CHAPTER - I
INTRODUCTION

1.1 Background of the Study

This is the era of globalization. Rapid developments in information technology and the advancement in transportation facilities have made the world as narrow as a village. Due to globalization of economies and market, present world economy has been more competitive and complicated. Every sort of change occurring in one sector of the world affects the other. A healthy economy is dependent on efficient transfers of funds from people who are net savers to firms and individuals who need capital. Without efficient transfers; the economy simply could not function. And economic efficiency is simply impossible without a good system for allocating capital within the economy. Nepal has predominantly a subsistence agricultural economy, which contributes about 40 percent of GDP and provides employment to more than 80 percent of the economically active population.

As the Nepalese economy is in developing phase, so in order to speed up this pace of development, financial sectors have crucial roles, as they can pool scattered savings for capital formation. Capital formation is ultimate function of a capital market. It transfers funds from those who have surplus funds to invest to those who need funds to invest in tangible assets (Fabizzu & Modigliani, 1992:12). Since capital market mobilizes unproductive savings to productive investments, it plays very important role in the advancement of growing economy. If the investors are confident in their investment in capital market the task of capital formation becomes much easier. Unless the market is efficient, the investors' confidence cannot be gained. Efficient market is that where the securities are traded on their true intrinsic value and liquidity among the securities is very high.

If a market is efficient a native investor with passive investment strategy can earn a normal rate of return in his investment. Moreover if the market is efficient, a well-diversified portfolio cannot be outperformed by any actively managed fund. A native investor is generally individual who does not possess skill to manage investment efficiently as does a professional manager. General savers are native investors as they have fund to invest but they may not have skill to

manage investment. Since the passive investment strategy is relatively easier which does not require frequent analysis and change in holding position, a common (native) investor generally takes this strategy. If the market is efficient the passive investment strategy works well to earn maximum possible return in the market. But the passive investment strategy, which is relatively easier, does not work in an inefficient market. In an inefficient market frequent change in stock price creates opportunity for those who actively participate in the market. Moreover, inefficient market is much similar to speculative market where the chances of abnormal gain and loss are very high. In an inefficient market a professional investor with active investment strategy can easily earn far better return than a native investor. Since one‘s gain is the loss of another, active investor’s gain is the loss of passive investors. Therefore a native investor cannot be confident in the investment in inefficient market. If investors were not confident that they could shift from one financial asset to another, as they may deem necessary, they would naturally be reluctant to buy any financial assets. But the vital source of fund is the saving of the general public (native investors). Thus efficient market is quite important to develop capital market for this competitive age.

Every business enterprise requires short-term, intermediate term and long-term capital funds for the smooth operation and expansion of organizational activities. Among such funds, long-term funds are highly significant for future growth and prosperity. Most of the organizations generate these types of funds from financial market. The purpose of financial market is an economy is to allocate savings efficiently during the period of time –a day–week or quarter-to parties who use funds for investment in real assets or for consumption (Van Horne, 2000:448). Financial markets facilitate the transfer of funds from savers to those who wish to invest in capital goods. For instance, companies that wish to undertake investment projects offer financial instrument to savers exchange for funds to finance the projects.

A society improves its welfare through investments. Business owner need outside capital for investment because event projects of moderate sizes are beyond the reach of most wealthy individuals. Governments also need funds for public investments. Much of that money is channeled through financial markets from savers to borrowers. In so doing, the financial markets provide a link between saving and investment and between the present and the future. As a consequence, savers can earn higher returns from their savings instead of holding them, borrowers can execute their investment plans to earn future profits, and both are better off. As a

result the economy also benefits by acquiring better productive capabilities. Financial markets therefore facilitate real investments by action as the sources of information.

Financial markets can also be defined as the center that provide facilities for buying and selling of financial claims and services. And the role of financial system in economic development has been a much-discussed topic among economists. Financial markets perform four important economic functions. First, they enable individuals to choose more effectively between current and future consumption. Borrowing enables individual to consume more, whereas leading enable them to postpone consumption. The economic units that have a surplus (investors) invest in those that have deficit (borrowers). This provides capital to companies in excess of those generated out to business income.

Second, the interaction between buyers and sellers in a financial market determines the price of the assets, or alternatively, the return demanded by investors to invest in the company. Firms can raise further capital if the return on their investments exceeds the return demanded by investors.

Third, financial markets provide liquidity to investors. That is, the owner of the financial asset can sell off the asset in the market place to realize cash whenever required. The degree of liquidity may vary from asset to asset and market to market. Fourth, financial markets can discipline under–performing managements. The prevailing stock price of a company reflects the opinion of all market participants regarding the outlook for the company under the current management. In the main, financial market chiefly refers to money market and capital market.

Money market may be defined as short-term financial assets market, which facilitates liquidity and marketability securities. Actually it is the market for short-term market instrument having less than one-year maturity period. The fluctuation of money market interest rates reflects the demand and supply of funds in competitive market. The development of an efficient money market requires the development of institutions, instruments, and operating procedures that facilitate widening and deepening of the market and allocation of shot-term resources with minimum transaction costs and minimum of delays (Pandey, 1970:878). Thus, the money markets are the markets for short –term, highly liquid debt securities.

Capital market plays a vital role in the national economy. It renders very valuable services to the community by increasing the productive capacity of the country & there by accelerating the ace of economic development. In short, the growth of economy is tied with the growth of capital

market in the country. Capital market facilitates the allocation of funds between saver and borrowers. This allocation will be optimum if the capital market has efficient pricing mechanism. If the capital market is efficient, the current share prices of companies fully reflect available information and there is no question of share price being under- priced and over-priced. The phenomenon of under or over-valuation of shares is possible only in an inefficient capital market.

As the capital market is concerned with long- term fiancé in the widest sense it consists of series of channels through which the saving of the community are made available for industrial and commercial enterprise and public authorities. It is mainly concerned with those private savings, individuals as well as corporate; those are turned into investments through new capital issues and also new public loans floated by government and semi government bodies. In the capital market demand comes from agriculture, industry trade and government while supply comes from the individual or corporate savings, intuitional investors and surplus of governments. It comprises the savers- individuals and institutions and bodies through which these savings are mobilized. The saving instructions like banks, investment companies' specialized financial corporations and stock exchange are some of the important constituents of capital market.

An efficient capital market is an essential pre-requisite of economic development and the development of capital market in a country is dependent upon the availability of savings, proper organization of intermediary institutions to bring the investors and business ability together for mutual interest, regulation of investment etc.

1.1.1 Capital Market in Nepal

The market where securities are traded is known as capital market or security market. Share or stock is a major component of the security market. The capital market indicates both primary market and secondary market for transaction of the stocks.

1.1.1.1 Primary Capital Market

The primary capital market denotes the capital market for original sale of the stocks and securities. Initial public offering is also known as primary capital market where the banks and business houses initially offer the share to general public

It is the market in which securities are sold at the time of their initial issuance. In other words, a market for newly issued securities is called primary market. Corporations and governmental bodies issue new securities in primary market. These securities can be offered by method of public flotation and private placement. The term primary market can also be defined as the market in which corporations raise new capital. The corporation selling the newly created stock receives the proceeds form the sale in a primary market transaction.

Securities available for the first time are offered through the primary securities market. 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 (Fisher & Gordon, 2000 : 9).

In primary capital market , the general public invest their savings to purchase the share at par value which is Rs.100 for each share . The public receives newly issued securities for cash investment. So that it is less risky investment . Similarly , share issuers such as banks , business houses receive cash from general public and invest them to the productive sectors.

1.1.1.2 Secondary Capital Market

Secondary Market is the market in which securities are traded that has been issued at some previous point of time. In other words, where outstanding securities are traded is referred to as the secondary market or more popularly known as the stock market. Share or stock is the major component of the securities market. Stock market is the medium through which corporate sector mobilizes funds to finance productive projects by issuing shares in the market. The efficient collection of small amounts of savings and transferring funds into the efficient uses requires a well functioning capital market. Thus, secondary market deals with previously issued shares mainly traded through stock exchange, over the counter market or direct selling. The specialists or brokers are available there in the secondary capital market to facilitate the transaction. Nepal Stock Exchange (NEPSE) is only the secondary market in Nepal which is non profit making organization , operating under the securities exchange act ,1983. The basic objective of NEPSE is to provide free marketability and liquidity to government bonds and corporate securities. Some of the factors in secondary market are explained as follows ;

a) Trading of Stock

In Nepalese practice, securities viz. government bonds and listed corporate securities are traded through Nepal Stock Exchange Ltd. (NEPSE). NEPSE has adopted an "Open-Out-Cry" system for the trading purpose. It means transactions of securities are conducted on the open auction principle on the trading floor. The buying broker with the highest bid will post the price and his code number on the buying column, while the selling broker with the lowest offers will post the price and code number on the selling column on the quotation board. The market makers quote their bid and offer price on their own board before the floor starts. Once the bid and offer price matches, contracts between the buying and selling brokers or between the brokers and market makers are concluded on the floor. NEPSE has fixed stock trading days and hour during which the numbers are allowed to enter the floor to make the transaction tabulated below:

Table 1.1

Stock Trading Days and Hours

Trading Days	Trading Hours	Type of Trading
Monday – Friday	11a.m – 1p.m	Regular
Monday – Friday	2p.m – 3p.m	Odd lot

Source: NEPSE Annual Report 2008/09

b) Primary Market Dealer and Secondary Market Dealer

Primary market dealer operates as a manager and underwriter regarding the issue. While secondary marker dealer operates as a profitable manager. A corporate firm has to fulfill certain criteria to list its securities in the NEPSE for stock trading. At the end of 2009, 159 companies have listed their securities to make them eligible for trading of stock. NEPSE has adopted a T+3 systems which means that settlement of transaction should be done within 3 working days following the transactions day. Settlement will be carried out on the basis of paper versus payment. The brokerage rate on equity transaction ranges from 1 % to 1.5 % depending on the traded amount.

With the establishments of democratic system in the country, it can be seen the importance of security market. Security market has just shown some changes of facilities in the real sense. May be it is also because of the already passed recession period that people have become much more optimistic that they want to save some of their income to invest in the security market. (www. Nepalstock.com)

1. 2 Focus of the Study

The volatility of stock price has been always a subject matter of controversial debate to the extreme extent among the academics of financial and economic circles. The past price variation of securities in the general market will or won't be meaningful information for forecasting the future behavior of stock price.

The main focus of the study is to test whether the successive price changes of the securities are dependent or independent (whether there is significant difference between NEPSE Index before and after the various event or not). There are various approaches to predict the successive price movement of stocks. Efficient market theory is one of the best approaches. However fundamental and technical approaches are also the best but the implications of efficient market is much more important in one hand while, in Nepalese context extensive study on this issue has not been found. Thus this study focuses on the stock market efficient and Behavior of the Stock Market Prices in Nepalese Security Market.

1.3 Statement of the Problem

The capital market mobilizes the savings of individuals or institutional investors as investment in shares, debentures, bonds, mutual funds and other financial instruments, which have potential to yield a higher return on their investments. An efficient capital market is one where the stock price reflects all information related to it. The information is of utmost importance to all the active investors in the secondary market to make their investment decision whether purchase of new Shares or sale of existing holdings. The information reflects the financial health and soundness of institutions as well as its future prospects.

Due to the lack of proper government policy and home-war in the country, the prices of common stocks have been rapidly declining. Low trading volume, absence of professional broker, early stage of growth, limited movement of share price, limited information to investors, price instability in the secondary market, lack of proper investment decision of the investors etc. are the burning issues in Nepalese stock market. The government has not brought any packages to reform the stock market that's why investors are losing confidence on the performance of share market mainly due to their experience of fraudulent and scandalous activities undertaken by a handful of market swindlers. There has been also more subtle problems involving misuse of insider information and growing tendency of frauds in securities transaction. Moreover, credulous investors are responsible for showing irresponsible behaviors due to the greed for quick gains from the share market. The unhappy episodes have also emerged from wrong advice of the brokers. Thus, market disorders, price manipulation and fraudulent activities of share market have resulted the present bearish market in the country. However, the Nepal's stock market is in infancy stage these problems can be solved only when the real determinants of stock prices are diagnosed and identified.

Besides that, stock market is perhaps poorly understood among Nepalese investors. Its development remains almost impossible unless the people accept it as a way of their life. For this, first of all they have to know what stock market is, and how it functions. But such questions are almost unanswered. Yet, the price formation system in NEPSE is not understood by most of them. If it is not understood, it cannot attract the interests of investors. As a result, it is natural for the investors to seek investment opportunities in the fields other than securities.

Thus the present study is carried out to measure the volatility of stock price in Nepalese security market and recommend for the improvement in the development of Nepalese stock market. The main issues or problems in Nepalese stock market can be listed as follows:

1 High fluctuations in stock market prices.
2 Lack of motivational factors such as tax benefits, special concessions etc to the investors.
3 Low trading volume of the stock.
4 Lack of proper information to the investors.
5 Lack of proper knowledge about stock market to investors.
6 Instability in Government policy

1.4 Objective of the Study

The main objective of this study is to analyze and examine the fluctuation of the stock prices in the security market. However the specific objectives of the study are listed below:

1. To study and analyze the stock price trend in Nepal Stock Exchange.
2. To study and analyze the volume of stock traded and market capitalization of Nepal Stock Exchange.
3. To find out the correlation coefficient between MPS and EPS of the sampled companies.
4. To find out the correlation coefficient between MPS and DPS of the sampled companies.
5. To study and analyze the investors views regarding to the investment in Nepalese Stock Market.

1.5 Significance of the Study

The study on volatility measurement of stock price in Nepalese security market is very important to all the parties related to stock market. The significance of the study can be point out as follows:

1. The study helps to provide guideline to the interested investors in the market.
2. The study is helpful to the people who are curious to know about the price trend of the stock, volume of stock traded, listed of new companies in the secondary market (NEPSE).
3. The study is helpful to the issue managers, stock brokers, securities dealers and the market makers of stock market in Nepal.
4. With respect to change in financial position of the firms the study is helpful to know about the movement of share price of the corporate firms.

1.6 Limitations of the Study

The study on the volatility measurement of stock price in Nepalese security markets have been conducted on the following limitations and constraints:

i. The secondary data is taken only the periods of eight years,
ii. The research is based upon the data provided by the NEPSE and those data are not verified by the experts.
iii. Only common stocks or ordinary shares are taken for the purpose of the study.
iv. Stock price trend is observed only with the help of NEPSE index.

1.7 Organization of the Study

The whole study is divided into five different chapters.

Chapter - I Introduction

This chapter consists of background of the study, focus of the study, statement of the problems, objective of the study, significance of the study, limitation of the study and finally the organization of the study.

Chapter - II Literature Review

Review of literature consists of the conceptual framework along with review of Nepal government's policies, major books, journals, research works and previous thesis etc.

Chapter - III Research Methodology

This chapter includes the methodologies used for the study such as research design, sources of data, data gathering procedure, data processing and financial and statistical tools used.

Chapter – IV Data Presentation and Analysis

Data analysis and presentation includes data presentation, analysis, interpretation and major finding of the selected companies.

Chapter - V Summary, Conclusion and Recommendations

The fifth chapter summarizes the whole study. Moreover, it draws the conclusion and forwards the recommendation.

CHAPTER II
REVIEW OF LITRATURE

It will be better to review some fundamental aspects of related literature before doing research work . The purpose of reviewing the literature is to develop some expertise in research related area, to see what new contribution can be made and to receive some ideas for developing a research design. Thus, the previous studies can't be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. Hence, it is clear that the purpose of literature review is to find out what research studies have been conducted in one's chosen field of study and what to be done.

This chapter deals with the theoretical aspect of the related topic in more detail and descriptive way. The journals, articles and some research reports related with topic " The Volatility Measurement of Stock Price in Capital Market" has been reviewed. There are very limited study materials related to this topic published in Nepal. So that some books related with this topic, published in other countries as well as some of the master degree thesis has been reviewed in this study as review of literature. The review of literature has been divided into four broad categories which are as follows ;

2.1 Conceptual Review

As a conceptual review, various books of different writer related with capital market, stock and stock price have been reviewed to get the conceptual knowledge regarding research study.

2.1.1 Common Stock

Common stock is the basic form of ownership in a company. People who hold common stock have authority to claim on the assets of a firm after those of preferred stockholders and bond holders (www.greekshares.com, feb,2009).

Common stockholders of a corporation are its residual owners, their claim to income and assets comes after preferred stockholders and creditors have been paid. It means the corporation has to pay employee's wages, suppliers' bills, bondholders' interest and all other bills then after, the common stockholders can claim in whatever earnings are left. As a result, the common stockholder's return on investment is less certain than the return to a preferred stockholder and a lender. On other hand, return to common stockholder is not bounded as return to preferred stockholder and creditor.

The founders of a corporation obtain a corporate charter from the state, have printed shares of common stock, and sell the shares to as many different people as they wish in order to raise the capital to start the new business. Thus, common stock is always the first security issued by every new corporation (Francis;1983: 37).

Common stockowners enjoy certain advantages from their investment. First, they enjoy limited liability that is if the corporation goes bankrupt and does not have enough assets to pay all of its bills, the common stockowners cannot be forced to participate in the payment of unpaid bills. Second, Stockholders enjoy unlimited participation in firm's profits if earnings become highly lucrative. Third, shares of common stock are marketable securities designed to be bought and sold with ease. Finally, only common stockowners are entitled to vote at the stockholders' meetings of the corporation. Thus, stockholders have a voice in management.

i) Common Stocks Values

a) Par Value

Par value is the face value of a share of stock. It was originally used to guarantee that the corporation receives a fair price for the value of the firm represented by a share of stock. Another reason for the creation of par values was to keep stockholders with friends in the corporation from getting shares at a low price while other buyers of identical shares have to pay more. Selling shares at reduced prices to friends is a form of price discrimination against many potential investors (Francis; 1983: 40).

The par value is established at the time when the stock is initially issued. Without a stock split or other action by the board of directors, the par value of the stock does not change (Cheney and Mossess; 1995: 417). The par value of new issue is usually Rs.100, as directed by company act 1993.

b) Book Value

The book value per share can be calculated by adding the common stock's total value (or par value plus paid-in surplus plus retained-earnings accounts) in the net worth section of the balance sheet and then dividing by the number of shares of common stock outstanding. Book value gives a picture of the assets of the corporation, but it has no real relation to stock prices.(Francis;1983: 40).

c) Market Value

Market value in the secondary markets is determined by the demand and supplies factors, and reflects the consensus opinion of investors and traders concerning the "value" of the stock. The market value is influenced by many factors including economic and industrial conditions of the nation, expected earnings, expected dividends and company's risk considerations (Cheney and Mosses;1995: 417-418).

ii) Classification of common stock on the basis of their features

a) Blue Chip Stock

The stock of very large and well-established corporation having a strong balance sheet is called blue-chip stock.

b) Growth Stock

The growth stock is that stock which price grows with the growth of corporation's earnings and dividend with a comparatively higher growth than the average price appreciation.

c) Income Stock

The stock having a stable cash dividend is known as income stock.

d) Cyclical and Defensive Stock

The stock, which is influenced by economic and industrial cycle, is called cyclical stock whereas the stock which is less susceptible to economic cycle, is called defensive stock.

e) Speculative Stock

The stock, which is viewed by the investors with some speculative motives, is called speculative stock.

f) Small Stocks

The stock depends upon the corporation's capitalization norms is generally known as small stock.

g) Treasury Stock

If a corporation decides to buy back its own stock, the acquired stocks are called treasury stocks" (Cheney and Mosses; 1995: 419-422).

iii) Characteristics of Common Stock

a) "Voting Rights or Control

Common Stock is also known as voting stock. The common stockholders have a power to vote for the board of directors and against major issues (such as mergers or an expansions into new product lines) because they are the owners of the corporation.

b) Preemptive Rights

The preemptive right allows stock holders to subscribe any new issue of stock so that they can maintain their previous fraction of the total number of shares sold (usually called the "outstanding shares"). Some states automatically make the preemptive right a part of every corporate charter: in others, its inclusion as part of the charter is optional to grant the preemptive right is to recognize that stockholders are part owners of corporations and as such should have an interest in earnings and assets and a voice in management proportionate to the fraction of voting shares they own. The preemptive right, if exercised, prevents the dilution of ownership control inherent in additional stock shares. Thus, the preemptive right, if exercised, guarantees the investor's undiluted maintenance of voting control, share in earnings, and share in assets" (Francis; 1983: 39).

c) Right of Income and Distribution of Other Shares

As a matter of fact, shareholders have no right to receive income distribution from the corporation. As practice prevails, BOD declares cash dividends if enough financial resources are available. The dividends can be cash dividends, stock dividends, property dividends, etc (Cheney and Mosses; 1995: 415).

