

**AN ANALYSIS OF CURRENT STATUS  
OF  
NEPAL STOCK EXCHANGE  
By  
Sarita Katuwal**

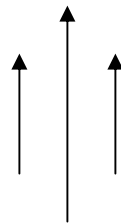
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***RECOMMENDATION***

This is to certify that the thesis:

*Submitted by*  
**Sarita Katuwal**

*entitled*

**AN ANALYSIS OF CURRENT STATUS  
OF  
NEPAL STOCK EXCHANGE**

*has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.*

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Sarita Katuwal

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## ABBREVIATION

a	Constant of Regression
b	Coefficient (slope) of regression
B.S.	Brikram Sambat
C.V	Coefficient of Variation
d.f.	Degree of Freedom
OTC	Over the counter
SEBO	Security Exchange Board of Nepal
NEPSE	Nepal Stock Exchange
NRB	Nepal Rasta Bank
IT	Informational technology
DPS	Dividend per Share
EPS	Earning Per Share
EBL	Everest Bank Limited
FY	Fiscal Year
KBL	Kumari Bank Limited
MPS	Market Price per Share
MVPS	Market Value per Share
No.	Number
$P_e$	Probable Error
P/E Ratio	Price Earning Ratio
r	Correlation Coefficient
$r^2$	Coefficient of Determination
S.D.	Standard Deviation
SEE/SE	Standard Error Estimate
Viz.	Namely

# INTRODUCTION

## 1.1 Background of the Study

The history of the securities market in Nepal dates back to 1937 when Biratnagar Jute Mill and Nepal Bank Limited floated their shares in the market. The Company Act was introduced in 1964. And the Securities Exchange Center Limited was established in 1976 to facilitate and promote the growth of capital markets, with the initiative of the Government of Nepal and Nepal Rastra Bank. It was the only capital market institution that undertook the responsibilities of brokering, underwriting, managing public issue, creating markets for government bonds and other securities. It was converted into Nepal Stock Exchange (NEPSE), under a program to reform capital markets in 1993.

Capital market is a market that enables suppliers and demanders to trade long-term securities having maturity period greater than one year. The instruments used in capital market are debt, common stock, preferred stock, bonds and convertible issue. The long-term debts are installment and commercial debts represented by acceptance bills, commercial debts and accommodation papers etc. Saving and deposits schemes, which are not securities bearings, fall under the non-securities segment of market. Capital markets are also classified as primary market and secondary markets. Primary markets are the markets in which corporations raise new capital and in which newly issued securities are involved. If we have to sell new issue of common stock to raise capital, there will be a primary market transaction. Selling the stock the corporation receives proceeding from the sale in the primary market transaction. Secondary markets are those in which previously issued securities are traded. By far the most active secondary market and the most important one to the financial managers is the stock market. It is here that price of firm's stocks are established. The knowledge of the market in which the price is established, is essential for any one involved in managing the business because the primary goal of financial management is to maximize the firm's stock price.

Stock exchanges are intricately inter-woven in the fabric of nation's economic life. Without a stock exchange the saving of the community, the sinews of economic progress and

productive efficiency will remain underutilized. The task of mobilization and allocation of savings can be attempted in the old days by a much less specialized institution than the stock exchange. But as business expanded and the economy assumed more complex nature, the need for 'permanent finance' arose. Entrepreneurs needed money for long terms whereas investors demanded liquidity – the facility to convert their investments into cash at any given time. The market for investments was ready and this was how the stock exchange came into being. Stock exchange means of any individuals, whether incorporated or not, constituted for the purpose of regulating or controlling the business of buying, selling or dealing in securities. The securities include shares, scripts, stocks, bonds, debentures, government securities and rights or interest in securities (Bhalla, 2004, P. 96).

Nepal is one of the least developed countries of the world and has very little development in the part of capital market. The Nepalese capital market has open-market securities. It is in its infancy stage. The government established 'Security Exchange Center' in 1976 and enacted 'Securities exchange Act' in 1983 to promote and regulate the market of open-market securities. Thereafter, the center started secondary market operation by listing corporate securities.

In order to activate the capital market; the government has massively amended the Act, constituted 'Security Exchange Board of Nepal', and converted Securities Exchange Center into Nepal Stock exchange. Exchange now provides full-fledge secondary market. Financial institutions like commercial banks, insurance companies, and development banks dominate the trading of securities in NEPSE.

Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act, 1983. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13<sup>th</sup> January 1994. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and members are the shareholders of NEPSE.

An investment is a commitment of money that is expected to generate additional money. Every investment entails some degree of risk; it requires at present certain sacrifice for a future uncertain benefit (Francis, 1997:1, P.73). Investment, in its broadest sense, means the sacrifice of current dollars for future dollars. Two different attributes are generally involved: time and risk. The reward comes late, if at all, and the magnitude is generally uncertain (Sharpe, 2004:1, P. 121). Investment is the sacrifice of certain present value for the uncertain future reward. It entails arriving at numerous decisions such as type, mix, amount, timing, grade etc. of investment and disinvestments. Further, such decision-making has not only to be continuous but rational too. Broadly speaking, an investment decision is a trade off between risk and return. All investment choices are made at points of time in accordance with the personal investment ends and in contemplation of an uncertain future. Since investments in securities are revocable, investment ends are transient and investment environment is fluid, the reliable bases for reasoned expectations become vaguer as one conceives of the distant future. Investors in securities will, therefore, from time to time, reappraise and reevaluate their various investment commitments in the light of new information, changed expectations and end (Bhalla, 2001, p.131).

## **1.2 Statement of the Problem**

The problem toward which this study is directed is to identify the performance of common stocks listed in NPSE. Now-a-days, investment in common stocks in Nepal is getting momentum due to flow of information through print media although it is not so adequate. The individual investors are investing in common stocks despite very little information because of less opportunity available elsewhere. Most of them are based on the price movement of stocks in the market. Not much information is available in the market regarding various risk factors. There are no specific agencies to provide information on the performance various common stocks. Therefore, this study is directed towards the measurement of performance of common stocks. Are the common stocks listed performing well as per their risks? Which common stocks are outperforming the market? To what extent the performance of common stocks is related to the market? How can investors form profitable portfolios out of the available common stocks?

The investors could not identify the good and bad stock in lack of proper information and lack of not creating confidence. Despite the lack of sufficient support and information, Several university researchers, who had played significant role in share price movements, identified that investment on common stock is based on institution,, imagination, guesswork and conscious judgment.

Brokers are also supposed to assist in the maintenance of a fair and orderly market but they may not be able to do this job in their full capacity successfully because of the various obstacles presented in the economic environment. So the necessity to analyze the practical situation of the price formation and brokering services in Nepalese stock market is the most in present situation. There were various complaints from the investors about the performance of the brokers, such as:

- ) Absence from the stock market for a long period without pre-notice to the Nepal Stock Exchange, and
- ) The maintenance of verbal contracts with some investors by disobeying the rules and regulations.

Stock market provides investors good investment opportunity with fair return and instant liquidity with minimal risk of loss. It helps to mobilize financial resources for the investment in development projects and thereby helps for economic development, in turn, further develop the stock marker. The investment strategy based on the technical analysis is more profitable than buy and hold policy of timing of selling and buying. Fundamental analysis theory holds the view that there exists intrinsic value of the stocks, which helps to select the right stock at a time. Market is efficient in pricing the shares. In that condition, investment decision becomes simple. But investors are loading interest in the performance of share market mainly due to the behavior of fraudulent and scandalous activities. The investors are confused which stock is bad and which stock is good.

The study period is not longer enough and other comprehensive test in short data series seems that the study has focused on the methodological study only. The study has mainly sought the answer to the following research questions.

- )] What is the trend of annual turnover of Nepal Stock Exchange?
- )] How many companies are listed in Nepal Stock Exchange?
- )] What is the trend in market capitalization?
- )] What is the behavior of NEPSE Index?
- )] What are the roles of NEPSE & SEBON in the development of capital market?

## **1.2 Objectives of the Study**

The major objective of the study is to explore the current position of Nepal stock market and its scenario on Capital Market. Specific objectives of the study are presented as follows.

- )] To evaluate current position of Nepal Stock Exchange in Nepalese Capital market.
- )] To examine and evaluate the role of NEPSE & SEBON in the development of capital market.
- )] To analyze the role of brokers in price formation in Nepalese Stock Market.
- )] To analyze the trend of market price of Stock through NEPSE index.

## **1.4 Significance of the Study**

This research study has much significance for the researchers. Stock brokers evaluate the investment alternatives. The interested investors can use brokers. There are various factors that cause market fluctuation of stock price in the market: economic and non-economic factors. The most fundamental factor in stock price fluctuation remains change in corporate earning; interest rates and business cycle trends contribute to makeup the economic factors. Political changes, administrative changes, changes in weather and other natural conditions. The volumes of transaction, institutional investors, transactions etc directly affect the stock price. Although margin transactions increase purchasing whose stock price is going up, once the price begins to fall, they become a selling factor and accelerate price decline.

The listing of shares in stock exchange center and their trading in the stock market is not too long. The stock market has been providing capital for investment in industrial productive, financial, service and other sector.

## **1.5 Limitations of the Study**

No research works are free of some shortcomings or limitations. So this research study also has some limitations. The main limitations are mentioned below:

- ) This study is based on secondary sources of data.
- ) Various trading costs (e.g. brokerage commissions), taxes etc are excluded from the study.
- ) Market return is based only on NEPSE index.

## **1.6 Organization of the Study**

The study has been organized into five chapters. They are as follows:

### **Chapter I: Introduction**

This is the introductory chapter which has the background of the study, statement of the problem, objectives and significance of the study etc.

### **Chapter II: Review of Literature**

This chapter has included conceptual framework i.e. theoretical analyses and review of related different studies. In this chapter it has been also considered that how this present studies are different from previous studies.

### **Chapter III: Research Methodology**

This chapter has dealt with the research design, population and sample, sources of data, data collection techniques and data analysis tools (financial tools and statistical tools) and methods of analysis and presentations.

### **Chapter IV: Presentation and Analysis of Data**

This chapter describes the research methodology employed in the study. It will include secondary data and primary data presentation, data analysis, interpretation, testing of hypothesis and major finding.

#### **Chapter V: Summary, conclusion and Recommendations**

The last chapter states the summaries, conclusions of the whole study and recommendation. It also offers several avenues for future research. The exhibits and bibliography are incorporated at the end of the study.

## **CHAPTER – II**

### **REVIEW OF LITERATURE**

This chapter presents the review of some of the existing literature concerning the stock market in Nepal and abroad. In this regard, various books, journals and articles concerned to this topic have been reviewed.

## **2.1 Conceptual Framework**

### **2.1 1 Securities Market**

So far as securities market is concerned, it is an important constituent of capital market. It has a wide term embracing the buyers and sellers of securities and all the agencies and institutions that assist the sale and resale of corporate securities (Patric, 1966, p. 350). Securities are traded in a market called securities markets. Although, securities markets are concentrated in few locations, they refer more to mechanism, rather than to place, designed to facilitate the exchange of securities by bringing buyers and sellers of securities together. In other words, people and organizations wanting to borrow money are brought together with those having surplus funds in the securities markets. Securities, such as equities, short and long term debt instruments, derivatives etc. are the products that are traded in the markets, institutions such as investment bankers and security firms, securities issuing institution such as government and corporate bodies and the participants of the securities markets. Securities markets' major function is to provide line between saving and investment there by facilitating the creation of new wealth (Baral, K. J. 1999, p. 8-9). The development of a sound securities market with its constituent financial institution is one of the mechanisms which enable the efficient transformation of savings from the hands of surplus spending units to those of deficit spending ones who can use them move productivity and/or have loss/risk aversion (Rugh, 1966, p.50). The existence of markets for securities is of advantage to both issuers and investors. As to their benefit to issuers, securities market assists business and government in raising funds. In a society with private ownership of the means of production and distribution of goods and services, savings must be directed toward investment in industries where capital is most productive. Governments must also be able to borrow for public improvements. Market mechanism market possible the transfer of funds from surplus to deficit sectors,

efficiently and at low cost (Donald, 2000, p. 17). In the broadest term securities market can be classified into primary markets and secondary markets.

### **2.1.2 Primary Market**

Securities available for the first time are offered through the primary securities markets. The issuer may be a brand new company or one that has been in business for many years. The securities offered might be a new type for the issuer or additional amounts of a security used frequently in the past. The key is that these securities absorb new funds for the coffers of the issuer (Ibid, 2000, p.19). The primary securities market includes all transactions that result in the accumulation of financial capital by firms, governments or individuals to be used in consumption or real capital investment. The participants in this process are many and varied, but an important segment, includes the money brokers who act as middlemen in the process of exchanging securities for funds. These brokers provide invaluable services. Their principal role is to assist in the pooling of funds by the certain of security forms that will appeal to the ultimate investors (Nancy, 1984, p.147). Primary market transactions are normally effected through the issuance of short and long-term bonds and other debt instruments and through the issuance of common and preferred stocks (Ibid, 1984, p.146).

All securities, whether in the money or capital markets, are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefit from the sale of securities. Once the securities begin to trade among individual, business, government or financial institution, savers and investors, they become part of the secondary market (Gitman, 1988, p. 30).

Primary markets are distinguished by the flow of funds between the market participants. Instead of trading between investors as in the secondary markets, participants in the primary market buy their assets directly from the source of the asset. Once the assets or securities are sold in the primary market, they begin trading in the secondary market (Geoffrey, 1983, p. 25).

### **2.1.3 Secondary Markets**

Secondary markets are markets for existing assets, which are currently traded between investors. It is these markets that create the price and allow for liquidity. If secondary markets did not exist, investors would have no place to sell their assets. Without liquidity, many people would not invest at all (Ibid, 1984, p. 24).

If investors could not resell securities readily, they would be hesitant to acquire them, and such reluctance would reduce the total quantity of funds available to finance industry and government. Those who own securities must be assured of a fast, fair, orderly and open system of purchase and sell at known prices (Fisher, 198, p.18). Secondary (indirect) securities markets allow outstanding securities to be traded from old to new owners. The advantage of secondary market is to provide liquidity or cash and investment opportunities to investor and to make certain assets more attractive to buyers and sellers. Secondary market comprises the stock exchange, the over the counter market.

Organized security exchanges are tangible physical entities. Each of the larger ones occupies its own building, has a limited number of members and has an elected governing body- its board of governors. Members are said to have “seats” on the exchange, although everybody stands up. These seats, which are bought and sold, give the holder the right to trade on the exchange (Ehohaodt, 1999, p.123).

Organized exchanges are central physical market place where the agents of buyers and sellers operated through auction process and trading is done under a set of rules and regulation.

Most of the larger investment banking houses operate brokerage departments, and they own seats on the exchanges are open on all normal working days, with the members meeting in a large room equipped with telephones and other electronic equipment that enable each member to communicate with his or her firms officials throughout the countries (Idem, 1999, p. 30).

The over-the-counter (OTC) exchange is not an organization but an intangible market for the purchasers and sellers of securities not listed by the organized exchanges. Active traders in this market are linked by a sophisticated Tele-communication network. The prices

at which securities are traded “over the counter” are determined by competitive bids and negotiation. The OTC, in addition to creating a resale market for outstanding securities, is a primary market in which new public issues are sold (Gitman, 1988, p. 30).

Today, the over-the-counter market is defined to include all facilities that are needed to conduct security transactions not conducted on the organized exchanges. These facilities consist of (1) the relative few dealers who hold inventories of over-the-counter securities and who are said to “make a market” in these securities, (2) the thousands of brokers who act as agents in bringing the dealers together with investors, and (3) the computers, terminals and electronic networks that provide a communication link between dealers and brokers (Brigham, 1999, p.12).

#### **2.1.4 Capital Market**

The capital market is concerned with long-term finance. Broadly it consists of a series of the channels through which the savings of the community are made available for industrial and commercial enterprises and authorities it is concerned with those private savings, individual as well as corporate, that are turned into investments though new capital issues and also new public load floated by the government, industry, trade and government while the supply of fund comes from individual or corporate savings, institutional investor and surplus of governments.

