

# CHAPTER – I

## INTRODUCTION

### **1.1 Background of the Study**

Securities are documents that represent an interest or a right in something else; they are not consumed or used in the same way as traditional consumer goods. In other words, securities, in finance, are the instruments which give their legal holders rights to money or other property. Securities include stocks, bonds, notes, mortgages, bills of lading, and bills of exchange. Similarly, a security trading is the financial activity involving transactions of property such as stocks, bonds, commodities, and currency. Companies issue new securities in what is known as the primary market, usually with the help of investment bankers.

In other words, primary market for securities is the new issues market which brings together the “supply and demand” or “sources and uses” for new capital funds. The investment bank acquires the initial issue of the new securities from the company at a negotiated price and then makes the securities available for its clients and other investors in an initial public offering. In this primary market, company receives the proceeds of security sales. After this initial offering, the securities are bought and sold in the secondary market. Moreover the purpose of a stock exchange or secondary securities market, like any other organized market, is to enable buyers and sellers to effect their transactions more quickly and cheaply than they could otherwise. Securities are often listed in a stock exchange, an organized and officially recognized market on which securities can be bought and sold. Issuers may seek listings for their securities in order to attract investors, by ensuring that there is a liquid and regulated market in which investors will be able to buy and sell securities.

The total capital of the company is divided into several units and each unit is a security. These securities are not liquid assets unless they find the place to

trade. Hence, a place is designed where buyer and seller meets and securities are traded. The system that provides liquidity to the securities is termed as Security Trading System and the place is the Stock Exchange Centre.

The stock exchanges provide liquidity to the investors who provide funds for the establishment of the productive enterprises. The stock exchanges also encourage the savers to save more and the enterprising economic units to start productive ventures. Stock exchanges, the organized market for buying and selling financial instruments (known as securities) like stocks, bonds, options, etc, have specific locations where the trades are completed. Exchanges operate as the action markets-buy and sell orders come in more or less simultaneously, and exchange members match these orders. The company is not usually involved in the trading of its stock in the secondary market, the essential function of stock exchanges. By providing investors the opportunity to trade financial instruments, the stock exchanges support the performance of the primary markets. This arrangement makes it easier for companies to raise the funds that they need to build and expand their businesses.

The basic functions of stock exchange are to provide and allocate capital funds to the firms with profitable investment opportunities and to offer an avenue of liquidity for individuals to invest current income or borrow against future income and thereby achieve their preferred time pattern consumption. Because investing involves uncertainty, stock exchanges provide a means for transferring risk among the parties to these transactions. The stock exchanges and the economy move in similar cyclical patterns. Although some analysts view stock markets in developing countries as ‘casinos’ that have little positive impact on economic growth, recent evidences suggest that stock exchanges can give a big boost to economic development for the developing countries like Nepal.

## **1.2 Statement of the Problem**

Realizing the importance of securities exchange center as a secondary market of securities and stock, various studies have been undertaken regarding the performance of them. Stock market is the secondary market which embraces buyers and sellers who meets with their specific requirements. Stock exchanges put finger on the pulse of the economy and give the diagnosis to the public in the form of quotation.

The research conducted so far has found that major problems seen in the system are; ambiguities in the regulations, inadequate legal provisions, inadequate market infrastructure, lack of clear demarcation of the regulators, poor corporate cultures, lack of willingness among the corporate sector to disseminate the fair and timely information, lack of professionalism of the market participants, lack of awareness among the investors, lack of self-consciousness investors, lack of providing fair return on investment to investors, etc. Observing these various problems in the NEPSE, this study is therefore, devoted towards examining the present condition of the stock trading system in NEPSE. Specifically, the main issues of the study are as follows:

- a. What is the trend of NEPSE Index from the fiscal year 2006/07 to 2012/13?
- b. Are the securities market indicators good enough for enhancing the market growth?
- c. What are the problems and prospects of securities market?
- d. Are the present laws adequate and appropriate for securities market growth?

## **1.3 Objectives of the Study**

The main objective of the study is to examine the securities market performance in Nepal. The specific objectives of the study are as follows:

- a. To examine the trends of NEPSE index from the fiscal year 2006/07 to 2012/13.

- b. To detect the problem and prospects of securities market.
- c. To examine the existing laws and their relevance for smooth operation of stock market.

#### **1.4 Significance of Study**

The study is concerned to the theoretical explanation and practical application of securities market of listed companies in Nepal. The study might be valuable for investors, as it examines the trend of securities in NEPSE and the problems and prospects of securities market, for collecting the securities related information.

Besides them, the study will be equally significant to the SEBON and NEPSE personnel for formulating appropriate rules and regulations that will robust the securities transaction system. Further, the study will be also beneficial to the listed companies to gain idea on the securities trading. Eventually, the study shall be crucial to the researchers to have knowledge on securities trading.

#### **1.5 Limitations of the Study**

The study mainly focuses on the securities trading of listed companies. Due to the limited time and resource to conduct the study, it does have some limitations.

- a. The research is confined to the activities of NEPSE and so is dependent on the data provided by the NEPSE and SEBON.
- b. No attempts are made to examine the reliability of the available secondary data since they are officially released by the related authorities.
- c. The non-availability of required data and references are also one of the limitations of the study. In addition, the study examines overall securities market, and thus the securities market situation of individual bank and other listed financial institution is excluded.
- d. The study covers securities trading of seven years only, i.e. from the fiscal year 2006/07 to 2012/13.

## **1.6 Organization of the Study**

Following a simple research methodology approach, this study is organized under five different chapters. The title and brief sketch of each chapter is as follows:

**Chapter-I:** It contains the introduction of the study where it includes background of the study, statement of the problem, objective of the study, significance of the study, limitations and organization of the study.

**Chapter-II:** It incorporates theoretical framework and review of the articles, journals and past researches and other empirical studies conducted inside and outside the country. And at the end of the chapter, the research gap detected from such review has been presented.

**Chapter-III:** It explains the methodology used in the research to arrive at the results in the context of arriving at the objective of the study. It therefore basically deals with the nature and sources of data, research design, method of data collection and statistical tools and techniques used in analysis of data.

**Chapter -IV:** It deals with the analysis of primary and secondary data collected during the study by using different tools and methods and scoring empirical findings out of the study.

**Chapter-V:** It covers summary, conclusions and suggestions of the study followed by appendices and bibliographical references.

## CHAPTER – II

### REVIEW OF LITERATURE

This section of the study reviews the concept related to the study, the securities rules and reviews the related journals and articles, along with the review of related thesis.

#### **2.1 Conceptual Framework**

##### **2.1.1 Securities Market**

“Securities market is an economic institute within which take place sale and purchase transactions of securities between subjects of economy on the base of demand and supply. Also we can say that securities market is a system of interconnection between all participants (professional and nonprofessional) that provides effective conditions: to buy and sell securities,

- To attract new capital by means of issuance new security (securitization of debt),
- To transfer real asset into financial asset,
- To invest money for short or long term periods with the aim of deriving profit.” (*Noussair, Robin and Ruffieux; 1998: 61*)

“A security market can be defined as a mechanism of bringing together buyers and sellers of financial assets in order to facilitate trading. Alternatively, security market is a place of places where securities are bought and sold, the facilities and people engaged in such transactions, the demand for and availability of securities to be traded, and the willingness of buyers and sellers to reach agreement on sales.” (*Freedman: 1999; 47*)

Although, securities markets are concentrated in few locations, they refer more to mechanism, rather than to place, designed to facilitate the exchange of securities by bringing buyers and sellers of securities together. In other words, people and organizations wanting to borrow together with those having surplus

funds in the securities markets. “Securities, such as equities, short and long term debt instruments, derivatives etc are the products that are traded in the markets, institutions such as investment bankers and security firms, securities issuing institution such as government and corporate bodies and the participants of the securities markets. Securities markets’ major function is to provide line between saving and investment thereby facilitating the creation of new wealth.” (*Pastor and Stambaugh; 2003: 132*)

### **2.1.2 Functions of Securities Market**

The common market functions of securities market;

- commercial function (to derive profit from operation on this market)
- Price determination (Demand and Supply balancing, the continuous process of prices movements guarantees to state correct price for each security (So, the market corrects mispriced securities)
- Informative function (market provides all participants with market information about participants and traded instruments)
- Regulation function (securities market creates the rules of trade, contention regulation, priorities determination)

Specific functions of the securities market;

- Transfer of ownership (securities markets transfer existing stocks and bonds from owners who no longer desire to maintain their investments to buyers who wish to increase those specific investments. There is no net change in the number of securities in existence, for there is only a transfer of ownership. The role of securities market is to facilitate this transfer of ownership. This transfer of securities is extremely important, for securities holders know that a secondary market exists in which they may sell their securities holdings. The ease with which securities may be sold and converted into cash increases the willingness of people to hold stocks and bonds and thus increases the ability of firms to issue securities)

- Insurance (hedging) of operations through securities market (options, futures)

### 2.1.3 Types of Securities Market

#### A) Primary market

“The primary market is that part of the capital markets that deals with the issue of new securities. Companies, governments or public sector institutions can obtain funding through the sale of a new stock or bond issue. This is typically done through a syndicate of securities dealers. The process of selling new issues to investors is called underwriting. In the case of a new stock issue, this sale is an initial public offering (IPO). Dealers earn a commission that is built into the price of the security offering, though it can be found in the prospectus. Primary markets creates long term instruments through which corporate entities borrow from capital market.” (*Mankiw and Zeldes; 1991: 57*) Features of primary markets are:

- This is the market for new long term equity capital. The primary market is the market where the securities are sold for the first time. Therefore it is also called the new issue market (NIM).
- In a primary issue, the securities are issued by the company directly to investors.
- The company receives the money and issues new security certificates to the investors.
- Primary issues are used by companies for the purpose of setting up new business or for expanding or modernizing the existing business.
- The primary market performs the crucial function of facilitating capital formation in the economy.
- The new issue market does not include certain other sources of new long term external finance, such as loans from financial institutions. Borrowers in the new issue market may be raising capital for converting private capital into public capital; this is known as "going public."
- The financial assets sold can only be redeemed by the original holder.

