

## Individual Investors in the Nepalese Securities Market: What They Know and What They Like

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### Abstract

*Investments in financial assets is getting much more popular nowadays. The investment made by individual investors is always guided by their own comprehension and preference over the investment. Therefore, the study aimed to examine the understating and the preference of the individual investors of the Nepalese securities market. A convenient sampling strategy was employed to obtain the essential information via structured questionnaire survey from investors at different stock brokers' sites in Kathmandu valley and collected 203 responses. Nepalese investors favoured equities and the banking sector. Even though profit was their major investing goal, they did not do a risk-return analysis. They were unhappy with investment decisions, rules, and regulations. As a result, their investing decisions were significantly influenced by their presumption of market information and understanding. This study has aided to a better comprehension of what factors contribute to shaping the individual investors' investment decisions.*

**Keywords:** Behaviour, Comprehension, Information, Decision, Preferences.

**JEL Classification:** G11

## **Introduction**

Individual investor investment behavior has gained attention among academics since individual investor participation in the stock market has expanded substantially in recent years (Calvet et al., 2016). Individual investors are influenced by a wide range of psychological and emotional factors that might lead to irrational investing decisions (Campbell, 2006; Kumar & Goyal, 2016). The rational investment decision-making process necessitates complete investment knowledge, logical thinking, and thorough analysis of investment information (Rubaltelli et al., 2010). Due to a lack of understanding of their investing objectives, the majority of individual investors fail to make rational investment decisions (Sabir et al., 2019). Furthermore, individuals are misled and confused about their investment goals, and they fail to meet their objectives because they are unable to match their predicted returns to their risk-taking attitude (Hoffmann & Post, 2017).

Investments in financial assets like common stocks, bonds, debt, entitlements (rights), options, future, warrants, etc., are financial investments. Because of the divisibility, marketability, and availability of information, financial investments are becoming increasingly popular nowadays. The individual investor is responsible for choosing the financial investment. The investor's decision is always directed by their own comprehension and preference of the investment, i.e., 'what they know and what they like'. Hence, it is necessary to comprehend the investment behaviour of individuals and the factors that influence the behaviour of individual investors in a stock market. Moreover, knowledge and awareness of an investment may be the most influential factor on the behaviour of individual investors.

A lot of studies on the investment behaviour of individual investors have been done (Akhtar & Das, 2019; Korniotis & Kumar, 2011; Kumar & Goyal, 2016). However, relatively few studies have been undertaken in the Nepalese context regarding the stock investment behaviour of individuals. This study attempted to examine the comprehension and preferences of individuals investing in the Nepalese securities market since the market has been playing a vital role in the economic development of the nation. Hence, the study would provide some insights into the Nepalese securities market for potential investors.

## **Literature Review**

Investing in the securities market has recently acquired popularity in Nepal due to the market's rapid expansion. When stock prices rise over time or when dividends are paid, an investor might earn a profit from stock investments (Mishkin & Eakin, 2012). Before making an investment decision, investors analyze numerous aspects like accounting facts, the firm's image, past performance, neutral information, government rules and regulations, and many more. Studies (like Azam & Kumar, 2011; Geetha & Ramesh, 2012; etc.) indicated that individual investors make financial investment decisions by analyzing various factors related to investment. There is no doubt that investors are accountable for their lack of self-control

and good judgment when selecting assets to invest in. As a result of a lack of basic knowledge regarding the securities of certain organizations, investors buy in shares randomly (Joshi, 2018).

An investor's personal, psychological and emotional factors influence their behaviour (Pak & Mahmood, 2015; Tauni et al., 2017). The attitude of individuals toward risk, perception of social influence, and faith determines the intentions of investors (Akhtar et al., 2018), and intention shapes the behaviour and preferences of individuals. The risk-taking attitude of individuals might play an essential role in the development of intention to invest in stocks (Souiden & Rani, 2015). Grable and Lytton (2003) observed that there was a positive relationship between bond holdings and risk-averse attitudes. Conversely, Bali et al. (2009) found that those investors, who want long-term growth of their capital and a larger return on capital, invest in stocks. The risk-taking attitude of individuals motivates them to invest in shares (Akhtar & Das, 2019).