An ideal capital market where funds are available at reasonable rate of return for any proposition which offers a prospective yield sufficient to make borrowing worthwhile, given rate of return for any proposition which offers a prospective yield sufficient to make borrowing worthwhile gives the roles rates of interest (Shakespeare, 2001, p. 97-99).

The capital market serves as a link between supplies and uses of finance. It is a mechanism for the mobilization of public savings and canalizing them in productive investment. In this way, an important constituent of the capital market is the securities market. It has a wide term embracing the buyers and sellers of securities and all those agencies and institutions, which assist the sale, and resale of corporate securities (Gupta, 1978, p. 325).

### **2.1.5 Stock Exchange and Its Role**

Stock exchange is the most highly centralized and visible institution where already issued securities are bought and sold for investment and speculative purpose. It provides facilities of trading of listed financial securities.

Securities exchanges do not directly buy or sell securities; rather, they provide trading floors on which a continuous auction market is conducted. To transact business on the trading floor of an exchange an individual must member; that is, a seat on the exchange must purchase. Individual or institutional investors who place orders to buy or sell the securities listed on an exchange may not be present when their orders are executed. Rather, they must be transmitted their orders to an exchange member-usually a commission broker- who sees that they are carried out (Jacob, 1980, p. 40).

In the recent years, the authorities are increasingly recognizing the role of the stock exchange. Stock exchange is not and has at no time been the private concern of a few individuals. Nor have their activities been limited to the cyclical booms and slumps, which attracted so much popular attention the stock exchange as the market for securities gives everybody access to a number of difference opportunities for capital investment. The function of stock exchange is to provide equal opportunities for many buyers' and sellers of securities as possible. From general economic point of view the stock exchange constitute the core of capital market. It has put its finger on the pulse of the economy and gives the diagnoses to the public in the form of quotation (Franfurtere, 1972).

This institution plays a notable part in the economic life of the country acting as a free market for securities, where prices are determine by demand and supply. The function of a stock exchange is not only to provide a market for securities but also assist in the rising of for government and industries.

## **2.2 Review of Related Studies**

The finding of some of the research studies are as follows

### **2.2.1 Review of Research in the Foreign Context**

The findings of some of the research studies are as follows:

The study conducted by Bary Borsworth on Industrial Production Prices of common stock, 1953-1975 has revealed that the stock market and economic activity move in similar cyclical patterns. This fundamental relationship shows that stock prices are meaningful in the sense of reflecting real economic variables (Borsworth, 1975, p. 78).

The study conducted by the U.S. Department of Commerce on stock prices and the business cycle, 1948-84 has found that the general correspondence between stock prices and business cycle, where weighted moving average of a stock price index is mapped against the peaks and troughs of business cycle since 1948. The market has reflected all the recessions in the economy since 1948 (Kimpton, 1985, p. 54).

The indicators of stock market development reflect the development of an economy. It is important to predict the course of the national economy because economic activity affects corporate profits, investor attitudes and expectations and ultimately security prices. The key for the analyst is that overall economic activity manifests itself in the behavior of stock price or the stock market. This linkage between economic activity and the stock market is critical (Fisher and Jordan, 1990, p. 125).

There are two important aspects of capital market, namely, the raising of funds in the form of shares and debentures and trading in the securities already issued by companies. While the first aspect is obviously is much more important from the point of view of economic growth, the second aspect is also of considerable importance. In fact, if facilities for transfer of existing securities are abundant, the raising of new capital is considered assisted for the buyer of a new issue of security is confident that whenever he wants to get cash he can find a buyer without much difficulty. This aspect is called the liquidity of the stock market. Thus, the liquidity of the stock market affects the raising of new capital from the market (Kunt and Levine, 1996, p. 89).

A number of studies on the relationship between stock prices and the national economy have found that changes in the stock market tend to precede changes in business conditions by an average of about four months. As a result, the stock price index is major component of the index of leading economic indicators, which consistently provides a warning about changes in economic activity (Lorie, 1985; Dodd, 1985, p. 78).

Somewhat for unexpected inflation, the surprising result, however, is that common stock returns are negatively correlated with both expected and unexpected inflation. Rather than being compensated for inflation, investors in common stocks have been penalized (Fama and Schwert, 1975, p. 99).

Ross Levine, a Senior Economist in the Finance and Private Sector Department Division of the World Bank's Policy Research Department, has mentioned in his article that stock markets may affect economic activity through the creation of liquidity. Many profitable investments require a long-term commitment of capital, but investors are often reluctant to relinquish control of their savings for long periods. Liquid equity markets make investment less risky – and more cheaply if they need access to their savings or want to alter their portfolios. At the same time, companies enjoy permanent access to capital raised through equity issues by facilitation long-term, more profitable investments, liquid market improves the allocation of 1-8 markets encourage more investment (Levine, 1996, p. 352).

Kersi D. Doodha has shown the causal connection between deficit finance, money supply, and the general level of price and the share prices. The relationship being positive and in the same direction, it can be deducted that, *ceteris paribus*, if the deficit finance is low, money supply increase will be small, the general price level will be little and, therefore, the growth in stock market prices will be small (Doodha, 1962, p. 352). However, there are various researches performed on the stock market liquidity and its effect on long-term economic growth. Levine and Zeroos have mentioned in his article that increased liquidity can deter growth through at least three channels. First by increasing the returns to investment, greater stock market liquidity may reduce saving rates through income and substitution effects. Second, by reducing the uncertainty associated with investment, greater stock market volatility may reduce saving rates because of the ambiguous effects on uncertainty on savings.

While less uncertainty makes an investment more attractive to risk-averse agents, less uncertainty also lowers demand for precautionary savings. Thus, the ultimate impact of lower uncertainty on saving rates produced by greater stock market liquidity is uncertain. Third, stock market liquidity may adversely affect corporate governance; very liquid markets may encourage investor myopia. Because, more liquid markets make it easy for dissatisfied investors to sell quickly, liquid markets weaken investor's commitment and reduce investor's incentives to exert corporate control by overseeing managers and monitoring firm performance and potential. According to this view, enhance stock market liquidity may actually hurt economic growth (Levine and Zeroos, 1996, p. 89).

Demirgic – Kunt and Levine find that across the level of stock market development is positively correlated with the development of financial intermediaries. Thus, stock markets and financial institutions are generally complements; they grow simultaneously (Kunt, Levine, 1996). Levine and Zeroos examine the empirical relationship between measures of stock market development and long-run growth rates. After controlling for the initial level of GDP per capita, initial investment in human capital, political stability, the level of banking development and measures of monetary, fiscal and exchange rate policy, the predetermined component of stock market development remains positively and significantly with long-run economic growth.

Donald E. Fisher and Ronald J. Jordan have distinguished investment from speculation in SM by the time horizon of the investors; and often by the risk-return characteristics of the investment. The true investor is interested to seek a good rate of return for a relatively long period of time. The true speculator seeks opportunities of very large returns to earn rather quickly. Thus, the same stock can be purchase as a speculation or as investment, depending on the motivation of purchaser (Fischer and Jordan, 1990, p. 128).

Donald E. Fischer and Ronald J. Jordan further say that investments generally involve real assets and financial assets. Real assets are tangible while financial assets are pieces of paper representing an indirect claim on real assets held by someone else. Financial assets are liquid, so that they can be sold to acquire real assets. Thus they encourage investment in financial assets through the stock market (Fischer and Jordan, 1990, p. 129) voting power that

among other things elects the board of director, and have a right to the earnings of the firm after all expenses and obligations have been paid but they also run the risk of receiving nothing if earnings are insufficient to cover all obligations (Donald E. Fischer and Ronald J. Jordan, 1990, p. 129).

### **2.2.2 Review of Research in the Nepalese Context**

No specific research studies have been available regarding the impact of stock market on economic development and vice versa in the Nepalese Context. However, some articles, books, dissertations etc, related to stock market are consulted and reviewed.

### **Review of Regulation of Capital Market and Intermediaries**

#### **1) Policy Framework and Regulation of Capital Market and Intermediaries**

The economic institutional and regulatory framework provides the underpinnings for capital market development. At the early stage of an emerging market economy, it is important that the Government create the right policy environment to facilitate the creation of a critical mass of financial instruments, issuers, and investors. Government can also create incentives for capital mobilization, remove impediments to private sector development, educate investors, and provide basic legal and regulatory reforms. Until now, Nepal's capital market development has not reached its full potential for several reasons, including:

- ) Unfavorable macroeconomic conditions
- ) Political uncertainty
- ) Low investor confidence
- ) Distortions in the tax system
- ) Slow pace of privatization
- ) Inadequate institutional investor base
- ) No local venture capital firms
- ) Misallocation of savings to bank deposits and Government securities
- ) Inadequate disclosure to investors
- ) Weak legal underpinnings for the securities market regulation and enforcement
- ) Restrictions on foreign portfolio investment

Legal reforms must provide for securities, law with adequate regulatory and enforcement powers to the Government regulator. In Nepal, legal reforms are also necessary in order to harmonize the Securities Exchange Act with the Company, Banking and Finance

Company Act and Ordinance. Each of these acts as well as the Provident Fund Act and the Insurance Act has a significant impact on the development of the capital market, the securities industry, and institutional investment. In most emerging capital markets the securities commission has a legal mandate to facilitate capital market development. Government policies must facilitate rather than impede capital market development. In particular, sound macroeconomic policy can lay the foundation for the development of long-term capital market instruments. Tax policy should encourage long-term capital market instruments. Tax policy should encourage long-term investment through the capital market. In Nepal, the overall policy environment has not been conducive to development of the capital market even though the Government has taken concrete steps to encourage the creation and development of the stock exchange and legal framework.

In Nepal, the main impediments have been the following: i) tax policy that discourages investment in capital market instruments issued by the private sector; ii) the channeling of most savings to state-owned banks, and Government debt; iii) institutional arrangements that seem to discourage contractual savings and institutional investment flows into the capital market; and iv) lack of investors confidence in the stock market since may listed companies do not trade on regular basis, or hold annual meetings and provide disclosure information to investors on a timely basis also there is a need for a strategic plan to link privatization policy to the growth and development of the capital market.

The main regulators of the capital markets and intermediaries providing broker and dealer services to the primary and secondary markets are the Securities Board (SEBO), Nepal Rastra Bank (NRN) and the Nepal Stock Exchange (NEPSE). supervision of securities market intermediaries (other than brokers) while the Securities Board is responsible for the supervision of the NEPSE, the registration and supervision of stock brokers and the granting of licenses to finance companies and others acting as issue manager, underwriter, market-dealer. in Nepal, there is a need to establish a regulatory body to supervise private provident funds.

Under the Finance Company Act and the Banking Act, the NRB supervises and regulates finance companies and commercial banks in Nepal. These organizations are also

permitted to provide investment banking type services. In this regard, it is noteworthy that the risks associated with investment banking activities are quite different from those associated with commercial banking or the quasi-banking functions performed by deposit-taking finance companies. In obtaining a license from the Securities Board, however, certain minimum capital requirements must be met by anyone proposing to act as issue manager, underwriter, market-maker, portfolio manager, or stock broker.

The Securities Board (SEBO) of Nepal was established in 1993, under the 1992 Amendments to the Securities Exchange Act of 1983. Under the Securities Investment Trust Act of 1997, the Securities Board is also responsible for the registration and supervision of investment funds. Under a new Securities Exchange Act, as proposed, NEPSE would function as a self-regulatory organization under the oversight of the Securities Board. Under the Securities Exchange Act, the Securities Board also has a clear mandate to promote the development of the capital market. Under the current regulatory scheme, the supervision of finance companies and commercial banks acting as underwriting, issue manager, market-maker or portfolio manager are supervised by the NRB, including the administration of prudential standards, financial reporting, off-site monitoring, and on-site inspections for compliance with applicable rules and regulations. The NRB of course, is also responsible for the overall supervision of commercial banks and finance companies, including their activities in the markets for Treasury Bills and Government securities. At the present time, the Securities Board does not participate in NRB's program to inspect and monitor the financial conditions of finance companies and commercial banks that are licensed to conduct capital market activities. In view of the difference in risk associated with deposit-taking institution and capital market activities, it would be desirable for the Securities Board to participate in the supervisory program for financial institutions licensed by the Securities Board to conduct capital market activities.

The Board of Directors of the NEPSE consists of seven members. The Chairman of the Board is an official of the Ministry of Finance two Board members represent NRB Bank and one member is appointed by Nepal Industrial Development Corporation two licensed stockbroker members of the Exchange also serve on the Board of Directors. Finally the General Manager of the NEPSE is a member of the Board. The Securities Board must be in a

position to intervene in the event that the stock exchange is not performing its self-regulatory functions in accordance with the Securities Exchange Act, or otherwise engage in activities requiring enforcement action of the main Government regulator is too closely identified with the day-to-day operations of a stock exchange this could erode public confidence in the event of the demise of a listed company, member firm, or other market failure.

while the NEPSE is expected to perform self-regulatory functions, the existing securities law (as amended) and regulations do not clearly define the regulatory, supervisory, and enforcement functions of the stock exchange and the Securities Board. Thus, it is not surprising that self-regulation has not developed to any significant extent. also, the NEPSE does not have the necessary committee structure to carry out basic self-regulatory functions. The bye-laws of the exchange are not adequate for this purpose and there is a need to develop procedural manuals that can provide staff guidance to formalize the self-regulatory process.

At the present time, the Privatization Act of 1994 governs the privatization process in Nepal. Prior to the passage of the Act, the privatization process was defined in the Government Policy Paper on Privatization (1991). in Nepal, the form under the Privatization Act, several methods of privatization are provide for: i) sale of shares to the general public, employees, workers, and other interested parties; ii) formation of a co-operative; iii) selling the assets of an enterprise; iv) leasing the assets of an enterprise; v) seeking private management of a public enterprises vi) or by other methods seemed appropriate by the Committee. The Act also specifies the factors that should by taken into account for the purpose of evaluating proposals submitted to the Government by interested parties following the announcement of a proposed privatization section 15A of the Securities Exchange Act required a listed company to submit annually to the Securities Board and to NEPSE its balance sheet, profit and loss account and directors' report within four months from the end of its financial year. an interim report is also required to be submitted to both within 60 days after the expiry of each six months period.

Rule 23A (1) of the Securities Exchange Regulation requires a company, before listing, to enter into a listing Agreement with NEPSE in which the company has to give various undertakings including an undertaking concerning the continuing disclosure

obligations of listed companies; NEPSE must notify the Securities Board of the entering into of the Listing Agreement (Rule 23A(2)). the form of the agreement is prescribed by Schedule 1 of NEPSE Securities Listing Bye-Laws and specifies 46 items relating to disclosure obligations. Bye-Laws 15 also prescribes information which listed companies must provide to NEPSE immediately; all of the 15 items so prescribed are repeated, verbatim in most cases in the Listing Agreement.

In order to make informed decisions, investors must have access to accurate and timely information. This is often not the case in Nepal. While banks, finance companies and insurance companies are perceived to provide meaningful information to investors on a timely basis, disclosure to investors is not adequate for many non-financial listed companies. Some financial market professionals have suggested it'll leaders of private industry and independent authorities that a major reason why financial information isn't presented correctly in disclosure documents is that the system of tax collection works against it. The lack of accurate and timely information is cited as an important reason why investors to a considerable extent have lost confidence in the stock market. in some instances, companies listed on the exchange may have ceased operations or at least are in con-compliance with reporting requirements to the stock exchange, Registrar of Companies and the Securities Board.

### **2.3 Review of Articles**

Articles are not full research framework for giving complete direction to the concerned authorities however it gives cooperation to the researcher. so it is taken into the account for the literature review that how many persons have written so many articles in favor of the protection of investors in the capital market of Nepal is reviewed here.

"Capital market is a crucial element in the national economy. Its role in reinvigorating and boosting the economic activates in the country hold significant. The strategic plan released by security board can, to a great extent, energize the investors by increasing investor interest in it. Security market experience both boom and decline soon after the beginning of securities trading brokers' members in the stock exchange floor. Though the market started to

function quickly boosting the prices of shares to an unexpected level, it could not be sustained.