2.1.2 Behavior of Stock Market Prices

There are three approaches to explain the behavior's of stock market prices. They are Technical Analysis, Fundamental Analysis and Efficient Market Hypothesis. Technical and Fundamental analysis is related to the conventional approach where efficient market hypothesis is based on contrary approach.

2.1.2.1 Technical Analysis

Technical analysis is market-oriented philosophy and it concentrates on the force of supply and demand for shares rather than the intrinsic worth of share.

“Technical analysis is the study of the internal stock exchange information. The word 'technical' implies a study of the market itself and not of those external factors which are reflected in the market. All the relevant factors, whatever they may be or can be reduced to the volume of the stock exchange transactions and the level of share prices or more generally, to the sum of the statistical information produced by the market.” (Felix Rosenfeld; 1975: 297).

“Technical analysis involves the study of stock market prices in an attempt to predict future price movements for the common stock of a particular firm. Initially, past prices are examined in order to identify recurring trends or patterns in price movements. Then more recent stock prices are analyzed in order to identify emerging trends to patterns that are similar to past ones. This analysis is done in the belief that these trends or patterns repeat themselves. Thus by identifying an emerging trend or pattern, the analyst hopes to predict accurately future price movements for that particular stock.” (Sharpe, Alexander and Bailey; 2003: 12)

"The technician tends to look backward. The technician thinks little about future earnings and dividends. The technician usually attempts to predict short-term price movements and thus makes recommendations concerning the timing of purchases and sales of either specific stocks or groups of stocks (such as industries) or stock in general. It is sometimes said that technical analysis is designed to answer the question - when?" (Sharpe, Alexander and Bailey; 1999: 844)

About this approach Jack Clark Francis writes technical analysis is based on the widely accepted premise that security prices are determined by the supply of and demand for securities. The tools of technical analysis are therefore designed to measure supply and demand. Typically, technical analysts record historical financial data on charts, study these charts in an effort to find meaningful patterns, and use these patterns to predict future prices. Some charting techniques are used to predict the movements of a single security; some are used to predict the movements of a market index: and some are used to predict both the action of individual securities and the market action. The basic assumptions underlying technical analysis are listed below:

- Market value is determined solely by the interaction of supply and demand.
- Supply and demand are governed by numerous factors, both rational and irrational.
- Aside from the effects of minor fluctuations in the market, stock prices tend to move in trends that persist for appreciable lengths of time.
- Changes in trends are caused by shifts in supply and demand.
- Shifts in supply and demand, no matter why they occur, can be detected sooner or later in charts of market action.
- Some chart patterns tend to recur, and these recurring patterns can be use to forecast price movements.

Thus technical analysts discern past pattern or trends, which they believe to repeat in the future and recommend for the timely holding and disposing mechanism, which is profitable. It recommends for short-term speculation based on its forecast of profitable pattern.

2.1.2.2 Fundamental Analysis

Fundamental analysis begins with the assertion that the "true" (or "intrinsic") value of any financial asset equals the present value of all cash flows that the owner of the asset expects to receive. Accordingly, the fundamental stock analyst attempts to forecast the timing and size of these cash flows and then converts them to their equivalent present value by using an appropriate discount rate. More specifically, the analyst must attempt not only to estimate this discount rate but also to forecast the stream of dividends that a particular stock will provide in the future; this process is equivalent to forecasting the firms earning per share and payout ratios. Furthermore, the discount rate must be estimated. Once the true value of the common stock of a particular firm has been determined, it is compared with the current market price of the common stock which is fairly priced. Stock that have a true value less than their current market price are known as overvalued or overpriced stocks whereas those stock that have a true value greater than their current market price are known as undervalued or under priced stocks. The magnitude of the difference between the true value and the current market price is also important information. Fundamental analysts believe that any notable cases of mispricing will be corrected by the market in the near future; meaning that prices of undervalued stocks will show unusual appreciation and prices of overvalued stocks will show unusual depreciation. (Sharpe, Alexander and Bailey; 2003: 12-13)

In the fundamental approach, the security analyst or prospective investor is primarily interested in analyzing factors such as economic influences, industry factors and pertinent company information such as product demand, earnings dividends and management in order to calculate an intrinsic value for the firm's securities. The investors reach in investment decision by comparing this value with the current market price of the security. The fundamentalist tends to look forward and always concerned with such matters as future earnings and dividends. It is sometimes said that fundamental analysis is designed to answer the questions "what?" (Sharpe, Alexander and Bailey; 1998: 844)

Fundamental analysis theory claims that at any point of time an individual stock has an intrinsic value, which is equal to the present value of the future cash flows from the security discounted at appropriate risk adjusted discount rate. The value of the common stock is simply the present value of all the future income which the owner of the share will receive (Francis; 1991: 398). And the actual price should reflect the intrinsic value. But in practice, first it is not known in

advance what a stock's income will be in each future period, and second, it is not clear what the appropriate discount rate should be for a particular stock. So, fundamental analysts attempt to reach best estimate of the intrinsic value of share by studying company's sales, profit, dividends, management competency, and numerous other economic and industrial factors, which determine its future income and prospect of the business opportunities. (Francis; 1991: 425)

"By the nature the fundamental analysts are conservative. Generally, they are unwilling to take a quick loss so that they adopt a buy and hold policy." Therefore fundamental analysis allows the analyst to forecast holding-period yield for achieving that yield, but these figures alone do not necessarily prompt a buy or sell action. (Yasasway; 1992: 63)

Technical Analysis or Fundamental Analysis

The two theories explained above have assumed that the pricing of the shares in the market is not efficient. Therefore, while making investment decision, technical analysis theory suggests for the right time of purchasing and selling whereas fundamental analysis theory recommends for the selection of the appropriate stocks. Sometime it is said that fundamental analysis is designed to answer the questions 'what?' and technical analysis to answer the question 'when'. (Sharpe, Alexander and Bailey; 1998: 844)

Technical analysis and Fundamental analysis are an inefficient theory based on conventional approach, where technical analysis theory based on the right time of purchasing and selling, fundamental analysis theory is based on the selection of the appropriate stocks.

Security prices are not controlled by any one buyer or seller; there are many independent buyers and sellers. Most security traders are not powerful enough to affect stock prices significantly. The few investment institutions that are large enough to do so they are restrained by law from manipulating prices (although they do sometimes temporarily affect prices by their actions). There are many independent sources of opinion about security prices. Fundamental analysts and technical analysts have expectations and use techniques that are very different from one another. Thus, often the time, so called experts predict that the stock price will rise and at the same time other so called experts consider overvalued of the stock.

Economists and fundamental analysts use various tools to test the intrinsic value of common stock. But the problem is that it is impossible to tell exactly what the intrinsic value of a common stock is, because different fundamental analysts develop different estimates of the intrinsic value of a stock. Thus, there is no generally accepted value to compare to the stock's market price. As a result, technical analysis is subjected to indirect tests. The indirect tests used to assess technical analysis are based on the notion that stock prices should fluctuate randomly. The stock market mechanism described above proposes that the intrinsic value of a stock changes whenever news about it becomes known. If the stock market is in continuous equilibrium, then the stock's market price equals its intrinsic value, and they should fluctuate together however, technical analysts claim that stock prices do not fluctuate in this way.

2.1.2.3 Efficient Market Hypothesis

The term efficiency may be defined in various ways: allocative efficiency, operational efficiency and informational efficiency.

A market is allocationally efficient when rates of return adjusted for risk are equated at the margin for all investments. A market is operationally efficient when investment funds can be transferred (shifted) at minimum cost. Capital market efficiency exists when prices reflect all available information. Efficient markets imply that all relevant information regarding a given stock is reflected in its current market price. (Weston and Copeland; 1992: 94)

The Efficient Market Hypothesis states that at any given time, security prices fully reflect all available information. The implications of the efficient market hypothesis are truly profound. Most individuals that buy and sell securities (stocks in particular), do so under the assumption that the securities they are buying are worth more that the prices that they are paying, while securities that they are selling are worth less than the selling price. But if markets are efficient and current prices fully reflect all information, then buying and selling securities in an attempt to outperform the market will effectively be a game of chance rather than skill. (www.investorhome.com; Feb, 2009)

The Efficient Market Hypothesis evolved in the 1960s from the Ph.D. dissertation of Eugene Fama. Fama persuasively made the argument that in an active market that includes many well-

informed and intelligent investors, securities will be appropriately prices and reflect all available information. If a market is efficient, no information or analysis can be expected to result in out performance of an appropriate benchmark.

According to Fama "An 'efficient' market is defined as a market where there are large number of rational, profit-maximizers actively competing, with each trying to predict future market values of individual securities, and where important current information is almost freely available to all participants. In an efficient market, competition among the many intelligent participants leads to a situation where, at any point in time, actual prices of individual securities already reflect the effects of information based both on events that have already occurred and on events that have already occurred and on events which, as of now, the market expects to take place in the future. In other words, in an efficient market at any point in time the actual price of a security will be a good estimate of its intrinsic value" (www.investorhome.com; Feb, 2009)

In such market, security's price will be a good estimate of its investment value, where investment value is the present value of the security's future prospects, as estimated by well-informed and capable analysts, and can be thought of as the security's price equal its investment value at all times. A market is said to be efficient if it is impossible to make abnormal profits by using a particular set of information to formulate buying and selling decisions. In an efficient market, investors should expect to make only normal profits and earn a normal rate of return on their investments. In such a market, any new information is immediately and fully reflected in prices. New information is just that new, meaning a surprise. In a perfectly efficient market, price changes are close to random. (Sharpe, Alexander and Bailey; 1999: 106)

“Market efficiency is a description of how prices in competitive markets respond to new information. The arrival of new information to a competitive market can likened to the arrival of a lamb chop- to a school of flesh-eating piranha, where investors are – plausibly enough the piranha. The instant the lamb chop hits the water; there is turmoil as the fish devour the meat. Very soon the meat is gone, leaving only the worthless bone behind, and the water returns to normal.” (Higgins; 1992: 42) Similarly, “when new information reaches a competitive market there is much turmoil as investors buy and sell securities in response to the news, causing prices to change. Once prices adjust all that is left of the information is the worthless bone. No amount of gnawing on the bone will yield any more meat, and no further study of old information will yield any more valuable intelligence” (www.investorhome.com; Feb, 2009)

When tests of the efficient markets hypothesis are carried out, securities markets are tested for varying degrees of efficiency. First, the efficient market hypothesis is examined. The weakly efficient market hypothesis says that historical stock price and volume of securities contain no information that can be used to earn a trading profit which could be attained with a naive buy-and-hold investment strategy. This suggests that technical analysis is worthless. The stock market data support the hypothesis.

Secondly, the semi-strong efficient market hypothesis is examined, which says that markets are efficient enough for prices to reflect all publicly available information. Consequently, only a few insiders, trading on short run price changes, can earn a profit larger than what could be earned by using a naive buy-and-hold strategy. Securities markets in the United States are probably semi-strong efficient.

Finally, the strongly efficient market hypothesis is examined; it claims that no one can consistently earn a profit larger than what could be earned with a naïve buy-and-hold strategy. The reason given is that no one has monopolistic profit making are found that violate this hypothesis. (Francis; 1983: 464-465)

Above three hypotheses are not mutually exclusive. They differ only in the degree of market efficiency. Generally Efficient Market Theory believes that the stock market price in the market is always comparative. It means stock prices is neither overvalued nor under valued it is always correctly valued.

Though, the subject of market efficiency has been much concerned area of the study for the academicians and researchers in recent times. The paradox of efficient markets is that if every investors believed a market was efficient, then the market would not be efficient because no one would analyze securities. The efficient markets depend on market participants who believe the market is inefficient and trade securities in an attempt to outperform the market. In reality, markets are neither perfectly efficient not completely inefficient. All markets are efficient to a certain extent, some more than others. The market efficiency is a matter of shades of gray rather than being an issue of black or white. In markets with substantial impairments of efficiency, more knowledgeable investors can strive to outperform less knowledgeable ones. Government bond markets for instance, are considered to be extremely efficient. Most researchers consider large capitalization stocks to also be very efficient, while small capitalization stocks and

international stocks are considered by some to be less efficient. Real estate and venture capital, which don't have fluid and continuous markets, are considered to be less efficient because different participants may have varying amounts and quality of information.

Thus we can say Nepalese Security Market is an efficient market in terms of information as well as operations because of the less developed capital market in the world.

2.2 Review of Nepal Government's Policies, Plans, Programs and Regulations

2.2.1 Securities Board Nepal (SEBO)

SEBO was established as an apex regulator of the securities market in Nepal by the Government of Nepal on June 7, 1993, under the Securities Exchange Act, 1983. The main objective of SEBO is to regularize and manage the securities market and protect investors' rights.
As per the securities rules and regulations, following are the major functions of SEBO:

- Frame policies and programmers required in securities market and advice the Government of Nepal in this aspect.
- Register securities and grant issue approval.
- Provide license to corporate bodies to operate stock exchange business.
- Provide license to operate securities businesses.
- Supervise and monitor stock exchange and securities businesspersons.
- Conduct research, study and awareness programmers regarding securities market.

A board composed of seven members including a Chairman governs SEBO. The board has representatives from various institutions of the government as well as private sector. The Chairman of SEBO is appointed by Government of Nepal for the tenure of four years. Other members of the Board include representatives one each from Ministry of Finance, Ministry of Law, Justice and Parliamentary Affairs, Ministry of Industries, Commerce and Supplies, Nepal Rastra Bank (the Central Bank), Federation of Nepalese Chambers of Commerce and Industries and Nepal Chartered Accountants' Association.

SEBO, in order to implement its policies and programs effectively, has two departments, six divisions and ten sections in its organizations structure. Each department is headed by deputy director and each division by officer. Presently, there are 25 staffs in SEBO. (www.sebonp.com; Feb, 2009)

2.2.2 Nepal Government's Policies and Programmes

After adopting liberalized economic policy, the Government of Nepal has been initiating different programmes for the organized development of securities market. In this context, during the period of Eighth Five Year Plan (1992-1997), some infrastructures regarding the securities market regulation were prepared. In the ninth Five Year Plan period (1997-2002), efforts were made to develop an organized and credible market. While implementing the programmes of Ninth Five Year Plan, Government of Nepal announced the programmes through the budget speech of 2000/01 to amend Securities Exchange Act, to initiate necessary steps for bring wider participation in the stock exchange and make its operation more transparent. Similarly, the budget speech has also included the programme to take legal action against those listed companies, not publishing and submitting their audited financial statements of last two years. Accordingly, 25 companies were de-listed for not publishing their financial statements and not paying annual listing fees to the stock exchange. However, other programmes like amendment of Securities Exchange Act, Standardizing Stock exchange etc., which were perceived to be more important for the securities market development, could not move ahead concretely.

In the fiscal year 2001/02, Government of Nepal came with the 10th Five Year Plan (2002-2007), which also includes various programmes for securities market development. The objective of the securities market development programme is to increase public ownership in the development projects operated by private sector and promote industries by supplying financial resources through securities as well as increase employment opportunities and fulfill the capital requirements to the development projects operated by government of Nepal. To meet these objectives, it has taken the policy of modernizing stock exchange, strengthening the regulatory system of the securities market, widening the participation of the stock exchange and making it dynamic, transparent, credible and investor friendly and developing the securities market as an important sources of long-term financial growth by increasing its depth and breadth. It has incorporated the programmes of making public issue effective, enhancing regulatory capability

of SEBO, making the securities trading process standard and credible, creating a state of transferring ownership immediately after transaction, diversifying securities market instruments, attracting institutional investors, protecting investors interest, expanding the securities market services nationwide and improving the compliance and integrity of the market (www.sebonp.com; Feb, 200

2.2.3 Securities Market Programmes in 10th Plan

a) Objectives

- To increase public ownership through shares in the development projects to be operated by private sector and to provide returns of such projects.
- To promote industry and trade by supplying the required financial in competitive cost and to increase employment opportunities.
- To issue bonds through securities market to meet the mid-term and long-term, financing required by development projects to be operated by Government of Nepal, government enterprises and municipalities, thereby gradually reducing the foreign loan.

b) Quantitative Goals

- To increase number of investors investing in share capital of corporate bodies to at least 3 percent of total population.
- To raise at least Rs.5000 million for the corporate bodies through primary market.
- To increase the amount of securities trading to at least Rs. 10000 million.
- To increase the value of total market capitalization to at least 15 percent of total GDP.
- To list additional 40 corporate bodies in the stock exchange.

c) Strategies

- Modernizing the stock exchange.
- Making the securities market regulatory system more effective.

d) Policies and Working Policies

- Modernization of stock exchange (Related to strategy 1).
- To make corporate sector dynamic and broad based and to develop effective and investor friendly role of securities market regulators.

- To increase allocation and operational efficiency of securities markets.
- To make securities market mechanism fully transparent and credible.
- Effective securities market regulatory system (Related to Strategy2).
- To develop and expand securities market as an important source of long-term funds.
- To increase depth and breadth of securities market.

e) Programmes and implementation structure

- Establish one window policy for public issue through SEBO and enhance capability of SEBO.
- Arrange for the immediate ownership transfer of securities
- Develop simplified issue and trading system for the securities of privatized government enterprises.
- Constitute a permanent committee with representation of Ministry of Finance, Nepal Rastra Bank, SEBO and Insurance Board for the coordinated development of healthy and competitive financial market as well as for the development of unified financial regulator in the future.
- Expand securities exchange facilities in the other places of the country considering its feasibility for the savers residing there.
- Develop clear regulatory benchmark of SEBO and NEPSE.
- Make the securities trading process and financial statement of the issuer companies more credible and transparent.
- Implement codes of conduct for securities regulators, employees of stock exchange, directors, managers, auditors and advisors of the corporate bodies and for the securities businesspersons.
- Provide training and education on different aspects of securities market and make institutional arrangement for regular research and study.
- Make provision to take insider trading as a criminal offence so as to control such trading.
- Make necessary legal provision for securities trading through nominee system.
- Make necessary arrangement for SEBO to take membership of International Organization of Securities Commission (IOSCO).