## **Methods of Issuing Securities in the Primary Market are:**

- Initial public offering;
- Rights issue (for existing companies);
- Preferential issue.

## **B) Secondary Market**

“The secondary market, also known as the aftermarket, is the financial market where previously issued securities and financial instruments such as stock, bonds, options, and futures are bought and sold. The term "secondary market" is also used to refer to the market for any used goods or assets, or an alternative use for an existing product or asset where the customer base is the second market (for example, corn has been traditionally used primarily for food production and feedstock, but a ‘second’ or ‘third’ market has developed for use in ethanol production).

With primary issuances of securities or financial instruments, or the primary market, investors purchase these securities directly from issuers such as corporations issuing shares in an IPO or private placement, or directly from the federal government in the case of treasuries. After the initial issuance, investors can purchase from other investors in the secondary market.” (*Black; 2001: 123*)

The secondary market for a variety of assets can vary from loans to stocks, from fragmented to centralized, and from illiquid to very liquid. The major stock exchanges are the most visible example of liquid secondary markets - in this case, for stocks of publicly traded companies. Exchanges such as the New York Stock Exchange, Nasdaq and the American Stock Exchange provide a centralized, liquid secondary market for the investors who own stocks that trade on those exchanges. Most bonds and structured products trade “over the counter,” or by phoning the bond desk of one’s broker-dealer. Loans sometimes trade online using a Loan Exchange.

### **C) Over-the-counter market**

“An over-the-counter contract is a bilateral contract in which two parties agree on how a particular trade or agreement is to be settled in the future. It is usually from an investment bank to its clients directly. Forwards and swaps are prime examples of such contracts. It is mostly done via the computer or the telephone. For derivatives, these agreements are usually governed by an International Swaps and Derivatives Association agreement.

Over-the-counter (OTC) or off-exchange trading is to trade financial instruments such as stocks, bonds, commodities or derivatives directly between two parties. It is contrasted with exchange trading, which occurs via facilities constructed for the purpose of trading (i.e., exchanges), such as futures exchanges or stock exchanges.” (*Yartey; 2006: 17-18*)

### **2.1.4 Main Capital Instruments**

The major capital instruments that have been practiced in the country to raise the capital market are;

#### **A) Development Bond**

“Development Bond - an issued security establishing its holder's right to receive from the issuer of the bond, within the time period specified therein,

- its nominal value
- and the interest fixed therein on this value or other property equivalent.

The development bond may provide for other property rights of its holder, where this is not contrary to legislation.” (*Rao; 1988: 74*)

#### **B) Stocks (Shares)**

##### **a) Common Shares**

“Common Shares represent ownership in a company and a claim (dividends) on a portion of profits. Investors get one vote per share to elect the board

members, who oversee the major decisions made by management. Over the long term, common stock, by means of capital growth, yields higher returns than almost every other investment. This higher return comes at a cost since common stocks entail the most risk. If a company goes bankrupt and liquidates, the common shareholders will not receive money until the creditors, bondholders, and preferred shareholders are paid.” (*Edward and Magee; 1998: 161-162*)

#### **b) Preferred Stock**

“Preferred Stock represents some degree of ownership in a company but usually doesn't come with the same voting rights. (This may vary depending on the company.) With preferred shares investors are usually guaranteed a fixed dividend forever. This is different than common stock, which has variable dividends that are never guaranteed. Another advantage is that in the event of liquidation preferred shareholders are paid off before the common shareholder (but still after debt holders). Preferred stock may also be callable, meaning that the company has the option to purchase the shares from shareholders at anytime for any reason (usually for a premium). Some people consider preferred stock to be more like debt than equity. A good way to think of these kinds of shares is to see them as being in between bonds and common shares.” (*Edward and Magee; 1998: 165*)

#### **2.1.5 Professional Participants in Securities Market**

Professional participants in the securities market - legal persons, listed companies, and also citizens registered as business persons who conduct the following types of activity:

##### **A) Brokers**

“Brokers are the agents or middlemen, who facilitate the buying and selling of securities for investors. They take buy or sale orders from the investors in their own office and executes the transactions in the floor of the exchange. Besides

the basic service of executing orders, brokers also provide services such as holding securities for safe keeping, providing information and advice relating to investment alternatives, extending margin loans and facilitating short sales.”  
(*Thygerson; 1992: 132*)

### **B) Dealers**

“Dealers trade solely for themselves and are prohibited from handling public orders. Since dealers have access on the floor and can own securities on their own name, they benefit from buying at low and selling at high prices. The benefit of the dealers to the market is that their buy and sell actions added up liquidity of the securities.” (*Thygerson; 1992: 132*)

### **C) Market Makers**

“Market makers, also known as specialists, facilitate the trading of securities by maintaining inventory in particular securities. They are similar to dealers in many ways except that they always stand ready to buy and sell securities at their bid and asked price for which they are market maker.” (*Thygerson; 1992: 133*)

### **D) Underwriters**

Underwriting refers to the structured process used by financial service companies, such as banks, investors, or insurers, to determine and price the risk from a potential client. The underwriting process is a detailed and systematic analysis of a potential borrower's credit-worthiness, including employment history, salary, financial statements and performance, publicly available information, and independent credit reports. In securities trading, underwriting also includes assessing the risk and pricing the security accordingly. However, the formal underwriting process also involves agreeing to buy the security (by the underwriter) and then selling the security for a profit. The underwriter effectively takes a risk by agreeing to buy the security at the established price. In most instances, underwriters will line up buyers for the securities before

they take on the security, so that it can "flip" the security to the buyer immediately.

### **2.1.6 Securities Market and Economic Growth**

“The securities market fosters economic growth to the extent that it-(a) augments the quantities of real savings and capital formation from any given level of national income, (b) increases net capital inflow from abroad, (c) raises the productivity of investment by improving allocation of investible funds, and (d) reduces the cost of capital.

It is reasonable to expect savings and capital accumulation and formation to respond favorably to developments in securities market. The provision of even simple securities decouples individual acts of saving from those of investment over both time and space and thus allows savings to occur without the need for a concomitant act of investment. If economic units rely entirely on self-finance, investment is constrained in two ways: by the ability and willingness of any unit to save, and by its ability and willingness to invest. The unequal distribution of entrepreneurial talents and risk taking proclivities in any economy means that at one extreme there are some whose investment plans may be frustrated for want of enough savings, while at the other end, there are those who do not need to consume all their incomes but who are too inert to save or too cautious to invest the surplus productively. For the economy as a whole, productive investment may thus fall short of its potential level. In these circumstances, the securities market provides a bridge between ultimate savers and ultimate investors and creates the opportunity to put the savings of the cautious at the disposal of the enterprising, thus promising to raise the total level of investment and hence of growth.” (*Kiley; 2000: 47-48*)

The securities market facilitates the internationalization of an economy by linking it with the rest of the world. This linkage assists through the inflow of capital in the form of portfolio investment. Moreover, a strong domestic stock

market performance forms the basis for well performing domestic corporate to raise capital in the international market. This implies that the domestic economy is opened up to international competitive pressures, which help to raise efficiency. It is also very likely that existence of a domestic securities market will deter capital outflow by providing attractive investment opportunities within domestic economy. A developed securities market successfully monitors the efficiency with which the existing capital stock is deployed and thereby significantly increases the average return.

In as much as the securities market enlarges the financial sector, promoting additional and more sophisticated financing, it increases opportunities for specialization, division of labor and reductions in costs in financial activities. The securities market and its institutions help the user in many ways to reduce the cost of capital. They provide a convenient market place to which investors and issuers of securities go and thereby avoid the need to search a suitable counterpart.