There is an urgent need for proficient development of the market standard and information dissemination system focused mainly on corporate financial disclosure practices and transparency, corporate accounting and auditing securities markets regulation and corporate governance. To implement the above, Security Board has a great responsibility as to reviewing and developing regulatory standards to make them relevant with the need of issuers, investors along with promoting efficient capital formation" (Business Age, April 1999, p. 15).

Share investment has traditionally been guided by the investors' return. Most earnings of investors here have been in the form of dividend rather than capital gains, though high dividends are often seen, in corporate finance theory as a wasteful investment destination, with other stock market participants hardly making profit and even if they did failing to meet investor's expectations, demand for shares of commercial banks outpace supply and their prices boomed.

Now the latest slumps in the secondary market, despite a pretty good performance by commercial banks, make it more apparent that investment in the past was done on whim. Even officials at the stock exchange and the securities board refusing investor's allegations of the market manipulation and insiders' trading of last February, discreetly claimed that Nepalese Stock Market is in a nascent stage. And that, investment are made more on an impulse, rather than market study and credit rating" (Business Age, June 2001, p. 25).

Investors were enlightened and they started inquiring about company's financial health and further prospect before buying or selling shares. People turned to price-earning multiples; NEPSE indexes informed trading became sort of a norm when stock market entered 1995. Many that could not cope with the system of intelligent speculation left the ground. As a result the number of buyers gradually came down and so did the prices" (The Kathmandu Post, May 18, 1996, p. 2).

"There are many loopholes in our Stock-Exchange Act. Investors feel insecure here. a few years back there was a company called Nimrod Pharmaceutical Company that floated in shares, but where are they now? Similarly, it has been more than a year that Bansbari Leather has allotted its shares, but why didn't the company list its shares in the market? it has been three that Gorakhkali Rubber Udhdyog hasn't called for its AGM. Government remained silent in all these cases. This is why the general public as well as the institutional buyers is not feeling secure investing in stock market" (Business Age, January 2000, p. 25).

Prof. Dr. Manohar Krishna Shretha in an article " ISDDC' Bulletin (Volume 8 July-1982-June 1983) has brought certain policy issues related to stock market development such as lack of suitable financing planning, negligence of working capital management, deviation between turnover and return on net working capital. At the end, he has also named some suggestive measures to over conform the above policy issues viz. identification of needed funds, developments of management information system, positive attitude towards risk and profit and determination of right combination of short-term and long sources of fund to finance working capital.

"ADB experts have seen many obstacles to the growth of capital market. This includes low level of investor's confidence, disclosure of poor and manipulated financial information, weak enforcement of regulation, absence of institutional investors, lack of diversity in range of financial instruments and the scope of active participation for the various intermediaries limited by vertical varies."

According to the IMF staff country report "A well functioning capital market is important for Nepal to support the efficient channeling of private savings to investment and facilitate the translation to direct monetary control. Headway has been made through various reforms since the late 1980's while the capital market is still in the early stage of development with many structural weaknesses."

In country economic review, Nepal: ADB recommends efforts to mobilize domestic resources more efficiently in order to develop capital market (Primary plus Secondary market

included) including "major tax reforms and further measures to improve efficiency in the financial sectors as well as revitalize the capital market."

In the paper "Privatization principle and practice" Donaldson David and J. Wagle, Dillip M, writes "There is a symbolic link between privatization and capital market. In most of the cases, privatization represents the first time that private voices are heard on SOE Boards. Indeed, for many, a change in the whole legal structure of company governance is a necessary first step. Borrowings from banks tend to become more commercial and less the result of political pressure. Often new firms of finance are lapsed on domestic and international capital market development adding greatly to stock and variety so corporate assets available to public."

Investors in the past years do nothing for the upliftment of the market. "NEPSE Parisuchak" is declining since the last years about more than two cores. If this will happen for few more years Nepalese share market may face great problem regarding the primary and secondary market. Honeymoon days of share market exist no more but there are still market players who have honeymoon says as they have built unlimited financial fortunes by sharp practices that went undetected during the period of share market boom. Among all, the regulation of share market to control on the unfair trade practice would be one of the strong measures to revive the share market in future.

Moreover, the challenge for the regulating authority is to control on the hidden establishment of share market corners and pool by some market price manipulator. Surprise inspection and secret vigilance by a professional team (without making known who are its members and advisors) can check on the functioning of the office of such price manipulators interested to corner a share market in the hope of trapping or squeezing short sellers. If found dishonest in share market dealings, action should be taken against such price manipulators by imposing heavy penalties and punishment depending upon the nature of offence.

The revival of the share market requires minimum fulfillment of the responsibilities and accountabilities among company management to the shareholder. Time has come for company management to respond to shareholders expectation of return from their investment

in shares of companies. Management should make it a habit to change attitude to think what is good for shareholders is good for company as a whole."

"The shareholders should be more conscious of rights given by the company Act 2021. The shareholders, under section 14(1), (2),(3), of the Act, have a right to file a suit or initiate a legal proceeding against the company or any person in the district court of the concerned department if their rights provided in the act are violated. The jurisdictions of the district court and the concerned demarcated have been demarcated clearly in section 146(2) of the Act. This definitely implies that the shareholders must come forward and seek legal remedies for their grievances against the company's high handedness and undemocratic ruling."(The Katmandu Post, July 25th, 1994, p. 2)

"Investors were enlightened and they started inquiring about company[s financial health, future prospects etc. before buying or selling shares. People turned to Price- Earning Multiples, NEPSEs, indexes etc. Informed trading became sort of a norm when stock market entered 1995. Many who could not cope with the system of intelligent speculation left the ground. As a result the number of buyers gradually came down and did the price." (The Rising Nepal, April 25th, 1996, P. 4)

"Our small investors need to be educated on the working of the stock exchange. In this task the role of Nepal Stock Exchange and the government and probably also that of the centers, which manage share issues of companies, becomes evident. In addition, stock exchange watchers feel that the government should revise its stock market rules to take account of the various aspects of stock market including loopholes in order to prevent share market profilers from fleecing the public. The companies whose shares are listed in the stock exchange should make to follow certain rules in order to inform the public of the state of financial health of the companies" (The Rising Nepal, January 20th, 1995, P. 4)

According to the Nepalese Stock Market, An Introduction, "These days the interest of the investors is gradually fading away. Investors have been discouraged with the shares market running at a snail's pace. There is no room for satisfaction for investors. Although the country has adopted the liberal market policies to revive the economy; it has not been applied

into concrete action in Nepalese context. Brokers have been reporting since long about Nepal's stock market position. However, no action has been taken from the government. The government has not been able to regulate the companies and the corporate culture is also not being developed among companies."

"It is said that people have stated pouring their money into the stock market due to shrinking size of interest rates on the deposits at commercial banks. Experts are of the view that public response towards stock market will continue to pick up for some time" (The Rising Nepal, September 3rd, 1999, P. 4)

In its early start, share market proved highly optimistic within a period of six months due to favorable conditions of political stability economic liberalization, strong commitment of better and prospective return by company management active role of brokers and the market makers, relaxation of control on the operation of the stock exchange by the concerned authorities and growing condition of the investors. There has been a remarkable rise in NEPSE index. But of companies, unfair share market practices and loss of investors' confidence in share market. As a result of these unfavorable developments, share market entered an era of worst bearish trend resulting from tremendous fall in NEPSE index. In order to revive the downtrend in share market, various reformative measures are urgently necessary to curb on unfair share market practices through the development of comprehensive and transparent stock exchange guidelines by the concerned authorities. The existing company management has to reorient its positive attitude towards investors and shareholders by improving the quality of timely report ion and providing the expected return to win the loosing confidence of shareholders. Investors should be self-conscious in the selection of brokers for trading in securities and organize themselves to be active to protest their rights. All these will help in the revival of share market to make it more action by attraction the investing public. (Shrestha, 1996, pp.10-13)

#### 2.4 Review of Thesis

There are many thesis written by various researchers in past years among them some thesis are reviewed here for analysis of literature.

Mr. Radhe Shyam Pradhan (1993) has conducted a research, " Stock Market Behaviour in Small Capital Market: A Case of Nepal." For the study, he collected the data of 17 enterprises from the year 1986 to 1990. Using statistical tools lime regression model.

The objectives of the study were as follows

- ) To assess the stock market behaviors in Nepal.
  - ) To examine the relationship of market equity, market value to book value, price earnings and dividends with liquidity, profitability, leverage, assets turnover and interest coverage.
- The main conclusion of his research was:
- ) The stock with larger ratio of dividend per share to market price per share have lower leverage ratio.
  - ) The leverage ratio of dividends per share to market price per share has higher liquidity.
  - ) The liquidity position of stock paying lower dividends is also more variable as compared to the stock paying higher dividends.
  - ) The stock with larger ratio of dividend per share to market price per share hs higher earnings.
  - ) There is positive relation between the ratios of dividends per share and interest coverage.
  - ) The dividend per share and market per share are positively correlated.
  - ) The dividend payout and profitability has positive relationships.
  - ) There is a positive relationship between dividend payout and turnover ratios.
  - ) Assets turnover, earning and interest coverage are more variable for the stocks paying higher dividends.

Mr. Bharat Prasad Bhatta (1997) has also conducted research on the topic "Dynamics of Stock Market in Nepal". The study was carried out by primary as well as secondary data from 1990 to 1998.

The objectives of the research were as follows:

- ) To analyze the trend of the Nepalese stock market.
- ) To diagnose and compare sector-wise financial status of the stocks in Nepalese stock market.
- ) To analyze the market share prices of Nepalese stock market.
- ) To find out the impact of secondary on primary market and vice versa.
- ) To recommend for the improvement of stock market in Nepal.

The main conclusion of his research was:

The stock market and economic activities move in similar direction. They influence each other. The development of the former is reflected in the latter. The stock market, therefore, can be regarded as a heart of economy.

It is necessary to develop the entrepreneurship and encourage the entrepreneurs to start the productive venture as soon as possible. Management map ability of the entrepreneurs is a key for better performance of the firms. Government should launch programs to enhance management capability of the entrepreneurs, which may contribute to raise the return from the investment.

Development of the manufacturing sector is the backbone of an economy, which, in turn, assists to foster banking, finance and insurance sectors. Unfortunately, the manufacturing sector does not have a good performance in Nepalese economy. Almost all firms in this sector have a sustained loss.

The secondary aspect of the stock market is not also functioning well in Nepal. There is almost no liquidity in the stock market for shares except that of banking and some finance and insurance sector.

Although it has become late to take steps to overcome such problems of the Nepalese stock market in order to make it active and supportive, the stock market has good prospect for the resource mobilization to finance the productive enterprises in Nepalese economy.

Mr. Surya Chandra Shrestha (1999) has conducted research on "Stock Price Behavior in Nepal"; this study aims to examine the efficiency of the stock market in Nepal.

The main objectives of the study were:

- ) To examine the serial correlation of the successive daily price changes of the individual stocks.

- ) To determine whether the sequence of price changes is consistent with changes of the series of random numbers expected under the independent Bernoulli process.
- ) To determine the efficiency of the stock market through the theoretical model of efficient market hypothesis in the Nepalese stock market.
- ) To provide feedback policy input towards institutional development of efficient market.

The main conclusion of his research was:

The serial correlation coefficients of the daily price changes for 1 and 2 lag days, and runs of the series of daily price changes lead to conclude that the successive price changes are not independent random variable description for the 30 sample stocks listed in the Nepal stock exchanges ltd. (NEPSE). Therefore, the random walk theory is not a suitable description for the stock market price behavior in Nepal.

The dependence in the series of price changes observed imply that the price changes in the future market will not be independent from the price changes of the previous days. It implies that the information of the past price changes is helpful in prediction future price changes in a way that the speculation through technical analysis can make higher expected profit than they would be under naive buy-and-hold policy (i.e. average market return). Therefore, opportunities are available to sophisticated (both institutional and individual) investors to earn higher return in the market. The existence and participation of the sophisticated investors have not been realized from the finding of this study. It is realized that mostly the naive investors have dominated in the market that can cause prices to diverge significantly from intrinsic values because the very existences of the sophisticated traders cause to erase the opportunities of persistence in prices which establish independence in prices which establish independence of successive price changes.

He analyzed 30 listed companies' stock price and found that the successive price changes are dependent. He finally concluded that the NEPSE is not efficient in pricing shares even in its weak form. Shrestha too had used autocorrelation and run test to detect the dependence among the stock price series. The outcomes of both the models were found to be similar and rejecting the null hypothesis that the successive price changes is independent. Though his research was not based on the total market return movement, the result drawn

from analyzing the movement of major stock traded in the market can be generalized for efficiency level of overall NEPSE. Moreover this research work with the analysis of total market return and banking sector stock return will be useful to verify his findings as well. The primary objectives of this study were to obtain an insight on corporate information disclosure with special reference to Nepalese stock market and its listed companies.

The main objectives of the study were:

- ) To highlight the corporate disclosure practice in Nepal.
- ) To identify the extent of disclosure of each of the item of information and to develop the information disclosure index.
- ) To check the quality of corporate disclosure of Nepalese listed companies measured by company characteristic namely asset size, number of shares outstanding and earning margin.
- ) 4) To see the relationship between corporate information disclosure and stock prices.

The main conclusion of his research was:

His research study began with the construction disclosure index for which he collected 59 informational items, classified according to their importance and calculated mean value after the collection of primary data. thereafter, he selected 33 listed companies, used their annual reports and calculated disclosure scores, which was followed by use of various statistical tools like regression, correlation etc. to attain the mentioned objectives.

From the detail analysis, he found that most of companies do not disclose adequate and qualitative information on their annual reports, and most of disclosed information consisted of only relationship between disclosure scores and variables like earning margin, asset size etc. the important finding of his research is that there is positive relationship between market price of share and disclosure score. In other words, the company having greater disclosure score had the higher prices of stock.

Mr. Mukti Aryal (1999) has conducted research on "The General Behavior of Stock Market" using correlation between 21 companies.

The specific objectives of this study were:

- ) To discuss theoretically the movements of stock market prices as predicted by the random walk model.
- ) To develop the empirical probability distribution of successive price changes of an individual common stock and a stock market as a whole.
- ) To examine whether the successive price changes of stock market are independent to each other or not.

The main conclusions of his study were:

- ) On the basis of run tests and serial correlation, it seems that the independent assumption of random walk model in stock prices is rejected by the collected sample data of 21 companies at least as a description of price behavior in Nepal Stock Exchange.
- ) The stock price changes are dependent on each other.
- ) The random walk of security speculative price behavior has been refuted at least in the Nepalese context, which clarifies that the knowledge of the past becomes useful in predicting the future movements of stock market price.
- ) The securities in the past were incorrectly priced either over or under valued, as actual market prices of securities do not reflect their intrinsic value. In other words, in case of sample securities, they are incorrectly adjusted those past information to the present market prices.
- ) There exists frequent persistence than reaction in the general stock market climate because of the investors' irrational behavior that causes the irrational movement of prices of stock.
- ) The general stock market of Nepal for the initial period appeared to be inefficient in incorporating the possible appearance of information into the successive price changes. Therefore, the investing public are not aware of the information available publicly, appropriate in adjusting with the actual market price.

His research revealed NEPSE to be an inefficient market. He performed a test of weak form efficiency by examining whether the stock price behavior follows a random walk or not. He concluded that the knowledge of the past is useful in predicting the future movements of

stock market prices. Therefore, investors on the floor of exchanges for securities mechanisms than they would be under buy and hold strategy.

Chandra Kumari Shrestha (2000) has concluded research on "Role of Nepal Stock Exchange in the Secondary Market".

The main objectives of this study were:

- ) To assess the past and present behavior of business operation in the Nepal Stock Exchange Market.
- ) To forecast the future trends of business and economic activity in the NEPSE in terms of quality, value and volume.
- ) To prescribe ways and means by which secondary market would be more effective and meaningful.