Investment decisions are greatly impacted by motivational factors such as industry attractiveness, historical data, expected dividends, financial indicators, loss minimization, and chances of capital gain (Khan et al., 2015). The literature revealed that rational financial behaviour depends on the levels of financial literacy (Lusardi et al., 2017). Confidence of investors at the time of decision making and accuracy of financial decisions also depend on financial literacy (Chu et al., 2017) and literate individuals have better financial management skills (Lusardi & Mitchell, 2014). These individuals diversify risk through the distribution of their investments in different financial assets (Al-Tamimi & Kalli, 2009).

## **Methodology**

This study sought to assess the understanding and preferences of individual investors in the Nepalese security market. To achieve the objective of the study, a descriptive research design was employed. All the investors of the Nepalese securities market were the population of the study and used a convenient sampling approach to collect the required information from those investors who were available at different stock brokers' locations in Kathmandu valley. Primary data were collected by using a survey questionnaire. A total of 300 questionnaires were distributed to the targeted respondents during the period January to April 2022. Out of which, 203 correctly and completely filled-up responses were obtained. According to Hair et al. (2011), a sample size of 200 and more is sufficient for social sciences research. Therefore, the sample size of the study was 203 responses.

The questionnaire included 15 questions and was organized into two sections. The first section included five questions to obtain the respondent's demographic data. The last section presented ten questions regarding the understanding and preference of the investors. Multiple choice questions, yes/no questions, and ranking questions were included in the questionnaire to get data regarding the study variables. In multiple-choice questions, the respondents were requested to select only one option from the available alternatives, and in ranking questions,

they were asked to rank the given alternatives by assigning '1' for the most important or preferred one and so on.

## Outcomes and Analysis

The study obtained primary data from 203 investors who were approached with 10 study variable questions in different stock brokers' locations between 11:00 and 15:00 hours. Table 1 outlined the demographic information of the respondents, whereas Tables 2 to 11 demonstrated the respondents' responses to the study variable questions.

Table 1

*Demographics of the respondents*

	<b>Respondents</b>	
	<b>Nos</b>	<b>%</b>
<i>Sex:</i>		
Female	41	20.20
Male	162	79.80
<i>Occupation:</i>		
Service	87	42.86
Enterpreneur	31	15.27
Student	49	24.14
Freelancer	36	17.73
<i>Age group:</i>		
16 to 25 years	58	28.57
26 to 35 years	43	21.18
36 to 45 years	45	22.17
46 to 55 years	34	16.75
56 years and above	23	11.33
<i>Education:</i>		
Upto higher secondary school	30	14.78
Graduate	94	46.31
Post-graduate and above	79	38.92
<i>Years of experience (investing on securities):</i>		
2 years and below	26	12.81
2 – 5 years	85	41.87
5 – 10 years	70	34.48
10 years and above	22	10.84
<b>Total of each section</b>	<b>203</b>	<b>100.00</b>

Table 1 showed that male investors dominated the Nepalese securities market. More than 40 % of all investors were comprised of students and freelancers. Concerning the age distribution of investors, this study found that more than 50 % of the investors were under 35 years of age, indicating that Nepalese youths are actively engaging in the securities market. Intellectual individuals are playing in the securities market since more than 85 % of the investors completed their higher secondary education, and around 40 % have post-graduate and above educational backgrounds. Additionally, the poll revealed that more than 87 percent of investors had at least two years of experience in the securities market.

Table 2

*Investor's instrument-wise preference*

<i>Inquiry:</i>	S. N.	<i>Response:</i> Instruments	Respondents	
			Nos	%
VAR_1: In which of the following financial instruments do you want to invest?	1	Equity shares	119	58.62
	2	Preference shares	21	10.34
	3	Debentures/bonds	15	7.39
	4	Mutual funds	48	23.65
<b>Total</b>			<b>203</b>	<b>100</b>

In response to the VAR\_1 (presented in Table 2), the majority of respondents, 58.62 %, favored investing in equity shares. The remainder consisted of 10.34 % preference shares, 7.39 % preferred debentures/bonds, and 23.65 % preferred mutual funds.