There are also other developmental benefits associated with the existence of a securities market. First, the securities market provides a fast-rate breeding ground for the skills and judgment needed for entrepreneurship, risk bearing, portfolio selection and management. Second, an active securities market serves as an 'engine' of general financial development and may, in particular, accelerate the integration of informal financial systems with the institutional financial sector. Securities directly displace traditional assets such as gold and stocks of produce or, indirectly, may provide portfolio assets for unit trusts, pension funds and similar FIs that raise savings from the traditional sector. Third, the existence of securities market enhances the scope, and provides institutional mechanisms, for the operation of monetary and financial policy. While the above indicate that the securities market promotes economic growth, it is not one way relation. The economic growth also promotes securities market.

### **2.1.8 Nepalese Securities Market**

The history of capital market in Nepal dates back to 1936 in which year the shares of Biratnagar Jute Mills Ltd. were floated. GON announced the Industrial Policy in 1974 and under this policy an institution named Securities Marketing Center (SMC) was established to deal in government securities-development bonds and national savings bonds, and corporate securities of few companies. The government has the virtual monopoly over the security market. Then, Securities Exchange Center (SEC) was established in 1976 with an objective of facilitating and promoting the growth of capital market. It was the only capital market institution in Nepal. Securities Exchange Act came into force in 1984. Since then, SEC started to operate under this act.

SEC had provided facilities to trade the government securities and few of corporate securities like shares and debentures. Only the shares of 10 companies were listed in SEC and there was involvement of no broker and dealer in the securities market. So, SEC itself was undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. The interim government (1990/91) initiated financial reform program and two indirect investment vehicles-Citizen's Investment Fund and NIDC Capital Markets Ltd.-were established with the collective investment schemes in the corporate sector. Then, due to the world whim of privatization and economic liberalization, the operation of SEC was felt to change to make it compatible with the changing economic system. As a result, GON brought about change in the structure of SEC by dividing it into two distinct entities-Securities Board, Nepal (SEBO/N) and Nepal Stock Exchange Ltd. (NEPSE) at the policy level in 1993. Since then they are operating as the main constituents of securities market in Nepal.

### **2.1.9 Problems in the Growth of Securities Market in Nepal**

As in most growing markets, Nepal also went through a volatile period in its early years. In the section above, three market factors were identified whose

dynamics influence the market behavior. Given below is a discussion on some of the problems faced in each of these three areas, especially during the speculative market stage.

#### **A) Lack of Tradable Market Instruments**

“Tradable market instruments in Nepal are limited to equity shares. An alternate over the counter market existed for long-term government bonds. Since bond trading was done at par, investors held on to their bonds and this market was very stagnant. Moreover, as interest rates on commercial bank deposits were very low, investor interest in the stock market was quite high as a higher return investment option. In the absence of alternative investment opportunities, the demand of shares built up heavily. This was particularly problematic in the initial speculative period, as it only fueled the price rise of already overvalued shares.” (*Finnerty; 1996: 62*)

#### **B) Market Intermediaries and Investors**

##### **a) An Oligopolistic Market Structure**

In its early stages, the market had very few active members. There were 25 registered stock brokers of whom only about 10 were active. There were only 3 market makers. As a result of this oligopolistic structure, prices could easily be manipulated with very small transactions. This easily led to transactions being made on a speculative basis rather than on an investment basis. Similarly, when the market makers realized that they could exert tremendous market power, rather than playing a stabilizing role by trading on the basis of company's underlying financial position, the market makers themselves made transactions on a speculative basis which pushed the prices up further.

##### **b) Functional Overlaps Amongst Intermediaries**

Because of low business volumes, financial intermediaries such as merchant banks and brokers become engaged in multiple functioning, which according to developed country standards would constitute severe conflicts of interest. For

instance, in Nepal, a market maker could also operate as a portfolio manager and a mutual fund manager. Similarly, auditors are also working as brokers. Some market makers are also sitting on the Board of Directors of listed Companies. Most interestingly, even regulators are directors of some of the market intermediaries. This is one of the glaring problems existing in Nepal which lends itself to insider information problems and conflicts of interest.

### **C) Economic and Regulatory Environment**

#### **a) Insufficient Scrips**

“One of the most common problems in emerging markets is the scarcity of public companies. Typically in developing countries, business enterprises are small in nature, closely held usually within a family and are highly reluctant to go public. In developing countries, where information is so scarce, businesses fear sharing this information to outsiders, especially competitors. Well established businesses have very strong relationships with commercial banks who will happily cover their financial needs. Hence, the need to resort to capital markets is less. As a result, the supply of shares in the stock market is limited.” (*Ludvigson and Steindel; 1996: 42*)

#### **b) Competition with the Financial Sector**

“The growth of the capital market is intricately related to the state of financial markets such as the banking sector and government bond market. Usually, the banking sector plays a competitive role in the development of capital markets.” (*Ludvigson and Steindel; 1996: 43*) In Nepal, while the banking sector was crucial in developing the capital market, the banking sector also plays a strong complementary role in fulfilling financial needs of businesses. Share markets are resorted to only when it is mandated by a government directive or if the company leverage has reached very high levels.

### **c) Regulatory Confusion**

In Nepal, a Universal Banking modality has been followed. Under this system, deposit taking institutions such as commercial banks and finance companies are also allowed to participate in the capital markets. Since these institutions are regulated by the Central Bank as well as the Securities Exchange Board, the presence of multiple regulators adds to the confusion. A striking example of this is the approval for operation of a mutual fund by the Central Bank even before the establishment of the Securities Exchange Board. In the absence of a coordinated effort whereby these institutions regulate by function rather than by institution, the enforcement capacity of these organizations is heavily undermined.

### **d) Enforcement**

Perhaps the biggest problem that emerged in the capital markets in Nepal is the lack of teeth of the enforcement agencies. This can be attributed to several factors:

**i. Inadequate Legal System:** The Securities Exchange Act lacks clarity in terms of the regulatory purview of the Securities Board over the market intermediaries. It does not vest sufficient powers on the Board to issue and enforce the rules and guidelines. Rules and Regulations can only be issued with the approval of the Cabinet. More than four years after the Board's establishment, this has yet to be amended. Another example of this weak legal infrastructure has been the outdated Companies Act. This Act is yet to be amended to include the information reporting standards and accounting standards required for publicly traded companies and timely ownership transfers to ensure liquidity in such a market.

**ii. Fear of Regulatory Overkill:** Market intermediaries are usually few in number and are engaged in multiple activities. At this infancy stage, regulators are constantly plagued with the dilemma of acting as a market promoter versus

a market regulator. Regulators are worried of an “overkill” which may have a ripple effect in terms of investor confidence. This often results in extended forbearance with detractors. In a non-competitive, nascent market, regulators are often unable to enforce rules strictly. The NCM Mutual Fund is a typical case in point.

**iii. Ownership:** A unique problem for proper enforcement in Nepal has been the ownership structure of institutions in Nepal. The Nepal Stock Exchange, instead of being owned by brokers, is still owned by the Central Bank, Government and a semi-government enterprise, the Nepal Industrial Development Corporation. Hence, the Stock Exchange has yet to emerge as a self-regulatory body.

The overlapping of institutional ownership has also undermined the regulatory capacity of the institutions. For example, Citizen’s Investment Trust, a licensed intermediary under its own Act, which was promoted by the Securities Exchange Center, is today in direct competition with other private sector intermediaries in areas such as primary issues, fund management, and market making. The Executive Director of this company is the Executive Chairman of the Securities Exchange Board - a regulatory body. Such conflicts of interest and overlapping of roles has greatly undermined the credibility of the regulatory authoritative body in Nepal.

### **2.1.9 Malpractices in Share Market**

Various irregularities exist in Nepal’s Share Market. Although these irregularities generate income to certain group, general investor suffers from this. To build clear and transparent share market, the individual and institution, who inspect share market, should always remain aware. The irregularities that exist in Nepal’s Share Market are:

### **A) Pooling**

“In this irregularity, a certain group buys and sales share of certain company within themselves in order to raise up the price of share by displaying the maximum number of shares transaction to the general public. And when the price reaches its zenith, the pooling members sells the shares and the share price, which rose up unnecessarily without any specific basis declines as a result the general investors, who buys that share with the hope of price rise, have to bear a great loss.” (*Bhatarai; 2006: 28*)

### **B) Cornering or Warehousing**

“The individual or group involved in this irregularity buys all the shares of certain company. As a result, the share of such company is limited to a single person or group and invites scarcity of share of such company. The supply of such share becomes low and demand will be high. On the increased demand of share, the person or group involved in cornering or warehousing sells in small lot, takes the share price to the maximum height and sells the remaining shares in high price.” (*Bhatarai; 2006: 28*)

### **C) Organized Runs**

“In organized runs, an active group flows an unnecessary rumor of certain company to influence share price. The main objective to flow such rumor is to fascinate the investor in the share and to sell the shares of the individual doing organized transactions. Both capital gain and prompt sale are achieved from this organized runs.” (*Bhatarai; 2006: 28*)

### **D) Ramping**

“To attract investors by displaying fast transactions of the shares dramatically just before the last movement of share transactions in the market and to make profit from such runs is ramping. From this fast raising of share price, the general investors guess that the demand for that company’s share is high and will increase further in future.” (*Bhatarai; 2006: 29*)

### **E) Washsale**

“Washsale is not actually a sale of share. Actually, the person involved in it sales shares to his family and relatives and indicates that the share price of certain is in decreasing/increasing. In this, the person sells share to himself in low price and indicates the price fall in the market and finally buys the share in low price to reap profit. The person involved in this does such activity with the aid of broker.” (*Bhattarai; 2006: 29*)

### **F) Matching**

“If a same broker gets both selling and buying order, then matching can occur. The broker may decrease the price if he is closer to buyer and may increase the price if he is closer to seller to match the order.” (*Bhattarai; 2006: 30*)  
However, this kind of activity has been prohibited from Ashad 2062 B.S.