The main conclusions in her study were:

- ) NEPSE should introduce digital technology and online marketing in its trading procedure.
- ) The rules and regulations should be up to date.
- ) Privatization process needs to be carried out effectively in order to develop Nepalese stock market.
- ) Tax system should be reformed which should encourage and stimulate capital formation

Deepak Paudel (2005) entitled "Stock Price Behavior of Commercial Banks in NEPSE" with the objective to examine monthly closing price of 6 listed commercial banks during the period of three consecutive years from 2002 to 2004. He used correlation coefficient, regression analysis, and run test and auto correlation.

The main objectives of his study were:

- ) To find out Nepalese people's awareness of the securities investment.

- ) To identify the stock market participation trend in Nepal.
- ) To study and examine the major investment influencing factors.
- ) To provide some useful suggestions regarding stock market participation.

The main conclusion in his study was:

He found in his study that successive price changes were correlated with previous price series. He also found that most of the stocks did not follow random walk hypothesis the present stock prices were dependent to the historical prices. The EPS was the most affecting factor for the price change of the stock. Most of the investors wanted to invest in the shares of commercial banks because the fluctuation in NEPSE index was due to the transaction of commercial bank shares. There were serious limitations in the study. Data used in this study, monthly closing price of stocks not enough to predict the behavior of share prices.

Miss Sarada Mainali (2006) has conducted research on "A Study on Share Price Behaviour of Listed Companies".

The main objectives of this study were:

- ) To analyze the behavior of stock price of Listed Companies.
- ) To examine the stock price trend and volume of stock traded on secondary market.
- ) To identify the factors affecting stock price.
- ) To analyze the investors' view regarding the decision on stock investment.

The main conclusion in her study was:

- ) Share trading system in share market is still uncivilized even in this IT age. Though the volume to trading has increased the number of brokers has not increased. Therefore, for the systematic operation of the share market, has to be put in to practice to make the share market effective and competitive.
- ) The public investors not direct their savings in shares haphazardly. They should at least analyze or suggestions form experts about financial position and the level of risk prior to taking and investment decisions.

- ) Because of the persistence in the stock price movements professional traders either institutional or individual can beat the market. Thus it is suggestions that should be alert to exploit the opportunities through short term speculation.
- ) It is also suggestion to the concerned body to carry out further research on stock market behavior for the efficient functioning and betterment of the stock market of Nepal.

Overall, the previous studies in stock market support the idea that Nepalese stock market is not efficient even in the weak form hypothesis. Nepalese investors are not efficient enough to recognize potential for excess return.

Rudra Hari Gyawali, (2007) has conducted research on "Rights share practice and its impact on share price movement "The researcher sketches various conclusions through the research. The main objectives of the study were:

- ) To explain the price movement before the right offering.
- ) To analyze the relationship the relationship between share price movement and market movement.
- ) To identify the problem associated with the right practice.
- ) To study investors opinion regarding various aspect of right offering.

in his study he found impact of right offerings on share price movement from company to company in case of listed companies such differences are not only between the companies of different sectors but also between the companies with in the sector. Different on share price movement before and after right offering are significant as well as insignificant.

#### Research Gap:

Different researchers perform the above research. Their weaknesses and drawbacks are also mentioned there. This study will analyze the current position of Stock Exchange in

Nepalese Capital market through finding out the role of NEPSE & SEBON in the development of Capital market influenced by the various related factors.

Though these studies are found to be quite useful for academic purpose, the question arises of inefficient capital market that faced abnormal price fluctuation and its contributing factors in the context of Nepal has still unresolved. The researchers deal only with efficiency of stock market and daily price change. The researches, which are based on stock price movement of listed company on security markets of Nepal, deal with monthly change in stock price. The above researchers have presented the data up to 2007 but my research has the data up to 2008.

## **Chapter III**

### **Research Methodology**

#### **3.1 Research Design**

This research study is based on certain research designs. Selection of appropriate research design is necessary to meet the objective of the study. This study emphasizes on descriptive and analytical study of collective data over a period of time and it gives suggestion on the improvement of capital structure. So this study is based on descriptive and analytical research designs.

A quantitative research design has been adopted to plan the activities required to be followed for carrying out the various tasks of research work such as choosing the methodology to be adopted, gathering analyzing data and finally writing the report. Linking a quantitative approach provides richer detail for exploring viewpoints in early stages of research, allowing the researcher to gain a better initial understanding of the problem and to identify phenomena, attitudes and influence (Relly, frank (1990, p. 192).

## **2.1 Description of Data and Sample**

Nepal stock exchange has classified the companies into eight sectors i) commercial bank ii) financial companies iii) insurance companies iv) hotel companies v) manufacturing and processing companies vi) trading companies vii) development companies and viii) others. The overall sector has been taken for the study period of 2007 to 2008 as population and among them and run test were used. He concluded that NEPSE index showed a steady increase in the later month of the study period, which also shows the better performance of NEPSE. Stock market performance is less in a stable position in the capital market performance is steady increasing with the increase in the number of listed companies. The badly affected sectors were hotels trading, manufacturing and processing sector due to different reasons. The NEPSE index showed a better performance during the study period.

## **2.2 Sources and Procedures of Data Collection**

This study is based completely on historical data. The required for this research study are particularly collected from secondary sources. It will content mostly the annual reports profit and loss account and balance sheet of concerned companies.



- EP = end price of stock;
- BP = beginning market price of stock; and
- $D_t$  = Dividend received during the period of the evaluation.

Average return or arithmetic average is the simple time-weighted average. So

$$\begin{aligned} \bar{R}_T &= \frac{\sum_{t=1}^T R_t}{T} \\ &= \frac{R_1 + R_2 + \dots + R_T}{T} \end{aligned} \quad (3.3)$$

Where,

$R_1 \dots R_T$  = Returns for assets from 1 to T periods and

T = Numbers of time periods.

### 3.6 Computation of Dividend

Dividend is an important cash inflow for the common stock holder. So, in order to calculate holding period rate of return calculation of dividend is an important task. In this research paper stock dividend is converted into cash dividend. The model used to convert stock dividend into cash dividend is as follows:

$$\text{Stock dividend} = [\% \text{ of stock dividend}] \times [\text{MPS after stock dividend}]$$

Here if the stock dividend is declared before 35 days of ending holding period, the ending price (EP) of the same year is taken as MPS after stock dividend otherwise next year's EP is taken as MPS after stock dividend. For example if a company declares stock dividend on 20<sup>th</sup> March 2004 then EP for 2003/2004 is used to convert stock dividend into cash dividend. But if a company declares stock dividend after 10<sup>th</sup> June 2004 then EP for 2004/2005 is used as MPS to convert stock dividend into cash dividend. Therefore total cash dividend is calculated as follows:

$$\text{Total cash dividend} = \left[ \frac{\% \text{ of cash dividend} \times \text{Paidup value}}{\% \text{ of stock dividend} \times \text{MPS after stock dividend}} \right] \dots \dots \dots (3.4)$$

### 3.7 Measurement of Risk

When analyzing investments, analysts define risk as variability of return. Financial analysis and statisticians prefer to use a quantitative risk surrogate called the variance of returns, denoted  $\text{Var}(r)$ . The variance of an asset's rates of return for historical data is given by:

$$\text{Var}(r_i) = \frac{\sum_{t=1}^T (r_{i,t} - \bar{r}_i)^2}{T-1} \dots \dots \dots (3.5)$$

Where,

- Var ( $r_i$ ) = variance of returns of asset i;
- $r_{i,t}$  = rate of return of asset i in period t; and
- $\bar{r}_i$  = average rate of return of asset i.

Variance as well as standard deviation measure total risk of an asset. So standard deviation  $\sigma$ , of the rates of return is given by;

$$\sigma = \sqrt{\text{Var}(r_i)} = \left[ \frac{\sum_{t=1}^T (r_{i,t} - \bar{r}_i)^2}{T-1} \right]^{1/2} \dots \dots \dots (3.6)$$

The total risk of an asset can be divided into two parts; diversifiable risk and undiversifiable risk. Therefore,

$$\text{Total risk} = \text{Undiversifiable risk} + \text{Diversifiable risk}$$

Undiversifiable risk is that portion of total variability in return caused by market factors that simultaneously affect the prices of all securities. It is also called systematic risk. Changes in the economic, political, and sociological environment that affect securities

markets are sources of systematic risk. The beta ( $\beta_i$ ) is an index of systematic (or undiversifiable) risk that gauges how much the  $i^{\text{th}}$  asset's return typically reacts to a change in the market portfolio's return. Beta coefficients may be used for ranking the systematic risk of different assets. The beta coefficient also measures the slope of the characteristic line. The beta coefficient is defined as:

$$\beta_i = \frac{\text{Cov}(r_i, r_m)}{\text{Var}(r_m)} \quad \dots \quad (3.7)$$

Where,

$\beta_i$  = beta coefficient of asset  $i$

$\text{Var}(r_m)$  = the variance of returns for the market portfolio.

$\text{Cov}(r_i, r_m)$  = the covariance of returns of  $i^{\text{th}}$  asset with the market.

$$\text{Cov}(r_i, r_m) = \left[ \frac{\sum_{t=1}^T (r_{i,t} - \bar{r}_i)(r_{m,t} - \bar{r}_m)}{T-1} \right] \quad \dots \quad (3.8)$$

Systematic risk is given by,

$$\text{Systematic risk} = \beta_i^2 \text{Var}(r_m)$$

The percentage of total risk that is systematic risk can be measured by the coefficient of determination  $p^2$ .

$$p^2 = \frac{\text{systematic risk}}{\text{unsystematic risk}} = \frac{\beta_i^2 \text{Var}(r_m)}{\text{Var}(r_i)} \quad \dots \quad (3.9)$$

Diversifiable risk is that portion of total risk, which is unique to the firm that issued the securities. It is also called unsystematic risk. It is given by:

$$\text{Diversifiable risk} = \text{Var}(e)$$

$\text{Var}(e)$  is called residual variance of standard error squared. The percentage of unsystematic risk equals  $(1-p^2)$ .

The characteristics line and CAPM provide a foundation for risk-adjusted performance analysis. The equilibrium rate of return for individual assets is given by the CAPM. The relationship between covariance and expected return is known as security market line [Sharpe, 2004:235, page no. 109].

For our purpose, the ex post SML is simply the equation of the line going through the points (0) and (1). The return given by the ex post SML for an asset with a beta of  $\beta_i$  can be used as a benchmark return,  $r_{bi}$ , for that asset. That is:

$$\bar{r}_{bi} = \bar{r}_f + (\bar{r}_m - \bar{r}_f)\beta_i \quad (3.10)$$

One measure of an asset's risk-adjusted performance is the difference between its average return ( $\bar{r}_i$ ) and the return on its corresponding benchmark return, denoted ( $r_{bi}$ ). This difference generally referred to as the asset's ex post alpha (or differential return), and is denoted  $\alpha_i$ :

$$\alpha_i = \bar{r}_i - \bar{r}_{bi} \quad (3.11)$$

$$\alpha_i = \bar{r}_i - [\bar{r}_f + (\bar{r}_m - \bar{r}_f)\beta_i] \quad (3.12)$$

Characteristic line is a simple linear regression model expressing the relationship between the excess return on the market portfolio (Sharpe 2004: 909). The simple equation of characteristic line is given by:

$$r_{i,t} = \alpha_i + \beta_i \times r_{m,t} + \varepsilon_{i,t} \quad (3.13)$$

Where,

$r_{i,t}$  = total rate of return in period t.

$r_{m,t}$  = rate of return for market in period t.

$\alpha_i$  = regression intercept.

$\beta_i$  = slop of characteristic line

$\epsilon_{i,t}$  = unexplained residual return that occurs in period t.

The characteristic line is used to measure statistically the undiversifiable risk and diversifiable risk of individual asserts and portfolios. [Francis, 1997: 267 p. 153]. The ex- post characteristic line for performance evaluation is given by:

$$r_{i,t} - r_{f,t} = \alpha_i + \beta_i (r_{m,t} - r_{f,t}) + \epsilon_{i,t} \quad (3.14)$$

### 3.8 Various Indexes used in Performance Evaluation

1. Rate of Return
2. Standard Deviation (SD)
3. Coefficient of Variation (CV)
4. Coefficient of Correlation
5. Co-efficient of determination
6. F-test

#### 3.8.1 Rate of Return

In analyzing a common stock's performance the holding period return on the cokkon stock needs to be correctly calculated over the period of the evaluation. The single period rate of return is the basic random variable in investments analysis. This rate of return concept is important because it measures the speed at which the investor's wealth increases or decreases. The rate of return formula can be stated in a form appropriate for almost any investment.

$$R_t = \frac{P_t + Z P_{tZ} + \Gamma C_t}{P_{tZ}} \quad (3.8.1.1)$$

Where,

$R_t$  = an investment's single period rate of return

$P_t$  = market price at the end of period  $t$ .

$P_{t-1}$  = price at the end of period  $t - 1$ .

$D_{t-1}$  = cash flow income received during the  $t^{th}$  period.

For common stocks, it can be simply stated as:

$$R_t = \frac{EP - BP + D_t}{BP} \dots \dots \dots \dots \dots \dots \dots \quad (3.8.1.2)$$

Where,

EP= end price of stock;

BP= beginning market price of stock; and

$D_t$ =dividend received during the period of the evaluation.

Average return or arithmetic average is the simple time- weighted average. So

$$\begin{aligned} \bar{R}_t &= \frac{\sum_{t=1}^T R_t}{T} \\ &= \frac{R_1 + R_2 + \dots \dots \dots + R_T}{T} \dots \dots \dots \dots \dots \dots \dots \quad (3.8.1.3) \end{aligned}$$

Where,

$R_1 \dots \dots R_{12}$  = Returns for asserts from 1 to T time periods and

T= Numbers of time periods.

### 3.8.2 Standard Deviation



positively correlated but when the variation of two variables take place in opposite direction, the correlation is termed as positive. Thus, correlation coefficient lies in between +1 or -1. While interpreting correlation coefficient, due care should be provided as it misleads the results and decision.

### **3.8.5 Coefficient of (Multiple) Determination (R<sup>2</sup>)**

The coefficient of determination is a measure of the determination is measure of the degree (extent or strength) of linear association or correlation between two variables, one of which happens to be independent variable (S). In other words, R<sup>2</sup> is equal to 0.85, which indicates that the independent variables used in regression model explain 85% of total variation in the dependent variable. A value of one can occur only if the unexplained variation is zero, which simply means that all the data points in the scatter diagram fall exactly on regression line.

### **3.8.6 F-Test**

To test the validity of our assumption, we can use F-test also. The difference between two samples means can be studied through t-test whereas to examine the significance of the difference between more than two sample means at one and the same time, F-test is used. F-test, i.e. the difference between more than two samples means. Using this technique, one will be able to make inferences about whether his regression equation provides statistically significant result or not (Kothari, C.R., 2003, p. 110).

Neupane (2007), made a research entitled “Determinants of Stock Price in NEPSE” and tried to explore the factors that have significant influence on the stock price in NEPSE. He concluded his study by quoting:

Nepalese investors have not adequate education about the capital market. They do not have good knowledge and information to analyze the scenario and to forecast share price. Perhaps due to this reason stock price I NEPSE rather shows irrational behavior.

In NEPSE, DPS, BPS and EPS individually do not have constituent relationship with the market price of the share among the listed companies. The pricing behavior varies from one company to another. But EPS, BPS, DPS jointly have significant effect in market price of the price of the share. So, there may be other major factors affecting the share price significantly.

Commercial banking sector has dominated the overall performance of NEPSE. Manufacturing and processing trading and hotel sectors have weak performance. So, financial intermediaries are strong but their ultimate investment is suffering.

Companies performances (earning, dividend, book value, risk etc.), political stability, national economy, demand and supply situation are the major factors affecting the share price in NEPSE.

There is deficiency of proper laws and policies regarding the capital market. Shareholders are feeling unsecured to invest in security markets due to poor regulatory mechanism to protect shareholders interests. The implementation of existing laws is weak.

