Considerable Factors for Taking Investment Decision

S.N.	Statement	1		2		3		4		5		Total
		Most important		Important		All right		Less important		Least important		
		No.	%	No.	%	No.	%	No.	%	No.	%	
1	EPS	46	77	10	17	2	3	2	3	-	-	60
2	DPS	32	53	18	30	6	10	4	7	-	-	60
3	BVPS	16	27	24	40	18	30	-	-	2	3	60
4	MPPS	28	47	12	20	13	21	6	10	1	2	60
5	Rate of return	34	57	13	22	9	14	1	2	3	5	60
6	Capital structure	20	33	18	31	11	19	9	14	2	3	60
7	Nature of company	23	38	15	25	14	23	4	7	4	7	60
8	Management of company	29	49	10	17	10	17	9	14	2	3	60

Source: Sample Survey, 2022, Kathmandu

Table 3 shows eight various factors to consider while taking investment decision out of total respondent 46 (77%) investors consider earning per share (EPS) as the most important factor. Whereas 34 (57%) and 32 (53%) investors consider rate of return and dividend per share (DPS) respectively. Similarly, book value per share (BVPS), capital structure, nature of company, market price per share (MPPS) and management of company considered as important factors by 16 (27%), 20(33%), 23(38%), 28 (47%) and 29(49%) respectively. However respondents are given 1 to 5 (from most important to least important) level of options. Most of the investors consider all factors as most important and important. This shows that most of investors consider all given factors while they taking investment decision.

Basic motivating factors for investment

Factors those affect or determine the choice of security may be innumerable depending upon the status of security market in the country and investors psychology. The results of their preference are appeared as follows:

Table 4 : Basic Motivating Factors for Investment

S.N.	Statement	1		2		3		4		5		Total
		Most important		Important		All right		Less important		Least important		
		No.	%	No.	%	No.	%	No.	%	No.	%	
1	Capital gain	36	60	13	22	7	12	2	3	2	3	60
2	Liquidity	23	38	20	35	14	22	2	3	1	2	60
3	Dividend	37	62	18	30	5	8	-	-	-	-	60
4	Right share	18	30	11	18	12	20	10	17	9	15	60
5	Bonus share	31	52	17	28	9	15	2	3	1	2	60
6	Voting right	11	18	6	10	7	12	27	45	9	15	60
7	Social status/ Prestige	7	12	6	10	12	20	17	28	18	30	60

Source: Sample Survey, 2022, Kathmandu

Table 4 shows motivating factors for investment preferred by investors, out of them dividend is the first most motivating factor, followed by capital gain and bonus share. As per above table 37 (62%) investors thinks dividend as most important factor for investment, 36 (60%) and 31 (52%) investors take capital gain and bonus share as most important factors respectively. Liquidity is in forth rank for which 23 (38%) investors' preferred important factor for investment. Right share and voting right are 5th and 6th priority for which 18(30%) and 11(18%) investors preferred as all right. Social status/ prestige is placed the last motivating factors to attract investors for investment in securities for which 17(28%) and 18(30%) investors preferred as less important and least important motivating factors respectively. From the above analysis we can conclude that the investor's investment decision is highly influence dividend, capital gain, bonus share and liquidity.

Bond preference

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

Table 5 : Preference of Alternative Bonds

S.N.	Observations	Rank				Total	Me- dian value	Over- all rank
		1	2	3	4			
1	Bond that gets you participates in profits and or loss (income bond)	35	15	5	5	60	1.00	1
2	Bond that adjusts promised interest rate according to the rate in the market (floating rate).	7	15	30	8	60	3.00	3
3	Bond that is pledged against the firm's assets (mortgaged bond).	2	7	19	32	60	4.00	4
4	Simple debt that pays regular interest (simple interest bond).	16	23	6	15	60	2.00	2

Source: Field Survey, 2022, Kathmandu.

One can observe that with lowest median value i.e. 1 most of investors like such bond that gets participates in profits or loss i.e. income bond. Likewise income bond is the most favored bond followed by simple interest bond, floating bond and mortgaged bond. The result of the survey has also been presented in the chart below. It shows that out of total respondents 35(58%), 16(27%), 7(12%)and 2(3%) investors rate as first rank to income bond, simple interest bond, floating bond and mortgage bond respectively, this shows that firms should not only issue bond of traditional nature but they should also add some feature in bond to pull bond market up to inspiring level.

Attraction for preferring government securities

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

Table 6 : Attraction for Preferring Government Security

S.N.	Factors	Rank					Total	Median value	Overall rank
		1	2	3	4	5			
1	Risk free/safe	52	4	2	2	-	60	1.00	1.00
2	Advantage for portfolio construction	1	28	21	5	5	60	3.00	3.00
3	High interest rate	5	21	6	22	6	60	3.00	2.00
4	Less legal formalities	-	3	25	21	11	60	4.00	4.00
5	Protection against malpractice	3	4	6	10	37	60	5.00	5.00

Source: Sample Survey, 2022, Kathmandu

The result gives the information that the most important feature of government security to propel investors to purchase these securities is it is risk free/safe. There are 52 respondents who rate these features as most important. This resulted into the median value of 1 indicating that most of the investors tend to rate this feature as most important factor for selecting this security. Next to this, investors favor this security for it has high interest rate with median value 2. Likewise as per the overall ranking based on median value advantageous to construct portfolio is in the third ranking as its median value is 3. Median value of "less formalities" and protection against malpractices" are 4 and 5 respectively indicating the less attractive inherent in the government security.

Industrial sectors and their attractiveness

There are different industrial sectors one can invest in but which is the most attractive is the issue to be addressed here. Investors are provided with the following industrial sectors and are asked to rate them as per their willingness to invest in the sector. The results of their rating are presented in the table 7.