### **G) Insider Training**

“The transaction done with the aid of confidential information of company is called Insider Trading. On the basis of unpublished information especially if the company’s staff, director or executive takes advantages by buying/selling the share of same company, then it is called Insider Trading. For example, if the board of directors decides to distribute dividend but such decision has not been publicized and on the basis of this decision, the decision maker and other company staff, knowing the decision, collects the share of the company and sells after the price increment or takes the bonus share, then this kind of transaction is known as Insider Training.” (*Bhattarai; 2006: 30*)

### **2.1.10 Prospects of Nepal’s Stock Market**

The amendment in the securities exchange act and the guidelines were some of the measure taken to improve in the legal and statutory Framework. Nowadays, different measures have been taken to improve the performance of stock market and all the improvement activities will be prospects of Nepalese Stock Market, which are given below:

### **A) Trading System Automated**

The Automated Trading System (ATS), an internationally compatible trading system was inaugurated by the then Finance Minister Dr. Ram Sharan Mahat on 24 August 2007. In order to adopt the ATS, NEPSE made an agreement with the British Company Comdaq Limited in November 2006 under the Asian Development Bank (ADB) loan assistance project--Corporate and Financial Governance (CFG)--at the cost of 300 thousand US dollars. The system has helped eliminate all possible human errors as seen in the open outcry trading procedures. Several international practices have been incorporated to make the system internationally compatible and modifications have also been made to customize the existing rules and regulations of the country.

### **B) Recruitment of new employees**

In an effort to make the organization more efficient, NEPSE recruited 14 new employees for different positions under the open recruitment system on 2 September 2007. After a brief orientation six of them were placed in the Surveillance, Listing and Finance Departments and eight in the Trading and Human Resources Management Departments. In order to make its core business more efficient and smooth NEPSE has reformed its organization, introduced a new organizational chart and a Voluntary Retirement Scheme (45 per cent staffers opted for the scheme). Similarly, it also started outsourcing its non-core business, like security and cleaning services.

### **C) Trading through WAN started**

After the introduction of the ATS and with the initiative and guidance of NEPSE, member brokers of NEPSE have started online trading through Wide Area Network (WAN) from their own office from 13 October 2007. Because of this facility, stock brokers can now sell or buy shares from their office. The brokers who have the necessary infrastructure prescribed by NEPSE will get access to WAN. To get access a broker must have a price board, separate rooms along with separate computers for clients' order entry, settlement and

must provide up to date information to the clients. In the first phase, NEPSE granted permission to Malla and Mall Stock Broking Limited, Nepal Stock House, Nepal Investment and Securities Trading Private Limited, Shreekrishna Securities Limited and Premiere Securities Company Limited for trading through WAN. From the end of the FY 2009/10 all the 23 brokers transact from their office via WAN.

#### **D) Market Halt System Introduced**

NEPSE introduced a string of measure to stabilize the volatility of the stock market. Previously, NEPSE used to halt transactions of respective individual company by imposing the circuit breaker whenever share prices of the companies move up or down over 10 percent in a single day transaction.

As per new measure, it can also suspend the whole market trading, which is known as index based circuit breaker or market halt. Now on NEPSE can halt the trading floor for 15 minutes if the index moves up or down by three percent during the first half an hour. After resumption of trading if the index moves up or down by four percent, NEPSE can suspend trading for another half an hour. After the resumption if again the index changes by five percent, NEPSE can suspend trading for rest of the day. The new measure also require brokers to clearly list orders of buying and selling shares and place those orders for transaction on priority basis. This provision has been enforced to address the rising concerns of small investors.

#### **E) Trading Hours Extended**

From 19 December 2007 NEPSE has increased the trading hours by one hour due to an increasing trading pressure after the automation of trading. Initially, NEPSE opened its trading activities for only two hours. Now the trading floor opens from 12.00 noon to 15.00. NEPSE has expected that investors in general and small investors in particular will benefit from the increase in trading hours.

### **F) Real Time Information Disseminated**

NEPSE has started providing real time information (live trading activity) to investors from 28 November 2008. Due to this facility investors can check share prices online from anywhere live during the trading hours. Additionally, without any time gap investors can check trading activities like top-gainers, top-losers, imposition of trading halt and resumption on NEPSE's web page.

### **G) Trading of Promoters' Shares**

NEPSE began trading of promoters' shares on 31 March 2008, adopting a different price quoting mechanism for the first trading of promoters' shares of the listed companies. For the first trading, the price of the promoters' share of a company that has a positive net worth could not be less than five times of its net worth per share or half of the current market price of the ordinary share, whichever is low. Similarly, in the case of a company that has a negative net worth, the first trading price couldn't be below half of the current market price of the ordinary share. Earlier, one could have traded the promoters' shares on the basis of the market price of the ordinary share. It is expected that trading of promoters' shares will make the capital market more vibrant and stabilizes the prices of ordinary shares.

### **H) Publication of Newsletter, Monthly Market Statistics and Review**

In its bid to make investors more aware of the secondary market NEPSE launched an English language newsletter, called 'NEPSE Newsletter', on 20 March 2008. Published once every two months, the newsletter will provide information on capital market activities. The newsletter will help reduce uncertainty and provide greater market efficiency through the dissemination of relevant information to investors and other concerned agencies and persons. NEPSE has also started publishing Monthly Market Statistics and Review from April 2008. It covers the secondary market related activities on a monthly basis.

### **I) OTC Market Started**

NEPSE started the over-the-counter (OTC) market from 4 June 2008 to give shareholders a chance to sell or buy the shares of companies that are de-listed and that are not listed on NEPSE for failing to meet the listing criteria. The shares of 43 companies can now be traded in the OTC market. But as per the request of Nepal Rastra Bank NEPSE has decided to restrict the shares trading of Nepal Bank Limited in the OTC, since shares trading of Nepal Bank Limited will have a negative impact on the ongoing Financial Sector Reform Project.

### **J) NEPSE Converted to Profit Seeking Entity**

The 26th annual general meeting (AGM) of NEPSE held on 23 May 2008 has decided to convert the organization into a profit seeking entity. The Company Registrar Office approved the decisions made at the AGM. The approval allowed NEPSE to turn itself into a profit seeking company, change its board of directors and increase its capital. Accordingly, NEPSE's authorized capital increased to Rs 160 million from Rs 50 million. Likewise, the paid-up capital was raised to Rs 50 million from the present Rs 34.9 million. Similarly, the structure of NEPSE's board was made more professional and representation having conflict of interest has been removed from the board.

## **2.2 Review of SEBON Regulations**

In the exercise of the of the power conferred by section 116, sub section 7, of the Securities Related Act, 2007, the Securities Board of Nepal has made following provisions regarding the issuance of securities;

### **Public Issuance of Securities**

- a. If a Corporate Body intends to sale and distribute its securities to more than fifty persons at a time, it shall be required to make public issuance of securities. While selling securities through public offering the

Corporate Body shall be required to set aside at least thirty percent of its issued for public subscription.

- b. The corporate body making public issue pursuant to Sub-regulation (1) shall be required to have completed a minimum of one year of business operation under its objectives and also require to have already published the audited financial reports for the period.
- c. The application for publicly issued shares pursuant to Sub-regulation (1) shall have citizenship certificate verified by the applicant attached thereto and also shall have to mention the name, address of the bank or financial institution where the applicant has maintained account and account number and the Issue Manager require to have arranged the refund of application money to be deposited in the bank account. Provided, however, that applicants subscribing for more than Rs. 50,000 require depositing the application money compulsorily through account payee check.
- d. In case the application money so received has been deposited with the Banker to the Issue for interest, eighty percent of the interest so received shall be required to be given to the applicant in a proportional basis for the days from the application date to the day before the allotment date and the Board shall be informed of such arrangement.
- e. The body corporate while making public issue of securities pursuant to these regulations may reserve up to five percent of the share to the working staffs and up to five percent for the local residents depending on the nature of business like hydropower, production or processing, out of the shares set aside for public issue. However, the shares reserves as such shall not be eligible to be sold or transferred within a minimum period of three years from the date of allotment.
- f. Other provision related to the public issuance shall be prescribed by the Board under its directives.
- g. In case a body corporate has issued securities without making public issue as prescribed by these regulations such securities shall not be

eligible for trading through the stock exchange or an alternative trading system.