Since NEPSE is increasing trend, in spite of unfavorable environment for investment, Nepalese citizen have a huge amount of scattered fund remained unproductive, which can be used in the industrial development through capital market to accelerate the economic growth of the nation.

With the existing different Armed Groups, industrial development and capital market development is impossible. So, the peaceful solution of the armed group's problem is preliminary condition for capital market and economic development in Nepal.

## **CHAPTER- IV**

### **PRESENTATION AND ANALYSIS OF DATA**

This chapter deals with the main body of the study the presentation and analysis of the collected data. The first chapter deals with the historical development of capital market. The second and third part deals with the sector wise listed companies, annual turnover, market

capitalization, traded share quantity, number of transaction. The rest of part deals with behavior of NEPSE index of there sectors listed in NEPSE and the findings of the study.

#### **4.1 HISTORICAL DEVELOPMENT OF CAPITAL MARKET**

The history of security market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction of the Company Act in 1964, the first issue of Government Bond in 1964 but there was no secondary market to provide liquidity for these bonds until the establishment of securities marketing centre in 1976 were other significant development resulting to capital markets.

In 1983, His Majesty's Government Nepal under a programmer initiated to reform capital market, converted Securities Exchange Centre (SEC) in 1984. Securities Exchange Centre was established with an objective of facilitating and promoting the growth of capital markets. SEC carried primary and secondary market services for the corporate securities. Thus, the actual development of the stock market began since 1984. The remarkable changes came only after the initiation to reform the market in 1993, when the SEC was converted into Nepal Stock Exchange. Nepal Stock Exchange Centre (NEPSE) is a non-profit organization and new market mechanism was introduced. NEPSE is the only stock exchange in the country. It is owned by the Government, Nepal Rastra Bank (the central Bank) and Nepal Industrial Development Corporation. It has an ownership holding of its member also. Securities businesspersons such as stockbrokers, market makes and securities sealers, registered by Securities Exchange Board (SEBON) have to get membership from the stock for conducting securities business. The Securities Exchange Board (SEBON) is operating since 1993.

Securities market is a place where buying and selling of securities takes place in and organized way. The parties involved in securities market are investors, intermediaries and specialists. Securities markets provide options to all categories of investors and make the financial market most competitive in the developing countries. Securities Exchange Act has empowered NEPSE with the capacity of promulgating various Byelaws in order to ensure orderly and fair transactions of securities. Accordingly, NEPSE has made and adopted the securities listing Byelaws 1996 and membership of stock exchange and transactions Byelaws 1998.

Securities markets bring together buyers and sellers of securities, they are mechanisms created to facilitate the exchange of financial assets. A market mechanism is the trading procedures of an organized market through which the listed securities are traded. So, under this mechanism the trading procedures will be determined by the stock exchange. Some countries have adopted automation and some are still managing and running open-out-cry system. NEPSE had also adopted the open-out-cry system licensing two types of members. They were market makers and member brokers. Market makers were the institutional members. They, being well-organized institutions, are considered an expert in the analyzing financial statements and controlling and regulating the market through market mechanism. So these organizations are allowed making buy and sale in and form their own account. NEPSE has licensed six organizational market makers. The number goes on decreasing. Market makers quite the job of market making of corporate securities when NRB puts investment ceiling by publishing directives. Now a day there is no market maker operating in the market.

Member brokers are the license holders who are empowered to accept the buy and sale orders from their individual and institutional clients and make transactions in trading floor organized, managed and operated by stock exchange. The rate or brokerage commission ranges from 1 to 1.5 percent. These intermediaries are not allowed to buy and sale in and from their own account.

NEPSE has also licensed to dealer primary market and dealer secondary market. Dealer (primary market) operates as a manager to the issue and underwriter. Where as dealer (secondary market) operates as a portfolio manager. Presently, NEPSE licensed to 11 dealer (primary market) and 2dealer (secondary market).

## **4.2 SECTOR-WISE LISTED COMPANIES**

Trading on the floor of the NEPSE is restricted to listed corporate securities and government bonds. Companies established under company act 1964, must be listed in Stock Exchange Ltd. Number of listed companies was 62 in the initial month of floor trading of NEPSE. Then this number increased by listing of additional companies. The number of listed companies is in increasing trend. The trend of group wise a listed company is increasing. The number of listed companies in finance group has increased at higher rate, than that of other

sectors. The higher number of listed companies in finance group implies the well management, facilities provided to investors, effective securities to the investors.

**Table 4.2**  
**Distribution of Listed Companies**

Sector	2003/04	2004/05	2005/06	2006/07	2007/08
Commercial Bank	11	14	16	16	17
Finance	41	44	48	51	57
Insurance	13	14	14	15	17
Hotel	4	4	5	4	4
Mfg and Processing	29	29	11	17	18
Trading	8	8	3	3	4
Development Bank	4	7	9	18	24
Others	4	5	6	5	5
Total	114	125	112	129	146

Source: Nepal Stock Exchange Ltd.

The total number of listed companies was 114 in the initial year of floor trading. In 2005/06 the number of listed companies falls down to 112, and then started to increase in each year. The trend of group wise listing companies is increasing. At the end of observed period, 146 companies are listed in NEPSE. The number of listed companies in Finance, Commercial and Development Bank group has increased at higher rate than that of Hotel, Manufacturing and Processing, and Other groups.

Finance group dominated over other listed companies in the terms of total number of listed companies. At the end of the observed period, the total number of companies is 57 in Finance companies where as it is a few in hotel group. The year wise the total number of companies explicitly show the increasing trend i.e. 114 companies in 2006/07 and 146 companies in 2007/08. However, the number of companies is in increasing process. So, it indicates the expansion of capital market in Nepal.

**Fig. 4.2**  
**Distribution of Listed Companies**

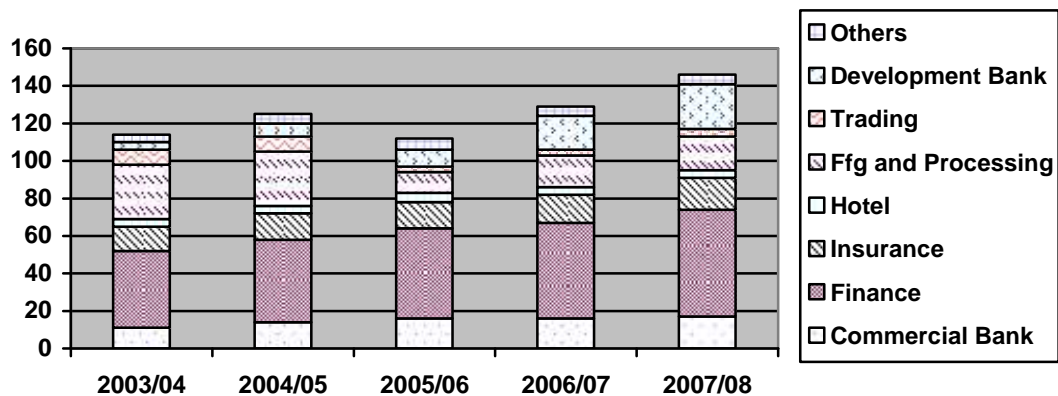


Fig. 4.2 the number of listed companies of listing figure indicators shows that the stock market in Nepal is burning issue with rapidly growing companies i.e. 114 companies in 2003/04, 125 companies in 2004/05, 112 companies in 2005/06, 129 companies in 2006/07, 146 companies in 2007/08.

### 4.3 ANNUAL TURNOVER

The most successful year so far for Nepal Stock Exchange was 2004/05year. Whose annual turnover of the market was Rs. 4507.7 million compare to other years but again recorded a sharp decline in 2005/06 with the turnover reaching Rs. 3451.4 million. The drastically fall from Rs. 4507.7 million in 2004/05. In 2006/07 went up to Rs. 8360.1 million. Commercial Bank has dominated over other groups in the terms of amounts annual turnover for observed year is Rs. 13822.14 million that is 136.04% of the annual turnover of commercial Bank.

**Table 4.3**  
**Annual Turnover (Rs. in Million)**

Year	2003/04		2004/05		2005/06		2006/07		2007/08	
	Value	%	Value	%	Value	%	Value	%	Value	%
Commercial Bank	863.41	40.3	4021.9	89.2	2696.3	78.1	5563.5	106.3	13822.1	136.0
Finance	165.09	7.07	216.37	4.8	305.85	8.86	713.57	133.3	2307.53	259.0
Insurance	36.86	1.72	67.62	1.5	129.9	3.76	204.97	57.79	264.86	29.22
Hotel	2.84	0.13	4.48	0.1	19.77	0.57	7.07	-64.39	27.67	291.3
Mfg and Processing	1031.6	48.1	114.9	2.55	17.19	0.5	24.27	41.19	343.44	1323.
Trading	11.83	0.55	7.99	0.18	15.8	0.46	10.42	-34.05	33.65	222.9

Development Bank	32.33	1.51	22.01	0.49	82.76	2.4	577.56	597.9	1981.05	456.9
Others	0.29	0.01	52.48	1.16	183.88	5.33	1258.8	584.6	0.29	-46.3
Total	2144.3		4507.7		3451.4		8360.1		18780.6	

Source: Nepal Stock Exchange Ltd.

Table 4.3 shows that the annual volume is fluctuating. The annual turnover is Rs 2144.3 million in 2003/04. In 2005/06 recorded sharp decline with the turnover reaching Rs. 3451.4 million in a total volume of thousand scripts turnover. In 2003/04 the share of banks is Rs. 863.41 million (40.03%) and in 2004/05 the bank share went up to Rs. 4021.85 million (89.22%) but in 2005/06 Rs. 2696.3 million (78.1%) came down then after it starts to increase to Rs. 13822.1 million (136.04%). Finance companies were Rs. 165.09 million (7.07%) in 2003/04 in increasing process went up to Rs. 216.37 million (4.8%) in 2004/05 and in 2005/06 was Rs. 305.85 million (8.86%) in 2006/07 was Rs. 713.57 million (133.3%) and in 2007/08 was Rs. 2307.53 million (136.04%). The financial market still overwhelmingly dominates the market. Insurance companies in 2003/04 Rs. 36.86 million (1.72%) and went up regularly in 2004/05 Rs. 67.62 million (1.5%) 2005/06 Rs. 129.9 million (3.76%), in 2006/07 Rs. 204.97 million (57.79%) and 2007/08 Rs. 264.86 million (29.22%). The annual turnover for Hotel group was Rs. 2.84 million (0.13%), increased at Rs. 4.48 million occupied 0.1 percent and Rs. 19.77 million (0.57) but in 2006/07 slumped down to Rs. 7.04 million (-64.39%). The other sectors hardly made any presence, which is shown in figure 4.3.

**Fig. 4.3**  
**Annual Turnover**

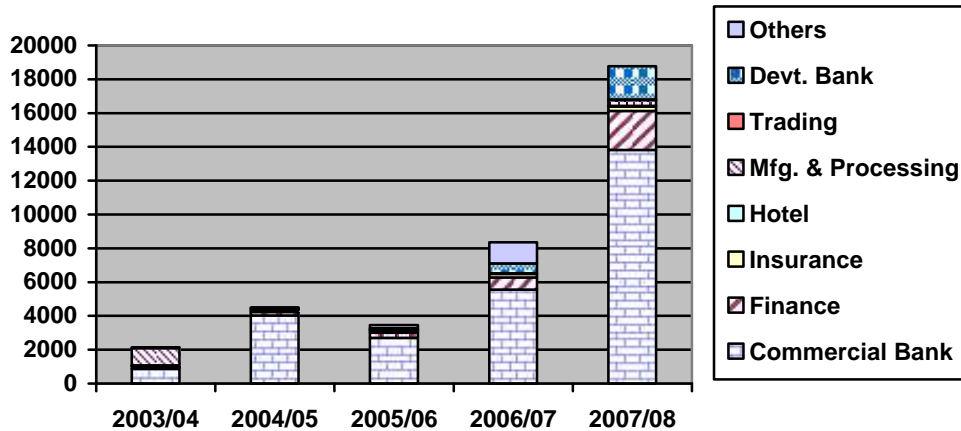


Fig.

4.3 of annual turnover shows the highest turnover in terms of volume in 2007/08 share traded was Rs. 18780.6 and the lowest turnover is in 2003/04, whose turnover is Rs. 2144.3 million. figure 4.3 is shown that is 2005/06 manufacturing and processing, commercial banks dominated the other sectors in term of annual turnover, commercial banks dominated the other sectors in terms of annual turnover.

#### 4.4 MARKET CAPITALIZATION

Market capitalization measures of a company's total value. it is estimated by determining the cost of buying an entire business in its current state. Market capitalization derived by multiplying the number of shares outstanding by the current market price of shares. Market capitalization the lists of companies at the secondary market are on the continuous rise. The increased market value suggests the good performance of the companies that the investors are highly interested to such companies. The market capitalization value of the listed securities the higher value of market capitalization is Rs. 308770.3 and the lowest is Rs. 41424.2.

Table 4.4

### Market Capitalization (Rs. in Million)

Year	2003/04		2004/05		2005/06		2006/07		2007/08	
Sector	Value	%	Value	%	Value	%	Value	%	Value	%
Commercial Bank	27147.4	65.5	38547.1	67.3	68841.2	72.0	138086.4	74.0	218264.2	70.7
Finance	2911.15	7.03	3471.5	6.05	4930.63	5.16	11491.4	6.16	27113.59	8.78
Insurance	2549.3	6.16	3659.86	6.39	4852.19	5.07	7959.78	4.27	10897.16	3.53
Hotel	2391.39	5.77	1016.45	1.77	2393.61	2.50	1935.59	1.04	3484.13	1.13
Mfg and	4644.59	11.2	4585.66	8.0	4919.2	4.83	3760.28	2.02	6576.18	2.13
Trading	490.37	1.18	802.04	1.4	737.39	0.77	787.4	0.42	686.73	0.22
Development Bank	796.85	1.92	1049.07	1.83	1227.49	1.28	5980.8	3.21	15619.36	5.06
Others	493.09	1.19	4187.73	7.31	8012.2	8.38	16503.02	8.85	26128.93	8.46
Total	41424.2		57319.4		95614		186504.7		308770.3	

Source: Nepal Stock Exchange Ltd.

The percentage of market capitalization of commercial bank has highest shares as 65.54%, 67.25 %, 74.0% and 70.7 % among other eight sectors of the listed companies. The commercial banks are dominating the other sectors in terms of market capitalization. Commercial banks alone has a market capitalization of Rupees 27147.4 million (65.5%) in 2003/04 followed by the finance company Rupees 2911.15 million (7.03%), Manufacturing and processing occupies second position in the term of market capitalization as 11.21 %, 8.0%, 4.83%, 2.02% and 2.13% over all the listed companies. The proportion of market capitalization of Hotel and Trading as well as Development Bank is lower but the proportion of market capitalization of insurance, Finance, Manufacturing and Processing and Other Sectors are attractive to encourage the investors to 'invest in these sectors. This is shown in figure 4.4.

**Fig.4.4**

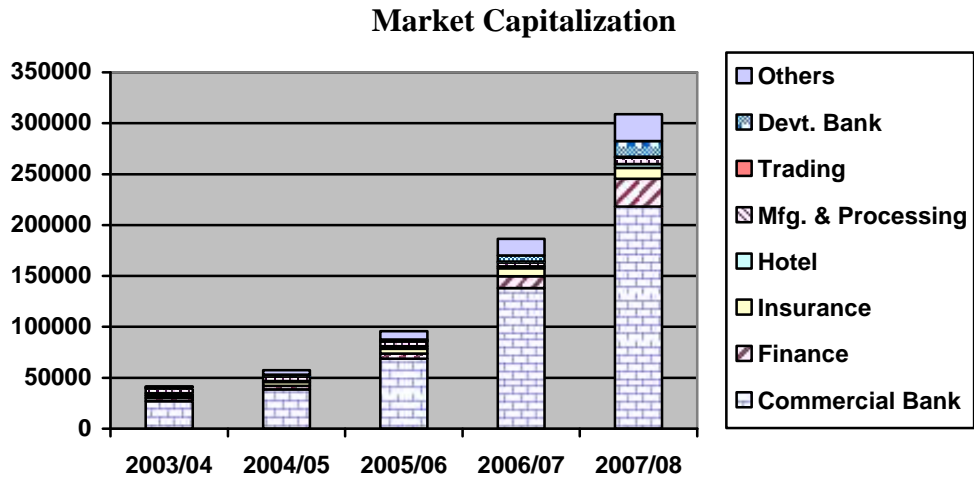


Fig 4.4 of market capitalization shows that the commercial bank dominated the trading floor. The manufacturing and processing sector occupied the second position all over the eight listed companies like wise others finance and insurance and other groups also shows the better performance than that of trading and hotel groups. Market capitalization since the commercial bank group commands a lion's share in the total NEPSE trading.

