Online Trading Effectiveness in Nepal Share Market: Investors Awareness, Challenges and Managerial Solution

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Authors’ contributions

This work was carried out in collaboration among all authors. Authors ND, URP and DBA designed the study. Author AB performed the literature search, developed methodology, performed first round data analysis and wrote the first draft of the manuscript. Authors DBA and SP assist AB in the preparation of first draft. Authors ND and URP wrote the second draft of the manuscript. All authors read, finalized and approved the final manuscript.

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ABSTRACT

Over a long time, the developing businesses have a brief history of victory all due to web. The online exchange forms of back comprehensive of buying and offering of bonds, stocks and other ventures, these all comes beneath online exchanging. Even though the world has already adopted the online trading, in Nepal it was recently introduced. This paper aims to explore online trading effectiveness in Nepal Share Market. Explanatory research design is applied in this study. Both primary and secondary sources are used for collecting various data and information in the study. Quantitative technique is used for data analysis. Most of the respondents responded that they are involved and fully aware of the online trading. Majority of respondent agreed that they use both fundamental analysis as well as technical analysis for online trading. Similarly, most of the respondents expressed their opinion that technological factor caused problem on online trading.
Keywords: Online trading; share market; investors’ awareness; managerial solution.

1. INTRODUCTION

Online exchanging is conducting stock exchanges on the web by means of a few websites [1]. Over a long time, the developing businesses have a brief history of victory all due to web. The online exchange forms of back comprehensive of buying and offering of bonds, stocks and other ventures, these all comes beneath online exchanging. The real situation of all the trade patterns have broadened their commerce into online exchange of their products and administrations and truly it features an incredible effect on their deal of trade [2]. Since the presentation in 1995, online exchanging has expanded drastically.

Online exchanging has on a very basic level changed the securities advertise and is anticipated to proceed to be an esteemed choice for speculators [3]. In the starting, electronic communications systems were being utilized by brokerage houses for offered and inquire position of stocks [4]. The essential contrast between an internet broker and a conventional broker is that the online broker gives electronic, more often than not internet-based get to client accounts, hence, the physical nearness of a broker is inexist since everything is done online. The utilize of online exchanging expanded significantly within the mid- to late-1990s with the presentation of reasonable high-speed computers and web associations, and presently financial specialists can purchase and offer stocks from more than 100 online brokers with a press of a mouse [5].

The history of capital showcase in Nepal dates back to 1936 in which year the offers of Biratnagar Jute Plants Ltd. were coasted. In 1937, Tejarath was set up to encourage credits to the government workers and was changed over into Nepal Bank Ltd. HMG Nepal presented the Company Act in 1964 and the primary issue of government bonds made within the same year through Nepal Rastra Bank to gather the formative consumptions. It carried 6 percent rate of intrigued and had the development period of five a long time [6]. In Nepal the online trading was recently introduced last year in November, where the online trading of the stock market was done. Even though around the world has already adopted the online trading but in Nepal it was recently introduced. Nepalese Stock Advertise is exceptionally little as compared to other neighbor nations.

Capital plays a crucial part within the financial advancement of a nation. Being a capital deficient country, Nepal has got to make each endeavor to mobilize accessible capital viably [7]. Securities are money related resources. Securities markets are instrument made to encourage the trade of monetary resources. Hence, the showcase exists in arrange to bring together the buyers and dealers of Securities. Capital advertise is the instrument planned to encourage the trade of money related resources by bringing orders from buyers and sellers of securities together. Stock advertise has been worldwide marvel within the show world in any case of the estimate of any specific locale [8]. In spite of the fact that Nepal's stock showcase includes a slant towards an organized stock showcase after the reclamation of vote based system in seen a huge quantitative development amid past, there are still numerous challenges and complexities standing up to by this segment.

Speculators are losing certainty on the execution of share due to this involvement of false and shameful exercises attempted by modest bunch of advertise swindlers. The expansive number of speculator and common open are still obscure approximately money related advertise which is the most issue in Nepalese capital advertise [9]. In this way, having need of satisfactory information to financial specialists, showcase clutters, cost control, false share showcase exercises etc. are all taken over together standing as boundary to the improvement of Nepalese stock advertise [2].

