

INVESTOR AWARENESS IN NEPALESE CAPITAL MARKET

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ABSTRACT

The capital market is a means through which scattered savings and investable resources are converted into actual investment and helps in the development of the financial system in developing countries like Nepal. The study aimed to assess the level of awareness among stock investors in the Nepalese capital market. A survey was conducted among 240 investors who frequently visited the sub-brokerage firm within Kathmandu, using the purposive sampling technique. Descriptive statistics were performed using IBM-SPSS 20.0. The Z-test was used to test the hypothesis; the regression model and Karl Pearson's correlation coefficient was used to find the correlation between the variables. The level of investor awareness in the Nepalese capital market is moderate (i.e., 3.66). There was a positive correlation between investor awareness and factors affecting it. A statistically significant relationship was found between investor awareness, fundamental and technical analysis, education and training programs, social learning and motives, evaluation of investment alternatives, regulators' rules and regulations, and information dissemination, respectively ($Z_{cal} > Z_{critical}$ and $p < 0.05$). Trainings, workshops, and seminars should be conducted on the regular basis regarding technical aspects of investment, investor rights, the advantages of investing, new financial products, etc.

Keywords: Investor awareness, Capital market, Fundamental and technical analysis, Education and training programs, Social learning and motives, Investment alternatives, Regulator's rules and regulations, Information dissemination.

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INTRODUCTION

The capital market plays a crucial role in the development of the financial system in developing countries like Nepal. Capital markets are financial markets consisting of long-term securities issued by the government or a corporation. It is a means through which scattered savings and investable resources are converted into actual investments. The primary role of the capital market is to allocate the economy's capital stock among various productive sectors. Capital invested in such sectors acts as seed money and generates more funds for further investments. No modern corporation of any size can function effectively without ready access to the capital markets at the lowest possible cost [1].

The capital market can be either a primary market or a secondary market. In the primary market, new stock or bond issues are sold to investors, often via a mechanism known as underwriting. The main entities seeking to raise long-term funds on the primary capital markets are governments (which may be municipal, local, or national) and business enterprises (companies). Governments issue only bonds, whereas companies often issue both equity and bonds. The main entities purchasing the bonds or stock include pension funds, hedge funds, sovereign wealth funds, and less commonly wealthy individuals and investment banks trading on their own behalf. In the secondary market, existing securities are sold and bought among investors or traders, usually on an exchange, over-the-counter, or elsewhere. The existence of secondary markets increases the willingness of investors in primary markets, as they know they are likely to be able to swiftly cash out their investments if the need arises [2]. Retail investors with limited capital fund could also participate in the industrial development process of the country through their investment in securities. Investors who are willing to buy or sell securities quickly may be searching for good offers or accepting poor offers with higher risks and higher returns [3].

The capital market acts as a mechanism that creates investment alternatives for saving groups and long-term funds for individuals,

institutions, and the government. The practice of stock exchange in Nepal is a recent phenomenon which was started after the issuance of common stock by Biratnagar Jute Mills Limited in 1937. The history of securities exchange in Nepal shows that the first amendment of the Securities Exchange Act of 1983 in 1993 paved the way for the restriction of the stock market in Nepal, which led to the establishment of the Securities Board of Nepal (SEBON) in 1993 with a mandate to regulate and develop the stock market. The act also led to convert the Securities Exchange Centre into the Nepal Stock Exchange (NEPSE), a fully-fledged open-out-cry trading system, with the induction of stock brokers on January 13, 1994 [4]. With the existence of the stock exchange, numbers of financial institutional investment groups and independent investors have been engaging in financial sectors in term of their association with banking and finance, insurance, manufacturing and service industries, and hydropower sectors. As a result, the practitioners and beneficiaries, or the investment communities, have grown tremendously in a short period of time. Such speedy growth also raised the issue of the quality of growth. Several factors may affect the stock market. Any factors that have an effect on the cash flows of firms or discount rates will have an impact on the stock market. However, which factors affect what degree will vary from country to country, depending on the size, type, and other characteristics of the economy and the market [5].

The term investor awareness has been used frequently in investor communities. It describes the investor's literacy or knowledge about the investment environment or about the market. The level of awareness usually measures the investor's exposure and knowledge or information about the industry as a whole. It is significant since investors are expected to make their investment decisions based on this information and knowledge. To expand and achieve sustainable growth in the economy, investor awareness and their commitment to long-term investment play a vital role. Thus, it is expected that awareness and commitment move in the same direction, and their association contributes a lot to economic development [6].

