

Investor's Preference and Awareness in Financial Instruments in Nepal.

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Abstract

This research aimed to investigate the awareness and investment preferences of Nepalese investors across various sectors. A descriptive approach was employed to examine perceptions. The study predominantly relied on primary data collected through a questionnaire, utilizing the mailed questionnaire method. A total of 60 completed questionnaires were systematically analyzed. The findings indicate that investors prioritize sufficient returns and lower risk over social status when it comes to securities investment. Key factors influencing their security choices include Earnings per Share (EPS), rate of return, Dividend per Share (DPS), and company management. Motivating factors for securities investment include dividends, capital gains, bonus shares, and liquidity, while right shares and voting rights hold lesser importance. Debt and preferred stock in the Nepalese securities market lack attractive returns, leading investors to show less inclination toward these securities due to perceived risks and issues related to liquidity and marketability. Furthermore, it was observed that a majority of investors establish an investment policy when engaging in securities investment.

Keywords: Nepalese investors, investment preferences, securities, risk perception, financial behavior

Introduction

An investor is an individual or entity engaging in the allocation of resources across various asset classes, such as equity, debt-securities, real estate, currency, commodities, and derivatives, with the primary aim of generating profits (Narayana, 2012). Investors employ these financial instruments to grow their wealth and/or secure income for retirement, often conducting technical and fundamental analyses to identify favorable investment opportunities while seeking to minimize risks and maximize returns. The array of investment options includes stocks, bonds, commodities, mutual funds, options, foreign exchanges, gold, silver, retirement plans, and real estate.

Financial instruments, representing monetary contracts, are traded in financial markets, allowing investors to buy or sell securities at prices determined by market dynamics. The financial market serves as a platform for transactions involving various financial assets and liabil-

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ities, such as deposits, loans, bonds, securities, and stocks (Pradhan, 2023). It encompasses both the money market and the capital market, with the former typically catering to short-term investments, while the latter facilitates the trading of securities and investments.

In the context of Islamic financial products, the direct impact analysis revealed significant positive influences of self-attribution, illusion of control, and information availability on herding behavior, while shariah literacy showed no significant impact; furthermore, the mediation analysis indicated that the initially significant positive impacts became insignificant when shariah literacy acted as a mediating variable between the factors and the inclination to follow the herd (Din et al., 2021). Further Mushafiq et al., (2023) identifies that investment decisions are influenced by factors such as risk aversion, intentions for risky investments, financial literacy (both subjective and objective), and cognitive abilities, where risk aversion exhibits a negative association, while other variables show a positive relationship with investment choices. Investors prioritize costs and product structure as the most crucial factors, with less emphasis on the issuer and information about risk. Individual preferences are shaped by self-evaluated expertise, as novice retail investors tend to focus on costs, while experienced investors place greater importance on the product structure (Baule, & Muenchhalfen, 2021). In addition, study by Aren, and Nayman (2023) reveal that power distance, collectivism, masculinity, and long-term orientation act as precursors to fantasy, with positive associations found between power distance, collectivism, and risky investment intentions, and a negative relationship identified between uncertainty avoidance and risky investment intention; additionally, the statistical findings underscore the mediating function of fantasy in linking individual cultural values to risky investment intentions, while the study investigates how individual cultural values and risky investment intentions differ based on age, education level, gender, and marital status. To address challenges, inves-

tors are turning to specialized institutions like Mutual Funds, acting as financial intermediaries to pool savings and invest in diversified portfolios, including money market instruments, corporate and government bonds, and equity shares, allowing for optimal diversification; the study explores past research to comprehend investor preferences in this context (Acharya, & Das2017).

The extensive exploration of the Nepalese financial landscape through the literature review revealed a multifaceted understanding of critical aspects within the domain. Chalise and Adhikari's (2022) investigation into the financial performance of commercial banks offered insights into the intricate interplay of capital structure and firm size. Notably, their findings illuminated a negative relationship between Return on Assets (ROA) and Earnings per Share (EPS) with capital structure, contrasting with a positive correlation with firm size. NEPSE, alongside regulatory bodies like SEBON and Nepal Rastra Bank, actively monitors the share market, ensuring checks and balances for a secure and transparent environment. To navigate this complex landscape, understanding investor interests, preferences, expectations, and decision-making processes is crucial. The investment process involves setting an investment policy, conducting security analysis, constructing a portfolio, revising the portfolio as needed, and evaluating its performance against benchmarks.