- h. The Issue Manager shall be required to cancel any authorized application that it detects to have stated false information thereon. In case the Board finds that such application is not cancelled and the securities are distributed, the Board may impose fine equivalent to the same amount on the Issue and Sales Manager. The Board is required to use the proceeds only for the development of capital market.

### **2.3 Review of Journals and Articles**

**Aly, Mehdian & Perry** (2007), in their article, "*An Analysis of Day-of-the-Week Effects in the Egyptian Stock Market*", have examined daily returns for the CMA Index from 2002-2006 to test for the Monday effect in the Egyptian equity market. The Egyptian stock market provides a unique opportunity to test for seasonal anomalies in an emerging and recently modernized stock exchange where trading takes place on a four-day week basis (Monday through Thursday) as opposed to the more traditional five-day week. The empirical results indicate that while Monday stock returns are significantly positive, they are not significantly different from returns during the rest of the week. Furthermore, Monday returns are significantly more volatile than returns from Tuesday to Thursday. Hence, the significantly positive returns on Monday are associated with returns that are more risky.

In addition, an intra-month return analysis provides evidence to indicate that the significantly positive Monday returns are not caused by higher returns during the last two weeks of the month. The overall implication of this study suggests that the emerging Egyptian market is at least weakly efficient. Therefore, no specific trading rule can be exploited to generate abnormal stock returns in the Egyptian stock market. Finally, it is important to note that Egypt, like other emerging equity markets has an immature capital market. Thus, the results presented here should be interpreted cautiously since the Egyptian stock

market has a limited number (about 100) of stocks that are actively traded among the 1,071 listed stocks.

**Cornell & Rutten** (2008), in their article, “*Market Efficiency, Crashes, and Securities Litigation*”, have stated that unless markets are fully efficient, which is not logically possible, estimates of damages based on the efficient market hypothesis and *ex post* analyses of stock price movements frequently will overstate damages, often significantly. The reason for the overstatement is that lawsuits are only filed in situations where large stock price declines have already been observed, and in such situations, the impact of even small inefficiencies typically will be exaggerated. A further reason is that the very possibility that a lawsuit may be filed may exacerbate the decline.

The foregoing demonstrates that even when the market is deemed efficient for purposes of showing reliance, it should not automatically be deemed efficient for purposes of estimating damages. This does not mean, however, that stock price data should no longer be used as a tool for estimating damages; the point is that it should be only one of many tools. Stock price data by itself cannot answer whether the price decline is commensurate with the fundamental news conveyed by a fraud-related disclosure and thus whether the drop is a meaningful estimate of actual damages. Other standard valuation techniques, such as discounted-cash-flow analyses, must be brought back into securities litigation to answer that crucial question. Fortunately, standard valuation models and analyses of stock price movements focus on varying aspects of the problem of estimating damages, such that any errors, oversights, or elements of speculation involved in the application of one approach typically will differ from those that are likely to arise when applying the other. Consequently, using both techniques in conjunction with each other, and comparing the results, will give a more balanced and accurate measure of true damages than either applied alone.

**Tetlock** (2009), in his article, “*Does Liquidity Affect Securities Market Efficiency?*” has stated that it is challenging to estimate the relationship between liquidity and market efficiency using data from conventional financial markets, where securities’ fundamentals cannot be observed and systematic risks affect pricing. Securities markets with persistently high liquidity show significant pricing anomalies, such as overpricing low probability events and under pricing high probability events. Conversely, the sporadically liquid and illiquid securities markets are remarkably efficient. A leading explanation is that illiquid markets have fewer noise traders, and periods of illiquidity prevent arbitrageurs from profiting on short-term trades that would destabilize prices.

Further liquidity serves as a proxy for non-informational or noise trading. The key finding is that the prices of illiquid securities converge toward terminal cash flows much more rapidly than the prices of liquid securities. This implies that non-informational or noise trading is prevalent during periods of liquidity, which may help explain the observed mispricing in liquid securities. Although these results are unlikely to generalize without modification to conventional financial markets with long-horizon securities and larger stakes, they do suggest three interesting directions for future research. First, liquidity may only appear to be a priced risk factor because it captures some systematic element of mispricing. Second, different types and sources of liquidity may have opposing effects on the costs of arbitrage and equilibrium mispricing—*e.g.*, liquidity from noise trading may harm efficiency, whereas liquidity from low search costs may enhance efficiency. Third, because there appear to be significant limits to arbitrage on an online exchange with few capital constraints and securities that expire within a single day, the limits to arbitrage in conventional markets may be more severe than previously thought.

**McKinley** (2010), in his article, “*Stock Market Efficiency and Insider Trading*” has stated that insiders could significantly outperform the market by either buying or selling shares of their company’s stock in both the short and

long term. However, after statistical analysis was performed on the data it became apparent that insider trading was not so profitable. The data suggest that no form of insider trading, buying or selling, is profitable in the short run (one to six months). After performing statistical analysis, it has been concluded that it takes about one year for insider information to become public and reflected in a stock's price.

However, not all insider trading is profitable in the long run. Stocks that were sold by insiders under-perform the market after one year. The one-year data for insider buying proved to be statistically insignificant. The inability of insiders to profit from purchasing shares in their own company may be due to their lack of knowledge about competitors coupled with overconfidence in their ability to manage their company.

**Caccese** (2010), in her article, *“Does Noise Trading Affect Securities Market Efficiency?”* has stated that securities markets with more noise traders show significant pricing anomalies, such as overpricing low probability events and under pricing high probability events. Conversely, the securities markets where few noise traders are present appear to be remarkably efficient. Even more remarkable, only the highly liquid markets with persistent noise trade exhibit the S-shaped pattern of mispricing. Prices in securities markets in which noise trade is high at the moment, but could dissipate in the future, are reasonably accurate forecasts of empirically observed event frequencies.

As a result of limited arbitrage, small unexploited arbitrage opportunities remain in equilibrium. However, competition among arbitrageurs appears sufficient to prevent the equilibrium trading profits from becoming excessive. Although these results are unlikely to generalize without modification to real world financial markets with long-horizon securities, they do suggest three interesting directions for future research. First, liquidity may appear to be a priced risk factor because it captures some systematic element of mispricing.

Second, future theoretical models could distinguish between persistent liquidity and sporadic liquidity. Third, because there appear to be significant limits to arbitrage on an online exchange with few capital constraints and securities that expire within a single day, the limits to arbitrage on real-world exchanges may be more severe than previously thought.

## **2.4 Review of Thesis**

**Kharel** (2005), in her thesis, “*Current Problems and Prospects of Securities Market in Nepal*”, has the major objectives to detect out the existing problems in Securities market in Nepal and also the prospects of Securities Market in future. The other specific objectives of the study are;

- a. To measure the company traded to company listed in the securities market.
- b. To evaluate the stock turnover in the observed periods.
- c. To analyze the role of market capitalization for enhancing the economic growth.

The major findings of the study are;

- a. The development of stock market primarily depends on program and their implementation.
- b. In Nepal, the overall policy environment has not been conducive to the development of stock market. Therefore, it is difficult to develop more efficient secondary market, trading system for both equity and debt security.
- c. Lack of investor’s confidence in stock market since many listed companies resulted not trading on regular basis or hold AGM.
- d. NEPSE does not have appropriate policies, memberships and fee structure to attract member outside the Kathmandu.
- e. Lack of necessary provisions in the laws and regulation for the privatization and automatics of stock exchange as well as for the establishment of central depository of securities (CDS).

**Rajbahak** (2006), in his thesis, *“Primary Issuer of Share in Nepal”*, has the main objective to find out the reaction of public to the primary issuer of the country. The other specific objectives of the study are;

- a. To identify the problems of primary share issue market.
- b. To assess the growth of primary issue market.
- c. To analyze the pattern of public response to shares and to find the reason for variation.

The major findings of the study are;

- a. Public response in primary market is high due to lack of opportunities for investment in other fields.
- b. No public are attracted towards shares than other securities basically to increase their value of investments, be it dividend gain or bonus shares.
- c. It can be seen that public response to primary issues on Banking and financial sectors is normally higher than that of the manufacturing and services sector. There was poor response because interest rates are higher as compared to dividend yield, the public companies were not performing well, and people were unaware about the importance of investing in securities.