Statement of the problem

The capital market provides opportunities for both new and experienced investors to increase their wealth. In the present scenario, people are attracted to the capital market, which is accompanied by the availability of new financial products and services. Increasing the level of awareness is deemed necessary to further increase public interest and participation in capital market activities [7]. As per the studies from other countries, many factors influence investors participation in the capital market, such as demographic characteristics, education, income level, financial well-being, financial literacy, IQ level, overconfidence, risk tolerance, social interaction, capital market experience, investment knowledge, and intention [8,9]. Likewise, investors literacy, their awareness level, and the availability of information and knowledge to analyze information for decision-making determine the long-term growth of the capital market in Nepal. Investor awareness is not only about the knowledge of financial products available in the market but is also the foundation for making investment decisions, both by the less educated and those committed to long-term financial decisions [10]. Aware investors are like guards that help regulating bodies know potential market anomalies before their occurrence and can select better investment options suitable for them. Investors awareness helps them be updated with the investment environment and risk associated with that investment, develop the skill to protect against fraud and malpractice, and maximize the use of the limited resources of government agencies [11]. In Nepal, SEBON is known to have conducted a few awareness programs, seminars, workshops, training programs, street campaigns, etc., and all companies are yet to implement such strategies. Timely and reliable information creates aware investors and helps in rational investment decisions. Educating investors in terms of investment objectives, associated risks, alternatives, and investment decision-making processes is the most potential way to accelerate the development of the capital market [6]. Thus, the study tries to help to create the importance of investor awareness in the capital market. However, there is a paucity of data on this context in Nepal, and this study is expected to be a significant contribution to the existing literature regarding investor awareness in the Nepalese capital market. Similarly, the study can be helpful to identify the Nepalese investor's rationality and which factors influence the investor's awareness more while making investment decisions. Hence, it is expected to be of great use for the financial sector of Nepal, including investors, equity holders, bankers, brokers, the government, financial institutions, researchers, and students.

Objective of the study

General objective

- To assess the level of awareness among stock investors in the Nepalese capital market.

Specific objective

- To assess the demographic profile of investors such as gender, age, qualification, marital status, occupation, income, and level of investment
- To assess the factors affecting the investors awareness
- To suggest strategies for investor awareness to policymakers.

Research hypothesis

- H_1 : There is a significant relationship between fundamental and technical analysis and investor awareness
- H_2 : There is a significant relationship between education and training programs and investor awareness
- H_3 : There is a significant relationship between social learning, motives, and investor awareness
- H_4 : There is a significant relationship between the evaluation of investment alternatives and investor awareness
- H_5 : There is a significant relationship between the regulator's rules and regulations and investor awareness
- H_6 : There is a significant relationship between information dissemination and investor awareness.

LITERATURE REVIEW

Wanyana conducted a study entitled "Investor Awareness, Perceived Risk Attitudes, and Stock Market Investor Behavior" to assess investor awareness, perceived risk attitudes, and stock market investor behavior and the relationship between them. The result showed a negative correlation between investor awareness and perceived risk attitudes, i.e., the more financial information one has, the lower the perception of the risk of investing in stock and the higher the likelihood of investing more in a particular stock. Also, a negative correlation was found between perceived risk attitudes and investor behavior on the USE, i.e., the higher the risk perception, the lower the likelihood of investing in a particular stock, and the lower the risk perception, the higher the likelihood of trading more. Both investor awareness and perceived risk attitudes had an impact on investor behavior [12].

A study entitled "Factors affecting investor decision-making: A case of the Nepalese capital market" was carried out by Kadariya among 185 stock investors, where the response rate was only 27%. The study primarily analyzed the market reactions to tangible and intangible information in the Nepalese stock market and examined the investors' opinions on Nepalese stock market issues. The result showed that the capital structure and average pricing method were the prime factors that influenced investment decisions, followed by political and media coverage, belief in luck and financial education, and trend analysis, respectively [8].

With the aim of assessing investor's awareness about investment in the stock market, Banumathy collected data among 290 stock market investors in Puducherry using a structured questionnaire. Data were analyzed using the Mann-Whitney U test and the Kruskal-Wallis H Test. The result obtained showed that demographic characteristics such as age, gender, education, and occupation to be the factors affecting investor awareness significantly [10].