Table 3

*Investor's sector-wise preference*

<i>Inquiry:</i>	S. N.	<i>Response:</i> Sectors	Respondents	
			Nos	%
VAR_2: Which one of the following investment sectors do you prefer to make the investment?	1	Banking	39	19.21
	2	Microfinance	22	10.84
	3	Hydropower	21	10.34
	4	Development banks	18	8.87
	5	Non-life insurance	16	7.88
	6	Life insurance	15	7.39
	7	Mutual fund	14	6.90
	8	Finance	13	6.40
	9	Manufacturing and production	12	5.91
	10	Investment	10	4.93
	11	Hotels and tourism	9	4.43
	12	Trading	8	3.94
	13	Others	6	2.96
<b>Total</b>			<b>203</b>	<b>100</b>

In response to the VAR\_2 (presented in Table 3), 19.21 % of respondents favored investing in the banking sector, followed by microfinance (10.84 %) and hydropower (10.34 %). Table 3 demonstrates the standing of the remainder's preferences.

Table 4

*Investor's understanding of risk and return*

<i>Inquiry:</i>	S. N.	<i>Response:</i> Understanding	Respondents	
			Nos	%
VAR_3: Do you emphasize (consider)	1	Yes	83	40.89
	2	No	109	53.69

risk and return analysis while making the investment?	3	Don't know	11	5.42
	<b>Total</b>		<b>203</b>	<b>100</b>

In response to the VAR\_3 (presented in Table 4), the respondents' understanding showed that 53.69 % of Nepalese investors do not conduct risk and return analyses before investing in financial instruments, and 5.52 % had no knowledge of the risks and returns associated with the securities. As a result, just 40.89 % of respondents carefully considered the risk and return before investing in securities in Nepal.

Table 5

*Investor's motive in making the investment in securities*

<b>Inquiry:</b>	<b>S. N.</b>	<b>Response:</b>	<b>Respondents</b>	
			<b>Nos</b>	<b>%</b>
VAR_4:	1	Profit	149	73.40
What is your motive for making the investment in securities?	2	Marketability	7	3.45
	3	Social status	9	4.43
	4	All of the above	38	18.72
	<b>Total</b>		<b>203</b>	<b>100</b>

In response to the VAR\_4 (presented in Table 5), 74.40 % of respondents expressed their opinion that the profit or dividend associated with the securities was the primary motive for investing in securities or return from the investment is the main purpose of the investors. Table 5 demonstrates the standing of the remainder's motive for making the investment.

Table 6

*Investor's satisfaction in the security market*

<b>Inquiry:</b>	<b>S. N.</b>	<b>Response:</b>	<b>Respondents</b>	
			<b>Nos</b>	<b>%</b>
VAR_5:	1	Yes	74	36.46
Are you satisfied with the return from your investment decision in the security market?	2	No	120	59.11
	3	Don't know	9	4.43
	<b>Total</b>		<b>203</b>	<b>100</b>

In response to the VAR\_5 (presented in Table 6), 59.11 % of respondents were dissatisfied with the return they received on their investment in the securities. 36.46 % of respondents indicated that they were pleased with their return, whereas 4.43 % of respondents emphasized that they were unaware of the investors' contentment with their return.

Table 7

*Investor's awareness in making the investment in the Nepalese security market*

<b><i>Inquiry:</i></b>	<b>S. N.</b>	<b><i>Response:</i></b> Awareness	<b>Respondents</b>	
			<b>Nos</b>	<b>%</b>
VAR_6: Are you aware of the investment in the Nepalese security market?	1	Yes	74	36.45
	2	No	111	54.68
	3	Don't know	18	8.87
<b>Total</b>			<b>203</b>	<b>100</b>

In response to the VAR\_6 (presented in Table 7), 54.68 % of Nepalese investors were unaware of their investments, whereas 36.45% indicated that they were aware, and 8.87% responded that they did not know about their awareness.