#### 4.5 TRADED SHARE QUANTITY

Table 4.5 presents the sector wise traded shares quantity and percentage of share traded quantity. The traded share quantity of the sector wise listed companies is increasing during the study period even the number of traded companies. In 2003/04 the share-traded quantity was 6468.5 increases to 18433.00 in 2004/05 but in 2005/06 is decrease to 12223.00 then after it starts to increase again 18147.00 in 2006/06 and 26710.00 in 2007/08.

**Table 4.5**  
**Traded Share Quantity**

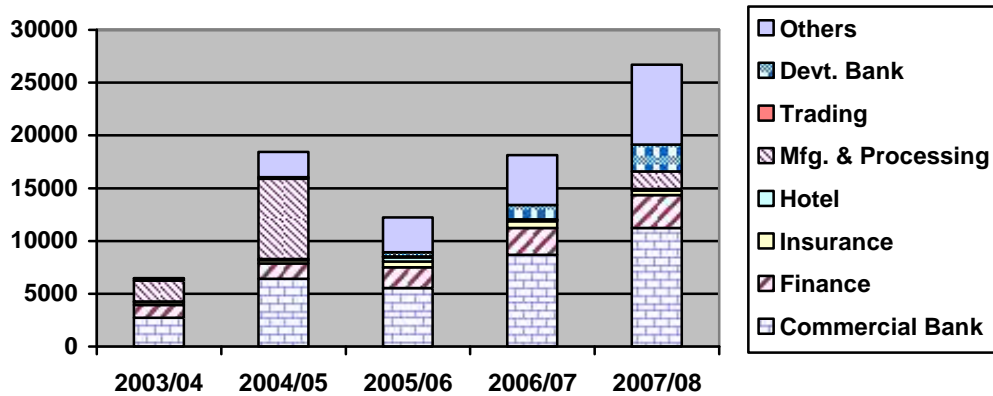
Year	2003/04		2004/05		2005/06		2006/07		2007/08	
Sector	Value	%	Value	%	Value	%	Value	%	Value	%

Commercial Bank	2737.6	42.3	6416.4	34.8	5534.9	45.3	8700	47.9	11241.4	42.1
Finance	1202.2	18.6	1443.4	7.83	1957.7	16.0	2534.2	14.0	3094.3	11.6
Insurance	256.33	3.96	328.13	1.78	575	4.70	627.64	3.46	433.27	1.62
Hotel	61.04	0.94	98.17	0.53	392.18	3.21	81.7	0.45	158.07	0.59
Mfg. & Processing	1978.2	30.6	7603.1	41.3	59.8	0.49	82.92	0.46	1655.09	6.20
Trading	8.64	0.13	10.41	0.06	15.22	0.12	11.47	0.06	14.97	0.06
Development Bank	212.76	3.29	135.62	0.74	386.39	3.16	1360.5	7.49	2534.9	9.94
Others	11.72	0.18	2398.1	13	3301.5	27.0	4748.7	26.2	7578.02	28.4
Total	6468.5		18433		12223		18147		26710	

Source: Nepal Stock Exchange Ltd.

Commercial bank dominated the trading floor, as it captured the largest chunk of the total share trading. It accounted 42.3 % in 2003/04, 34.81 % in 2004/05, 45.3% in 2005/06 47.9% in 2006/07 and 42.1% in 2007/08. Commercial bank the maximum share traded of 26710 shares of total shares traded in 2007/08 and lowest share traded of 6468.5 shares in 2003/04. Second position occupied the manufacturing and processing sectors whose percentage of share traded are 30.6% in 2003/04, 41.3% in 2004/05, 0.49% in 2005/06, 0.46% in 2006/07 and 6.20% in 2007/08. The highest share traded quantity was 7603.1 in 2004/05 and lowest share traded quantity of manufacturing and processing was 59.8 in 2005/06. The entire sector the highest share quantity share traded was in 2007/08 as 26710 and the lowest share traded was in 2003/04 as 6468.5.

**Table 4.5**  
**Traded share quantity**



The figure 4.5 of traded share quantity shows that in 2007/08 manufacturing and processing and commercial bank dominates the other sectors too as well as other sectors too. In 2003/04 the manufacturing and processing, commercial bank and hotel group dominates the other five sectors. But in 2006/07 finance groups dominates the other sector. The highest traded share quantity was in 2007/08 and the lowest traded quantity share was in 2003/04, which is shown in figure 4.5.

#### 4.6 NUMBER OF TRANSACTIONS

NEPSE has fixed the trading days and hours during which the members are allowed to enter the floor to make the transactions. NEPSE has fixed the board lot of 10 shares if the face value is Rs. 100 or the face value is Rs. 10. The transaction on regular trading should be done one board lot. The transactions of less than 10 shares are permitted only on odd lot trading hours. Thus, the number of transactions occurred during a certain period.

**Table 4.6**  
**Number of Transactions**

Year	2003/04		2004/05		2005/6		2006/07		2007/08	
Sector	Value	%	Value	%	Value	%	Value	%	Value	%
Commercial Bank	26000	30.4	64966	61.2	45886	50.8	42848	35.2	54314	36.4

Finance	47920	56.0	27576	26.0	28875	31.3	18879	15.5	30462	20.4
Insurance	8689	10.2	7340	6.91	6187	6.84	16203	13.3	3332	2.24
Hotel	549	0.64	671	0.63	51.0	0.56	393	0.32	911	0.61
Mfg & Processing	163	0.19	252	0.24	233	0.26	135	0.11	96	0.06
Trading	51	0.06	49	0.05	66	0.07	42	0.03	108	0.07
Development	2073	2.42	4836	4.55	4740	5.24	39413	32.4	53317	35.8
Others	88	0.10	556	0.52	3898	4.31	3898	3.20	6519	4.37
Total	85533		106246		90395		12181		14905	

Source: Nepal Stock Exchange Ltd.

Table 4.6 of number of transactions is shows that the over all banking sector has a highest transactions in the term of number. The number of transactions of commercial bank is 26000 (30.40%), 64966 (61.15%), 45886 (50.8%), 42848 (35.2%) and 54314 (36.4%). Finance and Insurance as well as development bank encourage investing in these sectors. The number of transactions of trading group is lowest than compare to other sectors. The lowest transaction is trading companies comparing to among all eight sectors.

**Fig 4.6**  
**Number of Transaction**

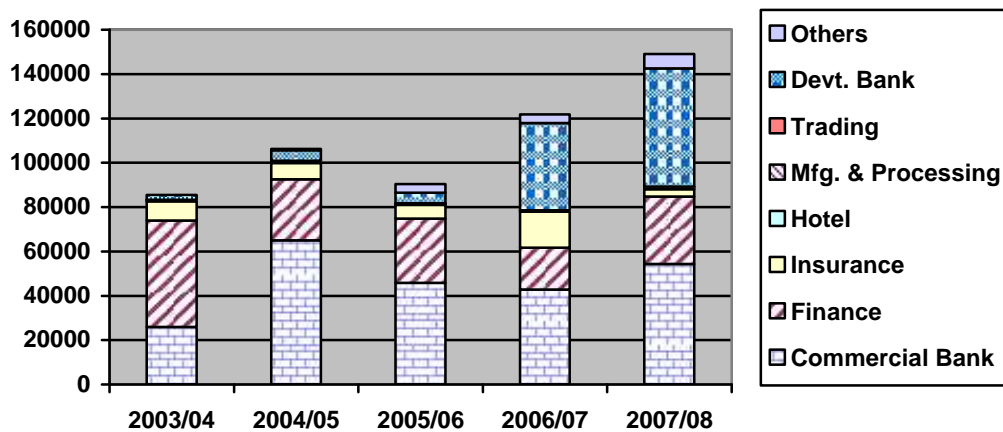


Figure 4.6 shows that the transaction value was 26000 in the initial year 2003/04. in 2004/05 the commercial bank has highest transaction 64966 million but in 2005/06 decreases to 45886 as decreasing in 2006/07 it reached to 42848 as slightly increased in the term of number of transaction it reached to 54314 as increasing process in the period of 2007/08. Finance sector has 47920 in 2003/04, 27576 in 2004/05, 28875 in 2005/06 and 18879 in 2006/07 as highest transaction in the terms of number was 30462. In the term of no of transaction the insurance group has highest in 2006/07 and the lowest took place in NEPSE.

Figure shows that banking sector, manufacturing and processing, finance sectors are highly attractive which encourage invest in these sectors.

#### 4.7 BEHAVIOR OF NEPSE INDEX

Index is a device designed to measure the change in group of related variable over a period of time. Indexes are used to determine the relationship between historical price and movements and economic variables and to determine the systematic risk for individual securities and portfolios.

**Table 4.7**  
**NEPSE Index during the Latest 5 Years (2003/04-2007/08)**

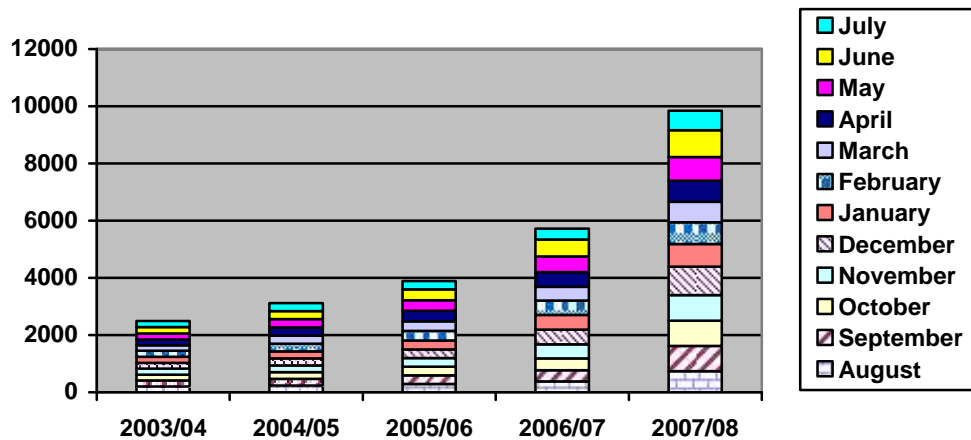
Month	2003/04	2004/05	2005/06	2006/07	2007/08
August	205.35	237.43	290.56	382.24	739.53
September	206.83	234.11	296.98	394.25	885.50
October	207.65	232.44	307.22	408.38	878.86
November	205.66	238.92	300.54	486.19	897.29
December	201.57	238.29	302.78	514.42	984.53
January	211.39	247.41	309.04	513.34	803.69
February	208.87	265.97	341.05	511.81	756.76
March	196.34	284.34	337.52	480.99	709.40
April	205.22	294.29	361.58	513.69	736.46
May	207.41	279.90	371.74	541.38	833.18
June	218.65	281.15	375.14	591.65	937.46
July	222.04	286.67	296.78	378.76	678.97

\*Share trading stopped due to strike of NEPSE employee on 26 July 2004.

\*Share trading stopped on 1st, 2nd, 3rd due to 12 Nepalese hostage killed in Iraq on September 2004.

The NEPSE index hit the peak of prices in December at 984.53 points in the year 2007/08. In the beginning fiscal year 2003/04 July at 222.04 points then in 2004/05 it was improve 286.67 and continue to goes up in other fiscal year 2005/06, 2006/07 and 2007/08 regularly. Must remarkable year for NEPSE index was 2007/08 as 984.53 in December. In 2005/06 the NEPSE index was 2390.56 but it slump down in July 296.78. in 2006/07 the highest NEPSE index was 591.65 in June and decreased to 378.76 in July then after it starts to improve much better in 2007/08 comparing to other four years. The NEPSE index reflects the aggregate volatility of share prices of the companies listed the peak prices. High volatility will be risky. Standard deviation for NEPSE index 6.048 in 2003/04, 24.098 in 2004/05, 59.23 in 2005/06, 63.88 in 2006/07 and 97.67 in 2007/08. The less risky year is 2003.04.

**Fig. 4.7**  
**Monthly Movement of NEPSE Index**



#### 4.7.1 NEPSE INDEX OF COMMERCIAL BANK

Trading of commercial bank group the largest group at the NPSE floor registered and increases of index up to 979.70 in December 2007/08 but it went up to 749.67 in July. Commercial bank in 2003/04 slightly decrease and went down to 196.01 in December but in March the commercial bank index slump down to 188.56 point which shown in table 4.8.

**Table 4.8**  
**NEPSE Index of Commercial Bank**

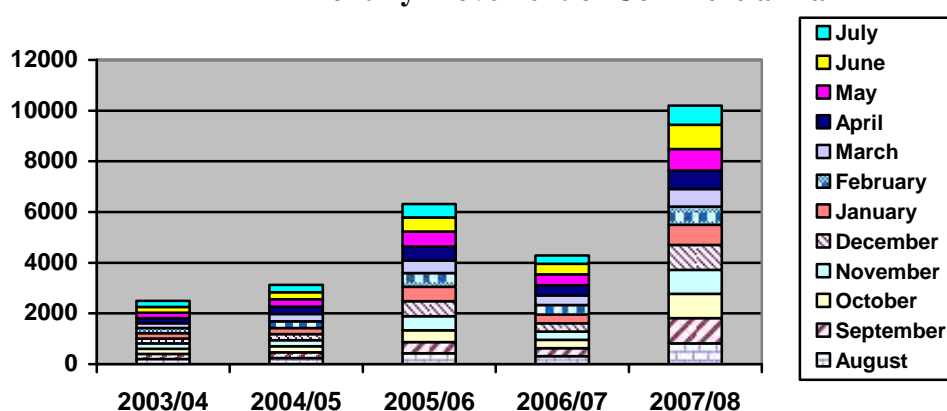
Month	2003/04	2004/05	2005/06	2006/07	2007/08
August	200	237.43	426.39	311.05	824.91
September	204.03	234.11	443.78	316.67	995.52
October	205.54	232.44	463.22	333.16	951.46
November	203.75	238.92	562	325.48	952.23
December	196.01	238.29	582.02	328.31	979.7
January	211.46	247.41	566.88	334.9	785.9
February	208.12	265.97	544.01	380.62	730.56
March	188.56	284.34	501	374.9	690.48
April	203.43	294.29	555.2	410.17	732.07
May	210.03	279.90	591.03	423.04	834.76
June	227.68	281.15	553.41	422.81	960.78
July	231.97	286.67	524.28	322.47	759.67

Source: Nepal Stock Exchange Ltd.

Table 4.8 on NEPSE index of commercial bank shows that the decreasing year was 2003.04 then after it starts to increase regularly. In 2003/04 not much improvement in NEPSE index of commercial bank at the point of 197.53. 2004/05 the index of commercial bank slightly increasing process and went up to 304.64 in July. The NEPSE index of commercial bank risk is fluctuating. 13.83 in 2003/04, 26.86 in 2004/05, 42,27 in 2005/06, 37.61 in

2006/07 and 51.25 in 2007/08. The more risky year is 2003/04 and less risky year is 2004/05 but investor can invest in the risky year it depends on the investor's attitude towards the risk.