Investing requires careful consideration of factors such as future prospects, risk, management reliability, company benefits, and growth potential. It involves creating a diversified and balanced portfolio aligned with individual goals. Factors like risk and return, liquidity, accessibility, taxes, age, and investment objectives should guide investment decisions. Studies by Pokharel (2018) and Basnet (2019) highlight investor preferences in the NEPSE stock market and financial instrument standards, respectively, contributing valuable insights to the understanding of investor behavior and market dynamics. Ultimately, investing is a psychological and behavioral activity, and

this study aims to uncover the current trends, perceptions, preferences, and attitudes of investors, providing novel findings and recommendations for the evolving securities market landscape (Pradhan, 2023). Building on this, Chalise (2020) focus on Nepal's secondary capital market underscored its pivotal role in mobilizing financial resources, with a particular emphasis on the positive influence of share transactions on the NEPSE Index.

Furthermore, Chalise's (2022) exploration of the nexus between financial information and stock prices in Nepalese commercial banks delved into the significant impact of key financial metrics. The study emphasized the positive influence of metrics such as net interest margin, net profit margin, dividend payout ratio, and capital adequacy ratio on stock price behavior, shedding light on the intricate dynamics governing the financial markets in Nepal. Sapkota and Chalise's (2023) contribution further enriched the literature by offering insights into the intricate realm of investors' behavior in equity investment decisions. Their findings challenged conventional wisdom by highlighting the significant impact of investors' behavior on such decisions, suggesting a departure from strict adherence to fundamental financial principles.

In a distinct dimension, Chandra, et al., (2019) examination of investor awareness, preference, and investment patterns unveiled variations based on demographic characteristics. This study illuminated the dynamic and diverse nature of investor preferences, emphasizing the need for tailored approaches in the financial landscape. Finally, Saha and Dey's (2011) comprehensive study on factors affecting investors' perception of mutual fund investment contributed valuable insights, stressing the paramount importance of meeting investor expectations for the success of mutual funds. Collectively, these studies not only elucidated the complexities of the Nepalese financial system but also highlighted the need for adaptive strategies that resonate with the diverse dimensions of investor behavior and financial market dynamics.

The above discussion leads to address the Nepalese

investors' preference and awareness for investment in different sectors of investment.

Methodology

The research methodology employed in this study encompasses a comprehensive presentation of the methods and processes applied throughout the research. The research design adopted is both descriptive and analytical in nature. An analytical approach was followed to scrutinize the pertinent data and relationships among variables, while the descriptive aspect provided clarification on various dimensions of investors' preferences regarding financial instruments. For data sourcing and collection, primary data were utilized, and the data collection procedure involved the distribution of questionnaires. The mail questionnaire method was employed to collect primary data. The study focused on five broker companies with the highest investor involvement in the capital market of Nepal, namely Sweta Securities Pvt. Ltd., Crystal Kanchanjungha Securities Pvt. Ltd., Kalika Securities Pvt. Ltd., Secured Securities Ltd., and Asian Securities Pvt. Ltd. Out of a total of 23,000 investors with valid DEMAT accounts in these broker companies, 60 filled-up questionnaires were systematically analyzed.

In the data analysis and presentation phase, responses from the collected data were subjected to statistical analysis and interpretation. The Statistical Package for the Social Sciences (SPSS) was utilized to generate frequencies with corresponding percentages, median values, tables, diagrams, and graphs, among other techniques (Khatriwada, 2014; Pradhan, 2018). These analytical tools were employed to effectively illustrate the results derived from the study.

Results

This section investigates into various aspects related to investors' preferences, including the reasons behind their choices of one security over another, the level of satisfaction derived from purchasing securities, and the overall awareness of investors regarding general issues in the security market.