- Privatize NEPSE and develop it as a self-regulatory organization following good governance practices.
- Establish central depository system for immediate ownership transfer of securities and to protect investors from frauds that may occur on securities trading.
- Provide incentives for the promotion of companies having wider ownership and good governance practices.
- Make legal provision to encourage mutual funds, debentures and securitization.
- Make arrangement for the trading government bonds in the stock exchange and provide benchmark and liquidity.
- Develop appropriate legal provision to encourage entry of contractual savings in to capital market as well as develop regulatory system of such instruments under securities jurisdiction.
- Simplify entry and exit process of securities businesspersons by following prudential norms.
- Assist ICAN for the establishment of international accounting system and establish and operate disclosure review system of issuing companies.
- Gradually automate securities trading of NEPSE as per feasibility.
- Expand present centralized floor trading system, establish OTC market and develop trading system that can accommodate trading for local areas.
- Make clearing and settlement system of securities transparent and establish and/or utilize central depository system of securities for clearing and settlement. (www.sebonp.com; Feb, 2009)

2.2.4 Regulation of Nepalese Securities Market

Securities market in Nepal has all the characteristic of an underdeveloped economy till the recent past. It was characterized by the absence of professional promoters, underwriting agencies, market intermediaries, organized market, regulatory bodies, and rules and regulations. However, after the restoration of democracy in 1990, a trend towards an organized stock market can be marked with numerous developments in the Nepalese securities market, removing its earlier deficiencies.

A detail legislative code has been adopted by the Government to protect the investors' interests. The Securities Exchange Regulation, 1993, provides for those reforms in stock exchange trading methods and practices. The Regulation ahs added further functions, powers and duties of the Securities Board, Nepal (SEBO). The Regulation has authorized the SEBO for internal housekeeping matter, made provision regarding licensing stock exchange and their subsequent operation, specified requirements for the registration and listing of securities along with authority for the registration of market intermediaries such as brokers, market makers, dealers and issue managers. The regulation, different provisions regarding allowances and benefits as well as duties, powers and functions of chairman of SEBO, funding, accounting and auditing are also specified by the regulation.

The Companies Act, 1997, marks an important stage in the development of corporate enterprises in Nepal. The provisions made under this act especially relevant to the securities market are provisions regarding the issuance and publication of the prospectus, which is necessary for public issue of securities. As per this provision, the details of the content of prospectus are prescribed and the prospectus is to be approved by the Companies Registrar's Office (CRO). Under this act, different provisions have been make for the establishment of a company (either public or private) and its liquidation, conduction of Annual General Meeting (AGM), incorporation of Memorandum and Articles of Association, issue of shares and debentures, preparation of annual accounts and their audit and the annual report.

Securities Exchange Act, 1983 (Second Amendment) provides reforms in securities market regulating practices. It can be taken as the very important legislation of the securities market. The act has been formulated to systematize and regularize the stock exchange in order to maintain the economic interest of the people. It also contributes to the economic development of the country, to protect the interest of the investors and to increase the participation in the industrial sectors. For this purpose, this act provides legal framework for the securities regulatory system by establishing SEBO as an apex regulatory body. As per this act, SEBO provides license for the operation of stock exchange, registers securities and grants issue approval, supervises and monitors stock exchange and market intermediaries. This act also enables SEBO to issue directives and make by-laws and guidelines and also allow the stock exchange to frame by-laws, Similarly, some provisions have been made regarding inside information and other forbidden activities, however, they are not covered broadly.

In order to manage sales and promotion of securities and make the sales and issue manager accountable for their services, SEBO has issued the Securities Management Guidelines, 1998. This Guideline has been made as per the provision of Section 35 of the Securities Exchange Act, 1983 (Second Amendment). The guideline further specified various provisions regarding disclosure, application for registration of securities, agreement between issue managers and issuing companies, execution procedures of the sales management and code of conduct to be specified etc. Similarly, Share Allotment Guidelines, 1994 issued by SEBO make the share allotment procedures fair the transparent. The directives were intended to crate broader ownership according to the mass participation policy.

Thus, from the foregoing brief discussion, it is clear that the Securities Exchange Act, 1983 (second amendment) and Securities Exchange Regulation, 1993 set up a general framework for regulating securities market, which has facilitated and encouraged the development of securities market of Nepal.

2.3 Review of Articles

Nabraj Adhikari (2003) in his article "*Securities Markets in Nepal"* mentioned that the Tenth Five Year Plan (2002-2007) has objectives such as developing and expanding securities market as an important source of long-term funds, increasing the depth and breadth of the market, modernization of the stock exchange etc, regarding the capital market development. Corporate and Financial Governance Project, which presently is in the inception phase of its implementation, has the objectives of strengthening institutional capability of SEBO and CRO, modernizing NEPSE and establishing central depository system of securities. Successful implementation of these plans and projects could bring institutional investors into the market, encourage the creation of new fuel saving vehicles and lead individuals to invest more in corporate debt and equity.

The current downtrend in share market is not so easy to recover unless strong regulatory measures are not enforced. The honeymoon days of share market exist no more but there are still market players who have honeymoon days 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.

In order to curb the fraudulent practices and discourage the dissemination of misleading information in the current share market of Nepal, the regulating authorities must govern the activities in the share market. There should be immediate check on the unfair share trading practices. Wash sales should be discouraged by immediate action. Nepal Stock Exchange can form a watch dog team to investigate on the real existence of a share transaction. The present practice of share trading by mutual consent is a kind of wash sales that should be discouraged as it creates distortion in the price determined by the market forces. Such action helps in avoiding fictitious name created by several different share brokers in share transaction and also to check on the creating and illusion of rising price.

Moreover, the challenge for the regulating authority is control on the hidden establishment of share market corners and pool by some market price manipulators. 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 punishments depending upon the nature of offence.

At the same time, the concerned authority has to discourage the practice of churning by the brokers since it helps brokers to transaction to the clients. Moreover, it is a right time for the concerned authorities to develop transparent guidelines to have strict vigilance and control on misuse of insider information. Insiders should be debarred from leaking price sensitive information by imposing heavy penalties and punishment for breach of legal provision.

The revival of the share market requires minimum fulfillment of the responsibilities and accountabilities among company management to the share holder. The 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.

Immediate measures lies in giving attention to shareholders' grievances like timely conduction of annual general meeting improving the quality, standard and coverage of reporting, developing

minimum return on investment strategy and encourage to work together with shareholders by management. It is important that whatever suggestions given by shareholders in annual general meeting should be followed by company management to have better linkage and satisfactory relationship with shareholders. Action plan should be developed with clear cut and transparent strategy to achieve given target rate of return by linking with company's dividend policy. Operational efficiency and profitability of companies should be improved to regain the shareholders' confidence so that they will have automatic demand for shares of companies and thereby raise the share price. Management has to change philosophy of running company affairs that it is only by maximizing shareholders' wealth that it can act as the trusted agent of shareholders' to serve their interest best. Voting by presence should be encouraged to have true representative of shareholders in company's board and voting by proxy device should be discouraged as far as possible.

Investors and shareholders should be self-conscious to protect their rights by demanding timely information from companies. Shareholders can form their committee to work together with management to serve their purpose. This will help in developing understanding between shareholders and company management to tackle the problems by mutual and workshops should be managed by the self-initiation and active involvement of shareholders to draw the attention of the company management and concerned authorities to explore practical ways and means of restoring shareholders' rights and also safeguarding their interest. The existing shareholder organization has to be redefined and revitalized its role in protecting shareholders' rights.

Bhaskar Sharma (June 2001) in his article, "*Nepal's Only Secondary Market in Shambles"* writes now the latest slums 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 refute investors' allegations of the market manipulation and insiders' trading of last February discreetly claimed that the Nepalese stock market is in a nascent stage. And that, investment are made more on an impulse, rather than through market study and credit rating.

Share trading scandal formed the headline of major dailies of Nepal a few days ago. The news was that some of the staffs of Nepal Merchant Banking and Finance Ltd. (NMB), the share

registrar of Standard Chartered Bank Nepal Ltd., were involved in unauthorized sale of the shares of investors not present in the country. They were also alleged of cheating such shareholders of their dividend. As a share registrar the company's duties were to update the shareholder's information, distribute the benefits provided by the client company to the shareholders and to verify the signature of the shareholder at the time of ownership transfer of shares. But the staff forged the signatures of the shareholders to sell their shares without the knowledge and proper information to the shareholders and claim themselves the dividend allotted to such shareholders. When the scandal was reported by the media, NMB blamed one of its staffs and registered a forgery case in the District Police Office Kathmandu. The accused is still learnt to be in the police custody. As stated in the news, though some other staffs also were involved in this scandal, NMB has registered the case against only one of its staff. Another of the NMB staff accused this scandal is reported to have escaped out of the country. If such types of scandals, whether they are reported by the media or not, are repeated frequently and no attempts made or rectify to punish the guilty, there is no doubt that sooner or later the capital market will loose the investors.

A close study of this case brings the deficiencies of our market to the forefront. The major deficiencies are obviously lack of professionalism among the market participants and lack of interest in compliance. The issuer company cannot escape from its responsibility simply by blaming the registrar. It must satisfy those investors whose shares have been stolen. The share registrars are found to be careless and a question can be raised on their professionalism and honesty. The stockbroker has also made a mistake by executing the shares trading without identifying the client and thus violating the codes of conduct for stockbrokers issued by Securities Board (SEBO), the regulator of the capital market in Nepal. As the code clearly states that the brokers must identify their clients, such scandal could have been avoided had the broker complied with the code. Also the regulators are equally responsible as they are not effectively monitoring the activities of securities business person and taking legal action against their name compliance under the prevailing rules and regulation.

As the capital market of Nepal is still in the infant stage the regulator system and regularize the securities trading still has deficiencies. This leaves scope for anyone to take unfair benefit from the market at the cost of ordinary investors are found to be irrational and concerned with short term gains. In this scenario, we cannot expect perfect behavior from all the market participants.

The major problems seen in the system are duality and ambiguities in the regulations, inadequate legal provision to control the market. Lack of adequate market infrastructure, lack of clear demarcation of duties of the regulators, poor corporate culture, lack of professionalism o he market participants, poor compliance and lack of clear legal provision for taking action to address the non-compliance cases.

In the Annual Report of SEBO for fiscal year 2001/02, states that it has made some attempts to address the issues through issuance of guidelines directives and disclosure formats to the market participants, codes of conduct for the stock brokers etc. It has also prepared a draft for the new securities exchange act which was presented to the ministry of finance in 1980 to initiate the necessary legislative process. However, it is still to be enacted by the parliament. Even though SEBO has made attempts to solve the problems, they are still there. It cannot escape of its duty to explain the present state of the market and deficiencies existing in the system. Taking necessary support from the government should take the required step to better coordinate the market participants to develop a healthy capital market in the country. Moreover it is important to discipline the market participants and educate them of their moral duty to comply and make other comply with the prevailing rules and regulation. Only this can create the atmosphere where scandals like this one are not repeated. *(New Business Age; April 2003, 44)*

Jagdish Agrawal (July 2000), in his article "*Nepal's Capital Market: What it Takes to Improve"*, writes that 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 age has allotted its shares, but why didn't the company list its shares in the market? It has been three years that Gorakhkali Rubber Udhyog hasn't called for its AGM Government remained silent in all these cases. This is why the general Public as well as the intuitional buyers are not felling secure in investing in stock market.

Investment in share has traditionally been done by rating the institutions on the basis of price earning ratio or dividend. The investors hardly do compare current assets with current liabilities or take a look at the debt equity ratio. Unless investors begin analyzing the intricate financial details of corporate institutions before making investment decision, the market cannot develop smoothly.

Share investment has traditionally been guided by the investors' returns. Most earnings of investors here have been in the form of dividends rather than capital gains, though high dividend are often seen, in corporate finance theory as a wasteful use of scares capital. As the commercial bank becoming the only potential investment destination, other stock market participants hardly making profit and even if they fail to meet investor's expectations, demand for shares of commercial banks will increase as well as its price also.

Manohar K. Shrestha (1996), in his article "*Why Share Market Inactive?; Problems and Measures"*, mentioned that in its early start, share market proved highly optimistic within a period of six months due to favorable conditions of better and prospective return by company management, active role of brokers and market makers, relaxation of control on the operations of stock exchange by the concerned authorities and growing condition of investors. There has been a remarkable rise in NEPSE index. But, later on, there has been a continuous government, poor performance 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 reporting and providing the expected return to win the losing confidence of shareholders. Investors should be self-conscious in the selection of brokers for trading in securities and organize themselves to be active to protect their rights. All these will help in the revival of share market to make it more active by attracting the investing public.

2.4 Thesis Review

There are many dissertations written by various researchers in past years. Among them some dissertation are reviewed here for analysis of literature.

Poudel (2001), in his Master's thesis, "*Share Price Movements of Joint Venture Commercial Banks*" has a major objective to examine Nepal Stock exchange market and to judge whether the market shares of different banking indicators (book value per share and major financial ratio)

explain the share price movements. After applying the stated methodologies he has concluded that the market share and the growth rates of different banking indicators are not captured by the market shares of these banks. The ordinary least square equation of book value per share on market value per share reveals that the independents variable does not fully explains the dependent variable on the basis of above mentioned points. So, Nepal stock exchange operates in a weak form of efficient market hypothesis, indicating that the market prices move randomly. The market value per share does not accommodate all the available historical information. The beta coefficient which measures the risk of individual security in relative term, suggests that the stocks of joint venture commercial banks are less risky as compared to other average stocks traded in the stock exchange.

Dilip Raj Baral, (2003), in his Master's Thesis, *"Stock Price Movement in Nepalese Securities Market"*, has major objective of studying and analyzing the stock price movement in Nepalese securities market and other supporting objectives are as below:

a. To study and analyze the stock price and volume.
b. To study and analyze the rate of newly listed companies and maintenance of already listed companies in NEPSE.
c. To study and analyze the investors views regarding the decision on stock investment.
d. To suggest the findings of the study to the interested parties related to stock investment.
e. To study & examine the signalling factors impact on stock price with the help of NEPSE index.

The major findings of Baral are as follows:

a. Studying the annual trend analysis of Nepalese stock price market, it was found that stock price trend is decreasing from many years as smoothly but from one year price of stock is decreasing as rapidly.
b. On analyzing the price trend of three years NEPSE index in different months (36 months) with the help of monthly trend showed that the price trend of different months of the year 2000 was in increasing trend 2001 in decreasing trend while that of 2002 was sometimes in increasing and sometimes in decreasing trend. So from this trend analysis we can say there is no relationship of price trend between three successive years.

c. Studying the sector wise monthly trend analysis for one year (Poush 2058 to Mangsir 2059), it was found that unsystematic activities of the Nepalese stock price market. No exports can certainly forecast about the stock price.
d. Volume of stock traded in stock exchange during the study period was found in increasing trend but in last year it was in decreasing trend.

Mr. Baral has concluded that even though Nepalese stock market is in the growth stage; it has crossed the initial stage but not reached in the matured stage as defined stock price trend is running unsystematically. Majority of investors of Nepalese stock market price invests their money from the view point of income and investors process and its other factors like NEPSE index price trend and investments facilitators are not doing their work in systematic way.

Kiran Dhamala, (2004), in his Master's Thesis, *"Determinants of Share Price in Nepalese Financial Market"*, has major objective of tracing out the most influential determinants of share price in Nepal. The other supporting objectives of his studies are as follows:

a. To examine and evaluate the relationship of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.
b. To analyze the market trends of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.
c. To identify whether stocks of the sampled companies equilibrium priced or not.
d. To present some recommendations bases on the findings of the study.

The major findings of the research pointed out by Dhamala are as follows:

a. HBL's MPS is negatively correlated with major financial indicators. But it has positive relationship with DPS and DPR respectively.
b. NBL's MPS has positive relationship with EPS and ROE, whereas it has negative relation with other financial variables.
c. NBBL's MPS is positively correlated with EPS, NWPS and DPS which are statistically significant at 1% and 5% levels of significance. Further, MPS is positively correlated with DPR and ROE.

d. NIBL's MPS is reversely correlated with major financial variables. However, MPS and DPS is statistically significant at 1% level of significance.
e. AFCL's MPS has positive correlation with main financial variables except ROE, with which it has negative relationship. But no such relationship is statistically significant.
f. KFL's MPS has positive relationship with major financial variables except DPR and ROE, with which it has opposite relationship. The relationship of MPS with EPS and NWPS is statistically significant at 5% level.

Mr. Dhamala has concluded that there is not a single financial indicator that has dominant role to determine MPS. The same financial indicator that has significant role in the fixation of MPS for one company is not significant for another company. The degree of interrelationship of MPS with different financial indicators varies from one company to another. There is no uniformity in the relationship of MPS with various financial indicators of the sampled companies. If considered on the basis of the average data for the past five years, MPS of ten financial institutions has higher positive correlation with major financial indicators such as EPS, NWPS and DPS, and such relationship is significant.

Aparna Giri, (2005), in her Master's Thesis, *"A Study on Share Price Behaviour of Listed Commercial Banks"*, has the major objective to know the behaviour of share prices in Commercial Banks. The other objectives of her research are:

a. To provide a glimpse of the present Nepalese stock market.
b. To analyze the share price behaviour of the commercial banks listed at Nepal Stock Exchange.
c. To examine the risk involved in the common stock investment of the sample commercial banks.
d. To suggest viable option on the basis of finding.

The major findings of Giri are as follows:

a. Large number of serial correlation of the daily log price changes of ten commercial banks' stocks for the sample period is significantly departed from zero. This depicts that past and present price changes can screen out some valuable information in forecasting future price changes. Thus there exists sufficient opportunity for the sophisticated investors.

b. Because of the persistence in the stock price movements, professional traders either individual or institutional can beat the market. Therefore to make more profit, acute fundamental and other analyses are required which accurately predicts the appearance of the new information in the market, which has impact on the prices than the naïve buy and hold strategy.
c. Common stock of NBBL yields the highest realised rate of return of 76.06% whereas it is negative in case of NBL and NIC stocks. Regarding the total risk, NBBL is the riskiest among all stocks as it consists of highest 142% of the total risk, whereas NIC is recorded as least risky as it contains only 5.03% of the total risk. Similarly, the stocks of BOK and EBL fall into the second and third position in terms of standard deviation.
d. Through the coefficient of variation analysis, it is found that there is highest percent of per unit risk for the stocks of SBI. Due to negative realised returns, NIC and NBL have negative coefficient of variation. Stocks of NBBL are more aggressive to market changes as revealed by the highest beta coefficient of 3.93.

Giri has concluded that the serial correlation coefficients of the daily price changes lead to weakly efficient market hypothesis does not offer a satisfactory explanation to these speculative price series. The independence in the series of the price changes observed implies that the price changes in the future market will not be independent from the price changes of the previous days. It brings about that the information of the past price changes is helping in predicting future price changes. In the meanwhile, the statistical analysis regarding the risk and return of the sampled stocks show that most of these stocks seem to be risky than the average stock.

Prabin Shrestha, (2006) in his Master's Thesis, *"Share Price Behaviour of Commercial Banks listed in NEPSE"*, has major objective of detecting share price behaviour. The other supporting objectives of his research are as follows:

a. To analyze the stock price movement of the NEPSE market.
b. To test the random walk or weak efficient market hypothesis.
c. To test whether the successive price changes are independent or dependent with the price of historical change.

The major findings of Shrestha are as follows:

a. The total numbers of actual and expected runs are statistically significant for most of the equity shares, which implies that their price changes are significantly different from random series. Result of run test also supports the result of autocorrelation. Therefore, today's price change is dependent on the information of yesterday's price.
b. The mean absolute values of the autocorrelation coefficients are lower when the lag days are increases. This means the information of past price changes have little role to predict the future price changes for longer days.
c. Half of the sample companies' share have greater than average value of K (18.87%) difference between actual and expected number of runs, which indicates significant difference between the actual and expected number of runs.
d. Because the persistence hypothesis has been supported by the result of autocorrelation and run test, professional investors either individual or institutional can beat the market. Therefore, to make greater profit than "naïve buy and hold strategy", acute fundamental or other analysis are required which accurately predict the appearance of the new information in the market that affects the price of shares.