Nepalese stock advertise is additionally characterized by a moo exchanging, volume, nonappearance of proficient brokers, early organize of development, constrained development of share costs, and constrained data accessible to financial specialists. Due to need of different required data, speculators are confounded which stocks are terrible and which stocks are great. They are indiscriminately contributing in offers i.e. they are failure to ‘beat’ the correct ‘time’ to buy or deal the securities [8]. Therefore, a sincere study seems to be required in online exchange trading in Nepalese context. This research will be significant for different purpose such this study guided the online investor to get right decision for the investment on right way right place and right time so it will help the general investor and stakeholders. The consideration may draw the fascination from
each corner of business visionaries and investors and other academicians conjointly other interested parties. This helps accommodating to the managers, CEO, supervisors etc. of corporate firms to know approximately the development and cost arrangement of stock cost. This ponder is exceptionally valuable to potential speculators who are interested to know the impact of cost slant, volume of stock and effect of signaling variables in NEPSE file. The paper aims to explore on online trading effectiveness in Nepal share market in terms of investors’ awareness, challenges and managerial solution.

The paper is organized as below: Second section is literature review, third section covers methodology, fourth section is result and discussion. Similarly, fifth section includes conclusion.

2. LITERATURE REVIEW

The Internet revolution has been changing the fundamentals of the society. It changes the shape of communication and also trading process. It shifts closer and closer to vital sources of information and new trading environment by the name of "online trading". It provides users with means to directly interact with service-oriented computer systems tailored to their specific needs; therefore, they can serve themselves better by making their own decisions [10]. Referring to two websites which are active in trading fields they define online trading in this manner: The increasingly popular activity of buying and selling securities over the internet, or to a lesser extent, through a broker's proprietary software. Likewise Fan et al. [11] define it in this way: The 'online trading' is defined as a process of trading financial products especially stocks over the Internet, and online stock trading site is a web site that helps traders or customers to buy and sell the financial products over the Internet [11].

E-investors are influenced by perceived trust, security, and privacy jointly with traditional TAM constructs [5]. Facing underwriters wanting to collect information useful for pricing the IPO is that potential investors have mixed incentives to truthfully reveal their private information during the pre-marketing phase [12]. Only issuers with worse-than-average quality are willing to sell their shares at the average price. Ritter et al. [13]. Controlling the less predictable underpricing associated with the tacit collusion. Jones et al. [14]. Window dressing refers to the earnings management activity aimed at pre-IPO financial packaging, which leads to declining operating performance in the post-issue period [15]. The status of investment banking industry in India and also outline the current regulations and procedures involved in the new issue process in India [16].

The number of online speculators has developed significantly since the primary electronic brokerage opened its virtual entryways in 1994 [17]. These e-brokerages have pulled in 12 million speculators in less than five a long time, presently bookkeeping for over 33% of retail stock exchanges [18]. Conventional contributing has experienced an insurgency due to the rise of e-trading administrations that empower speculators to utilize the web to conduct secure exchanging. Like a conventional broker, an internet broker executes exchanges for a speculator in trade for commissions. The essential distinction between a web broker and a conventional broker is that the online broker gives electronic, more often than not internet-based get to client accounts, in this way, the physical nearness of a broker is inexistent since everything is done online. The utilize of online exchanging expanded drastically within the mid-to late-1990s with the presentation of reasonable high-speed computers and web associations, and presently speculators can purchase and offer stocks from more than 100 online brokers with a press of a mouse [3].

Online financial trading websites offer retail investors the ability to trade products in different financial markets. These sites offer direct access to options, futures, foreign currencies, indexes, stocks, and bonds on many financial markets. Online trading is well established and highly developed in the European market. The penetration of e-trading accounts is growing among European investors. In this research, we define online trading as the act of placing buy or sell orders for financial securities and/or currencies with the use of a brokerage's internet-based proprietary trading platforms. An online trading site is a brokerage house that allows e-investors to buy and sell stocks and obtain investment information from its web site [5].

3. METHODS

3.1 Study Area, Population and Sample

This research is based on the Kathmandu valley (Kathmandu, Lalitpur and Bhaktapur districts)
which is located in Bagmati province of Nepal. This study area is suitable for the study because most of the online trading secondary market are here in this area. Even though there are different people investing in the securities most of them are located in this area as per the past capital of Nepal most of the trading securities office are in this area.