**Shakya** (2007), in his thesis, *“Role of Financial Indicators in Determining Share Price in Nepalese Financial Market”*, has the main objective to measure the role of stock price determinants. The other specific objectives 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 or not.
- d. To identify qualitative factors affecting the stock price.

The major findings of the study are;

- 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.

**Giri** (2008), in his thesis, "*An Analysis of Share Price Movement Attributed to Right Offering Announcement*", has the main objective to find out the relationship between right offering and the share price fluctuation. The other specific objectives of the study are;

- a. To find out if there is significant changes in share price after the announcement of right offering.
- b. To find out if there is any problem in the primary issue of securities.
- c. To prescribe some policies that will help to ratify the current problems in the issue in the issue of securities.

The major findings of the study are;

- a. SEBON has failed to establish a 'one-window policy' causing various imbroglios for the companies that want to go primary issue market for raising the capital.

- b. Till the date there is no enactment of the ‘Investors Protection Act’.
- c. Companies Act with regard to the contents of the issue prospectus is deemed to be insufficient on the ground that, it does not mention the companies are required to specify on the issue prospectus about the risk category on which their businesses fall.

**Satyral** (2008), in his 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 the study are:

- 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.

**Baral** (2008), in his thesis, “*Stock Price Movement in Nepalese Securities Market*”, has the main objective to detect the reason behind the stock price movement. The other specific objectives of the study are;

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

The major findings of the study are;

- 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 2006 was in increasing trend 2007 in decreasing trend while that of 2008 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, 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.

**Burlakoti** (2009), in his thesis, “*Stock Price Behaviour of Financial Institutions and Commercial Banks*”, has the main objective to analyze the stock price behaviour. The other specific objectives of the study are;

- a. To study the present position of the financial institution and joint venture banks.
- b. To examine and evaluate the relationship of MPS with various financial indicators like EPS, NWPS, DPS and DPR.
- c. To analyze the degree of risk involved in the common stocks investment of the sampled companies.
- d. To identify whether stocks of the sampled companies equilibrium priced or not.
- e. To analyze and have the comparative study about the performance of financial institution and commercial banks with regard to their profitability and liquidity position.
- f. To present some recommendations based on the findings of the study.

The major findings of the study are;

- a. The DPS of SCBL has higher than NBL, NIBL and EBL. In finance companies, DPS of NFCL is higher than AFCL, NMBCL. It is seen that DPS of NFCL is in satisfactory level.
- b. The MPS of SCBL is higher than NBL, NIBL and EBL. SCBL is the most appreciable bank among the selected ones. The risk of NBL is higher than SCBL, NIBL and EBL. It indicates that there is high risk in NBL. The CV of EBL is more fluctuating i.e. there is higher CV in EBL.
- c. The correlation coefficient of EPS and DPS seems to be significant except the case of EBL and AFCL, i.e. correlation coefficient recorded as EBL & AFCL is in negative.

- d. The coefficient of determination ( $r^2$ ) of SCBL, NIBL, NFCL & NMBFCL are strong of 0.64, 0.254, 0.7174, 0.393 which indicates that 64%, 25.4%, 71.74% & 39.3% of the total variation in market price has been explained by the influence of EPS and remaining 36%, 74.6%, 28.26%, 60.7% is due to the effect of other factors.

**Khadka** (2009), in his thesis, "*Broker Performance and their Services in Nepalese Stock Market*", has the main objective to measure the role of brokers in enhancing the stock market in Nepal. The other specific objectives of the study are;

- a. To examine the brokerage services in secondary market.
- b. To analyze the performance of the brokerage company in Nepal.
- c. To examine the investors satisfaction towards the broker's services.

The major findings of the study are;

- a. The purpose of investment of the investors in securities market were found 67.50%, 22.50%, 5%, and 5% for capital gain, social status, use of excess money and dividend/interest income respectively.
- b. The data acquired from the survey said that 50%, 66.67% and 16.67% investors follow the fundamental and Technical analysis and market fluctuation/trend and broker advice respectively to securities buy/sell the decision.
- c. It was found that 20% of the companies were providing sufficient information regarding the performance and future planning of the companies but 35% investors have just opposite response. However, 45% companies are found providing information in this regard to some extent.

**Rayamajhi** (2010), in her thesis, "*Share Price Behaviour of Commercial Banks listed in NEPSE*", has a major objective to analyse the behaviour of share price. The specific objectives of the study are:

- 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 the study are:

- 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. 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.
- c. 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.

**Sapkota** (2010), in his thesis, "*Price Formation and Brokering Services in Nepal Stock Exchange*", has the main objective to evaluate the brokering services in Nepal. The other specific objectives of the study are;

- a. To study the price formation at Nepal Stock Exchange.
- b. To analyze whether the price formation in Nepal stock exchange is effective or not.
- c. To analyze the trend of market price of the stock of the companies under study.

- d. To analyze the brokering services and the role of the brokers in price formation in Nepalese Stock Market.

The major findings of the study are;

- a. The efficient price formation is one of the requirements for the development of the stock market. The involvement of different sectors especially the brokers with various services and facilitators in comparison to cost help to grow the involvement of the number of investors and the number of shares traded.
- b. The price system established on the stock exchange provides guidance to investors and helps them in directing the flow of fund into firms having prosperous and bright future.
- c. The investors prefer blank transfer, it is their intention to prefer the shares having higher liquidity to earn capital gains when the time comes but actually most of them holds shares for long period. This was realized during the direct observation during the observation period at NEPSE floor and the brokerage offices.

## **2.5 Research Gap**

Undoubtedly the entire above thesis reviewed has significant role to illuminate on the related subjects and to guide for doing the research. Though, most of the researches are based on the stock price movement or behavior, they don't clearly interpret the securities market performance of the nation. Thus, considering this deficiency, the present study has been conducted to analyze the securities market performance of Nepal, the problems, prospect, and malpractices of the securities market. In addition, the study also analyzes the contribution of the market capitalization in gross domestic product and analyzes the composition of turnover of Nepal Stock Exchange.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 Research Design**

A research design bearing the techniques and systematic steps of research helps to collect information required to researcher for thesis writing or for any other investigation. In the lack of the research design, the functional process on researches is never achieved.

This research work tried to present the problems and prospects of stock market growth. The present study consists of analytical as well as descriptive design. The study is based on both secondary data and primary. Financial as well as statistical tools are used to analyze and interpret these data.

#### **3.2 Nature and Sources of Data**

The study is based both on secondary data and on primary data, and the data are collected from various sources. The secondary data was collected by reviewing the annual reports, brochures, prospectus of SEBON and NEPSE, while the primary data are collected through questionnaire.

#### **3.3 Population and Sample**

The population for this study comprised of all public limited companies, currently 301, of various sector viz. banking sector, development bank sector, finance sector, insurance sector, manufacturing and processing sector, trading sector, hotels, and other sector. Therefore all the companies whose securities are issued in the study have been taken regarded as both population and sample. In short, the study analyzes the performances of NEPSE.

### **3.4 Data Analysis Tools**

For the analysis of the data, both financial and statistical tools have been extensively used.

#### **3.4.1 Financial Tools**

The major financial tools used in the study are as follows;

##### **a) NEPSE Index**

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.

##### **b) Company Trading Ratio**

The company trading ratio is the ratio of the number of traded companies to the total number of listed companies. It is not necessary that the shares of all the companies listed in the stock exchange are traded, so the listed companies whose shares are traded in the stock exchange are called traded companies. The company trading ratio measures the liquidity of a stock exchange i.e. higher the company trading ratio higher the liquidity and vice-versa. The company traded ratio can be calculated as;

$$\text{Company Trading Ratio} = \frac{\text{Number of Company Traded}}{\text{Number of Listed Company}} \times 100$$

##### **c) Market Capitalization Ratio**

The market capitalization ratio is the ratio of market capitalization to the nominal Gross Domestic Product (GDP). The market capitalization ratio can be used as a measure of market size. This ratio serves as an indicator of stock market development under the assumption that stock market size is positively correlated with the ability to mobilize capital and diversify risk. Generally, the market capitalization of developed stock market is greater than 1.

$$\text{Market Capitalization Ratio} = \frac{\text{Market Capitalization}}{\text{GDP at Producers' Price}} \times 100$$

#### **d) Value Traded Ratio**

The value traded ratio is the ratio of total amount traded on the stock market to the nominal Gross Domestic Product (GDP). It measures the organized trading of firm equity as a share of national output. The value traded ratio is the complementary of the market capitalization ratio. Thus, for the measurement of liquidity of a market, both the ratios; market capitalization ratio and value traded ratio are required to get the fact.

$$\text{Value Traded Ratio} = \frac{\text{Value Traded}}{\text{GDP at Producers' Price}} \times 100$$

#### **e) Stock Turnover to Market Capitalization Ratio**

It is the ratio of turnover to the market capitalization. Though, it is not direct measure of theoretical deflation of liquidity, high turnover is often used as indicator of low transaction cost. The turnover ratio complements market capitalization ratio. A large but inactive market can have a large market capitalization ratio but a small turnover ratio.

$$\text{Stock Turnover to Market Capitalization Ratio} = \frac{\text{Stock Turnover}}{\text{Market Capitalization}} \times 100$$

### **3.4.2 Statistical Tools**

The major statistical tools used in the study are as follows:

### a) Mean

The arithmetic mean (or simply the mean) of a list of numbers is the sum of the list divided by the number of items in the list. The mean is the most commonly-used type of average and is often referred to simply as the average.

$$\text{Mean}(\bar{X}) = \frac{x_1 + x_2 + \dots + x_n}{N}$$

### b) Standard Deviation

Standard deviation is a widely used measure of the variability or dispersion, being algebraically more tractable though practically less robust than the expected deviation or average absolute deviation. A low standard deviation indicates that the data points tend to be very close to the mean, whereas high standard deviation indicates that the data are spread out over a large range of values.