Shrestha has concluded that the dependence in the series of price changes implies that the price changes in the future will be dependent with the historical price. Thus, the information of historical price is helpful to predict future prices of the shares. Another conclusion drawn from the opinion based survey with share brokers and individual investors is that the share price movements are caused by flow of several kinds of information in the market. The respondents of the survey slightly accepted the existence of weak form of efficient market hypothesis in Nepalese stock market.

Nischal Regmi, (2006), in his Master's Thesis, *"Role of Financial Indicators in Determining Share Price in Nepalese Financial Market"*, has the major objective of determining role of financial indicators in share price. The other supporting objectives of his research are:

a. To examine and evaluate the relationship of MPS with various financial indicators like NWPS, EPS, DPS, ROE, etc.
b. To analyze the market trends of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.

c. To find out whether stocks of the sampled companies are equilibrium priced of not.
d. To identify qualitative factors affecting the stock price.

The major findings of Regmi are as follows:

a. NABIL's MPS is positively correlated with all financial indicators but these values are not statistically significant at either 5% or 10% level of significance.
b. NIBL's MPS has negative correlation with all financial indicators.
c. For all other banks, the correlation coefficients of MPS with other financial indicators are both positive and negative. These values are statistically significant at either 5% or 10% level of significance.
d. Relationship with all financial indicators of MPS for NFCL is positively correlated and the relationship is statistically significant at 5% level of confidence with EPS and at 10% level of confidence with NWPS and DPS.
e. For other Finance Companies, the correlation coefficient of MPS with other financial indicators, are both positively and negatively correlated and the relationship is statistically significant for KFL and UFCML and for others it is insignificant.

Mr. Regmi has concluded that MPS of NABIL, NFCL and ACE is positively correlated with all the financial indicators studies. Similarly, MPS of BOK, KFL, UFCML and HISEF is positively correlated with most of the financial indicators studied. For other company like NIBL, MPS is negatively correlated with all of the financial indicators studied, and for SBI, MPS is negatively correlated for most of the financial indicators. The relationship is statistically significant for some of the financial indicators for some of the companies. The market price of share in Nepal is not indicative of a Company's financial performance in the stock market. The share market is imperfect and is not efficient and is liable to manipulation.

Shanker Devkota, (2008) in his Master's Thesis, *"Stock Price Determinants in Nepal Stock Exchange"*, has a major objective of identifying the prime determining factor of share price fluctuation of Nepalese Commercial Banks. The other supporting objectives of his research are:

a. To examine and evaluate the relationship between MPS with the various financial indicators like EPS, BPS, DPS etc.

b. To analyze the market trends of MPS with financial indicators.
c. To conduct the opinion survey of potential investors regarding various aspects of share behaviours in Nepal.

The major findings of Devkota are as follows:

a. DPS of BOK is much volatile in comparison to MPS, BPS and EPS. Bank of Kathmandu has positive correlation with between their Market price per share and DPS, BPS and EPS. This indicates that they directly affect the Share Price of BOK.
b. BPS and EPS are positively correlated in the case of Everest Bank Limited whereas DPS is negatively correlated. This indicates that increase in DPS of this Bank don't contribute on the increase of Share Price rather it decreases it. But increase in BPS and EPS increase the share price and vice versa. DPS is much volatile in comparison with MPS, BPS and EPS.
c. The correlation between MPS and other indicators are found to be insignificant for most of Banks. It shows that they individually influence very less but jointly they influence a lot. There can be other factors which influence the share price of the organisation.
d. Dividend pattern plays a great role on share price movement. Higher the DPS, more will be the Share Price. Most of the investors like to analyse the Dividend pattern of the company before they invest in their shares.

Mr. Devkota has concluded that due to the inadequate knowledge regarding the share market among Nepalese investors, capital market of Nepal has not been well developed yet. The investors generally tend to earn profit from share and they think that EPS and DPS are prime factor to be analysed and to be considered on investing their savings on Share Price. Most investors are unknown to laws and policies regarding share market. Poor rules and regulations as well as ineffective regularity mechanism of market makers are the problems of Nepalese Capital Market. Finally, EPS and DPS are the major influencer of the Share Price. Besides this, political situation, annual general meeting, assets structure and capital structure of the organisation also influence the share price of the company.

CHAPTER III
RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives. This chapter refers to the overall research method from the theoretical aspects to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspects and logical aspect. This research tries to perform a well-designed quantitative and qualitative research in a very clear and direct way using both financial and statistical tools. The term "Research" refers to a critical, careful and exhaustive investigation or inquiry or examination or experimentation having as its aim the revision of accepted conclusion, in the light of newly discovered facts.

This research methodology chapter includes research design, sampling design, data collection procedure, data analysis procedures.

3.1 Research Design

In order to make any type of research a well-set research design is necessary to fulfill the objectives of the study. Generally, research design means definite procedure and techniques which guides to study and provide ways for research viability. It is arrangements for collection and analysis of data. It helps to enable the researcher to progress in the right direction in order to achieve the goal. To achieve the objective of this study, descriptive and analytical research design has been used. Some financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to determine the relation between corporate performance and stock price of listed companies in the NEPSE.

3.2 Sampling Design

This study intends to measure the movement of stock price in capital Market. So, the population of the study is all the listed companies in NEPSE up to 2009 i.e. 159 listed companies. Out of them, four commercial banks, two finance companies and two insurance companies in total eight companies that are in existence and doing share transaction in NEPSE have been considered as the sample for the study.

Name of Selected Companies for the Study are

- Nabil Bank Limited
- Himalayan Bank Limited
- Nepal Investment Bank Limited
- Nepal Bangladesh Bank Limited
- National Finance Company
- Kathmandu Finance Company
- Everest Insurance Company
- Sagarmatha Insurance Company

3.3 Nature and Sources of Data

The study is based on primary data as well as secondary data. The primary data are collected from respondent through research questionnaire, discussions and interviews. The respondents of the primary data are listed commercial banks, investors, brokers, NEPSE staffs and other related parties of stock market. And the sources of secondary data are

- Website of NEPSE Ltd. http://www.nepalstock.com
- Website of Securities Board of Nepal http://www.sebon.com.np
- Website of Nepal Share Market http://www.nepalsharemarket.com
- Website of selected companies
- Annual Reports of FY 2008/09

3.4 Data Analysis Procedure

Data so obtained have no meaning unless they are arranged and presented in a systematic way. Further, they need to be verified and simplified for the purpose of analysis. Moreover, data and information so gathered are to be checked, edited and tabulated in such ways that provide convenience for computation and interpretation.

The data that are relevant to the study have been presented in the tabular form in the understandable way. It is attempted to find out the conclusion from the available data, with the help of various financial as well as statistical tools. An advanced computerized statistical program has been widely used to provide efficiency in calculation of statistical information.

3.5 Research Variable

A variable is a symbol of which numerals or values are assigned. So, the variables can take on values. This research intends to measure the factors that affect share price in NEPSE. So, the market price of the share is the dependant variable, which is affected by many variables, such variables are regarded as the independent variables in the study. The entire factors that affects the market price of shares , such as, earnings, dividends, interest rate, liquidity, book value of share, economy of the nation, peace & prosperity, rumors and whims etc. are the independent variables.

3.6 Data Analysis Tools

There are two types of analytical tools used for this study which are financial tools and statistical tools. A brief explanation of financial as well as statistical tools are is as follows:

3.6.1 Financial Tools:

3.6.1.1 Earning Per Share (EPS)

Earning per share is one of the factor that affect the stock price and dividend policy of the firm. If the earning per share is greater, then the dividend will be more and the market price also will be raised. So, it is assumed as an independent variable to determine the dividend and market price of the stock. Generally, the performance and achievement of business organization are measured in terms of their capacity to generate earnings. Earning per share refers the rupees amount earn per of common stock outstanding. It is calculated by dividing the earning available after tax to the common stockholders by the total no. of common shares outstanding .

$$EPS = \frac{\text{Net Profit before tax}}{\text{No. of common share outstanding}}$$

3.6.1.2 Dividend Per Share (DPS)

Dividend per share is the rupee earning distribution per share to common stockholder. It affects the market price of the stock but it does not affect the earning per share. So, it is assumed as an independent variable to determine the market price of the stock and also assumed as a dependent to the EPS. If the EPS is greater, the dividend per share will automatically be greater. Generally,

the higher DPS creates positive attitude among the shareholders towards the bank, which accordingly helps to increase the market value of share. It also work as the indicator of better performance of the bank management. It is calculated by dividing the total amount declared as dividend for equity shareholders by the total number of share outstanding.

$$EPS = \frac{\text{Net profit after interest, taxes and preference dividend paid to shareholders}}{\text{No. of ordinary share outstanding}}$$

3.6.1.3 Market Price Per Share (MPS)

Market price per share (MPS) is that value of the stock which can be obtained by a firm from the market. In other words, the market price per share is current market price at which share can be sold. It depends upon the firm's return. If the firm's return is increased then MPS is also increased and vice verse. So it can say that the MPS of firm shows its position. Market price per share is one of the variable which is affected by the dividend per share(DPS) and earning per share(EPS) of the firm. If the EPS and DPS are high, the MPS will also be high.

3.6.2 Statistical Tools:

3.6.2.1 Average Mean

An average is a single value related from a group of values to represent them in someway which is supposed to stand for whole group of which it is a part, as typical of all the values in the group. There are various types of averages. Arithmetic mean (AM, Simple & Weighted), median, mode, geometric mean, harmonic mean are the major types of averages. The most popular and widely used measure representing the entire data by one value is the AM. The value of the AM is obtained by adding together all the items and by dividing this total by the number of items.

Arithmetic Mean (AM) is given by,

$$\bar{X} \text{ X} \frac{X}{n}$$

Where,

$\bar{X}$ = Arithmetic mean

$\sum x$ = Sum of all the values of the variable X

n = Number of observations

3.6.2.2 Standard Deviation

The standard deviation measures the absolute dispersion. The greater the standard deviation, the greater will be the magnitude of the deviations of the values from their mean. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series and vice versa. Standard Deviation is denoted by a Greek letter $(\pm)$- sigma and it is calculated as follows,

$$\pm \text{ X}\sqrt{\frac{1}{n} \quad (X \text{ Z}\overline{X})2}$$

Where,

$\bar{X}$ = Arithmetic mean

X = Variable

n = Number of observations

3.6.2.3 Coefficient of Variance

The corresponding relative measure is known as the coefficient of variation. It is commonly used measure of relative variation developed by Karl Pearson. The standard deviation is absolute measures of dispersion; where as the coefficient of variation (CV) is a relative measure. To compare the variability between two or more series, CV is more appropriate statistical tool. The coefficient of variance is calculated as follows,

$$CV \quad \text{X} \frac{\pm}{\bar{X}} \varepsilon \ 100$$

3.6.2.4 Correlation Coefficient

When the relationship is of quantitative nature, the appropriate statistical tool for discovering and measuring the relationship and expressing it in a brief formula is known as correlation. If the values of the variables are directly proportional then the correlation is said to be positive. On the other hand, if the values of the variables are inversely proportional, the correlation is said to be negative, but the correlation coefficient always remains within the limit of + 1 to – 1. By Karl person, the simple correlation coefficient (between tow variables, say X and Y) is given by:

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{\left[n \sum X^2 - \left(\sum X\right)^2\right]} \sqrt{\left[n \sum Y^2 - \left(\sum Y\right)^2\right]}}$$

Where,

n = number of observations in series X and Y.

$\sum X$= sum of observations in series X.

$\sum Y$= sum of observations in series Y

$\sum X^2$=sum of square observation in series X.

$\sum Y^2$= sum of square observations observation in series Y

$\sum XY$= sum of the product of observations in series X and Y.

The value of 'correlation coefficient 'r' lies between –1 to 1, i.e. $-1 \leq r \leq 1$.

If r = 1, there is perfect positive relationship.

If r = -1, there is perfect negative relationship.

If r = 0, there is no correlation at all.

3.6.2.5 Probable Error (P.E) of correlation coefficient

Probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the computed value of the correlation coefficient, 'r'. The probable error (P.E.) is defined by:

$$\text{P. E.}(r) = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

Where,

r = correlation coefficient.

n = number of pairs of observations.

If r Φ P.E. (r) the value of 'r' is not significant no matter how high r value is i.e. there is no evidence of correlation between the variables.

If rΨ6P.E. the value of r is significant. i.e. correlation is significant.

When r = 0, there is no correlation

When r lies between 0.7 to 0.999 9 (or -0.7 to -0.999), there is high degree of positive or negative correlation

When r lies between 0.5 and 0.699, there is moderate degree of correlation

When r is less than 0.5, there is low degree of correlation.

3.6.2.6 Runs Test

Run test is a non- parametric test which can be defined as a sequence of consecutive price change of the same sign followed and preceded by price changes of other sign. There exist three types of price changes in a series i.e. positive, negative and no-change. Therefore there are three types of runs. Hence, a run of length I of any sign can be defined as sequence of I consecutive price changes of the same sign followed and preceded by any other signs of price changes. Run Test is performed to examine whether the actual number of runs confirmed to the expected number of runs. If the observed run and the expected number of runs are not significantly differ from each other, then it is concluded that the independence assumption of the successive price changes is uphold. Run analysis ignores the magnitude of changes and observes only direction of changes in a given time series.

CHAPTER – IV
DATA PRESENTATION AND ANALYSIS

4.1 Introduction

Data presentation and analysis is the one of the important part of the research work. In this section the study tires to find out the proof from the mathematical calculation for the theoretical statement. The basic objective of this chapter is to analyze the collected data in the systematic way by using different statistical tools. Thus, this chapter presents the analysis and interpretation of the data related to stock price, NEPSE market index, volume of shares traded, etc.

As stated earlier in the methodology section, this study consists of both primary as well as secondary data. Secondary data have been collected particularly from monthly and annual trading report of Nepal Stock Exchange. Similarly, data collected from primary sources (interview and questionnaire method) have been analyzed under the heading of primary data analysis that helps to gain information on investment behaviors of investors. However primary data collection does not fully satisfy the need of research work on this topic. As a consequence, the study has utterly relied on the secondary source of data. Data collected from the secondary sources are also tested with sophisticated statistical tools. Data presentation and analysis reveals performance of securities during the year 1990/2000 to 2008/09.

The main purpose of this chapter is to examine the stock price trend of different companies with the help of NEPSE index. The study aims to analyze the number of stock traded during ten years of period and also aims to analyze the paid up value and market capitalization of different listed companies. In the same way the study try to check the correlation of earnings and dividend with market price. Similarly the study also wants to explore investors attitude towards the stock market by taking primary data from related parties of stock market.

Price is the major element in the stock market analysis. For analyzing stock market behavior the price trend can be used. By seeing the NEPSE index trend one can conclude its nature in different aspects. Similarly the volume of stock traded is also accounted for the analysis of trading pattern stock in stock market. In other hand, the listing rate of new companies in (NEPSE) is another important factor to see the growth of companies in the development of Nepalese stock market. Analysis has been classified to generalize the facts of the information.

4.2 Presentation and Analysis of Secondary Data

This section provides interpretation and analysis of secondary data. It is a major part of this research study. Using various statistical tools discussed in research methodology, we analyze collected data to achieve our objectives of the study.

NEPSE Index

Market indexes are used to determine the relationship between historical price movements and economic variables and to determine the systematic risk for individual securities.

The index is taken as a measuring tool whether the performance of stock market is good or not. This clearly focuses on the price of stocks that is increasing or decreasing in the market. Because the prices of stocks go up and down in a particular period compared to the previous period as disclosed by index. The highest index suggests the increase in market price of the stocks and implies the better performance of companies and vice-versa. Thus the NEPSE index shows the behavior of stock prices in the capital market.

The computation formula for price index is as follows:

$$\text{Each day's index} = \frac{\text{Each day's total market value}}{\text{Base day's total market value}} \times 100$$

$$P_{01} \; X \frac{P_1 x Q_1}{P_0 x Q_0} x100$$

Where,

P_{01} = NEPSE Price Index
P_1 = Today's Stock Price
Q_1 = Listed Shares (i.e. no. of Shares Outstanding)
Q_0 = Base Listed Shares

4.2.1 The Numbers of Listed Companies in NEPSE and Volume of Stock Traded

The table below shows the number of listed companies in Nepal Stock Exchange (NEPSE) Ltd. and volume of stock traded from the fiscal year 1999/00 to 2008/09. The table clearly shows that the no. of listed company is increasing in every fiscal year except 2001/2002 because of the non-disclosure of necessary information correctly and timely. The number of listed companies in the fiscal year 2005/06 are 135 which remains same in the fiscal year 2006/07 as well.

Table 4.2.1

Number of Listed Companies in NEPSE and Volume of Stock Traded

Fiscal Year	No. of Listed Companies	(%) increasing/decreasing	Volume of Stock Traded '000'
1999/00	110	-	7674
2000/01	115	4.54%	4989
2001/02	96	-16.52%	6005
2002/03	108	12.50%	2428
2003/04	114	5.56%	6468
2004/05	125	9.65%	18433
2005/06	135	8%	12221
2006/07	135	0%	18147
2007/08	148	9.62%	28600
2008/09	159	7.43%	30547

Source: NEPSE Annual Report of different fiscal year

In case of volume of stock traded, it showed fluctuating trend from the fiscal year 1990/2000 to 2005/06. After that from the year 2006/07, the volume of stock traded increased continuously for next three years. The volume of stock traded of 30,547,000 is highest during the study period of 10 years. Base on the data presented in above table, it is found that there is no relation between no. of listed companies and volume of stock traded. For example, no. of listed companies increased by 5 in the year 2000/01 but trading volume of stock decreased as compare to previous year. Similarly, in the year 2001/02 no. of listed companies decreased but volume of stock traded increased as compare to previous year. Generally, it should be increased proportionately both no. of listed companies and trading volume of stock.

Figure 4.1

Number of Listed Companies

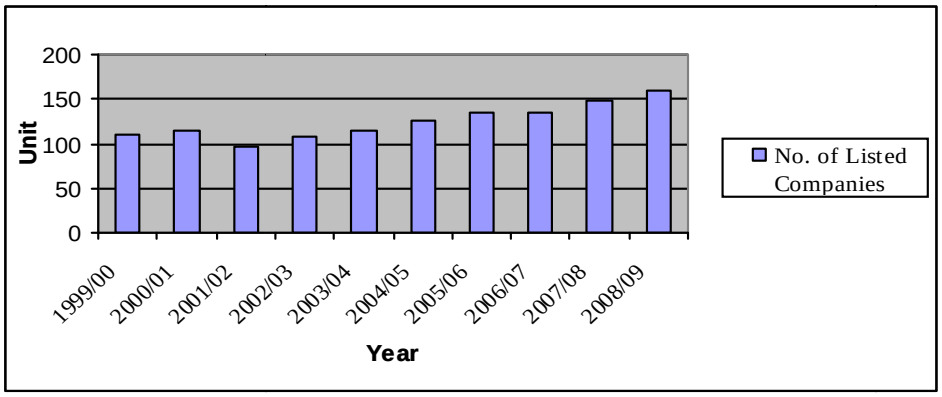
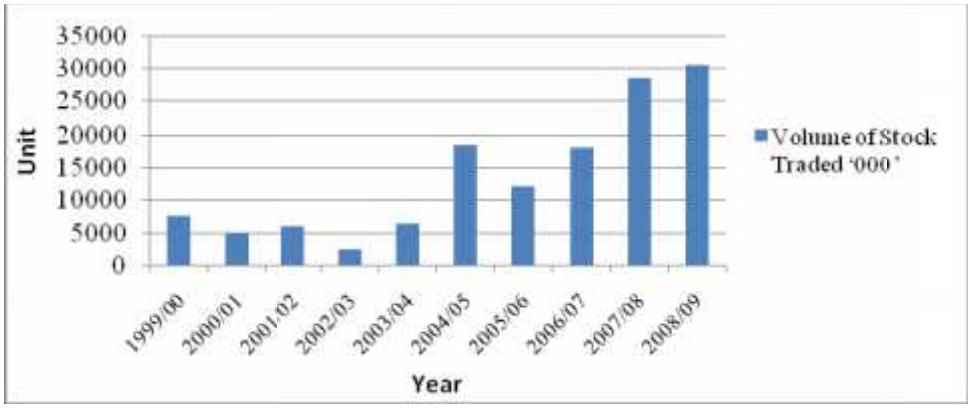


Figure 4.2

Volume of Stock Traded



4.2.2 Annual Trend Analysis

Annual trend analysis of NEPSE Index is one of the suitable technique for analyzing stock price trend. Ten year's closing NEPSE Index from 1999/00 to 2008/09 are taken for the annual trend analysis which are also shown in the table below.