In our research the population are those investors who invest in the stock market through online. The sample size can be derived by computing following formula \( n = \frac{Z^2pq}{d^2} \) [19,20]. Where, \( n = \) sample size required for study, standard tabulated value for 5% level of significance = \( z \), \( p= \) Prevalence of customer awareness on banking communication, \( q= 1-p \) and \( d = \) degree of accuracy, usually set at 0.05 level. So, total population for the study \( n= \frac{Z^2pq}{d^2} = (1.96)^2 \times 0.5 \times 0.5 / (0.05)^2 = 384.16 \). Non-response error 5%, i.e. 384.16+5/100 = 19.208. Thus, sample size taken for study was (384.16+19.208) = 403.368(≈403).

3.2 Data collection and Analysis

As a research instrument, expert opinion and survey with structured questionnaire was used. In expert opinion, several professional investors from share market were discussed. Their view and suggestions were incorporated during the questionnaire preparation and data analysis time. Questionnaire were developed and used in KOBO Toolbox in order to collect data collection online as the period was not suitable to meet with people physically due to COVID-19 pandemic. The received data were managed in excel and analyzed using descriptive data analysis technique.

4. RESULTS AND DISCUSSION

4.1 Demographic Characteristics of Respondents

Characteristics of responses include the age, gender and education of the respondents, family type, marital status and annual income. The result shows the age can be determining factors for awareness of investors towards the share trading. From the chart below, it shows that the most of the investor are between the ages of 20 to 30 years who are most active on using online trading. Then age between 30 to 40 are less active on using online method for the trading of share than previous group. Then above 40 years, old people are active where least active member are from the 0 to 20 group. In this regard, [10] has explained that the age above 25 are more active in share trading. The survey found that most of the respondents are from the joint family. The 70% of the online users are from the joint family and the remaining from the nuclear family that is 30%. Further, the survey reveals that most of the users of the online trading are male that covers 75%. The female respondents are 25%. In this sense, from the data previously taken on the impact of online trading it also shows that most of the respondents are male and less number are female [10]. Further, as per Friedberg and Webb (2006) households tended to invest more heavily in equities when husbands held more decision-making power. Similarly, marital status can be one of the major factors that the investors engaging in the share trading because he/she might invest on behalf of their partners. Li et al. [3] explains in his research that more than 54.4% of his investors are married. Our research also reveals that 73.20% of the investors are married and 26.79% of the investors are unmarried.

4.2 Socio-economic Features of Respondents

Education level of the respondent helps to determine the effectiveness of online trading because the higher the level of education the better will be effectiveness and understanding of the online trading of share market. Most of the Respondents (76%) are from bachelor’s level. The investors doing masters is only 16% and 7% of the users of online trading of share is from higher secondary level. In such circumstances, View [9] states that for the analysis of share education plays a vital role. Similarly, Li et al. [3] found that higher-level school graduated investors are more likely to participate in online trading.

The increase in income also increases the rise of a new investment channel (Sharif et al. 2015). In our study 14% of the investors are from below two lakhs annual income, 33% of the investors are from two to four lakhs, 27% of respondents are from four to six lakhs and 26% have above six lakhs annual income.

Comparing education and income can be reasonable in this study because as we know the education level of the investors can determine their earning or investment that can be seen in the table.

Age and income play significant role on the investors because with more age the investors
are found more experienced and can make earning more. As shown in the table the age below 20 years old investors do not have more income than four lakhs but the people above 40 years old do have income above six lakhs annually.

The number of years that the investors are involved in trading is also analyzed in our study. With better experience in the trading market results in better knowing the stock market and their changes and challenges they face. From our research, we found that most of the investors do have experience of stock market more than two years. However, Ahmed et al. [21] suggest that online trading has increased the presence and activity of low experienced investors in the share market. Respondents with less than a year experience and one year, two year, more than three years of experience in the trading are found 29%, 18%, 31% and 22% respectively.

Through analysis the investor awareness level, training and self-involvement and understanding the concept of the online trading of stock provided by the investors is possible. Most of the respondent answered that they are involved and fully aware of the online trading and few of them said that they are not aware of the online trading. For such condition, Ahmed et al. [21] argues that convenient and low-cost electronic brokerage are the prime factors that motivate individual investors to go for online trading in share market. The sources of information through which respondents are getting information are: broker (58%), internet (13%), media (13%), institute (8%), news (5%), family (3%). Similarly, the survey result shows 55.83% of the respondents who have received training are aware about online trading, whereas only 0.7% of them who have received training are not aware about it. Differently, 34.98% of the respondents who haven’t received training are aware about online training system and 8.43% of those who haven’t received training are not also aware on such practice. Moreover, out of 403 investors in online trading of share market 44% are aware of how foreign trading works and 56% of the investors are not familiar with the foreign online trading. Those who knew how the foreign trading works 77% said that it is similar with foreign trading and 5% said it is better whereas 16% said it is worse than the foreign trading.