One crucial aspect examined is the classification of investors based on their preferences for different types of securities in the Nepalese capital market. Identifying the specific securities that investors favor the most is essential in understanding the dynamics of the market. The outcomes of this analysis, detailing the investors' choices, are presented in Table 1 below.

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

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

The data reveals investors' preferences for various types of securities in the Nepalese capital market. Common stock holds the top position with an impressive overall rank of 1, indicating that it is the most favored security among surveyed investors. It attains a median value of 8, showcasing a strong preference. Preferred stock secures the second position with a median value of 22 and an overall rank of 2. Debenture/Bond and Government Bond share the third position, both with an overall rank of 3. Debenture/Bond achieves a median value of 13, while Government Bond has a median value of 28. The "Others" category ranks fifth in investors' preferences, possessing an overall rank of 5, and a median value of 6. This hierarchy sheds light on the clear dominance of common stock as the preferred investment choice, followed by preferred stock, debenture/bond, government bond, and other securities. The rankings offer valuable insights into the relative attractiveness of different security types in the Nepalese capital market, guiding both investors and market analysts in understanding investor sentiments and preferences.

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. Investor's Investment Objectives

Investment Objectives	Rank					Median	rank
	1	2	3	4	5		
Sufficient Return	37	21	-	-	2	1.00	1
Less Risk	17	20	15	7	1	2.50	2
Marketability	5	15	25	15	-	4.00	3
Social Status	1	3	16	31	9	4.00	4
Other, if any	-	1	5	6	48	5.00	5

The presented data illustrates investors' diverse investment objectives in the Nepalese capital market, offering valuable insights into their priorities. "Sufficient Return" emerges as the topmost investment objective, securing an impressive overall rank of 1, with a median value of 21. Investors highly prioritize the goal of attaining satisfactory returns on their investments. Following closely is the objective of "Less Risk," ranking second overall with a median value of 20. It is notable that this objective is spread across various ranks, emphasizing its significant importance among investors. "Marketability" captures the third position in investors' preferences, indicating a desire for securities that are easily tradable in the market. "Social Status" holds the fourth position, emphasizing investors' considerations beyond financial gains, with a median value of 16. The final category, "Other, if any," secures the fifth position, illustrating that a subset of investors may have unique or personalized investment objectives. This ranking provides a comprehensive understanding of investors' priorities, guiding investment professionals and policymakers in aligning financial products with investors' diverse objectives in the Nepalese capital market.

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. Consideration factors for taking investment decision

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

Table 3 shows eight various factors to consider while taking investment decision out of total respondent. The tabulated data presents investors' perceptions of the importance of various financial indicators in their decision-making process. The statement categories include Earnings Per Share (EPS), Dividend Per Share (DPS), Book Value Per Share (BVPS), Market Price Per Share (MPPS), Rate of Return, Capital Structure, Nature of Company, and Management of Company. Investors were asked to rank these statements based on their perceived importance, with options ranging from "Most Important" to "Least Important." The analysis reveals that EPS is widely considered the most important, with 77% of respondents ranking it as such. DPS follows closely, with 53% recognizing its significance. BVPS, MPPS, and Rate of Return also garnered considerable importance, with varying degrees of emphasis. Capital Structure, Nature of Company, and Management of Company were evaluated as crucial factors by a substantial percentage of investors. This data provides valuable insights into investors' prioritization of financial indicators, guiding financial professionals and policymakers in addressing investors' informational needs and preferences in the Nepalese capital market.

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

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

Table 4 shows motivating factors for investment preferred by investors,. The presented data outlines investors' perceptions regarding the importance of various factors in their decision-making process related to securities. The statement categories encompass Capital Gain, Liquidity, Dividend, Right Share, Bonus Share, Voting Right, and Social Status/Prestige. Respondents were asked to rank these statements based on perceived importance, ranging from "Most Important" to "Least Important." The analysis demonstrates that Capital Gain and Dividend are considered the most crucial by 60% and 62% of investors, respectively. Liquidity, Bonus Share, and Voting Right also received considerable attention, each recognized as important by more than 50% of respondents. Right Share, Social Status/Prestige, and to some extent, Voting Right, were perceived with varying degrees of importance. This data provides valuable insights into the factors influencing investors' decisions, guiding financial professionals and policymakers in understanding and addressing the diverse considerations of investors in the Nepalese capital market.