Table 7 : Industrial Sectors and their Attractiveness

S.N.	Industrial sectors	Rank							Median value	Overall rank
		1	2	3	4	5	6	7		
1	Bank	40	5	9	-	2	1	3	1.00	1
2	Finance	8	12	12	14	7	4	3	3.00	3
3	Hotel	3	10	10	18	9	9	1	4.00	4
4	Manufacturing and processing	4	5	10	8	21	11	1	5.00	5
5	Insurance company	5	25	11	11	5	2	1	2.50	2
6	Trading company	-	2	4	7	13	28	6	6.00	6
7	Others	-	1	3	2	4	5	45	7.00	7

Source: Sample Survey, 2022, Kathmandu

The median value of finance, hotel, manufacturing/processing, trading company and others sectors are 3, 4, 5, 6 and 7 respectively indicating the consecutive priority of investors for their choice of investing in different industrial sector is concerned, our current economy shows that manufacturing industries are affected more harshly than financial sectors owing to different macro forces such as political instability, deadlock and national insecurity prevailing in the country. This might have induced the investors to go for financial sectors rather than manufacturing and other sectors.

Investment processes

Investment processes are the sequential steps of making investment decision and going through these processes over the investment horizon. Whether or not Nepalese investor follows the investment processes in analyzed and interpreted in the section. The results of their markings are presented in the table below:

Table 8 : Investment Processes as Followed by Investors

S.N.	Investment process	Ranking						Total
		Yes	%	No	%	Don't know	%	
1	Set investment policy	54	90	4	7	2	3	60
2	Analyze security	49	82	7	12	4	6	60
3	Portfolio construction	48	80	6	10	6	10	60
4	Portfolio revision	35	58	15	25	10	17	60
5	Portfolio performance evaluation	32	53	18	30	10	17	60
Total		218		50		32		300

Source: Field Survey, 2022, Kathmandu

Among the investors 54(90%) investors set investment policy and remaining don't. likewise 49(82%) investors analyze security before making investment decision remaining 18% don't. also 48(80%) investor construct portfolio. Similarly respondents who revise and evaluate their portfolio are also 35(58%) and 32(53%) respectively. Out of total respondents 4(7%) does not set the investment policy. 7(12%) does not analyze security before investment. 6(10%) does not construct the portfolio. Revision of portfolio step does not follow by 15(25%). Also 18(30%) don't evaluate their portfolio. Out of 60 responded 2(3%) don't know about set investment policy, 4(6%) does not know about analyze of securities. Similarly 6(10%), 10(17%) and 10(17%) don't know about portfolio construction, portfolio revision and evaluation of portfolio performance respectively. After this research it can be concluded that there are so many Nepalese investors they follow the investment process.

Investors general awareness in investment

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

Table 9 : Number of Investors with Right and Wrong Answer

S.N.	Question of general awareness	No. of respondents				
		Right	%	Wrong	%	Total
1	What sort of information do you generally take before having filled the order specification?	15	25	45	75	60
2	If you did not receive sales proceeds from the concerned broker company within which period do you report it to stock exchange?	31	52	29	45	60
3	If your order is purchase order and you did not receive financial security within the given time periods. Which of the following statement is true in this regard?	28	47	32	53	60

The first question is related to the necessary information to be taken from broker company after having filled the order specification. The number of respondents with right answer for this question is 15 which is 25% only indicating few investors are aware as to the information to be taken from broker company. The number of respondents with correct answer for number 2 question is only 31 and this is the 52% out of the total respondent. Like wish number 3 is only 28 and that is the 47% of the total respondents. This result is so, dismal as so few for the respondents concern over the general information as to the security market and its functioning in nutshell the analysis above spells that Nepalese investors needs to be aware towards the security market and its functioning mechanism. Because the current state of their seriousness over security market seem to be less reliable and insecure.

Discussion

The investor must balance the costs of moving into the new portfolio against the benefits if the revision (Vikram, 2008). Similar to this study, Nepalese's investors were less knowledgeable about the investment, they does not aware about making the portfolio and the benefit of portfolio that way broker company have to make plan to aware the investor about the investment plan. Similarly, Basnet (2019) aimed that financial

instrument's standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. The research found that most of the investors preferred equity investment. Like this result, Maximum investor around 80% investor invest in the common stock rather than preferred stock, debt and government bond because they does not give the sufficient return comparing to common stock.

Conclusions

EPS, rate of return, DPS and management of company are the consideration factor those can be regarded as the most important factor determining their choice of security. Dividend, capital gain, bonus share and liquidity are the major motivating factors for investors to invest in securities, whereas right share and voting rights is only important factors. The debt and preferred stock in Nepalese securities market have no provision of handsome return that compensates the perceived risk of investors. So, investors are less inclined toward these securities. For Nepalese investors banking sector is most attractive sector for investment. Next most attractive sector is insurance company, followed by finance company, manufacturing and processing company, trading company hotel and other.

Most of the investors set the investment policy while investing in securities. Most of the respondents do not revision their portfolio also they does not evaluate performance of portfolio, and most of the Nepalese investors don't know the process of the investment. Investors are less aware towards the general functioning of security market in the laundry. This result is as dismal as few respondents are concern over the general information as to the security market and it's functioning.

Implications

- To issue common stock as source finance is relatively easy for Issuer Company since investors like to hold common stock as compare to other securities. However, debt market should be upgraded so that issue of debt capital would be easy as any company with equity capital only cannot take advantages of leverage. Also companies should have to issue more mutual funds because small investors also interested in the investment.
- Investors actively concerned over are amendment and strict implementation of current rules and regulations in order to accelerate the current status of Nepalese security market.

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