![Fig. 1. Managerial solution towards the problem faced and the responsibilities of different parties](source:Survey Data)
Table 1. Compare education and income

<table>
<thead>
<tr>
<th>Education</th>
<th>Below 2</th>
<th>2 to 4</th>
<th>4 to 6</th>
<th>Above 6</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>High School</td>
<td>9</td>
<td>14</td>
<td>5</td>
<td>3</td>
<td>31 (7.69%)</td>
</tr>
<tr>
<td>Bachelors</td>
<td>42</td>
<td>100</td>
<td>91</td>
<td>72</td>
<td>305 (75.68%)</td>
</tr>
<tr>
<td>Masters</td>
<td>7</td>
<td>134</td>
<td>110</td>
<td>101</td>
<td>403</td>
</tr>
</tbody>
</table>

Source: Survey Data

Table 2. Age and income comparison

<table>
<thead>
<tr>
<th>Income</th>
<th>Age</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above 40</td>
<td>9</td>
<td>7</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>35-40</td>
<td>42</td>
<td>99</td>
<td>36</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>20-35</td>
<td>42</td>
<td>99</td>
<td>36</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>25-30</td>
<td>7</td>
<td>21</td>
<td>55</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>Below 25</td>
<td>0</td>
<td>7</td>
<td>19</td>
<td>31</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey Data

From the data collected, we have found that 85% percentage of the respondents are self-involved for the online trading of the stock market and the 15% percentage of the respondents are not self-involved in the share market investment. In such circumstances, Raut & Das [22] contended that the peer groups, friends or family members are the motivating elements for the investors to use internet for stock trading. Further, more than half of the respondents (57%) have agreed that they had training for the online trading of shares and 43% of them responded that they did not have training before using the online trading of share market. In survey, 36% of the educated investors in the share market using online system have not received any training, whereas 64% of the respondents told they did have certain kind of training. The finding reveals that 19% of the respondents are not involved in training and are not self-involved on online trading and they use third party support for their investment purpose. 1% of the respondents who have done training are not self-involved in online training. The result shows that 24% of the respondents who have not received training are self-involved on online trading and 55% of the respondents who have received training are self-involved on online trading.

4.3 Opinion and Intention about Current Online Trading System

This section revealed the investors' perception on online trading and their practices. Through analysis the investors' opinion, knowledge and understanding on the concept of online trading is possible. Out of 403 of the investors 60% of them said that online trading system is user friendly, whereas the other 40% of the respondents reported that they did not find the online trading system as user friendly. As our result, we found that 45% of respondents have agreed that the broker service has given confirmation for their trading immediately and the remaining 55% have disagreed to point. Regarding the satisfaction level of the broker's service, 50% of the investors are satisfied with the brokers' service, 38% of the investors responded moderately, 10% were dissatisfied with them and 2% are highly dissatisfied with them.

Investor's Preference: The investors have their own analysis of the stock market and they have their own way of investing. In the study, most of the investors use their own personal use and their family money while investing in the stock market covering 63% of the respondents, only 6% of them invest in the stock market as a professional investors and 31% of the respondents use both way of investing. While doing the payment of their investing 56% of them use online transfer as a payment gateway, then 19% for both cheque and cash payment equally and 6% respond that they used other ways.

Risk preference and Technique: As per our data, we found that the 25% of the respondents prefer high risk with high return, 14% responded that they prefer low risk with low profit and 61% responded that they used both way for the profit. Further, 25% of them have agreed that they use only the fundamental analysis while investing, 1% use only the technical analysis and 72% of them
agreed that they use both fundamental analysis as well as technical analysis.

**Opinion on issuing Broker License to Ban:** Regarding the opinion to issue broker license to bank, we found that 77% of the investors agreed to the point whereas as 8% disagreed to the point and the remaining 15% said there might be some advantage.

**Investors’ experience on broker’s service:** After the selling of the stock in online trading system 44% of the investors said that they get immediate money on their account and 56% of the respondents said that they don’t get immediate money on their account, it take more than 2 business days. For such situation, Lau [23] has opined that introduction of online trading system makes broker provide the highest degree of reliability and availability services to their customers. Similarly, with the confirmation of the online trading 92.55% said that they do get the confirmation of trading and only 7.44% of the respondents said that confirmation are not given in time. The result also shows that the respondents who are satisfied with the service that the broker provides are 50% and the remaining 50% of the respondents are not satisfied with the service provided by the broker. In our survey, the number of professional investors in the stock market is 6.24% who also happened to take loans for the trading from different sources and the remaining 93.76% of the respondents use their own saving money for the investment and use the family money.