Table 8

*Influencing factors in making the investment in securities*

<b><i>Inquiry:</i></b>	<b>S. N.</b>	<b><i>Response:</i></b> Influencing factors	<b>Respondents</b>	
			<b>Nos</b>	<b>%</b>
VAR_7: Which is the main influencing factor for your investment?	1	Dividend rate	121	59.61
	2	Company's overall profit	46	22.66
	3	Company's overall performance	36	17.73
<b>Total</b>			<b>203</b>	<b>100</b>

In response to the VAR\_7 (presented in Table 8), 59.61 % of the respondents indicated that the dividend rate was the most influential aspect, while 22.66 % cited the company's overall profit and 17.73 % were concerned with the company's overall performance.

Table 9

*Status of information for the companies*

<b><i>Inquiry:</i></b>	<b>S. N.</b>	<b><i>Response:</i></b> Status of information	<b>Respondents</b>	
			<b>Nos</b>	<b>%</b>
VAR_8: Are you getting sufficient and timely information from the companies where you have made the investment?	1	Yes	22	10.84
	2	No	163	80.30
	3	Don't know	18	8.87
<b>Total</b>			<b>203</b>	<b>100</b>

In response to the VAR\_8 (presented in Table 9), 80.30 % of the Nepalese investors were not getting sufficient and timely information from the companies, whereas 10.84 % stated that they were getting and 8.87 % responded that they did not know about the status of information.



Table 10

*Status of the rules and regulations of the government*

<b>Inquiry:</b>	<b>S. Response:</b>		<b>Respondents</b>	
	N.	Status of rules and regulations	Nos	%
VAR_9:	1	Yes	15	7.39
Are the rules and regulations of the government sufficient to protect your investment in the securities market?	2	No	177	87.19
	3	Don't know	11	5.42
<b>Total</b>			<b>203</b>	<b>100</b>

In response to the VAR\_9 (presented in Table 10), 87.19 % of the Nepalese investors stated that the rules and regulations of the government were not sufficient to protect the investors' investment in the Nepalese securities market, while 7.39 % stated that such rules and regulations were sufficient and 5.42 % responded that they did not know about the status of the government rules and regulations.

Table 11

*Attraction of investment in the common stock*

<b>Inquiry:</b>	<b>S. Response:</b>		<b>Respondents</b>	
	N.	Attraction of investment	Nos	%
VAR_10:	1	Dividend rate	124	61.08
Why are you attracted to making an investment in common stock?	2	Participation in the management	19	9.36
	3	Rights of shareholders	35	17.24
	4	Bulk transaction volume	25	12.32
<b>Total</b>			<b>203</b>	<b>100</b>

In response to the VAR\_10 (presented in Table 11), 61.19 % of respondents were attracted to making an investment in the common stock. Table 11 demonstrates the standing of the remainder's attraction of investment in the common stock.

## Discussions and Conclusions

In consistent with earlier studies (like Dahal, 2019; Pandey, 2015; Pokharel, 2017; Subedi, 2021; etc.) Nepalese investors preferred to invest in equity shares, followed by mutual funds, preference stocks, and debentures, and the banking sector was the most chosen investment sector. Prior to making investment decisions, Nepalese investors did not conduct a risk-return analysis, despite the fact that profit was their primary investment objective. There was a lack of satisfaction among the investors in the securities investment decision. The dividend rate was the main influencing element for their investment; however, the majority of the investors were unaware of their involvement in the Nepalese securities market. 80.30 % of the respondents stated that they did not receive adequate and timely information from the



companies they worked for and that government laws and regulations were insufficient to safeguard investors in the securities market from losses. Such findings were also in line with the earlier studies, which demonstrated that financial literacy plays a significant role in shaping the individual investor's comprehension and preferences (Akhtar & Das, 2019; Al-Tamimi & Kalli, 2009; Sabir et al., 2019).

The study concluded that individual investors assume that they have knowledge and information about the company, and therefore their investment decision is strongly affected by their opinion. In addition, the investment decisions were not solely based on the position of the financial statement, and most of the time, their decisions depended on the firm's reputation, the opinion of the majority of stakeholders, and the status of the firm. This study has contributed to a better understanding of what factors contribute to shaping the investment behaviour of individual investors.

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