Table 4.2.2

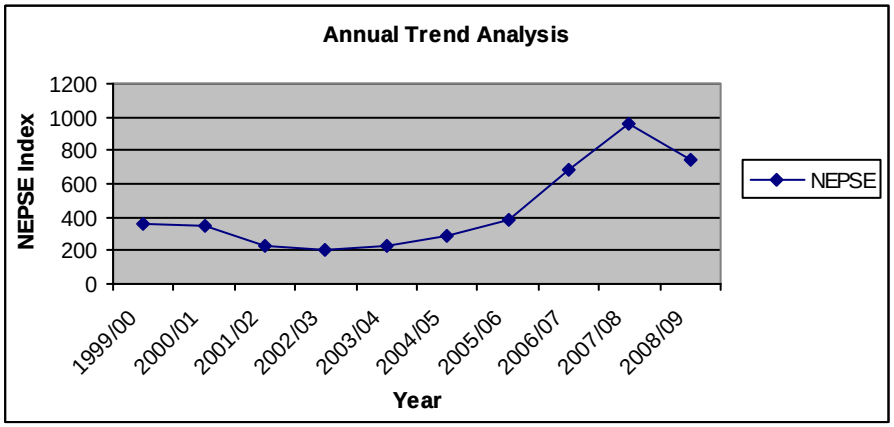
Annual (closing) NEPSE Index

Year	NEPSE Index	Year	NEPSE Index
1999/00	360.70	2004/05	286.67
2000/01	348.43	2005/06	386.83
2001/02	227.54	2006/07	683.95
2002/03	204.86	2007/08	963.36
2003/04	222.04	2008/09	749.10

Source: NEPSE Annual Report of different fiscal year

The above table showed that the NEPSE Index of different fiscal years are not constant. Taking base year as 1999/00, it showed decreasing trend of NEPSE Index till the fiscal year 2003/04.Thereafter it is in increasing trend. But in the year 2008/09 NEPSE Index decreased as compare to the previous year 2007/08. From the above data it can conclude that the fiscal year 2007/08 is a suitable year for the investors from investment point of view. Following is the graphical presentation of the annual trend analysis.

Figure 4.3



4.2.3 Monthly Trend Analysis

Monthly trend analysis is another suitable technique for analyzing price trend of the stock. For this purpose, NEPSE Index of twelve months of the year 2008/09 are taken which are presented below in the table.

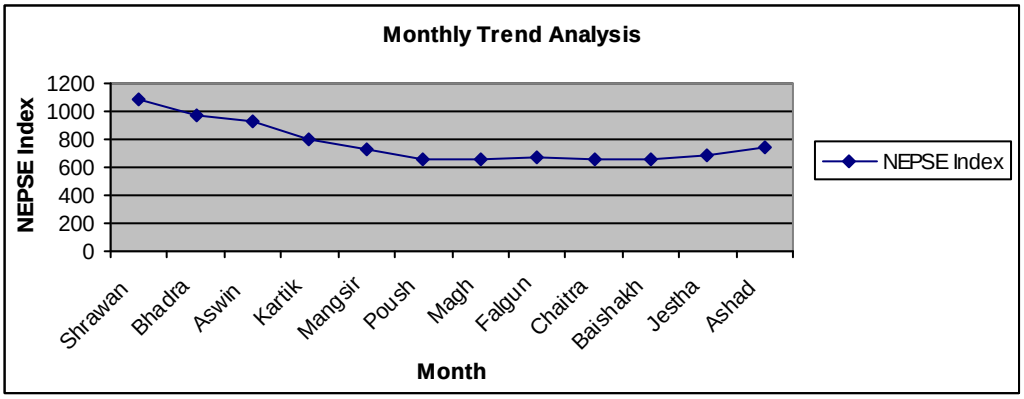
Table 4.2.3

Monthly(closing) NEPSE Index

Month	NEPSE Index	Month	NEPSE Index
Shrawan	1084.76	Magh	663.52
Bhadra	976.01	Falgun	667.20
Aswin	933.97	Chaitra	661.27
Kartik	806.90	Baishakh	660.96
Mangsir	734.85	Jestha	678.74
Poush	659.81	Ashad	749.10

Source Trading Reports NEPSE

Figure 4.4



Above graph shows the NEPSE index from Shrawan to Ashad 2065/66. Taking base month as Shrawan, NEPSE index shows the decreasing trend. From the investment point of view, increasing trend is better than decreasing trend. Above monthly trend analysis of NEPSE index represents the decreasing trend all over the fiscal year 2065/66.

4.2.4 Analysis of Paid up Value and Market Capitalization of Listed Companies

As per the annual report of NEPSE for the fiscal year 2008/09, the paid up value and market capitalization of the listed companies in NEPSE are presented below.

Table 4.2.4

Paid up Value and Market Capitalization of Listed Companies

S. N	Sectors	Paid up Value (in million)	Paid up Value (in %)	Market Capitalization (in million)	Market Capitalization (in %)
1	Commercial Bank	24758	40%	192611	53%
2	Development Bank	5101	8%	16648	5%
3	Finance Company	7101	12%	17342	5%
4	Insurance Company	1998	3%	8640	2%
5	Hotels	1562	3%	3346	1%
6	Manufacturing and Processing	2540	4%	5425	2%
7	Trading	78	0%	981	0%
8	Hydropower	2954	5%	20770	6%
9	Others	15049	25%	94350	26%
	Total	**61141**	**100%**	**360113**	**100%**

Source: NEPSE Annual Report 2008/09

Figure 4.5

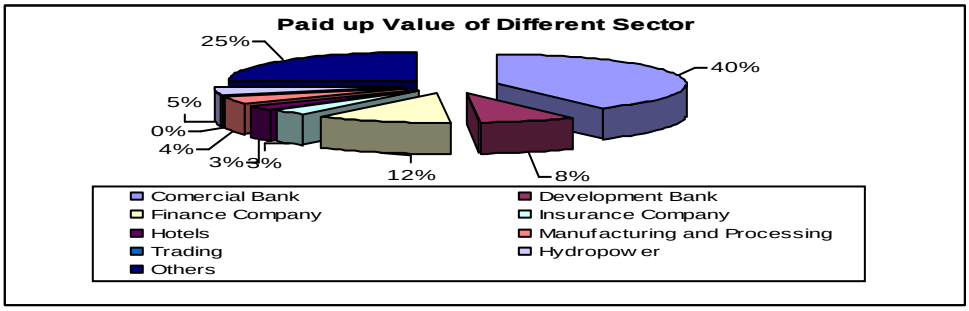
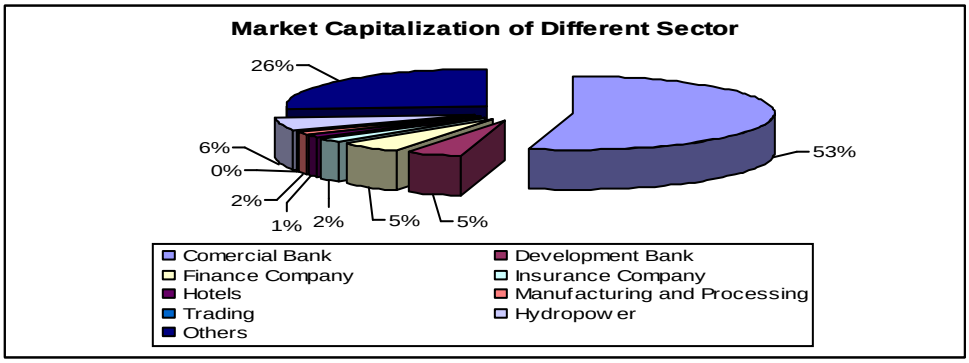


Figure 4.6



Above table and pie charts clearly showed that the commercial banks have highest paid up value and market capitalization whereas trading companies have the lowest paid-up value and market capitalization. Paid up value indicates the actual amount of the investment in assets where as market capitalization indicates the present value of the investment. Percentage wise it is negligible paid up value and market capitalization of trading companies. Therefore, it showed that the performance of commercial banks were better than others.

4.2.5 Analysis of Annual Closing Market Price of the Selected Companies

i) Commercial Banks

Among the commercial banks, Nabil bank, Himalayan bank, Nepal Investment Bank and Nepal Bangladesh Bank were selected as sample commercial banks for this study. The closing market price of these selected banks for different fiscal year are presented below in the table.

Table 4.2.5

Annual Closing Market Price of the Selected Commercial Banks

Fiscal Year	NBL (in Rs.)	HBL (in Rs.)	NIBL (in Rs.)	NBBL (in Rs.)
1999/00	1400	1700	1401	1502
2000/01	1500	1500	1150	1100
2001/02	735	690	825	510
2002/03	735	859	800	361
2003/04	1000	840	940	290
2004/05	1505	920	800	265
2005/06	2240	1100	1260	199
2006/07	5050	1760	1729	550
2007/08	5275	1980	2450	1001
2008/09	4899	1760	1388	280
Mean	2434	1311	1267	606
S.D.	1779	452	496	420
C.V.	73 %	34%	39%	69%

Source: NEPSE Annual Report of different fiscal year

To measure the volatility of MPS of different selected companies, coefficient of variance is calculated. Above calculated values of coefficient of variance indicate the fluctuation of market price. Comparing above four commercial bank, NBL has c.v. of 73% which is highest and HBL has 34% which is lowest. Similarly, NIBL and NBB have 39% and 69% of c.v. respectively. Hence , it can conclude that MPS of NBL are more fluctuated as compare to remaining three selected commercial banks.

ii) Finance Companies

National Finance Company and Kathmandu Finance Company are selected companies from finance company category. The past ten years closing market price of selected Finance companies are presented in the tabular form.

Table 4.2.6

Annual Closing Market Price of the Selected Finance Companies

Fiscal Year	NFCL (in Rs.)	KFCL (in Rs.)
1999/00	470	295
2000/01	560	321
2001/02	530	300
2002/03	455	235
2003/04	360	205
2004/05	295	138
2005/06	262	140
2006/07	460	203
2007/08	1050	285
2008/09	1050	326
Mean	448	245
S.D.	108	67
C.V.	24	27

Source: NEPSE Annual Report of different fiscal year

Above table showed that calculated values of C.V of NFCL and KFCL are 24% and 27% respectively. It indicates that the MPS of NFCL are fluctuated by 24% where as MPS of KFCL are fluctuated by 27%. Hence, it can conclude that MPS of NFCL and KFCL are not stable.

iii) Closing Market Price of the Selected Insurance Companies

The closing market price of Everest Insurance Company and Sagarmatha Insurance Company for the fiscal year 1999/00 to 2008/09 are presented in tabular form as follows:

Table 4.2.7

Annual Closing Market Price of the Selected Insurance Companies

Fiscal Year	EICL (in Rs.)	SICL (in Rs.)
1999/00	455	-
2000/01	440	236
2001/02	400	162
2002/03	610	150
2003/04	350	131
2004/05	325	158
2005/06	295	210
2006/07	290	227
2007/08	291	306
2008/09	285	252
Mean	374	183
S.D.	99	80
C.V.	26	44

Source: NEPSE Annual Report of different fiscal year

Above table showed that calculated values of C.V of EICL and SICL are 26% and 44% respectively. It indicates that the MPS of EICL are fluctuated by 26% where as MPS of SICL are fluctuated by 44%. Comparing two of these insurance companies, MPS of SICL is more volatile than EICL. Hence, it can conclude that MPS of both EICL and SICL are not stable.

4.2.6 Growth Indicator of Banking , Finance and Insurance

In the table below, Banking sector includes average of four sampled commercial banks. Similarly, Finance sector includes average of two sampled finance companies and Insurance sector also includes two sampled insurance companies. The average closing market price of Banking, Finance and Insurance are as follows:

Table 4.2.8

Growth Indicator of Banking , Finance and Insurance

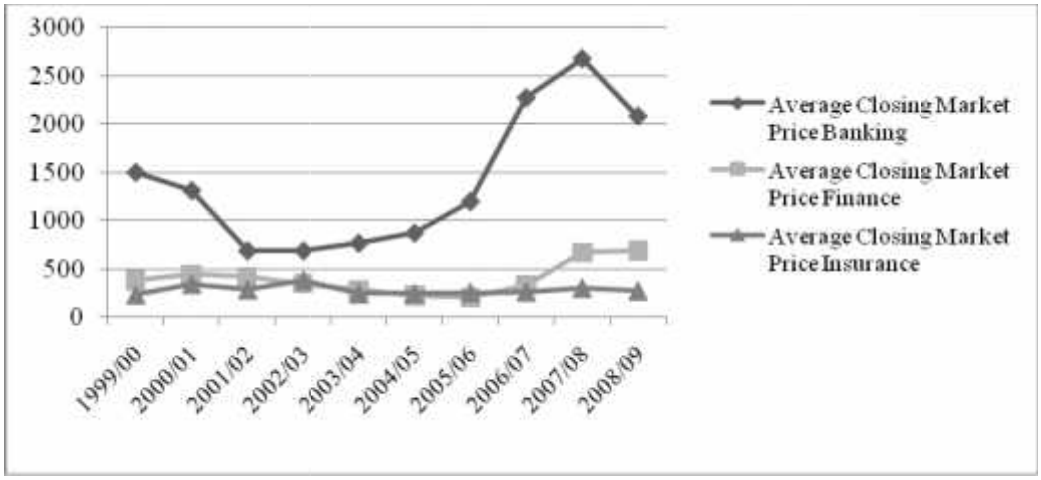
Fiscal Year	Average Closing Market Price		
	Banking	Finance	Insurance
1999/00	1501	383	228
2000/01	1313	441	338
2001/02	690	415	281
2002/03	689	345	380
2003/04	768	283	241
2004/05	873	217	242
2005/06	1200	201	253
2006/07	2272	332	259
2007/08	2677	668	299
2008/09	2082	688	269

Source: ANNEX IV

From the analysis of average closing market price of three different sector, it is found that the average MPS of banking sector are more volatile than finance and insurance sector. Comparing average closing market price of these three sector, we can see that the banking sector is growing well, finance sector is growing in satisfactory level and insurance sector needs to improve. From this, it can say that finance and insurance sectors are dominated by banking sector.

Figure 4.7

Growth Indicator of Banking , Finance and Insurance



4.2. 7 Analysis of Correlation Coefficient and Probable Error

The correlation coefficient analysis is performed to determine the relationship between the variables. Similarly, Probable Error (P.E) is measured for testing of reliability of computed value of correlation coefficient.

i) Correlation Coefficient Analysis Between MPS and EPS

The Correlation Coefficient between MPS and EPS of the selected companies and their probable error are as follows.

Table 4.2.9

Summary of Correlation Coefficient Between MPS & EPS and Probable Error

S.N	Name of the Selected Companies	Correlation Coefficient (r)	Probable Error (PE)	Test of Significant
1	Nabil Bank Limited	0.65	0.12	Insignificant
2	Himalayan Bank Limited	0.52	0.16	Insignificant
3	Nepal Investment Bank Limited	0.63	0.13	Insignificant
4	Nepal Bangladesh Bank Limited	0.67	0.12	Insignificant
5	National Finance Company Limited	0.40	0.18	Insignificant
6	Kathmandu Finance Company Limited	0.08	0.21	Insignificant
7	Everest Insurance Company Limited	0.70	0.11	Significant
8	Sagarmatha Insurance Company Limited	-0.38	0.18	Insignificant

Source: ANNEX III

Above table showed that the correlation coefficient between MPS and EPS and their probable error. The calculated correlation coefficient of seven selected companies except that of Sagarmatha Insurance Company showed positive relation between their MPS and EPS. Similarly, the calculated probable error of seven selected companies namely NBL, HBL, NIBL, NBBL, NFCL, KFCL and SICL showed insignificant correlation because their values of 'r' are less than 6times of PE value while the Everest Insurance Company showed significant correlation because it's value of r (0.70) is greater than the 6 times of P.E. value (0.66).

ii) Correlation Coefficient Analysis Between MPS and DPS

The Correlation Coefficient between MPS and DPS of the selected companies and their probable error are as follows.

Table 4.2.10

Summary of Correlation Coefficient Between MPS & DPS and Probable Error

S.N	Name of the Selected Companies	Correlation Coefficient (r)	Probable Error (PE)	Test of Significant
1	Nabil Bank Limited	0.26	0.20	Insignificant
2	Himalayan Bank Limited	0.09	0.21	Insignificant
3	Nepal Investment Bank Limited	-0.23	0.20	Insignificant
4	Nepal Bangladesh Bank Limited	0.85	0.06	Significant
5	National Finance Company Limited	0.53	0.15	Insignificant
6	Kathmandu Finance Company Limited	0.06	0.21	Insignificant
7	Everest Insurance Company Limited	0.71	0.11	Significant
8	Sagarmatha Insurance Company Limited	-0.33	0.19	Insignificant

Source : ANNEX III

Above table showed that the correlation coefficient between MPS and EPS and their probable error. The calculated correlation coefficient of six selected companies namely NBL, HBL, NBBL, NFCL, KFCL and EICL except that of NIBL and SICL showed positive relation between their MPS and EPS. Similarly, the calculated probable error of six selected companies namely NBL, HBL, NIBL, NFCL, KFCL and SICL showed insignificant correlation because their values of 'r' are less than 6times of PE value while the NBBL and EICL showed significant correlation with PE values of 0.06 and 0.11 respectively.

4.2.8 Run Test

It is possible that security prices might fluctuate randomly but, in addition they sometimes follow trends that filter rules and serial correlation could not detect. That is, price changes may be random most of the time but occasionally runs tests may be used to determine if there are runs in the price changes. A run occurs in a series of numbers whenever the changes in the numbers by reverse sign. There are three different runs namely positive, zero and negative runs. If the price

of stock increases then the run will be positive, if it declines there will be a negative run and if the price remains same then there will be a zero run. Run test is determine to see how many positive, negative and zero, or total runs may be expected to occur in a series of truly random numbers of size. Since it is not possible to take whole year's daily market price, the tests have been done by taking the month wise closing market price of the fiscal year 2008/09. The Run test of the eight selected companies (NBL, HBL, NIBL, NBBL,NFCL, KFCL, EICL and SICL)are as follows.