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

Observation	Rank				Median	rank
	1	2	3	4		
Income bond	35	15	5	5	1.00	1
Floating rate	7	15	30	8	3.00	3
Mortgaged bond	2	7	19	32	4.00	4
Simple interest bond	16	23	6	15	2.00	2

The provided data reflects investors' observations and preferences regarding different types of bonds. The observations cover four specific bond types: Income Bond, Floating Rate Bond, Mortgaged Bond, and Simple Interest Bond. Investors were asked to rank these bonds based on their preferences, ranging from "Most Preferred" to "Least Preferred." The analysis reveals that Income Bonds, which allow participation in profits and/or losses, are overwhelmingly the most preferred, securing the top rank with a median value of 1.00. Simple Interest Bonds, representing straightforward debt with regular interest payments, hold the second rank, indicating a significant level of preference. Floating Rate Bonds, which adjust promised interest rates according to market rates, secure the third rank, while Mortgaged Bonds, pledged against the firm's assets, are ranked fourth. This information provides insights into investors' inclinations towards different bond types, aiding financial professionals and policymakers in understanding and catering to investor preferences in the Nepalese capital market.

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 fea-

tures 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

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

The presented data outlines investors' rankings and preferences concerning various factors influencing their investment decisions. The factors considered in this analysis include Risk-Free/Safe Investments, Advantage for Portfolio Construction, High-Interest Rates, Less Legal Formalities, and Protection against Malpractice. Investors were asked to rank these factors based on their importance, with rankings ranging from "Most Important" to "Least Important."

The analysis reveals that Risk-Free/Safe Investments are overwhelmingly the most preferred factor, securing the top rank with a median value of 1.00. This indicates investors' strong inclination towards safety and security in their investment choices. Advantage for Portfolio Construction holds the third rank, emphasizing the importance of factors contributing to effective portfolio management. High-Interest Rates share the third rank, suggesting investors' consideration of potential returns on their investments. Less Legal Formalities are ranked fourth, indicating a moderate level of importance, while Protection against Malpractice secures the fifth rank.

Understanding investors' preferences for these factors is crucial for financial professionals and policymakers in tailoring investment products and regulations that align with investors' priorities in the Nepalese capital market.

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

Sector	Rank							Median	rank
	1	2	3	4	5	6	7		
Bank	40	5	9	-	2	1	3	1.00	1
Finance	8	12	12	14	7	4	3	3.00	3
Hotel	3	10	10	18	9	9	1	4.00	4
Mfg	4	5	10	8	21	11	1	5.00	5
Insurance	5	25	11	11	5	2	1	2.50	2
Trading	-	2	4	7	13	28	6	6.00	6
Others	-	1	3	2	4	5	45	7.00	7

Table 7 illustrates the rankings and attractiveness of various industrial sectors based on investors' perceptions. The industrial sectors considered in this analysis include Banks, Finance, Hotels, Manufacturing and Processing, Insurance Companies, Trading Companies, and Others. Investors were asked to rank these sectors, with rankings ranging from "Most Attractive" to "Least Attractive."

According to the data, Banks emerge as the most attractive industrial sector, securing the top rank with a median value of 1.00. This suggests a strong preference among investors for investments in the banking sector, possibly due to stability and potential returns. Insurance Companies secure the second rank, indicating a significant level of attractiveness among investors. Finance holds the third rank, emphasizing its appeal as an investment option.

The Manufacturing and Processing sector secures the fourth rank, indicating moderate attractiveness, while

Hotels and Trading Companies follow, securing the fifth and sixth ranks, respectively. The "Others" category ranks seventh, suggesting lower attractiveness compared to other specified sectors.

Understanding investors' perceptions and preferences regarding the attractiveness of different industrial sectors is valuable for market stakeholders, policymakers, and businesses in making informed decisions and strategies in the Nepalese market.