A descriptive cross-sectional study was conducted by Sakthi and Robert in Chennai among 120 respondents using convenience sampling techniques to evaluate the impact of investors' awareness in stock market. The collected data were analyzed using an independent sample t-test and one-way analysis of variance. The study found that the age above 40 years and married respondents had a higher awareness level than others. Likewise, educational level, occupation, and income level were also factors influencing the awareness level of investors [13].

Pokharel conducted a survey on investors perceptions and awareness regarding the influencing factors for investment decisions in the secondary market of NEPSE. The findings of the study depicted that investor's preferences for investment relied on liquidity and a high rate of return. Moreover, brokers advice was the main influencing factor affecting investment decisions rather than the investor's sole decision [14].

Qureshi *et al.* studied investor awareness, perception, and investor behavior among 204 respondents in the stock market in Nepal. Pearson co-relation analysis was used to evaluate the relationship between investor awareness and investment level. The independent variables for the study were financial literacy and social learning, and the dependent variable was investor awareness. The study found financial awareness and social learning to be highly loaded factors for investor awareness [15].

Maini examined the awareness level of women investors in the stock market employing a descriptive research design among 135 women investors from major cities in Punjab. Knowledge about stocks and knowledge regarding laws, i.e., the environment, were the independent variables. The result showed increasing knowledge regarding stocks among investors and a positive relationship with investor awareness [16].

Panthi and Chalise conducted a survey to explore the development and challenges of the Nepalese capital market. They pointed out that

the Nepalese capital market is in the developing phase and that many areas can be focused for its systematic development. Despite of many regulations been formulated to support the capital market of Nepal, factors like political conditions, limited participants of big investors, and a lack of proper implementation of rules and regulations have prevented it from being as favorable as it had to be [17].

Mwamtambulo conducted a study to determine the factors that influence individual investors participation in the stock market. The study illustrated that demographic factors like age, gender, and education have insignificant influence on investors participation decisions; rather, their risk-taking attitude and the properties of companies offering financial products in the stock market influence them the most. Likewise, advice from friends, relatives, and brokers also plays an important role in the level of participation of individual investors. The study also suggested that factors like household income, information availability, and capital market awareness to be addressed to increase individual investor participation in the capital market [18].

METHODS

Study design and sample size

Adopting a descriptive study design, a survey was conducted among 240 investors using the purposive sampling technique. All the equity investors with different backgrounds who frequently visited the sub-brokerage firm within Kathmandu were included in the study.

Data collection tool and procedure

The structured questionnaire was prepared and administered to the respondents through the face-to-face interview method. The questionnaire consisted of single responses, multiple responses, a rating scale, and open-ended type of questions. The questionnaire was divided into two parts: the first part consisted of the respondents' demographic characteristics, and the second part focused on the level of awareness among investors in the Nepalese capital market.

Statistical analysis

The data were entered in Microsoft Excel version 13 and analyzed using IBM-SPSS 20.0 (IBM Corporation, Armonk, NY, USA). The data were expressed as mean, median, range, and standard deviation. The Z-test was used to test the hypothesis; the regression model and Karl Pearson's correlation coefficient were used to find the correlation between the variables.

RESULTS AND DISCUSSION

Demographic characteristics of the respondents

Of the total 240 respondents, male (73.75%) predominated the study, which might be a clue that in Nepal, financial decisions in the family are mainly made by the male (Table 1). Similarly, more than half of the respondents (57.5%) were in the age of range 20–29 years, and 24.6% of them belonged to the age group of 30–39 years. This can be attributed to the fact that the young generation is more concerned about the capital market and future savings. Almost half of the respondents (48.8%) had a bachelor's level of qualification, and more than one-third (35%) had a master's or higher level of qualification. This finding might depict that higher education is responsible for knowledge in people about investment in the share market. Likewise, most of the respondents (52.5%) were unmarried; one-third (34.2%) were involved in banking and finance; and one-fourth (25.4%) were private business holders. Unmarried respondents being more likely might be due to the development of advanced technologies, in which today's generation is more interested; they keep themselves more updated on new things either through social media, the internet, or through their friend circle as a trend. In the same manner, people engaged in banking and finance are more aware of the share market due to the influence of their colleagues involved in the share market and the stock of the banks and finances where they are employed. In addition, more than one-third of the respondents (37.9%) had an annual level of investment of Rs 100,000–500,000, followed by those with an annual