Table 4.2.11

Run Test of NBL

Month	Closing Market Price (in Rs.)	Previous Closing Market Price (in Rs.)	Change	Sign	Runs
Shrawan	5275	6101	826	-	Run 1 is Negative run
Bhadra	6101	4100	2001	+	Run 2 is Positive run
Aswin	4100	3980	120	+	
Kartik	3980	3775	205	+	
Marga	3775	3701	74	+	
Paush	3701	3350	351	+	
Magh	3350	3450	100	-	Run 3 is Negative run
Falgun	3450	3520	70	-	
Chaitra	3520	3560	40	-	
Baisakh	3560	3660	100	-	
Jestha	3660	4216	556	-	
Ashad	4216	4899	683	-	

The Run Test analysis of NBL showed two different runs such as positive run and negative run. In total three runs were observed from above run test analysis. Out of three, two were negative runs and one was positive run. However, we can study that the variation of price fluctuations is relatively less which is shown in the chart below.

Figure 4.8

Stock Price Movement of NBL

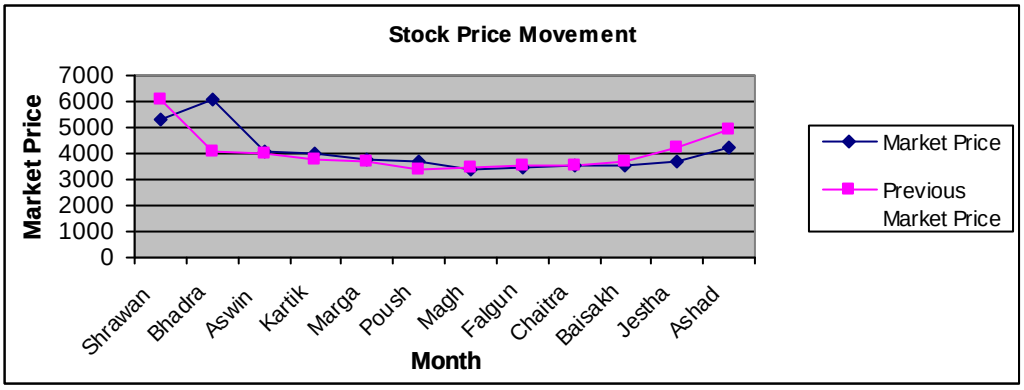


Table 4.2.12

Run Test For HBL

Month	Closing Market Price (in Rs.)	Previous Closing Market Price (in Rs.)	Change	Sign	Runs
Shrawan	1980	2546	566	-	Run 1 is Negative run
Bhadra	2546	2450	96	+	Run 2 is Positive run
Aswin	2450	2450	0	+	Run 3 is Zero run
Kartik	2450	2100	350	+	Run 4 is Positive run
Marga	2100	1850	250	+	
Paush	1850	1465	385	+	
Magh	1465	1469	4	-	Run 5 is Negative run
Falgun	1469	1535	66	-	
Chaitra	1535	1560	25	-	
Baisakh	1560	1500	60	+	Run 6 is Positive run
Jestha	1500	1610	110	-	Run 7 is Negative run
Ashad	1610	1760	150	-	

The Run Test analysis of HBL showed three different runs as positive run, negative run and zero run. Altogether total seven runs were observed from above run test analysis table. Out of seven runs, three were negative runs, one was zero run and another three were positive runs. However, we can study that the variation of price fluctuations is relatively less which is shown in the chart below.

Figure 4.9

Stock Price Movement of HBL

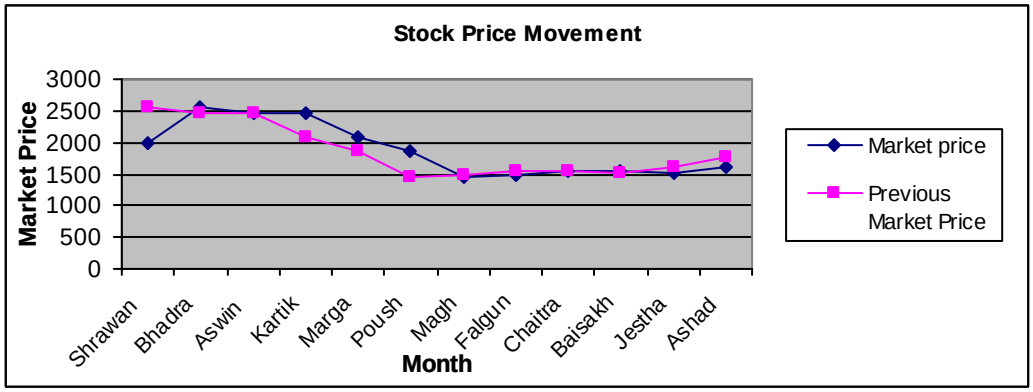


Table 4.2.13

Run Test For NIBL

Month	Closing Market Price (in Rs.)	Previous Closing Market Price (in Rs.)	Change	Sign	Runs
Shrawan	2450	3281	831	-	Run 1 is Negative run
Bhadra	3281	2280	1001	+	Run 2 is Positive run
Aswin	2280	2200	80	+	
Kartik	2200	1331	869	+	
Marga	1331	1300	31	+	
Poush	1300	1160	140	+	
Magh	1160	1201	41	-	Run 3 is Negative run
Falgun	1201	1190	11	+	Run 4 is Positive run
Chaitra	1190	1170	20	+	
Baisakh	1170	1172	2	-	Run 5 is Negative run
Jestha	1172	1190	18	-	
Ashad	1190	1388	198	-	

The Run Test analysis of NIBL showed two different runs as positive run and negative run. Altogether total five runs were observed from above run test analysis table. Out of five runs, three were negative runs, and two were positive runs. The variation of market price fluctuations of NIBL in twelve months are shown in the chart below.

Figure 4.10

Stock Price Movement of NIBL

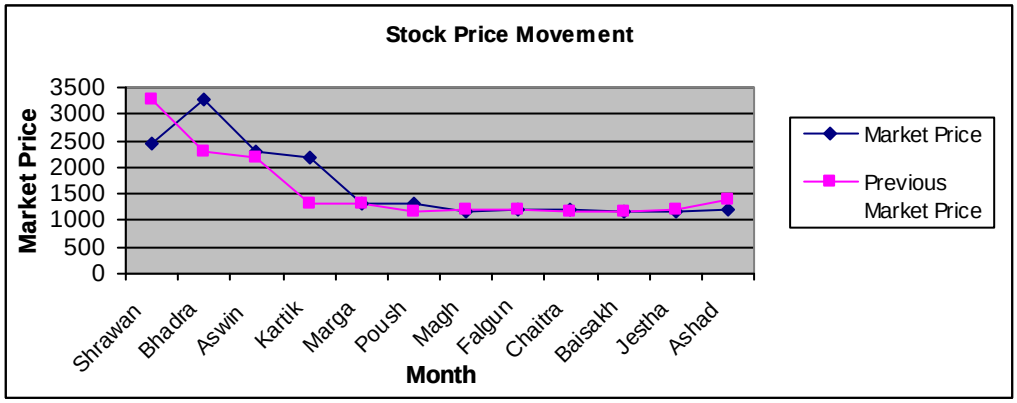


Table 4.2.13

Run Test for NBBL

Month	Closing Market Price (in Rs.)	Previous Closing Market Price (in Rs.)	Change	Sign	Runs
Shrawan	1001	940	61	+	Run 1 is Positive run
Bhadra	940	849	91	+	
Aswin	849	840	9	+	
Kartik	840	775	65	+	
Marga	775	350	425	+	
Poush	350	320	30	+	
Magh	320	300	20	+	
Falgun	300	307	7	-	Run 2 is Negative run
Chaitra	307	306	1	+	Run 3 is Positive run
Baisakh	306	294	12	+	
Jestha	294	250	44	+	
Ashad	250	280	30	-	Run 4 is Negative run

Above Run Test analysis of NBBL showed two different runs as positive run and negative run. In total, four runs were observed from above run test analysis table. Two negative runs and two positive runs were found from total four runs. The variation of market price fluctuations of NBBL in different months are shown in the chart below.

Figure 4.11

Stock Price Movement of NBBL

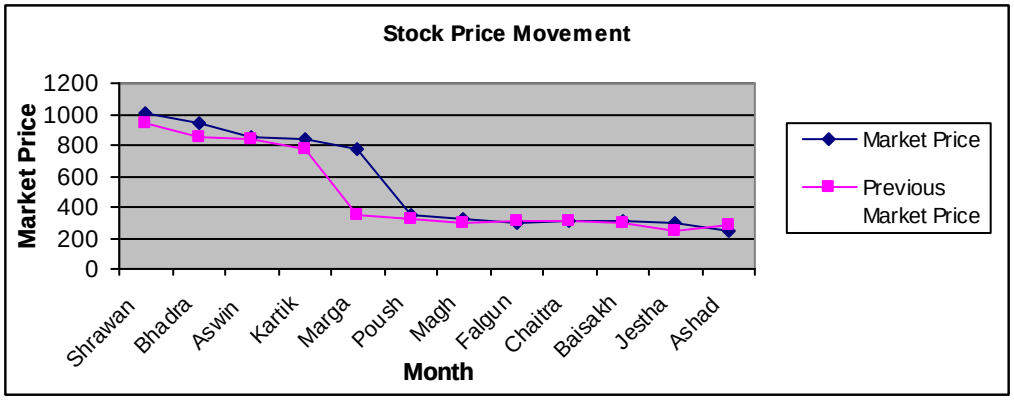


Table 4.2.15

Run Test for NFCL

Month	Closing Market Price (in Rs.)	Previous Closing Market Price (in Rs.)	Change	Sign	Runs
Shrawan	1050	1050	0	0	Run 1 is Zero run
Bhadra	1050	1050	0	0	
Aswin	1050	1050	0	0	
Kartik	1050	1050	0	0	
Marga	1050	1050	0	0	
Poush	1050	1050	0	0	
Magh	1050	1050	0	0	
Falgun	1050	1050	0	0	
Chaitra	1050	1050	0	0	
Baisakh	1050	1050	0	0	
Jestha	1050	1050	0	0	
Ashad	1050	1050	0	0	

Only one run was observed from above Run Test analysis of NFCL which was zero run. Therefore, above run test table clearly showed that there were no fluctuations in market price of NFCL in different months of the fiscal year 2008/09. Following is the graphical presentation of the stock price movement.

Figure 4.12

Stock Price Movement of NFCL

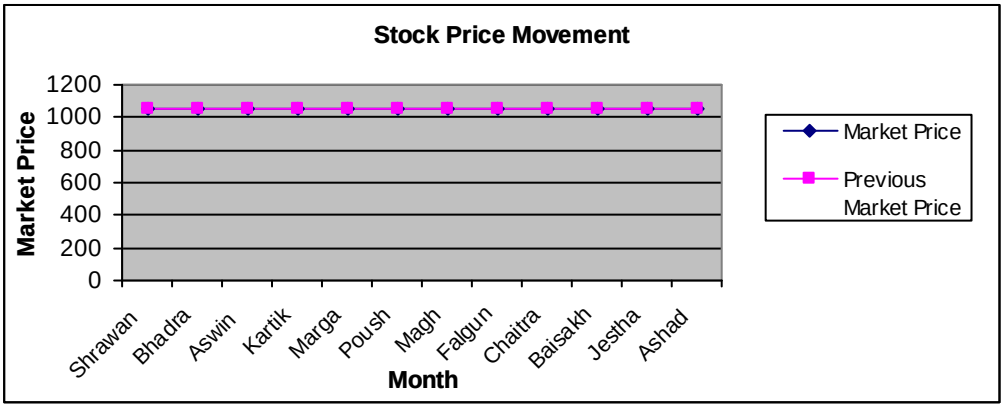


Table 4.2.16

Run Test for KFCL

Month	Closing Market Price (in Rs.)	Previous Closing Market Price (in Rs.)	Change	Sign	Runs
Shrawan	285	295	10	-	Run 1 is Negative run
Bhadra	295	300	5	-	
Aswin	300	300	0	0	Run 2 is Zero run
Kartik	300	306	6	-	Run 3 is Negative run
Marga	306	510	204	-	
Poush	510	435	75	+	Run 4 is Positive run
Magh	435	415	20	+	
Falgun	415	420	0	0	Run 5 is Zero run
Chaitra	420	423	3	-	Run 6 is Negative run
Baisakh	423	392	31	+	Run 7 is Positive run
Jestha	392	386	6	+	
Ashad	386	326	0	0	Run 8 is Zero run

Above table shows the Run Test analysis of KFCL where three different runs as positive run, zero run and negative run were observed . In total, eight runs were found from above run test analysis table. The variation of market price fluctuations of KFCL in different months are shown in the chart below.

Figure 4.13

Stock Price Movement of KFCL

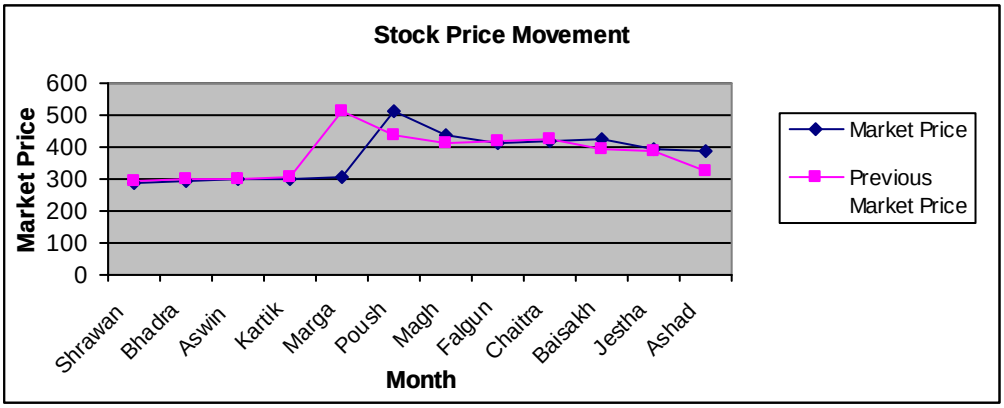


Table 4.2.17

Run Test for EICL

Month	Closing Market Price (in Rs.)	Previous Closing Market Price (in Rs.)	Change	Sign	Runs
Shrawan	291	296	5	-	Run 1 is Negative run
Bhadra	296	296	0	0	Run 2 is Zero run
Aswin	296	296	0	0	
Kartik	296	296	0	0	
Marga	296	296	0	0	
Poush	296	296	0	0	
Magh	296	296	0	0	
Falgun	296	300	4	-	Run 3 is Negative run
Chaitra	300	300	0	0	Run 4 is Zero run
Baisakh	300	285	15	+	Run 5 is Positive run
Jestha	285	290	5	-	Run 6 is Negative run
Ashad	290	285	5	+	Run 7 is Positive run

From the above table, total seven runs were observed. It showed three different runs such as positive run, zero run and negative run. Out of the seven runs, two were zero runs, three were negative runs and remaining two were positive runs. The stock price movements of EICL are shown in the chart below.

Figure 4.14

Stock Price Movement of EICL

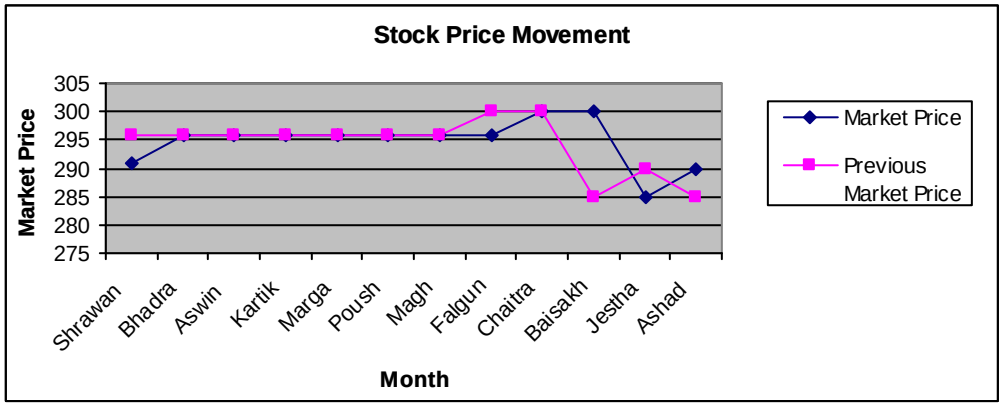


Table 4.2.18

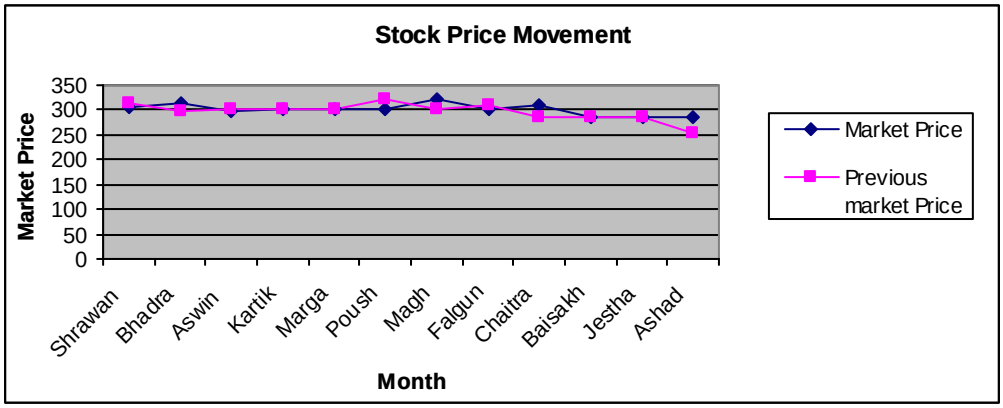
Run Test For SICL

Month	Closing Market Price (in Rs.)	Previous Closing Market Price (in Rs.)	Change	Sign	Runs
Shrawan	306	312	6	-	Run 1 is Negative run
Bhadra	312	299	13	+	Run 2 is Positive run
Aswin	299	300	1	-	Run 3 is Negative run
Kartik	300	300	0	0	Run 4 is Zero run
Marga	300	300	0	0	
Poush	300	321	21	-	Run 5 is Negative run
Magh	321	303	18	+	Run 6 is Positive run
Falgun	303	310	7	-	Run 7 is Negative run
Chaitra	310	285	25	+	Run 8 is Positive run
Baisakh	285	285	0	0	Run 9 is Zero run
Jestha	285	285	0	0	
Ashad	285	252	33	+	Run 10 is Positive run

Above table shows the run test analysis of SICL where three different runs such as positive run, zero run and negative run were observed. In total there were ten runs found in which two were zero runs, four were negative runs and remaining four were positive runs. Following is the graph of stock price movements of EICL.

Figure 4.15

Stock Price Movement of SICL



4.3 Presentation and Analysis of Primary Data

This study is based on both primary and secondary data. The primary data were collected through questionnaire (Annex-1) and interviews. Annex-1 reveals important information as to outlook of investment decision of investors. During the course of collecting primary data, different banks, financial institutions and security broker's office were visited. The summary of the respondent's response for each of the identified factors are presented in this section separately. All the necessary calculations for this section are presented in Annexs with the help of MS. Excel Software.

4.3.1 Interview with Experts

While taking interview with senior officials of NEPSE, it was learnt that the reason behind frequently swing in the market price of shares is due to lack of institutional investors who can properly analyze and study the market trends before making their investment decisions. According to the officials, Nepalese stock market is dominated by retailing investors come forward to act in bullish trend. They emphasized that stability cannot be fully achieved unless rational and institutional investors come forward to participate in the secondary market. However, they agreed the fact that the investors have become more sensitive and professional at least in comparison to investors in 1993 and 1994, when market was at the nascent stage. At the time of interview, the question has been asked about which method of analysis do you adopt? Most of the exports replied that they used technical as well as fundamental analysis method of stock price behavior.