**Figure 4.8**  
**Monthly Movement of Commercial Bank**



NEPSE index of commercial bank shows as increasing trend but the trend shows that the index of commercial bank has slightly decreasing trend up to July 2007/08

#### 4.7.2 NEPSE INDEX OF FINANCE COMPANIES

According to the Nepal Stock Exchange Ltd. Finance sector was in increasing process from its fiscal year July 2003/04 to July 2007/08 are 195.99 to 483.01 respectively. After commercial banks it is the highest group. Which shown in the table 4.9.

**Table 4.9**  
**NEPSE Index of Finance Companies**

Month	2003/04	2004/05	2005/06	2006/07	2007/08
August	204.57	208.86	229.52	263.75	503.88
September	204.95	207.8	229.3	271.62	550.06
October	199.65	208.53	232.76	274.45	714.01
November	199.48	205.12	238.94	283.82	791.44
December	193.64	208.47	246.54	329.65	1064.87
January	196.12	207.96	247.47	404.18	921.39
February	195.53	208.58	249.13	450.44	966.44
March	195.02	210.13	246.71	430.68	960.67

April	194.59	211.32	245.03	440.44	954.93
May	193.12	227.33	254.7	448.91	1103.4
June	194.49	227.62	259.27	464.05	1136.76
July	195.99	228.39	228.7	263.8	483.01

Source: Nepal Stock Exchange Ltd.

NEPSE index for finance 2003/04 as decreasing process went down to 193.32 to 208.86 in August as increasing process went up to 211.32 to 228.39 in July. Well the finance transaction was also in increasing and decreasing process. By comparing its initial year it was increasing but in comparisons with monthly basis it was increasing as decreasing process. The standard deviation is 4.03 in 2003/04, 8.83 in 2004/05, 13.24 in 2005/06, 27.22 in 2006/07 and 61.16 in 2007/08. So the less risky year for the finance is the finance is the 2003/04 as well as year 2004/05.

**Figure 4.9**  
**Monthly Movement of Finance**

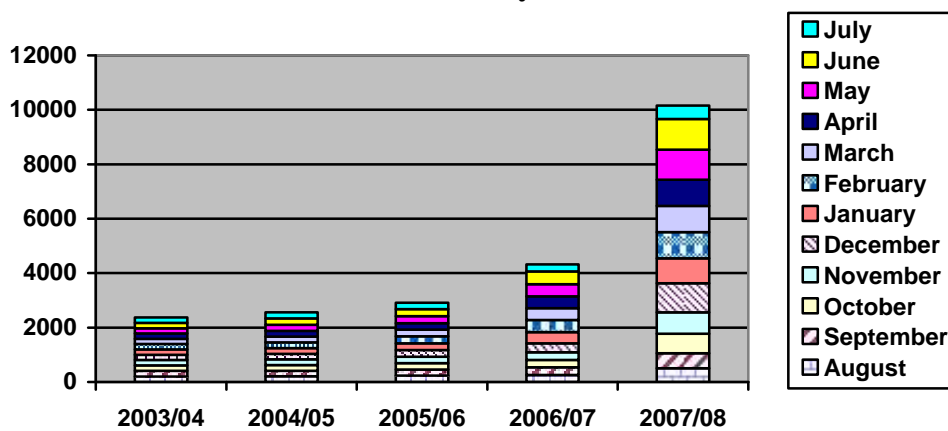


Figure 4.9 the NEPSE index of finance shows that as decreasing trend and remains constant in 2003/04 to 20005 and slightly increases in 2005/06 and 2006/07 but the trend shows that the NEPSE index of finance sector is highly increase in 2007/08.

### 4.7.3 NEPSE INDEX OF INSURANCE COMPANIES

The NEPSE index for insurance had a highest in the year of 2003/04 as 245.38 in March and the lowest recorded as 337.62 in July. As increasing process it went up to 320.44 in the month of July in 2004/05 and increased regularly in other year. But the better improvement year is 2007/08 then it slightly down to 657.65 in the month of July, which shown in Table 4.10.

**Table 4.10**

### NEPSE Index of Insurance Companies

Month	2003/04	2004/05	2005/06	2006/07	2007/08
August	240.60	235.11	214.19	394.8	648.31
September	237.80	321.80	332.72	396.10	690.65
October	236.62	232.32	323.05	394.66	715.68
November	239.52	237.33	334.72	408.73	813.85
December	237.21	239.44	329.79	469.93	1035.06
January	236.19	238.64	331.69	529.14	820.26
February	235.15	239.76	343.59	638.83	769.80
March	237.32	258.09	344.19	607.45	725.83
April	245.38	311.97	346.41	576.08	733.54
May	244.29	301.97	356.37	530.59	769.21
June	236.83	311.23	370.33	573.55	827.23
July	237.62	320.24	332.92	387.84	657.65

Source: Nepal Stock Exchange Ltd.

Table shows that the highest month of NEPSE index of insurance was December recorded as 1035.06 in the year 2007/08 and the lowest month was August in the year 2004/05 as 235.11. NEPSE index of insurance standard deviation is 3.20 in 2003/04, 5.42 in 2004/05, 8.62 in 2005/06, 18.89 in 2006/07 and 26.31 in 2007/08. Highest risky year for the NEPSE index of insurance sector is 2003/04 and less risky year is the 2004/05.

**Figure 4.10**  
**Monthly Movement of Insurance**

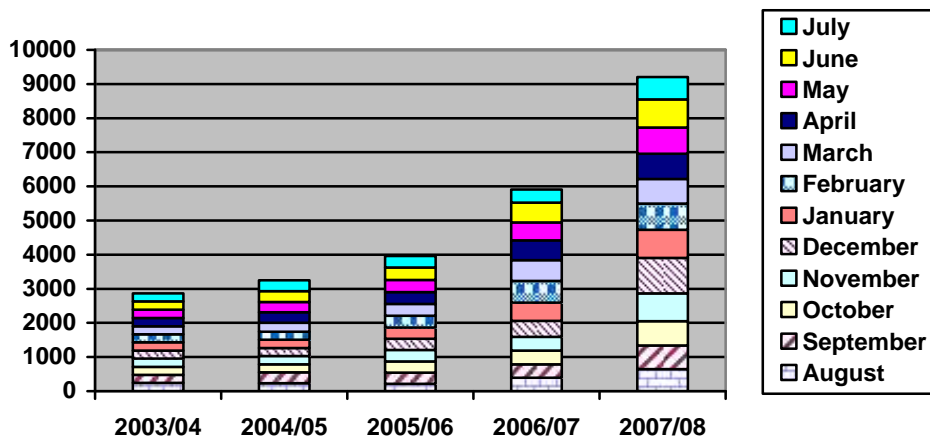


Figure 4.10 show in initial year 2003/04 the highest index was 245.38 in April and the lowest index was 235.15 in the month of February. In the year 2004/05 increasing process starts regularly. But in 2007/08 it is highly increased which is shown in figure 4.10.

#### 4.7.4 NEPSE INDEX OF HOTEL SECTORS

NEPSE index of hotel sector in initial year the month of July the 184.41 as increasing till the end of October it reached to 187.76 and it slump down to 182.20 in November as decreasing and increasing process. Drastically fell down from 172.25 to 189.30 in the year of 2004/05. In the year of 2005/06 to 2006/07 as decreasing and increasing trend up to 242.55 in June but the hotel sector went down to 257.64 at the end of July 2007/08 is shown in table 4.11.

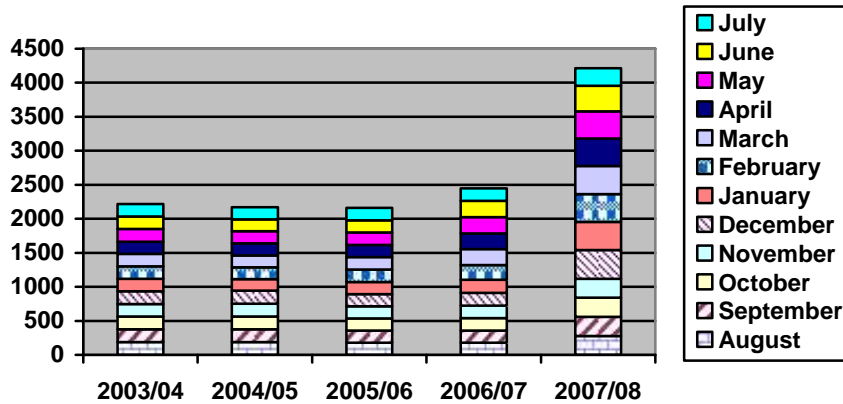
**Table 4.11**  
**NEPSE Index of Hotel Sectors**

Month	2003/04	2004/05	2005/06	2006/07	2007/08
August	189.67	189.30	179.34	179.62	276.45
September	188.23	188.53	177.62	179.42	281.72
October	187.18	188.15	177.62	179.03	281.14
November	182.20	187.39	177.90	185.07	279.60
December	187.76	188.53	177.90	187.47	420.59
January	184.40	172.25	181.26	193.42	412.79
February	181.81	172.63	183.55	215.49	412.02
March	181.43	176.08	182.88	235.00	412.01
April	181.81	177.04	179.23	229.60	402.87
May	187.85	176.28	181.14	238.71	401.93
June	182.11	177.23	180.77	242.55	373.95
July	184.41	178.00	179.54	180.77	257.64

Source: Nepal Stock Exchange Ltd.

Table 4.11 shows that the NEPSE index of hotels sector in the highest month of the year of hotel sector is 2007/08 December 420.59 and the lowest month of the year 2004/05 January as 172.25. NEPSE index of hotel hit the volatility of the NEPSE index. In the initial year the standard deviation is 3.36 in 2003/04, 6.79 in 2004/05, 2.62 in 2005/06, 9.37 in 2006/07 and 19.85 in 2007/08.

**Figure 4.11**  
**Monthly Movement of Hotel**



The figure 4.11 shows that 2003/04 and 2004/05 remains constant according to the figure. In 2005/06 it was decreased and highly increases in the year 2007/08.

#### 4.7.5 NEPSE INDEX MANUFACTURING AND PROCESSING

NEPSE index for manufacturing and processing sector was the best as compared to other sector for the study period. It is recorded the highest in the month of January and lowest month of May in 2003/04. In 2004/05 increased in NEPSE index of manufacturing and processing went up to 276.96 in March. The highest in the month of index was June and the lowest month of index was at the end of July 276.38 during the year 2005/06. Index of manufacturing and processing index goes up and down as increasing and decreasing process kin the year 2006/07 and 2007/08, which is shown in table 4.12.

**Table 4.12**  
**NEPSE Index of Mfg and Processing**

Month	2003/04	2004/05	2005/06	2006/07	2007/08
August	261.97	265.27	291.74	316.82	347.74
September	256.15	263.79	177.62	314.69	350.19
October	259.27	268.13	177.62	313.68	350.19
November	251.63	267.42	272.31	314.69	350.19
December	265.45	272.07	274.42	319.82	350.19
January	267.96	274.39	274.42	322.36	360.96
February	266.78	276.08	183.77	335.09	392.75
March	265.98	276.96	291.08	334.95	413.23

April	265.92	276.80	289.81	329.42	411.15
May	250.43	276.29	292.34	331.06	418.82
June	252.28	276.45	297.41	342.29	418.82
July	255.58	276.50	276.38	303.65	348.63

Source: Nepal Stock Exchange Ltd.

Table 4.12 shows that over all the 2007/08 was the best year for the manufacturing and processing sector. In 2003/04 the highest index point was 265.98 and the lowest index point was 250.43 in May. At the end of July in 2004/05 as decreasing and increasing process it went down to 263.79 in September. In 2005/06 slightly increase up to 297.41 in June and went up to 276.38 in the month of July. In 2006/07 and 2007/08 it highly increases up to 335.09 in February and 418.82 respectively. Among the eight sectors the manufacturing and processing sector is the best for the investor to invest. The standard deviations of manufacturing and processing sectors are 13.97 in 2003/04, 11.46 in 2004/05, 9.89 in 2005/06 and 27.32 in 2006/07 and 31.12 in 2007/08. Risk for the manufacturing sector is decreasing trend, which indicates the good sign for the investor. The risky year is 2005/06.

**Figure 4.12**  
**Monthly Movement of Manufacturing and Processing**

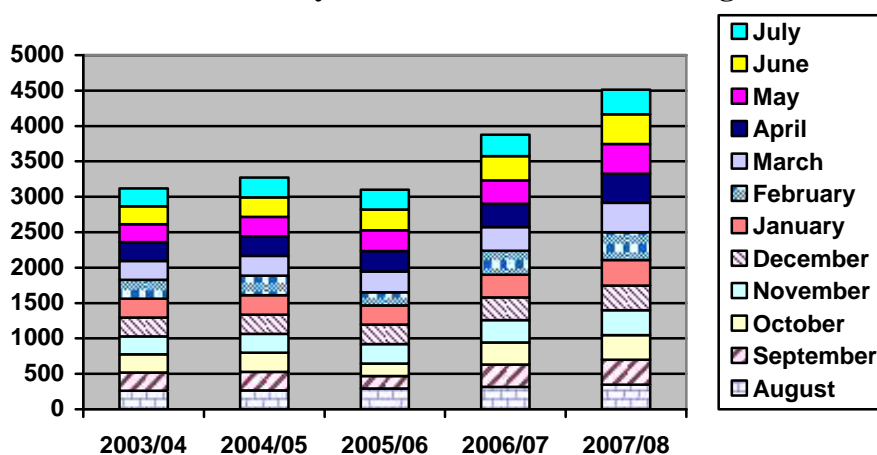


Figure 4.12 show that decreasing process in the year 2003/04 and slightly increase in 2004/05 and remain constant till year of 2005/06 but then starts to increase in the year of 2006/07 and 2007/08 the trend line shows that increasing trend.

#### 4.7.6 NEPSE INDEX OF TRADING COMPANIES

NEPSE index of trading sector in 2003/04 recorded highest 103.58 in November and the lowest month was 94.29 in March as increasing trend went up to 123.20 in 2004/05 of July and remains constant till July 2005/06. In the year of 2006/07 and 2007/08 the NEPSE index for trading sector increase up to 155.37 in June and 212.55 in July respectively, which is shown in table 4.13.

**Table 4.13**  
**NEPSE Index of Trading Companies**

Month	2003/04	2004/05	2005/06	2006/07	2007/08
August	95.88	98.87	134.95	148.11	162.08
September	94.29	98.87	129.55	150.72	162.08
October	99.58	98.87	129.55	149.71	162.08
November	103.58	98.87	134.84	149.71	162.32
December	94.40	98.87	134.84	150.09	165.20
January	94.40	98.87	142.78	148.51	162.32
February	94.40	102.73	148.07	152.79	162.32
March	94.29	111.04	141.29	148.71	125.83
April	94.29	116.33	147.27	148.71	196.71
May	95.01	118.97	148.11	155.21	210.83
June	95.01	122.94	148.11	155.37	212.55
July	95.01	123.20	123.20	148.11	162.03

Source: Nepal Stock Exchange Ltd.

The table shows that in 2003/04 the highest month was November and the lowest month was April. In 2004/05 the highest month of NEPSE index of trading sector was 123.20 in July and remains constant till July 2005/06. In 2006/07 the index for trading sector starts to increase and the highest index was 155.37 in June and lowest index was 148.11 in July. In

2007/08 at the point of 162.08 till the month of October and slightly increase from the month of November as increasing process till February but it slightly decrease in March and again goes up to 212.55 in June. The standard deviations are 2.84 in 2003/04, 10.34 in 2004/05, 13.22 in 2005/06, 15.24 in 2006/07 and 18.17 in 2007/08. This shows that the year of 2003/04 is the risky year for the NEPSE index of trading sector.