Table 1: Demographic characteristics of the respondents (n=240)

Characteristics	Categories	n (%)
Gender	Male	177 (73.75)
	Female	63 (26.25)
Age	20–29	138 (57.5)
	30–39	59 (24.6)
	40–49	33 (13.8)
	≥50	10 (4.2)
Qualification	SLC	11 (4.6)
	Intermediate	28 (11.7)
	Bachelor	117 (48.8)
Marital status	Masters and above	84 (35)
	Married	114 (47.5)
Occupation	Unmarried	126 (52.5)
	Banking and finance	82 (34.2)
	Private business	61 (25.4)
	Government employee	29 (12.1)
Annual level of investment	Students	45 (18.8)
	*Others	23 (9.6)
Monthly income level	<Rs 100,000	70 (29.2)
	Rs 100,000–Rs 500,000	91 (37.9)
	Rs 500,001–Rs 1,000,000	52 (21.7)
	More than Rs 1,000,000	27 (11.3)
	Below Rs 10,000	35 (14.6)
	Rs 10,000–Rs 20,000	31 (12.9)
	Rs 20,001–Rs 30,000	57 (23.8)
	Rs 30,001–Rs 40,000	57 (23.8)
	Above Rs 40,000	60 (25)

*Others=teaching, housewife, farmers, etc.

level of investment of below Rs 100,000 (29.2%). The finding showed the marked requirement for an investor awareness program in the capital market. Furthermore, the study showed that one-fourth of the respondents (25%) had a monthly income level above 40,000, whereas less than one-fourth (23.8%, 23.8%) had a monthly income level of Rs 20,001–30,000 and Rs 30,001–40,000, respectively.

Investor awareness and its determinants

Investor awareness includes both the literacy level of the investor and knowledge about the investment environment. Many factors are responsible, among them fundamental and technical analysis, education and training programs, social learning and motives, evaluation of investment alternatives, regulator's rules and regulations, and information dissemination, which are the major factors or determinants discussed in the study through descriptive statistics (Table 2). Of the seven factors, investor awareness had the highest mean of 3.66, whereas regulators rules and regulations had the lowest of all, i.e., 3.26. Overall, a moderate level of investor awareness was illustrated in the study, i.e., 3.66 out of 5 scale interval levels. In the study, evaluation of investment alternatives exhibited the strongest effect (mean=3.48) on investor awareness, followed by social learning and motives (mean=3.45), education and training programs (mean=3.41), fundamental and technical analysis (mean=3.39), information dissemination (mean=3.35), and regulator's rules and regulations (mean=3.26), respectively. Likewise, investor awareness had the highest median of 3.83. In addition, education and training programs had the highest standard deviation and variance of 0.75 and 0.56, respectively, whereas social learning and motives had the lowest standard deviation and variance of 0.57 and 0.32, respectively. Furthermore, fundamental and technical analysis had the highest range of 4.00, whereas regulator's rules and regulations and information dissemination had the lowest range of 3.00.

Statistical test

Correlation analysis

Karl Pearson's coefficient was conducted to determine the direction (positive or negative) of correlation among the variables (Table 3).

The findings showed that the independent and dependent variables were positively correlated. Of them, the highest correlation was found between investor awareness and fundamental and technical analysis (0.541), while the lowest correlation was between investor awareness and information dissemination (0.251). This shows that investor knowledge of fundamental and technical analysis influences investor awareness to a greater extent, whereas information about organizations and the share market influences investor awareness to a lesser extent.

Regression analysis

The value of R-square = 0.416 obtained from regression analysis depicted that 41.6% of the variation in the data was explained by the independent variables, while 58.4% was explained by other variables that were not considered in this study (Table 4). The finding suggests the need to add more variables in future research in order to strengthen the value of R-square. Additionally, the p-value of the model, 0.000, showed the significance of the overall regression model (I), as it was less than the level of significance of 0.05 (Table 5).