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum(X - \bar{X})^2}{N}}$$

### c) Coefficient of Variation

The coefficient of variation represents the ratio of the standard deviation to the mean, and it is a useful statistic for comparing the degree of variation from one data series to another, even if the means are drastically different from each other.

$$\text{C. V.} = \frac{\text{Standard Deviation} \times 100}{\text{Mean}}$$

## 3.5 Presentation and Analysis Procedure

For the purpose of this study, the different data are obtained from different sources, which are scanned and tabulated under different heads. After

tabulation, they are analyzed by applying both financial and statistical tools. While analyzing the data, mainly the deductive reasoning has been followed. Moreover, the descriptive analysis has been done and the secondary data are basically historical.

## CHAPTER – IV

### DATA PRESENTATION AND ANALYSIS

#### 4.1 Secondary Data Analysis

Under this section of the study, the secondary data extracted from the annual report of NEPSE has been analyzed to achieve the first three objectives of the study enumerated in the first chapter, encompassing the trend of securities, the financial perspective of securities and estimation of the index and others.

##### 4.1.1 Analysis of Securities System in NEPSE

Nepal Stock Exchange had opened its trading floor on 13<sup>th</sup> January, 1994. Since then, NEPSE is involved in the securities trading of different listed companies. Thus, attempts have been made to study the performance of NEPSE by analyzing its yearly trends on different factors for seven fiscal i.e. from FY 2006/07 to FY 2012/13.

##### 4.1.1.1 NEPSE Index

A stock market index is a method of measuring a section of the [stock market](#). In course of transactions, the price of some companies' stock would increase while the price of other companies' stock may decline over time. However, if the overall performance of the stock market has to be analyzed, an index is needed. Market index serves this purpose. Market index can be computed by using different techniques. However, NEPSE uses value weighted index technique. For the computation of value weighted index, NEPSE has assumed 12<sup>th</sup> February, 1994 as base period.

**Table: 4.1**  
**NEPSE Index** (Index in Point)

<b>Fiscal Year</b>	<b>NEPSE Index</b>	<b>Percentage Change</b>
2006/07	286.67	-----
2007/08	386.83	34.94
2008/09	683.95	76.81
2009/10	963.36	40.85
2010/11	749.10	-22.24
2011/12	477.73	-36.23
2012/13	362.85	-24.05

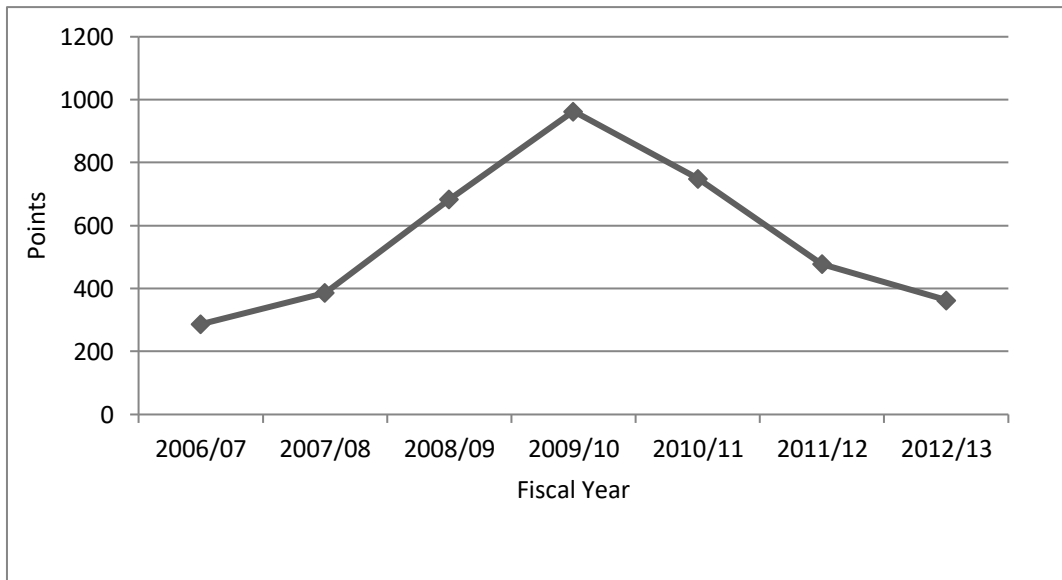
*(Source: Trading Reports, NEPSE)*

The table depicts that the NEPSE index has increased up to the first four fiscal years and has decreased in the last three fiscal years. The NEPSE index is 286.67 points in the fiscal year 2006/07 and by the end of the fiscal year 2012/13, it is 362.85 points. The NEPSE index has increased highest (76.81%) in the fiscal year 2008/09 and finally decreased by 24.05% in the fiscal year 2011/12 compared to the index of previous year. It seems that the recession in the world's economy has also affected the securities business of Nepal. Besides it, the instability of the government, strike, malpractices in the stock market, investors enthusiasm to other sectors like real estate and others have greatly influenced the securities market of Nepal from the fiscal year 2010/11, as a result the NEPSE index has been caused to decline during the last three fiscal years in comparison to that in the previous year.

Moreover, as per the annual report of NEPSE in the fiscal year 2012/13, the NEPSE index has reached the highest, 472.29 points, on 21<sup>st</sup> July 2010 and the lowest, 292.31 points, on 15<sup>th</sup> June 2011. Also, the sub-index of listed hydropower is greatest in the fiscal year 2012/13. The sub-index of hydropower is 673.44 points, commercial banks is 328.70, manufacturing and processing is 591.52 points, hotel is 412.59 points, trading is 241.97 points, insurance is 407.14 points, finance is 303.78 points, development bank is 294.15 points and

other is 492.31 points at the end of the fiscal year 2012/13. The decrement in the NEPSE index in the recent periods substantially affects the stock market growth and thus this reduction in NEPSE index is a problem for the stock market development.

**Figure: 4.1**  
**NEPSE Index**



#### **4.1.1.2 Turnover of NEPSE**

Under this section the turnover generated by NEPSE through the transaction of securities, including both share and bond transactions, is enumerated and the growth rate in total turnover has been highlighted.

**Table: 4.2**  
**Annual Turnover of NEPSE**

<b>Fiscal Year</b>	<b>No. of Common Shares '000'</b>	<b>Common Share Turnover (Million)</b>	<b>No. of Bonds '000'</b>	<b>Bond Turnover (Million)</b>	<b>No. of Pref. Shares '000'</b>	<b>Pref. Share Turnover (Million)</b>	<b>Total Turnover (Million)</b>	<b>Growth (%)</b>
2006/07	18433.55	4507.68	15000	150	2	0.20	6007.88	-----
2007/08	12221.93	3451.43	38660	4910	2	0.20	8361.63	39.18
2008/09	18147.25	8360.10	33650	3950	2	0.10	12310.20	47.22
2009/10	28599.77	22820.76	62725	7825	1	0.20	30645.96	148.95
2010/11	30547.16	21681.14	156835	20485	1	0.20	42166.34	37.59
2011/12	26231.35	11851.11	255235	30685	2	0.20	42536.31	0.88
2012/13	26240.39	6665.33	262183	36183	2	0.20	42848.53	0.73
<b>Average</b>		<b>11333.94</b>		<b>15076.86</b>		<b>0.19</b>	<b>26410.98</b>	
<b>S.D.</b>		<b>7354.79</b>		<b>12996.83</b>		<b>0.03</b>	<b>15753.84</b>	
<b>C.V. %</b>		<b>64.89</b>		<b>86.20</b>		<b>18.84</b>	<b>59.65</b>	

(Source: Annual Reports, NEPSE)