4.4 Challenges and Benefits of the Online Trading in Nepal

In this section, we study about the challenges faced by the investors during online trading. This study shows that the 72% of the investors are aware of the benefits, 2% says there is no benefit, and 24% said that there may be benefits but they might not know and the remaining 2% had no ideas about the benefits. On comparing online and offline trading 12% said that there is extremely high benefit from offline trading, 58% said that there is high benefit, 28% said there is moderate benefit and 2% said that there is low benefit compare to offline trading. The study also explains that this is some of the cost advantage of online trading. We found that 74% of the investors said there is cost advantage, 14% said there might be cost advantage and remaining said no cost advantage of online trading.

The result reveals that that 70% of the respondents have faced the problems in online trading whereas 30% of the respondents have not faced the problems during online trading yet. For the factors of challenges, we had option of political, economic, social, technological in addition to others. On political factors causing problems, 62% investors agreed whereas 38% disagreed. On economical factor causing the online trading problem 52% agreed and 48% disagreed; on social factors causing the online trading challenges 80% disagreed whereas 20% agreed; on technological factor 72% agreed that it causes problem in online trading. In this regard, Huang et al. [24] contended about Taiwanese government policy and legal regulation relating to the adoption of an online trading system.

The research result reveals that the 92% of the respondents agreed on the point that the frauds, fake gurus, and inexpert brokers can affect the online trading and 8% said that it does not matter for the online trading because of the frauds and fake gurus.

In this study we found that before starting the online trading 87% investors said they need lot of preparation and 13% said they do not need preparation for online trading. The survey result shows that the 91% of the respondents agreed that they continuously monitor and 9% do not monitor the online trading market. Regarding the secure and safe in transaction, the 84% of the respondents have said that they feel safe and secure while doing online trading and other 16% said that they do not feel safe and secure while doing online trading. On who should be more responsible for the challenges that has been online trading system in Nepal 63% of the respondents told that government should be responsible; 27% of the them on organization; 7% told that others and 2% told that individual should be responsible.

4.5 Managerial Solutions

In this section, we study about the managerial solution towards the problem faced and the responsibilities of different parties regarding managerial solution. We also study the different opinion of the investors towards the current situation of the online trading.

The research highlights that there are several challenges faced by the investors in online trading system and most frequent problem faced by the investors were the system software
update or trade management system server lag, outdated technologies used, political appointments, low governance, awareness, less transparency, low formulation of policies and source of information, etc.

In our research, the finding shows that 73% of the investors think that the NEPSE should be responsible for bringing out the solution for the problem and should manage it because they are the management team that suggest the government and brokers are under the control of it. Out of 403 respondents, 20% of them said government should be responsible for the solution towards the problem because they are the lawmakers and under them all the others institutional bodies come. Further, 7% of the respondents said that broker should be responsible for the solution for better management of the online trading system in Nepal. In such scenario, Huang et al. [24] further think that brokers are naturally found to be eager in Taiwan to adopt an online stock trading system in providing a better Internet-based stock trading services.

In this section, the respondent’s response regarding the use of online trading during the COVID-19 is discussed. Although the question was asked to know how virus have effect on their online trading, the respondents responded that there were positive aspect too. On the use of digital wallet, more analysis of trading, etc. most of the respondents responded. In contrast to this, investors also responded on the high fluctuation rates low possession of money for the investment, more communication gaps, low bandwidth with more users and the frequent crashed server during the pandemic situation.

5. CONCLUSION

This paper aims to explore online trading effectiveness in Nepal Share Market. Most of the respondents opined that they are involved in and fully aware of the online trading. Majority of respondent agreed that they use both fundamental analysis as well as technical analysis for online trading. Similarly, most of the respondents expressed their opinion that technological factor caused problem on online trading. Many of investors view that the NEPSE should be responsible for bringing out the solution for the problem on online trading system. Regarding the use of online trading during the COVID-19, investors opined that there were positive aspects in making the trading.

CONSENT

As per international standard or university standard, respondents’ written consent has been collected and preserved by the author(s).

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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