While conducting the informal discussion with many investors in the stock market, they said that though made investment decision after analyzing shares, they got less than the expected return from investment. They accused brokers and NEPSE officials of joining hands for price manipulation. They also shared the experience of sharp wealth devaluation in the past days. It was learnt that unprecedented swings in the Nepal Stock Exchange caused uproar among investors.

In this way, it was seen that the investors and officials are at loggerhead and they blaming each other for the volatility of stock prices. Though, they have different theories to offer over the price fluctuations, the effort should be done from all quarters to improve the stock market.

4.3.2 Questionnaire Analysis

Another measure applied to gain the information relevant to this topic is questionnaire method. All together 13 questions were designed to find out the opinion of investors on investment action for trading shares though secondary market.. Category wise there were three types of questions raised namely, Yes/No Questions, Multiple Choice Questions and Open- End Questions. Responses from the respondent have been analyzed as follows;

i) Investment Sector Analysis

Based on the questionnaire survey, 50 % of the investors are interested with banking sector, 20% of them are interested with manufacturing and processing, 16% wanted to invest in trading sector and remaining 14% wanted to invest in other area. From the table 4.3.1 it can conclude that most of the investors i.e. 50% of them are attracting by banking/finance sectors. The data collected in this respect is tabulated in table below:

Table 4.3.1

Sector-wise Investor's Preference for Investment

S.N	Research Variable	No. of Investors	% of Investors
1	Bank/Finance	25	50%
2	Manufacturing & Processing	10	20%
3	Trading	8	16%
4	Other	7	14%
Total		**50**	**100%**

Source: Field Survey

ii) Investor's Awareness Analysis

When questions asked to the investors whether they are aware or not in the Nepalese stock market most of them i.e. 64% said that they are not, only 16% replied that they are aware about this. Remaining 14% don't know about this and 6% shows no response at all. Regarding the awareness most of the investors said that they were not familiar with stock markets, brokers, trading mechanism. The data from investor's awareness survey is presented as follows ;

Table 4.3.2
Investor's Awareness on the Stock Market

S.N.	Research Variable	No. of Investors	% of Investors
1	Yes	8	16%
2	No	32	64%
3	Don't Know	7	14%
4	No Response	3	6%
	Total	**50**	**100%**

Source: Field Survey

iii) Influencing Factors Analysis

Regarding the major influencing factors for the stock price, different brokers, individual investors, institutional investors and NEPSE staffs gave different views on their own ideas. 16% of them gave their views as company's profits as the influencing factor, 20% gave theirs views as company's performance, 4% said as company's board of directors, 28% said as company's dividend, 22% said as signaling factors and rest 10% said as above all. Table 4.3.3 provides the clear picture on this subject as follows:

Table 4.3.3
Influencing Factors on the Stock Market Price

S.N.	Research Variable	No. of Investors	% of Investors
1	Company's Profit	8	16%
2	Company's Performance	1	20%
3	Company's Board of Directors	2	4%
4	Company's Dividend	14	28%
5	Signaling Factor	11	22%
6	Above All	5	10%
	Total	**50**	**100%**

Source: Field Survey

iv) Decision Making Analysis

Regarding the decision to invest in shares in the secondary market, different respondents (brokers, individual investors, institutional investors, NEPSE staffs and others) replied differently. No one said that he/she takes the decision on the basis of family advice and rumors. 40% of the investors replied that theirs basis of decision making is own analysis, 56% investors replied that theirs basis of decision making is own analysis, 56% investors replied that they make investment decision on the basis of market price and only 4% of the investors replied that on the basis family advice they make a decision. This statement is presented in the table below.

Table 4.3.4
Basis of Decision Making

S.N.	Research Variable	No. of Investors	% of Investors
1	Family Advice	2	4%
2	Rumor	-	-
3	Own Analysis	20	40%
4	Market Price	28	56%
	Total	**50**	**100%**

Source: Field Survey

v) Investor Satisfaction Analysis

In the investor satisfaction survey, whether they are satisfied or not with their investment, respondents gave various responses. Among them, highest percentage (60%) of the respondents replied that they are not satisfied, 20% of the respondents replied that they are satisfied and 4% of respondents did not response at all. Remaining 16% of the respondents said that they are unknown about this fact. The following table gives the fact on investor satisfaction:

Table 4.3.5

Data Regarding Investor's Satisfaction

S.N.	Research Variable	No. of Investors	% of Investors
1	Yes	10	20%
2	No	30	60%
3	Don't Know	8	16%
4	No Response	2	4%
	Total	**50**	**100%**

Source: Field Survey

vi) Difficulties Analysis of Investors

Regarding the question on difficulties facing by the investors in stock market such as purchasing and selling of shares, majority of them i.e. 64% respondents were replied that they were facing the problem, 24% of them replied that they were not facing such type of problem and remaining 12% respondents were found as unknown about that. The data collected from difficulties analysis of investors is presented below in the table form.

Table 4.3.6

View on Difficulties Facing by Investors

S.N.	Research Variable	No. of Investors	% of Investors
1	Yes	32	64%
2	No	12	24%
3	Don't Know	6	12%
4	No Response	-	-
	Total	**50**	**100%**

Source: Field Survey

vii) Government Policy Analysis

The policy of government is not clear and perfect in Nepalese stock market. On the question regarding the government policy, different respondents gave their answers, among them 80% of the respondents answered that government policy of stock market is not clear and perfect, 14% of the respondent replied that government policy of stock market is clear and perfect but 6% of the respondent said that they are unknown about government policy in the stock market. Following table 4.3.7 shows the clear picture about this:

Table 4.3.7

Investor's View on Government Policy in Stock Market

S.N.	Research Variable	No. of Investors	% of Investors
1	Yes	40	80%
2	No	7	14%
3	Don't Know	3	6%
	Total	**50**	**100%**

Source: Field Survey

viii) Interest Analysis of Investors for Participation in Company's Management

Total 50 Investors were asked about their interest in company's management if they were interested elected. Out of 50 respondents highest percentage (56%)of them replied in positive way, 20% replied that they didn't want to be elected, 12% said no idea about that and remaining 12% respondents did not response. The following table 4.3.8 shows the fact mentioned here.

Table 4.3.8

Participation on Company's Management

S.N.	Research Variable	No. of Investors	% of Investors
1	Yes	28	56%
2	No	10	20%
3	Don't Know	6	12%
4	No Response	6	12%
	Total	**50**	**100%**

Source: Field Survey

ix) Environment Analysis

Question regarding the environmental factors, that they effect the Nepalese stock market or not, different individual investors, institutional investors, brokers, NEPSE staffs and others gave their own idea about this. Among all the respondents, 16% of them replied that the political environment affect the Nepalese stock market, again other 16% respondents replied that economic environment effect the Nepalese stock market. Similarly, among of them 8% said the environmental factor that affect the Nepalese stock market is socio-cultural environment ,10% replied that technological environment affect the Nepalese stock market, 14% replied that international environment effect the Nepalese stock market and remaining 36% replied that above all environmental factors affect the Nepalese stock market. Following table 4.3.9 shows the clear vision about this:

Table 4.3.9

Opinion of Investors on Environmental effects

S.N.	Research Variable	No. of Investors	% of Investors.
1	Political Environment	8	16%
2	Economic Environment	8	16%
3	Socio-cultural Environment	4	8%
4	Technological Environment	5	10%
5	International Environment	7	14%
6	Above All	18	36%
	Total	**50**	**100%**

Source: Field Survey

x) Trend Analysis

Regarding the suitability trend of stock price movement, different investors, NEPSE staffs and brokers were asked the question. They gave different opinion about the trend on which 76% gave their opinion about bullish trend and out of remaining 24% respondents, 12% gave their opinion about optimum trend and again 12% gave their opinion about none of the above trend. Following table 4.3.10 shows the clear picture about the mentioned subject matter:

Table 4.3.10

Trend Analysis of Stock Price Movement

S.N.	Research Variable	No. of Investors	% of Investors
1	Bullish Trend	38	76%
2	Bearish Trend	-	-
3	Optimum Trend	6	12%
4	None of Above	`6	12%
	Total	**50**	**100%**

Source: Field Survey

xi) Causes of Holding the Shares

Dividend is a main cause of holding the shares. Similarly, social status and marketing are also the causes of holding the shares. To get the real answer of the question, different respondents were asked about the causes of holding the shares. Among all the respondents

24% of them voted for social status, 40% said that income is a cause of share holding, 20% respondents replied as marketing and remaining 16% of respondents felt as above all. Following table represents the detailed information about this:

Table 4.3.11

Causes of Holding Shares

S.N.	Research Variable	No. of Investors	% of Investors
1	Social Status	12	24%
2	Income	20	40%
3	Marketing	10	20%
4	Above All	8	16%
	Total	**50**	**100%**

Source: Field Survey

xii) Open- End Analysis of Investors

Only two open-end questions were asked to the investors under this study to take their opinions on the important aspect of secondary market. In relation to the narrative question number 12 and 13 on ANNEX I, only 65% questions were duly filled out of 100 questionnaire papers. The cores of issues on respondent's response are discussed as below:

So far as investor's experience on investment problem is concerned, it was found quite astonished. Some key experiences, which are considered to be worthy, are cited here. Some investors express their views that due to non-transparent operation and delay in disseminating the information regarding company's financial status they were in dilemma whether to purchase or sell the shares. Similarly, another blame to brokers in the secondary market that they did not provide proper advices to the clients. As a result, investors have to bear losses while trading the stocks. The brokers purchase the shares for their clients on an "execution-only basis" and do not take responsibility for their quality of advises they offer. Therefore, according to them, brokers perform the function in the capital market not for investors sake but only for taking their commissions form investors. While some other stated that due to lack of computer aided technology for analyzing the security and very few numbers of security analyst or firms involved in forecasting market trends and future price of shares, they

feel difficulty to take right investment decisions on right time. Likewise, it was acknowledged that some of the investors were reluctant to make further investment in the secondary market since they had bitter experience for making transfer of ownership of shares in the register of shareholder was time consuming. According to them, completion of transfer process almost took about three to four months, so they felt their interest was not protected. That's why, all of the respondents who faced this type of problem laid emphasis to think twice whether or not to investment in shares through secondary markets.

In this way, a fraction of investors seemed to be apprehensive to sell the shares of that company which they bought from primary market. It is so because; Securities Exchange Act 1983 has laid down the provision of compulsory listing of securities before trading on the stock exchange. The shares they possessed are not listed at (NEPSE). Thus, their perplexity sounds like appropriate. The views expressed over the solution of trading problems as well as improvement of the confidence of investors to invest in secondary market were more or less similar to one another. All of them laid priority on the access to information so as to know the financial strength of company as well market trend of securities.

Frequently fluctuation of stock market prices, lower quality of professional services and delay in procedures for making transfer of ownership of shares have caused for loss the confidence of investors. Similarly, the settlements of traded shares were not carried out within the given duration. Among other things, some suggested to enshrine special provisions in the act to protect the right of security holders. So for the Acts, making the provision only from the side of company management has enacted i.e.; Company Act and Stock Exchange Act. Instead, the companies themselves are violating the provisions laid down in the Acts from time to time.

Moreover, some prominent suggestions, the investors prescribed to increase the confidence of investors for investing in the secondary market are as follows:

- ☞ The stock exchange should carry out periodic research and analysis and make public the findings, which they believed would help them to make better investment decision.
- ☞ The securities Board, an apex body for monitoring and regulating the Nepalese Stock Market Regulatory regimes up to international standards.
- ☞ Current manual method of securities trading should be substituted by computer-based

technology, which enhances the pace of trading activities.

- ☞ Investors should be provided with investment guidelines.
- ☞ The role of market players in the stock market should made effective in promoting the capital market on the country.

4.4 Major Findings of the Study

- ☞ The number of listed companies increased in each fiscal year except in the fiscal year 2001/02, when 25 companies were delisted from NEPSE Index. But in the fiscal year 2006/07, there was no change in the listing rate.
- ☞ Volume of stock traded in NEPSE was found in fluctuating trend from 1990/00 to 2005/06 and thereafter it was found in increasing trend till the year 2008/09.
- ☞ The annual trend analysis for the fiscal year 1990/2000 to 2008/09 showed that the NEPSE Index is in fluctuating trend. During the study period, NEPSE Index of 963.36 was highest and 204.86 was lowest in the fiscal years 2007/08 and 2002/03 respectively.
- ☞ The monthly trend analysis of the fiscal year 2008/09 showed that the NEPSE Index is in fluctuating trend which is not good for Nepalese stock market. The NEPSE Index of 1084.76 is highest in the month of Ashad.
- ☞ Both paid up value and market capitalization of commercial banks are higher than the other companies listed in NEPSE.
- ☞ Average annual closing market price analysis showed that the finance and insurance sectors are dominated by banking sector. Banking sector is growing well as compare to finance and insurance sectors.
- ☞ The calculated value of correlation coefficient showed that there is positive correlation between MPS & EPS of sampled companies except of KFCL. There is highest positive correlation coefficient of +0.70 in EICL.
- ☞ The calculated value of correlation coefficient between MPS & DPS showed that there is positive correlation except of NIBL and KFCL. There is highest positive correlation coefficient of +0.85 in NBBL.

- The market price movement of the selected sample companies is found to be random.
- Analyzing the primary data, it is found that the major portion of the investors would like to invest their money in banking sector.
- Investors have poor understanding and knowledge about stock market.
- Lack of awareness in the investors is major problems in Nepalese Security Market.
- When analyzing the primary as well secondary data it was found that the Nepalese Stock Market is in developing stage.
- The government policy is not clear and perfect about Nepalese Stock market.
- It was also found that investors were not satisfied with their investment and most of Investors were found as interested to be elected in company's management.
- On the basis of respondents response, it can conclude that company's dividend is a major influencing factor for holding shares.
- Major of the respondents voted for bullish trend of the stock price movement as suitable trend for Nepalese security market.
- 36% of the respondents said that all viz, political, economic, socio-cultural, technological and international environment are responsible for fluctuate the stock market.
- Taking the interview with the experts of Nepalese stock market, it was found that most of them follow the technical as well as fundamental analysis method of stock price movement.
- It was found from the questionnaire survey that majority of investors were facing problems in Nepal Stock market.
- It was found that investors take the investment decision on the basis of market price of shares.
- 76% of the respondents affirmed that the bullish trend is suitable for Nepalese security market. Similarly, 40% opined that income is the main motive that driven the investors to invest in share.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This is the final chapter that involves the summary, conclusion and recommendations of the research work. Summary refers the short form of whole study, conclusion draws from the analysis and recommendation suggests to improve the Nepalese stock market. The facts and findings from primary and secondary data analysis are presented in this chapter

5.1 Summary

Securities market refers the buying and selling price of the stock, bond share and debt. Capital market is the backbone of any economy, and Nepal is not an exception. It helps in the economic development of the nation if it is operated properly. Under the capital market, stock market behavior has played the vital role to pull and push the proper economy balance of the country. Different elements like price trend of NEPSE index, rate of listing, volume of stock traded, paid up value and market capitalization, closing market price of sampled companies, correlation coefficient analysis and run tests have been analyzed.

The main objective of the present research was to examine and study the fluctuation of the stock prices in security market. The specific objectives are to analyze stock price trend with the help of NEPSE index, to analyze the rate of listing of new companies on stock exchange, to analyze the paid up value and market capitalization, to analyze volume of stock traded, to find out the correlation coefficient between variables (MPS and EPS, MPS and DPS) of sampled companies and to analyze the closing market prices (or run test) of sampled companies. These are the important factors to analyze the fluctuation of stock market prices in the capital market.

According to the nature and objective of the study, primary data as well as secondary data has been used to meet the objective. Secondary data were collected from annual report of NEPSE index, daily newspaper, library search, newspaper, magazine, bulletin and other journals. Information was tabulated and presented as per the requirement of the study. From the analysis it was found that price trend is not in predictable trend during the study period of different months of 2008/09.

The listing rate of new companies were not in satisfactory condition as it was also in very few increase companies which couldn't give the any type of result. Annual stock price trend was in decreasing trend in the stock market but in year 2007/08 it raised upto the 963.36 which was the highest NEPSE Index of the study period. The paid up value and market capitalization of listed companies in NEPSE were in satisfactory level to some extent than the previous years. The correlation coefficient analysis between MPS and EPS showed positive correlation of all selected companies except of KFCL. Similarly, the correlation coefficient analysis between MPS and DPS showed negative correlation of NIBL, KFCL and positive correlation of remaining six selected companies.

To look over whether the movement of market price of sample companies taken is random or not, the simple run test is carried out. And it has shown that market price movement of each selected bank, finance and insurance is random.

For the primary data collection, two methods were adopted such as questionnaire method and interview with experts. From the interview with experts, it was found that they use technical as well as fundamental analysis method of stock price behavior. According to the experts view, brokers and NEPSE officials are responsible for the price fluctuation. Based on the questionnaire survey, different views were collected from the respondent and found most of them have not well knowledge about capital market.

5.2 Conclusion

From the above research study we can conclude that the Nepalese stock market is in developing stage. The study concludes that there is a gap between the theory and practice of investment in Nepalese stock market due to the lack of proper analysis of stock market for the smooth operation of the secondary market. Various measures of stock market development indicate that the stock market in Nepal is in developing stage and has shown little impact on the overall national economy. Small market size has made it vulnerable to manipulation and price rigging. Though some investors tend to avoid stock market because they do not have options to invest in securities according to their risk-return preference. Similarly firms shun it because stock market is less reliable source of raising funds for them. Due to this financial system in Nepal has remained basically bank-dominated.

The market seems gaining to some extent the confidence of investors. There is poor liquidity for the stocks. A scarcity of floating stock prevails in the market. Professionalism is still lacking in the service of investors and investment management. A system of preponderance of speculative trading is guessed to be prevailed where the primary motive is to derive benefit from short term price fluctuations. It appears that a very small fraction of transaction represents purchases/sales by genuine investors. The rest are driven mainly by the speculative motive. The corporate sector is still reluctant on disseminating information timely. The kinds of securities trading in the market are confined only to ordinary and preference shares. These are various major problems observed in the market now-a-days.

Nepal Stock Exchange Limited is analyzing stock market behavior in very few areas regarding the stock market. So experts should be recruited and analyzed market behavior in efficient way so that all parties interested with stock market can get benefit form this. The data analysis showed that Nepal Stock Exchange is not providing facilities for investors such as general awareness about investment, investment procedure for general public and movement of stock trend in different periods and their cause are not explained. Most of the investors are complaining that the market makers, brokers and Nepal Stock Exchange Limited staff's are making coalition for fraudulent activities towards investors. So Nepal Stock Exchange should clear this type of change for the development of stock market.

5.3 Recommendations

On the basis of major findings and conclusion drawn, the following are the recommendations ;

- NEPSE index plays major role for creating investment prosperity. So for removing stock market difficulties such as transaction facilities should be managed in effective way by formulating investor's protection act.

- Approval process should be streamlined to make it easy and hassle free. If possible, one window policy should be adopted in providing approval.

- Increase awareness among the general public about the capital market, regarding nature of risk and return, through promotional campaigns, seminars, publications and programs

in FM/TV etc.

- NEPSE can expand its services to the regional levels rather than just concentrating solely in the valley. They should also replace the old and outdated open cry system with on-line trading system following international standards.
- Discourage the possibilities of insider's trading through improved corporate governance and initiate strict corrective measures for compliance.

- The price fluctuation trend is not predictable by general investors so technician facilities should be realized by Nepal Stock Exchange Ltd., so that general investors should also get benefit from the Nepal Security Exchange Centre Ltd.

- The study of stock market behavior should be done in periodic manner so that proper results can be drawn for betterment of stock market from the side of NEPSE.