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 process

Investment Process	Ranking						
	Yes	%	No	%	5	DK	%
Set investment policy	54	90	4	7	2	3	1
Analyze security	49	82	7	12	4	6	3
Portfolio construction	48	80	6	10	6	10	2
Portfolio revision	35	58	15	25	10	17	4
Portfolio performance evaluation	32	53	18	30	10	17	5
Total	218		50		32		

Table 8 provides insights into the investment processes adopted by investors, showcasing the percentage of respondents engaging in key steps of the investment cycle. The data reveals a proactive involvement of investors in various stages:

A significant majority of investors (90%) actively participate in setting their investment policies, indicating a strong commitment to defining their objectives and strategies. Approximately 82% of respondents engage in the critical step of analyzing securities, showcasing a high level of diligence in assessing potential investment opportunities. The majority (80%) of investors are involved in the intricate process of portfolio construction, demonstrating a keen interest

in diversifying their investments for optimal returns. A substantial portion (58%) of investors undertake portfolio revision, indicating a dynamic approach in adapting their investment portfolios to changing market conditions. More than half of the respondents (53%) actively evaluate the performance of their portfolios, highlighting a commitment to monitoring and optimizing their investments.

The cumulative data reflects a proactive and engaged investor community, with a majority participating in each stage of the investment process. This indicates a sophisticated and strategic approach among investors in managing their investment portfolios, considering factors such as policy-setting, security analysis, portfolio construction, revision, and performance evaluation.

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 illustrates the responses of investors to questions concerning general awareness within the stock market, revealing insights into their comprehension levels. For the first question regarding the information considered before specifying an order, 15 respondents (25%) provided correct answers, indicating a solid understanding among a quarter of the participants, while 45 respondents (75%) gave incorrect responses, implying a prevalent lack of clarity. Moving to the Table 9. Nos of investors with Right & Wrong Answer

second question about reporting periods for non-receipt of sales proceeds, 31 respondents (52%) answered correctly, demonstrating awareness among over half of the participants, while 29 respondents (48%) offered incorrect responses, indicating misconceptions. Similarly, in the third question addressing the implications of not receiving financial security within specified timeframes, 28 respondents (47%) answered correctly, suggesting substantial understanding, while 32 respondents (53%) provided incorrect responses, revealing potential misconceptions. Overall, the data accentuates disparities in general awareness levels among investors, signaling areas that may benefit from educational interventions to enhance understanding of stock market processes..

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.

S.N.	Question of general awareness	No. of respondents			
		Right	%	Wrong	%
1	What sort of information do you generally take before having filled the order specification?	15	25	45	75
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
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

Conclusion

In conclusion, factors such as EPS, rate of return, DPS, and management of the company emerge as crucial considerations influencing investors' choice of securities in the Nepalese market. Dividend, capital gain, bonus shares, and liquidity are identified as major motivating factors for investors, while right shares and voting rights hold lesser significance. The perceived lack of handsome returns in debt and preferred stock discourages investors, leading to a decreased inclination towards these securities. The banking sector stands out as the most attractive for Nepalese investors, followed by insurance companies, finance companies, manufacturing and processing companies, trading companies, hotels, and others. Most investors actively set an investment policy, but a significant portion does not engage in portfolio revision or performance evaluation. Furthermore, there is a notable lack of awareness among Nepalese investors regarding the general functioning of the security market. This calls for educational initiatives to enhance investors' understanding of market processes and encourage portfolio management practices.

Moreover, the ease of issuing common stock as a source of finance indicates the need for companies to consider this avenue, given investors' preference for common stock. However, the debt market requires enhancement to facilitate the issuance of debt capital, ensuring companies with equity capital only can leverage their financial structure. Additionally, there is a call for increased issuance of mutual funds to cater to the interests of small investors. Investors actively advocate for amendments and the strict implementation of existing rules and regulations to accelerate the development of the Nepalese security market. These insights offer valuable guidance for policymakers, companies, and investors to improve the efficiency and attractiveness of the Nepalese capital market.

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