**Figure 4.13**  
**Monthly Movement of Trading**

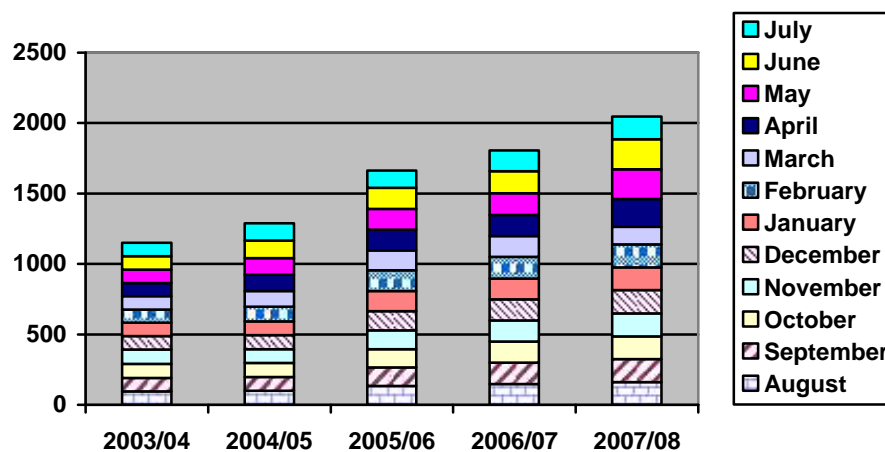


Figure 4.12 shows that the NEPSE index for trading sector is in increasing process from the initial year 2003/04 to till the year 2007/08. According to the figure it can easily seen that the increasing trend from the first year till the last year.

#### **4.7.7 NEPSE INDEX OF DEVELOPMENT BANK**

Development bank has listed in Nepal Stock Exchange on the year of 2001/02 on the month of January. But there we have applied latest five-year's related NEPSE index data of development bank. The development bank of NEPSE index took place in the trading floor with listed three companies. According to the data, NEPSE index of development bank increases from the initial year till to 2007/08, which shown in table 4.14.

**Table 4.14**  
**NEPSE Index of Development Bank**

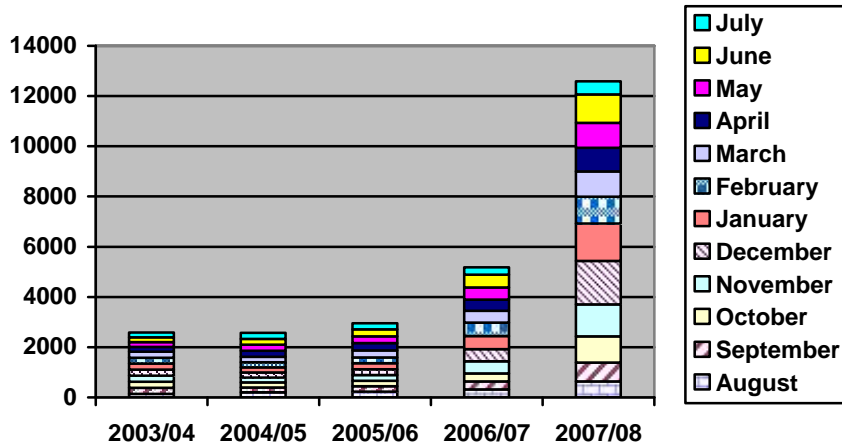
Month	2003/04	2004/05	2005/06	2006/07	2007/08
August	144.12	199.19	225.16	313.86	631.01
September	241.55	196.90	216.30	317.27	752.23
October	237.06	197.19	221.55	322.69	1046.18
November	239.55	197.95	226.25	479.08	1278.63
December	241.35	203.22	228.27	484.93	1720.76
January	240.55	198.63	246.39	529.79	1497.91
February	240.01	212.66	228.50	526.62	1062.17
March	240.17	215.95	272.71	477.58	1008.19
April	190.17	238.82	292.53	442.95	938.15
May	188.50	233.69	269.83	483.90	996.37
June	190.37	235.21	278.16	511.42	1136.76
July	190.03	237.86	250.05	287.08	513.44

Source: Nepal Stock Exchange Ltd.

Development bank of NEPSE index in the initial year of 2003/04 highest month was August 244.12 and the lowest month was May 188.5. In 2004/05 highest month was 238.82 in April and lowest month was 196.90 in September as 2005/06 increasing process went up to 292.53 in the month of April. In 2006/07 the NEPSE index of development went up to 529.79 in the month of January but decrease in the month of July as 287.08. The standard deviation of the NEPSE index Development bank has 25.16 in 2003/04 and decreases 17.66 in 2004/05 and slightly increase 19.87 in 2005/06, 28.37 in 2006/07 and then highly increase 53.33 in 2007/08. The risky year is 2004/05.

**Table 4.14**

### Monthly Movement of Development Bank



Development Bank in NEPSE index shows that remains constant till the year of 2003/04 and 2005/06 and slightly fell in 2004/05 but it shows that increasing trend in the year of 2006/07 but trend line shows that highly increasing in the year of 2007/08.

#### 4.7.8 NEPSE INDEX OF OTHER SECTORS

NEPSE index for the other sector in April and May went up to 143.94 in the year of 2003/04 but slightly decrease and went down to 139.79 in December. In 2004/05 it was highly increase up to 354.67 in the month of February. Again in 2005/06 it was increased up to 393.76 in June. In 2006/07 the month of June as highly increases from 411.27 to 807.52 that was highly increasing and decreasing trend. But in 2007/08 is also in increasing trend, which shown in table 4.15.

**Table 4.15**  
**NEPSE Index of Other Sectors**

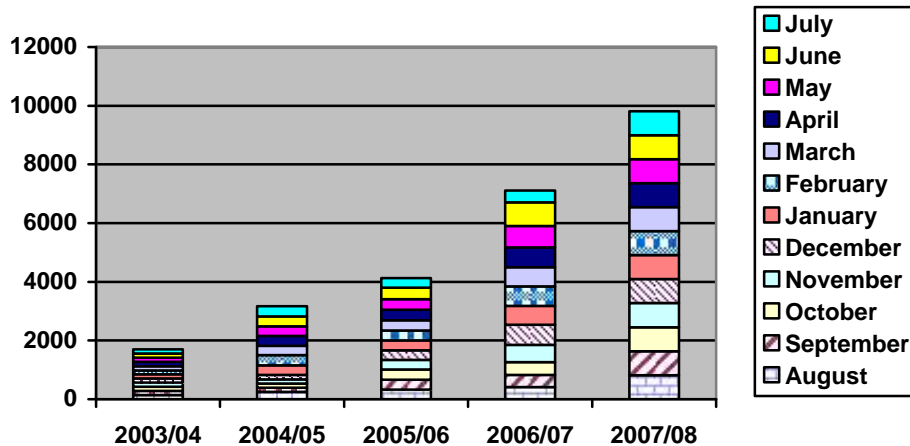
Month	2003/04	2004/05	2005/06	2006/07	2007/08
August	142.25	245.24	328.74	411.27	818.12
September	141.09	145.58	336.36	416.2	818.12
October	140.31	144.98	347.78	440.1	818.12
November	140.31	144.46	328.74	578.56	818.12
December	139.79	142.91	319.85	690.4	818.12

January	140.31	329.28	339.4	647.4	818.12
February	141.35	354.67	345.39	663.8	818.12
March	141.35	308.33	338.79	651.59	817.47
April	143.94	335.68	359.76	668.59	817.47
May	143.94	335.63	363.49	731.19	817.47
June	142.65	329.28	393.76	807.52	817.47
July	142.65	347.65	325.56	406.47	817.47

Source: Nepal Stock Exchange Ltd.

Table 4.15 NEPSE index of other sector is shown that in 2003/04 is the highest month was 142.65 June and July than the lowest month is December 139.79. In 2004/05 February 354.67 is the highest month of NEPSE index of other sector than the lowest is 142.91 in December. In 2005/06 from August to July it was seen decreasing and increasing trend and the highest month was 347.78 October and the lowest month 319.85 in December. In 2006/07 from August keep started to highly increased till the month of June and in the end of July it was went down 406.47 but this year was in increasing year. In 2007/08 the index is increase constantly in same points. This is good sign for the other sector. But calculation of the standard deviation shows that the Insurance, Manufacturing and Processing, Hotel Sector, Development Bank, Trading and Finance sector. Compare to other sectors it is too risky because in 1.42 in 2003/04, 98.32 in 2004/05, 99.25 in 2005/06, 109.12 in 2006/07 and 123.83 in 2007/08. For other sectors less and good year is 2003/04 which minimal risk is only 1.42. Higher risky year is 2007/08, which value is 123.83.

**Figure 4.15**  
**Monthly Movement of Other**



The other sector is better than the other group because the sector are increasing trend which shown by the trend line compare to other sector is better. From the initial year 2003/04 trend of NEPSE index increase slightly in year 2004/05, 2005/06 and then after highly increase till to 2007/08. In 2003/04 as increasing process went up t5o till the year of 2007/08, which is shown in figure. Even trend shows that the other sector is increasing trend.

#### 4.8 MAJOR FINDINGS OF THE STUDY

The major findings of this study are as follows:

- 4.8.1 There are altogether 146 companies listed in stock exchange. Out of these are 17 Commercial Bank, 57 Finance, 17 Insurance, 4 Hotels, 18 Manufacturing and Processing, 4 Trading, 24 Development Bank and 5 others. The NEPSE licensed to 11 dealers (primary) and 2 dealers (Secondary market) up to 2007/08.
- 4.8.2 The number of listed companies is in increasing trend. The number of the companies in the initial year was 144 in 2003/04 and 125 in 2004/05 went up to 112 in 2005/06, 129 in 2006/07 and 146 in 2007/08.
- 4.8.3 The annual turnover is fluctuating. It is more than double in 2007/08. In 2003/04 it was sharp decline and in 2004/05 increased with reaching the turnover Rs 4507.7 million, in 2005/06 slightly decreased Rs. 3451.4 million and then increased Rs. 8360.1 million in 2006/07 and Rs. 18780.6 million in 2007/08.
- 4.8.4 Market capitalization value is in erratic trend in each group in each year. The proportion of market capitalization of commercial bank is the highest among eight sectors. Its proportion is 65.54%, 67.28%, 72.0% and 70.7% in 2003/04, 2004/05,

2005/06, 2006/07 and 2007/08 respectively. Commercial bank commands a lion's share in the NEPSE trading floor.

- 4.8.5 In the term of traded share quantity commercial bank capture the largest chunk of the total share trading. Trading sector has lowest share traded quantity comparing other sectors.
- 4.8.6 The total number of transactions increasing trend during the study period. In total, the number of transactions on commercial bank is the highest. Second position occupied the finance in the term of number of transactions. Thus, the investors are encouraged to invest in these sectors.
- 4.8.7 NEPSE index reflects the aggregate volatility of the share price of the companies listed.

## **CHAPTER- V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

Nepal is one of least development countries in the world; Nepal launched planned economic development more than four decades ago. Recently it has adopted the path of economic development through liberalization. The capital market institutions are engaged in mobilization of savings into the productive investment activities. So to develop the economy of the country an efficient and effective capital market is a vital importance. The basic objectives of this study are concern to the concept of capital market; analyze its performance and price behavior of shares of listed companies and role of NEPSE index.

The second chapter presents the theoretical and research review. In theoretical there are two approaches technical analysis and fundamental of security analysis. Technical

analysis and fundamental of security analysis involves the study of the past volume price fluctuations where as fundamental analysis approach, the security analyst the factor economic influences, industry factors and pertinent company information such as product and management in order to calculate an intrinsic value of the firms security. In an efficient market, there are three forms (a) weak form (b) semi-strong and (c) strong form. In weak form, stock price behavior can be tested by using parametric (Serial Correlation) and non-parametric (run tests).

Research Methodology and Presentations of data deals with the methods of analysis. This chapter presents the research design of the study. This study covers five years time from 19 July 2004, 16 July 2009. In Nepal Stock Exchange, there are eight sectors listed. So, all eight sectors (1) Commercial Bank, (2) Finance Companies, (3) Insurance Companies, (4) Hotel, (5) Manufacturing and Processing (6) Trading, (7) Development Bank and (8) Others have been taken as sample for the study. Data used for the study purpose are based on the secondary data, primary data and major sources of data are NEPSE and SEBON. For analysis of data, percentage method, bar diagram has been used. A statistical tool like standard deviation has been used to measure the volatility of behavior of NEPSE index. Calculation of standard deviation is a positive relationship between risks varies from investor to investor. A risk aversion is the approach where the investor doesn't want to bear additional risk and wants secured and safe return. The level of risk is not so easy to measure.

## **5.2. Conclusion of the result:**

- The stock market and economic activities more in similar direction. They influence each other. The development of the former is reflected in the later. The stock market therefore can be regarded as a heart of economy.
- NEPSE should introduce digital technology and online market in its trading procedure.
- Most of companies do not disclose adequate and qualitative information on their annual reports and most of disclosed information consisted of only relationship between disclosure scores and variables like earnings margin, assets size etc.
- Privatization process needs to be carried out effectively in order to develop Nepalese stock
- The stock price changes are dependent on each other.

### 5.3. Recommendations:

- Share trading system in share market is still uncivilized in this IT age. Though the volume to trading has increased the number of brokers has not increased, therefore for the systematic operation of the share market has to be put in to practice to make the share market effective and competitive.
- It is also suggestions to the concerned body to carry out further research on stock market behavior for the efficient functioning and betterment of the stock market of Nepal.
- The public investors not direct their savings in shares haphazardly. They should at least analyze or suggestions form experts about financial position and the level of risk prior to taking and investment decisions.
- Because of the persistence in the stock price movements professional traders either institutional for individuals can beat the market thus it is suggestions that should be alert to exploit the opportunities through short term speculation.
- The rules and regulations should be up to date.
- Tax system should be returned which should encourage and stimulate capital formation.

## APPENDIXES

### Annual Turnover (Rs. in Million)

#### Nepal Stock Exchange

Year	2004/05		2005/06		2006/07		2007/08		2008/09	
	Value	%	Value	%	Value	%	Value	%	Value	%
Commercial Bank	863.41	40.3	4021.9	89.2	2696.3	78.1	5563.5	106.3	13822.1	136.0
Finance	165.09	7.07	216.37	4.8	305.85	8.86	713.57	133.3	2307.53	259.0
Insurance	36.86	1.72	67.62	1.5	129.9	3.76	204.97	57.79	264.86	29.22
Hotel	2.84	0.13	4.48	0.1	19.77	0.57	7.07	-64.39	27.67	291.3
Mfg and Processing	1031.6	48.1	114.9	2.55	17.19	0.5	24.27	41.19	343.44	1323.
Trading	11.83	0.55	7.99	0.18	15.8	0.46	10.42	-34.05	33.65	222.9
Development Bank	32.33	1.51	22.01	0.49	82.76	2.4	577.56	597.9	1981.05	456.9
Others	0.29	0.01	52.48	1.16	183.88	5.33	1258.8	584.6	0.29	-46.3
Total	2144.3		4507.7		3451.4		8360.1		18780.6	

Source: Nepal Stock Exchange Ltd.

## Market Capitalization (Rs in Million)

### Nepal Stock Exchange

Year	2004/05		2005/06		2006/07		2007/08		2008/09	
Sector	Value	%	Value	%	Value	%	Value	%	Value	%
Commercial Bank	27147.4	65.5	38547.1	67.3	68841.2	72.0	138086.4	74.0	218264.2	70.7
Finance	2911.15	7.03	3471.5	6.05	4930.63	5.16	11491.4	6.16	27113.59	8.78
Insurance	2549.3	6.16	3659.86	6.39	4852.19	5.07	7959.78	4.27	10897.16	3.53
Hotel	2391.39	5.77	1016.45	1.77	2393.61	2.50	1935.59	1.04	3484.13	1.13
Mfg and	4644.59	11.2	4585.66	8.0	4919.2	4.83	3760.28	2.02	6576.18	2.13
Trading	490.37	1.18	802.04	1.4	737.39	0.77	787.4	0.42	686.73	0.22
Development Bank	796.85	1.92	1049.07	1.83	1227.49	1.28	5980.8	3.21	15619.36	5.06
Others	493.09	1.19	4187.73	7.31	8012.2	8.38	16503.02	8.85	26128.93	8.46
<b>Total</b>	<b>41424.2</b>		<b>57319.4</b>		<b>95614</b>		<b>186504.7</b>		<b>308770.3</b>	

Source: Nepal Stock Exchange Ltd.

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