- Government of the nation should formulate proper and perfect rules, regulation, articles of association and code of conduct to develop the capital market of the country. For this purpose national and international stock experts should hire to develop the system.

- The listed companies data, their performance appraisal, their conduction of work, their productivity, their commitment to NEPSE should be updated and analyzed in time and again. If any company is found in doing works against NEPSE should immediately take action on it.

- The stock market lacks the existence of sophisticated investors, it is recommended to regulatory bodies to carry out programs using various media and spot program to inform and attract the potential investors in investing its shares.

- The implementation of computer assisted trading system (CATS) in NEPSE trading floor was found to be very necessary since it was realized by many respondents of these sectors.

Annex - I
Questionnaire

1. In which of the following sector do you want to invest in the shares?
   a) Banking ( ) b) Manufacturing & Processing ( )
   c) Trading ( ) d) Others ( )

2. Do you think investors in the Nepalese Stock Market are aware?
   a) Yes ( ) b) No ( ) c) Don't Know ( )

3. What is the major influencing factor for the stock price?
   a) Company's Profit ( ) b) Company's Performance ( )
   c) Company's Board of Director ( ) d) Company's Dividend ( )
   e) Signaling Factor ( ) e) Above all ( )

4. On which basis do you make decision to invest in shares in the secondary market?
   a) Family Advice ( ) b) Rumors ( )
   c) Own Analysis ( ) d) Market Price ( )

5. Are you satisfied with the profit earned from your own investment decision?
   a) Yes ( ) b) No ( ) c) Don't Know ( )

6. Are the government's policies clear and perfect in Nepalese Stock Market?
   a) Yes ( ) b) No ( ) c) Don't Know ( )

7. Do you want to get elected to the company management?
   a) Yes ( ) b) No ( ) c) Don't Know ( )
8. Does the environment affect the Nepalese Stock Market?
   a) Yes ( ) b) No ( ) c) Don't Know ( )

ANNEX II

No. of Listed Companies in NEPSE

9. In which of the following trend of stock price behavior is suitable for Nepalese security market?

a) Bullish trend ( ) b) Bearish Trend ( )

c) Optimum trend ( ) d) None of Above ( )

10. Do you think are there any difficulties in trading shares in Nepalese Stock Market?

a) Yes ( ) b) No ( ) c) Don't Know ( )

11. For what purpose do you want to own shares of a company?

a) Dividend ( ) b) Social Status ( )

c) Marketability ( ) d) Above all ( )

12. If yes how these difficulties can be solved?

a) ……

b) ……

c) ……..…….....

d) ……..……..

13. In your option, what are the majors to be taken for developing Nepalese Secondary Market?

a) ……

b) ……

c) …….....

d) ……..……..

Name: ……...……

Address: ……

	Commercial Banks	**Code**
1	Nabil Bank Ltd.	NABIL
2	Nepal Investment Bank Ltd.	NIB
3	Standard Chartered Bank Ltd.	SCB
4	Himalayan Bank Ltd.	HBL
5	Nepal SBI Bank Limited	SBI
6	Nepal Bangladesh Bank Ltd.	NBB
7	Everest Bank Ltd	EBL
8	Bank of Kathmandu	BOK
9	Nepal Industrial & Co.Bank	NICB
10	Machhachapuchhre Bank Ltd	MBL
11	Laxmi Bank Limited	LBL
12	Kumari Bank Ltd	KBL
13	Lumbini Bank Ltd.	LUBL
14	Nepal Credit & Com. Bank	NCCB
15	Siddhartha Bank Limited	SBL
16	NMB Bank Ltd.	NMB
17	DCBL Bank Ltd.	DCBL
18	Global Bank Limited	GBL
19	KIST Bank Limited	KIST
20	Citizens Bank International Ltd.	CZBIL
21	Bank of Asia Nepal Ltd	BOAN
	Insurance	
22	Nepal Insurance Co.Ltd.	NICL
23	Rastriya Beema Sansthan	RBS
24	National LifeInsu. Co.Ltd.	NLICL
25	Himalayan Gen.Insu. Co.Ltd.	HGI
26	United Insurance Co.(Nepal)Ltd.	UIC
27	Everest Insurance Co. Ltd.	EIC
28	Premier Insurance co. Ltd.	PIC
29	Neco Insurance Co.	NIL
30	Alliance Insurance Co. Ltd.	AIC
31	Sagarmatha Insurance Co.Ltd	SIC
32	NB Insurance Co. Ltd.	NBIL
33	Nepal Life Insurance Co. Ltd.	NLIC
34	Life Insurance Co. Nepal	LICN
35	Prudential Insurance Co.	PICL
36	Lumbini General Insurance	LGIL
37	Shikhar Insurance Co. Ltd.	SICL
38	Siddhartha Insurance Ltd.	SIL
	Hotels	

39	Yak and Yeti Hotel Ltd.(Ord.)	YHL
40	Soaltee Hotel Ltd.	SHL
41	Taragaon Regency Hotel	TRH
42	Oriental Hotel Ltd.	OHL

Others.

43	Nepal Film Dev.Co. Ltd.	NFD
44	Nepal Doorsanchar Company Limited	NTC

Hydro Power

45	National Hydro Power Co.	NHPC
46	Butwal Power Co. Ltd.	BPCL
47	Chilime Hydro power Co.	CHCL

Tradings

48	Salt Trading Corporation	STC
49	Bishal Bazar Co. Ltd.	BBC
50	Nepal Trading Ltd.	NTL
51	Nepal Welfare Company Ltd.	NWC

Manufacturing and Processing

52	Bottlers Nepal Ltd.(Balaju)	BNL
53	Nepal Lube Oil Ltd.	NLO
54	Nepal Vanaspati Ghee Udhyog Ltd	NVG
55	Raghupati Jute Mills Ltd.	RJM
56	Butwal Spinning Mills Ltd.	BSM
57	Gorakhakali Rubber Udhyog Ltd.	GRU
58	Jyoti Spinning Mills Ltd (ord.)	JSM
59	Arun Vanaspati Udhyog Ltd.	AVU
60	Bottlers Nepal (Terai)Ltd.	BNT
61	Harisiddhi Brick and Tile Fac.Ltd.	HBT
62	Birat Shoe Ltd.(Ord.)	BSL
63	Uniliver Nepal Ltd.	UNL
64	Nepal Khadya Udhyog Ltd.	NKU
65	Shree Bhrikuti Pulp& Paper Ltd	SBPP
66	Fluer Himalayan Limited	FHL
67	Shree Ram Sugar Mills Ltd	SRS
68	Nepal Bitumin and Barrel Udyog	NBBU
69	Himalayan Distillery Ltd.	HDL

Development Bank Ltd.

70	Nepal Industrial Dev. Corp.	NIDC

71	Nepal Development Bank	NDB
72	Nirdhan Utthan Bank Ltd.	NUBL
73	Chhimek Vikash Bank Ltd.	CBBL
74	Paschimanchal Bikash Bank	PDBL
75	Diprox Development Bank	DDBL
76	Gandaki Bikas Bank Ltd.	GDBL
77	Siddhartha Vikash Bank Ltd	SBBL
78	Bhrikuti Vikash Bank Ltd.	BBBL
79	Sanima Vikash Bank Ltd.	SBBL
80	Narayani Industrial Dev. Bank	NIDB
81	Bageshowori Dev.Bank	BDB
82	Sahayogi Vikas Bank	SBB
83	Gurkha Development Bank	GDB
84	Annapurna bikash bank	ABB
85	Swabalamwan Bikash Bank	SBB
86	Ace Development Bank Ltd.	ADBL
87	Himchuli Bikash Bank Ltd.	GDBNL
88	Excel Development Bank	EDB
89	Malika Developmetn Bank	MDB
90	BiratLaxmi Developmetn Bank	BLDBL
91	Infrastructure Developmetn Bank	IDB
92	Nepal Dev. & Emp. Pro.Bank Ltd.	NDEPBL
93	Subbecha Bikas Bank Ltd.	SBBL
94	Triveni Bikash Bank Limited	TBBL
95	Clean Energy Dev. Bank Limited	CEDBL
96	Purbanchal Gramhin Bikas Bank Ltd.	PGBBL
97	Pashupati Development Bank Ltd.	PDBL
98	Pashupati Development Bank Ltd.	PDBL

Finance

99	Nepal Finance and Saving Co.Ltd.	NFS
100	NIDC Capital Markets Ltd.	NCM
101	National Finance Co. Ltd.	NFC
102	Nepal Share Markets Ltd.	NSM
153	Merchant Finance Co. Ltd	MFCL
104	Kathmandu Finance Limited.	KFL
105	Peoples Finance Limited.	PFCL
106	Union Finance Co. Ltd.	UFCL
107	Citizen Investment Trust	CIT
108	Nepal Aawas Bikas Beeta Co. Ltd.	NABB
109	Narayani Finance Limited	NFL
111	Gorkha Finance Ltd.	GFLK
112	Samjhana Finance Co. Ltd.	SFCL
113	Universal Finance Ltd.	UFL
114	Nepal Housing & Merchant Fin.	NHMF
115	General Finance Ltd.	GFL
116	Maha Laxmi Finance Ltd.	MFL
117	Lalitpur Finance Ltd.	LFC

118	Goodwill Finance Co. Ltd.	GFCL
119	Paschimanchal Finance Co. Ltd	PFCL
120	Pokhara Finance Ltd.	PFL
121	Lumbini Finance Ltd.	LFCL
122	Siddhartha Finance Limited	SFL
123	Alpic Everest Finance Co. Ltd.	AEFCL
124	United Finance Ltd	UFL
125	International Leasing & Fin. Co.	ILFC
126	Shree Investment Finance Co. Ltd	SIFC
127	Central Finance Co. Ltd.	CFCL
128	Nepal Shree Lanka Merchant Bank	NSLMB
129	Premier Finance Co. Ltd	PFCL
130	Kuber Mer. Bittya Sans. Ltd.	KMBSL
131	Butwal Finance Ltd	BFL
132	Janaki Finance Ltd.	JFL
133	Standard Finance Ltd.	STFL
134	Om Finance Ltd.	OFL
135	Prabhu Finance Company Limited	PFCL
136	Fewa Finance Co. Ltd.	FFCL
137	World Merchant Bank Ltd	WMBF
138	Birgunj Finance Ltd	BJFL
139	Capital Mer. Bamk & Fin	CMBF
140	Everest Finance Ltd,	EFL
141	Prudential Bittiya Sans	PFIL
142	Shrijana Finance(Bittiya Sa	SFFIL
143	Loard Buddha Financial Institution Ltd.	LBFIL
144	Guheyshwori Mer. Bank. Fin	GMFIL
145	IME Financial Institution	IMEFI
146	Bhajuratna Fin.& Sav. Co. Ltd.	BFSCL
147	Patan Finance Ltd.	PFL
148	Imperial Financial Inst. Ltd.	IFIL
149	Civil Merchant bittya sanstha	CMBSL
150	Sagarmatha Mer. Banking & Fin. Ltd.	SMBFL
151	Nepal Express Finance Ltd.	NEFL
152	Kuber Mer. Bittya Sans. Ltd.	KMBSL
153	Prabhu Finance Company Limited	PFCL
154	Loard Buddha Financial Institution Ltd.	LBFIL
155	Sagarmatha Mer. Banking & Fin. Ltd.	SMBFL
156	Kaski Finance Limited	KFL
157	Shikhar Bittiya Sanstha Limited	SBSL
158	Reliable Finance. Ltd.	RFL
159	Annapurna Finaance Ltd	AFL

ANNEX III

MPS,EPS and DPS of Sampled Companies

MPS, EPS and DPS of Selected Banks :

FY	NBL			HBL		
	MPS	EPS	DPS	MPS	EPS	DPS
1990/00	1400	84	56	1700	83	50
2000/01	1500	59	60	1500	94	58
2001/02	735	55	30	690	60	35
2002/03	740	85	50	859	49	25
2003/04	1000	93	65	840	49	20
2004/05	1505	105	70	920	48	12
2005/06	2240	129	85	1100	59	30
2006/07	5050	137	100	1760	61	15
2007/08	5275	108	60	1980	63	25
2008/09	4899	107	35	1760	62	12

FY	NIBL			NBB		
	MPS	EPS	DPS	MPS	EPS	DPS
1990/00	1401	83	50	1502	116	100
2000/01	1150	94	0	1100	83	55
2001/02	760	60	30	510	18	0
2002/03	795	49	20	360	20	0
2003/04	940	49	15	290	1	0
2004/05	800	48	13	265	0	0
2005/06	1260	59	20	199	0	0
2006/07	1729	61	5	550	0	0
2007/08	2450	63	8	1001	80	0
2008/09	1388	62	20	280	116	0

MPS, EPS and DPS of Selected Finances Companies:

FY	NFCL			KFCL		
	MPS	EPS	DPS	MPS	EPS	DPS
1990/00	470	64	28	295	31	20
2000/01	560	67	30	321	38	23

2001/02	530	56	20	300	37	10
2002/03	455	36	20	235	34	50
2003/04	360	42	21	205	3	0
2004/05	295	69	11	138	18	1
2005/06	626	17	11	140	26	10
2006/07	460	26	5	203	20	1
2007/08	263	0	0	285	26	0
2008/09	460	0	0	326	0	0

MPS, EPS and DPS of Selected Insurance Companies:

FY	EICL			SICL		
	MPS	EPS	DPS	MPS	EPS	DPS
1990/00	455	43	20	0	11	5
2000/01	440	61	20	236	14	7
2001/02	400	65	0	162	19	8
2002/03	610	62	100	150	20	10
2003/04	350	57	0	131	28	0
2004/05	325	17	53	158	30	0
2005/06	295	14	0	210	30	2
2006/07	290	25	13	227	15	0
2007/08	291	6	0	306	0	0
2008/09	1388	62	20	252	0	0

Correlation Coefficient Analysis between MPS and EPS of NBL

Year	MPS (X)	EPS (Y)	X^2	Y^2	XY
1990/00	1400	84	1960000	7056	117600
2000/01	1500	59	2250000	3481	88500

2001/02	735	55	540225	3025	40425
2002/03	740	85	547600	7225	62900
2003/04	1000	93	1000000	8649	93000
2004/05	1505	105	2265025	11025	158025
2005/06	2240	129	5017600	16641	288960
2006/07	5050	137	25502500	18769	691850
2007/08	5275	108	27825625	11664	569700
2008/09	4899	107	24000201	11449	524193
Total	**24344**	**962**	**90908776**	**98984**	**2635153**

We have,

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{\left[n \sum X^2 - \left(\sum X\right)^2\right]} \sqrt{\left[n \sum Y^2 - \left(\sum Y\right)^2\right]}}$$

$$= \frac{10 x 2635153 - 24344 \times 962}{\sqrt{\{10 x 90908776 - (24344)^2\}} \sqrt{\{10 x 98984 - (962)^2\}}}$$

=0.65

Calculation for probable error ;

$$P.E(r) = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - (0.65)^2}{\sqrt{10}}$$

=0.12

Correlation Coefficient Analysis between MPS and DPS of NBL

Year	MPS (X)	DPS (Y)	X^2	Y^2	XY
1990/00	1400	56	1960000	3136	78400
2000/01	1500	60	2250000	3600	90000
2001/02	735	30	540225	900	22050

2002/03	740	50	547600	2500	37000
2003/04	1000	65	1000000	4225	65000
2004/05	1505	70	2265025	4900	105350
2005/06	2240	85	5017600	7225	190400
2006/07	5050	100	25502500	10000	505000
2007/08	5275	60	27825625	3600	316500
2008/09	4899	35	24000201	1225	171465
Total	**24344**	**611**	**90908776**	**41311**	**1581165**

We have,

$$r = \frac{n \sum XY - \sum X \sum Y}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

$$= \frac{10 x 1581165 - 24344 \times 611}{\sqrt{10 x 90908776 - 24344^2} \sqrt{10 x 41311 - 611^2}}$$

=0.26

Calculation for probable error ;

$$P.E(r) = 0.6745 \times \frac{1 - r^2}{\sqrt{n}}$$

$$= 0.6745 \times \frac{1 - 0.26^2}{\sqrt{10}}$$

=0.20

Note: For other companies same as above.

Correlation Coefficient between MPS& EPS and Probable Error of Selected Companies

S.N	Name of the Selected Companies	Correlation Coefficient (r)	Probable Error (PE)	Test of Significant
1	Nabil Bank Limited	0.65	0.12	Insignificant

2	Himalayan Bank Limited	0.52	0.16	Insignificant
3	Nepal Investment Bank Limited	0.63	0.13	Insignificant
4	Nepal Bangladesh Bank Limited	0.67	0.12	Insignificant
5	National Finance Company Limited	0.40	0.18	Insignificant
6	Kathmandu Finance Company Limited	0.08	0.21	Insignificant
7	Everest Insurance Company Limited	0.70	0.11	Significant
8	Sagarmatha Insurance Company Limited	-0.38	0.18	Insignificant

Correlation Coefficient between MPS& DPS and Probable Error of Selected Companies

S.N	Name of the Selected Companies	Correlation Coefficient (r)	Probable Error (PE)	Test of Significant
1	Nabil Bank Limited	0.26	0.20	Insignificant
2	Himalayan Bank Limited	0.09	0.21	Insignificant
3	Nepal Investment Bank Limited	-0.23	0.20	Insignificant
4	Nepal Bangladesh Bank Limited	0.85	0.06	Significant
5	National Finance Company Limited	0.53	0.15	Insignificant
6	Kathmandu Finance Company Limited	0.06	0.21	Insignificant
7	Everest Insurance Company Limited	0.71	0.11	Significant
8	Sagarmatha Insurance Company Limited	-0.33	0.19	Insignificant

ANNEX IV

Average Market Price of Banking, Finance and Insurance

Average Market Price of Selected Banks :

Fiscal Year	Market Price				Total	Average Market Price
	NBL	HBL	NIBL	NBBL		
1999/00	1400	1700	1401	1502	6003	1501
2000/01	1500	1500	1150	1100	5250	1313
2001/02	735	690	825	510	2760	690
2002/03	735	859	800	361	2755	689
2003/04	1000	840	940	290	3070	768
2004/05	1505	920	800	265	3490	873
2005/06	2240	1100	1260	199	4799	1200
2006/07	5050	1760	1729	550	9089	2272

2007/08	5275	1980	2450	1001	10706	2677
2008/09	4899	1760	1388	280	8327	2082

Average Market Price of Finances Companies:

Fiscal Year	Market Price		Total	Average market Price
	NFCL	KFCL		
1999/00	470	295	765	383
2000/01	560	321	881	441
2001/02	530	300	830	415
2002/03	455	235	690	345
2003/04	360	205	565	283
2004/05	295	138	433	217
2005/06	262	140	402	201
2006/07	460	203	663	332
2007/08	1050	285	1335	668
2008/09	1050	326	1376	688

Average Market Price of Selected Insurance Companies:

Fiscal Year	Market Price		Total	Average market Price
	EICL	SICL		
2000/01	440	236	676	338
2001/02	400	162	562	281
2002/03	610	150	760	380
2003/04	350	131	481	241
2004/05	325	158	483	242
2005/06	295	210	505	253
2006/07	290	227	517	259
2007/08	291	306	597	299
2008/09	285	252	537	269

Fiscal Year	Average Closing Market Price		
	Banking	Finance	Insurance
1999/00	1501	383	228
2000/01	1313	441	338
2001/02	690	415	281
2002/03	689	345	380
2003/04	768	283	241
2004/05	873	217	242
2005/06	1200	201	253
2006/07	2272	332	259
2007/08	2677	668	299
2008/09	2082	688	269

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