Hypothesis testing

Tables 6 and 7 depicted the significant relationship between investor awareness and all the independent variables chosen for the study, i.e., fundamental and technical analysis, education and training programs, social learning and motives, evaluation of investment alternatives, regulator's rules and regulations, and information dissemination. This was supported by the calculated value of test statistics Z being higher than the critical or tabulated value of Z ($Z_{cal} > Z_{critical}$) and the p-value obtained for all the independent variables being <0.05 level of significance ($p<0.05$) (Tables 6 and 7).

Limitations and strength

There are a number of limitations to this study. It was limited to Kathmandu, which, along with its small sample size and limited time period, shrinks the power of the study to determine all the factors associated with investor awareness level. The data collected were based on the opinions and knowledge of the respondents, which might be associated with subjective bias. Despite these limitations, this study provides an insight into the level of awareness and factors associated

Table 2: Investors awareness and its determinants

Descriptive statistics	Investor Awareness	Fundamental and technical analysis	Education and training program	Social learning and motive	Evaluation of investment alternatives	Regulator's rules and regulation	Information dissemination
Mean	3.66	3.39	3.41	3.45	3.48	3.26	3.35
Median	3.83	3.5	3.60	3.50	3.50	3.25	3.33
Standard deviation	0.65	0.72	0.75	0.57	0.63	0.65	0.59
Sample variance	0.42	0.52	0.56	0.32	0.39	0.42	0.35
Range	3.33	4.00	3.60	3.33	3.33	3.00	3.00
Minimum	1.67	1.00	1.00	1.67	1.67	1.50	1.67
Maximum	5.00	5.00	4.60	5.00	5.00	4.50	4.67

Table 3: Correlation analysis between dependent and independent variables

Variables	Correlation coefficient
Investor awareness and fundamental and technical analysis	0.541
Investor awareness and education and training programs	0.413
Investor awareness and social learning and motives	0.366
Investor awareness and evaluation of investment alternatives	0.398
Investor awareness and regulator's rules and regulations	0.406
Investor awareness and information dissemination	0.251

Table 4: Regression analysis

Model	R	R square	Adjusted R square	Std. Error of the estimate
1	0.645 ^a	0.416	0.401	0.50085

Table 5: ANOVA

Model	Sum of squares	d.f.	Mean square	F	Sig.
1					
Regression	41.690	6	6.948	27.700	0.000 ^b
Residual	58.448	233	0.251		
Total	100.138	239			

ANOVA: Analysis of variance

Table 6: Hypothesis testing

Item	Mean	Variance	Zcal	Zcritical	Remarks
Fundamental and Technical Analysis	3.39	0.52	4.36	1.96	Significant
Education and training programs	3.41	0.56	4.03	1.96	Significant
Social learning and motives	3.45	0.32	3.87	1.96	Significant
Evaluation of investment alternatives	3.48	0.39	3.13	1.96	Significant
Regulator's rules and regulations	3.26	0.42	6.88	1.96	Significant
Information dissemination	3.35	0.35	5.61	1.96	Significant

Table 7: Coefficient for investor awareness

Model	Unstandardized coefficients		Standardized coefficients	T	Sig.
	B	SE			
(Constant)	0.760	0.267		2.844	0.005
Fundamental technical analysis	0.347	0.050	0.386	6.895	0.000
Education training programs	0.109	0.056	0.126	1.957	0.041
Social learning motives	0.121	0.065	0.106	1.850	0.016
Evaluation of investment alternatives	0.165	0.061	0.161	2.716	0.007
Regulators rules regulation	0.149	0.073	0.149	2.046	0.042
Information dissemination	-0.036	0.073	-0.033	-0.490	0.025

with it. The findings might be beneficial for policy formulation related to the capital market and hence strengthen Nepalese capital market.

CONCLUSION

The study suggests that the level of investor awareness in the Nepalese capital market is moderate. Investor awareness and factors affecting it are positively correlated. There is a statistically significant relationship between investor awareness, fundamental and technical analysis, education and training programs, social learning and motives, evaluation of investment alternatives, regulator's rules and regulations, and information dissemination. These findings highlight an urgent need for trainings, workshops, and seminars regularly regarding technical aspects of investment, investor rights, the advantage of investing, new financial products, etc. It also urges NEPSE to ensure relevant and timely information is shared from all the companies, which helps investors to know about a company's status more accurately based on its stock price. Additionally, brokerage firms associated with the development of the capital market should provide enough trading information to investors.

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DECLARATION OF CONFLICTING INTERESTS

The author(s) declare(s) that there is no conflict of interest.

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