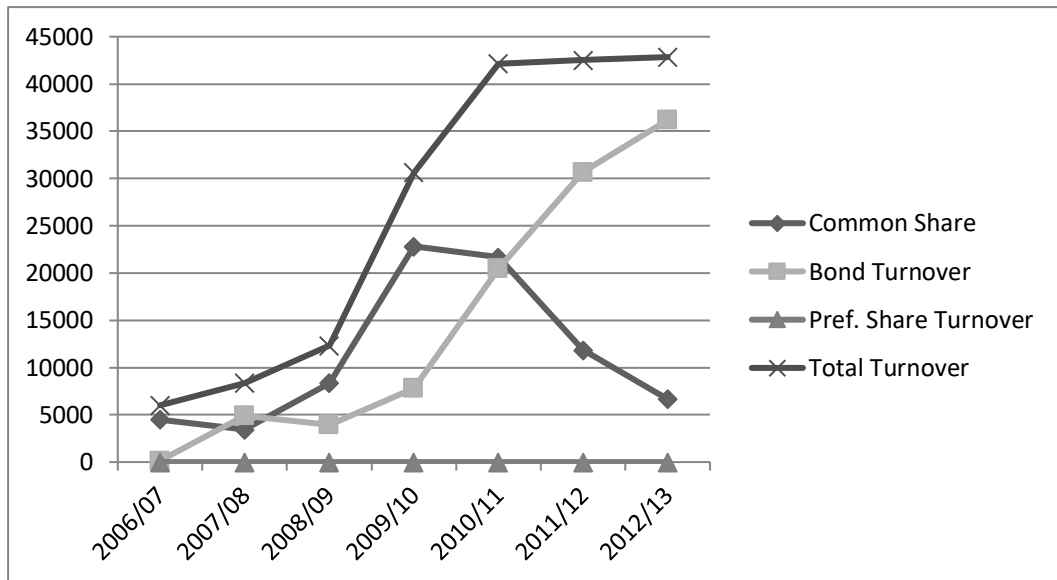
The turnover of the NEPSE is highly covered by the common shares business. The number of common shares transacted has decreased from 18433.55 thousand in the fiscal year 2006/07 to thousand to 1221.93 thousand in the fiscal year 2007/08. However, from then, the number of common stock transaction has started to increase, and such increment continued up to the fiscal year 2010/11, when the number of common stock transaction is 30547.16 thousand. The number of common stock transaction in the fiscal year 2012/13 has been observed to be 26240.39 thousand. It has also been observed that the trend of turnover from the common stock transactions is not consistent. The highest turnover through common shares transactions is in the fiscal year 2009/10, which is exactly Rs. 22820.76 millions, and in the fiscal year 2011/12, it is just Rs. 6665.33 million. In average, the turnover from the common stock is Rs. 11333.94 millions, and the variation in such turnover is 64.89%, indicating high inconsistency.

The history of bond transaction is not so far, the stock exchange has started bond market from the fiscal year 2006/07, in which it has transacted 1500 thousands government bond with the paid up value of Rs. 150 millions. NEPSE has transacted both government bond and corporate bond from the fiscal year 2007/08. The turnover from bond transactions has ranged from Rs. 150 millions in the fiscal year 2006/07 to Rs. 36183 millions in the fiscal year 2012/13. In average, the bond transaction per year amounted to Rs. 15076.86 millions and the variation in such transaction is 86.20%, highly inconsistent. Except common stock and bond transactions, the transaction of preference share is also made in the secondary market. However, the contribution of preference shares in increasing the turnover of NEPSE is somewhat negligible, as the transactions of preference shares is very low in comparison to that of bonds and common shares. In most of the observed fiscal years, the number of preference shares transaction is 2 thousand and the turnover from such share is Rs. 0.20 million. In average, the turnover from preference shares is Rs. 0.19 million and the variation in the turnover is 18.84%.

Summing up, the total turnover, common share, preference shares and bond transaction, of NEPSE has persistently increased in the observed periods. The turnover of the NEPSE has increased from Rs. 6007.88 millions in the fiscal year 2006/07 to Rs. 42848.53 millions in the fiscal year 2012/13. The turnover has increased in each year, however, the growth rate in turnover has been ascertained to be greatest, 148.95%, in the fiscal year 2009/10. The average turnover of the stock market is Rs. 26410.98 million with the variation of 59.55%. In overall, it can be inferred that the stock business is the still the lucrative business for the investors; however, the investors have shown more interest to the bond market and have shown less interest in the stock market. Nevertheless, the investors are paying more market price for taking the possession on stock. This can be the positive point for the stock market, and thus can be taken as an important prospect for the growth of the market.

However, the concerned bodies should consider the decreasing turnover from the common stock transactions in the recent periods while making plan for the enhancement of the market, otherwise it could create the problem for the market growth.

**Figure: 4.2**  
**Annual Turnover of NEPSE**



#### 4.1.1.3 Market Capitalization of NEPSE

This indicates the total market value of the listed companies during the study period. The total market capitalization of listed companies and the percentage change in the five year period is presented in the table.

**Table: 4.3**

**Annual Market Capitalization (Rs. in million)**

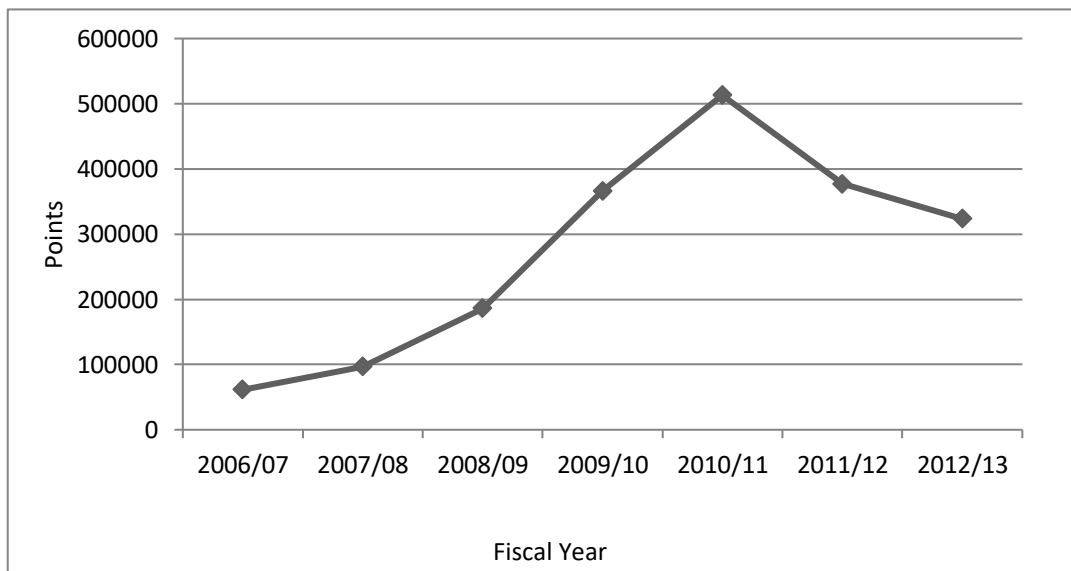
Fiscal Year	Market Capitalization	Growth Rate (%)
2006/07	61365.89	-----
2007/08	96763.74	57.68
2008/09	186301.28	92.53
2009/10	366247.56	96.59
2010/11	512939.07	40.05
2011/12	376871.37	-26.53
2012/13	323484.34	-14.17

(Source: Trading Reports, NEPSE)

The table shows that the market capitalization of the listed companies has followed increasing trend for the first five fiscal years. The market capitalization has ranged from Rs. 61365.89 millions in the fiscal year 2006/07 to Rs. 512939.07 millions in the fiscal year 2010/11, and then it has decreased to Rs. 376871.37 millions in the fiscal year 2011/12, and to Rs. 323484.34 millions in the fiscal year 2012/13. The growth rate in market capitalization is highest (96.59%) in the fiscal year 2009/10 and lowest (-26.53%) in the fiscal year 2011/12. The increasing trend of market capitalization indicates increase in market price per share of the companies listed, which indicates positive impact of securities market on the investors, and the decrease in the market capitalization in the fiscal year signals the increase in the diffidence in the investors on the stock business.

**Figure: 4.3**

**Market Capitalization of NEPSE**



**4.1.1.4 Listed and De-Listed Companies in NEPSE**

As per the rules and regulations of SEBON, the company should be listed on the NEPSE to transact shares in market. The number of companies listed indicates the increasing/decreasing trend of the number of companies listed per year and de-listed companies indicate that the companies have not acted as per

the provision of SEBON. The number of companies listed and its growth along with the number of de-listed companies are presented in the table.

**Table: 4.4**  
**Listed and De-Listed Companies in NEPSE**

<b>Fiscal Year</b>	<b>Listed Companies</b>	<b>Growth %</b>	<b>De-Listed</b>
2006/07	125	-----	0
2007/08	135	46.59	0
2008/09	135	0.00	12
2009/10	142	5.19	5
2010/11	159	11.97	0
2011/12	176	10.69	0
2012/13	207	17.61	0

*(Source: Trading Reports, NEPSE)*

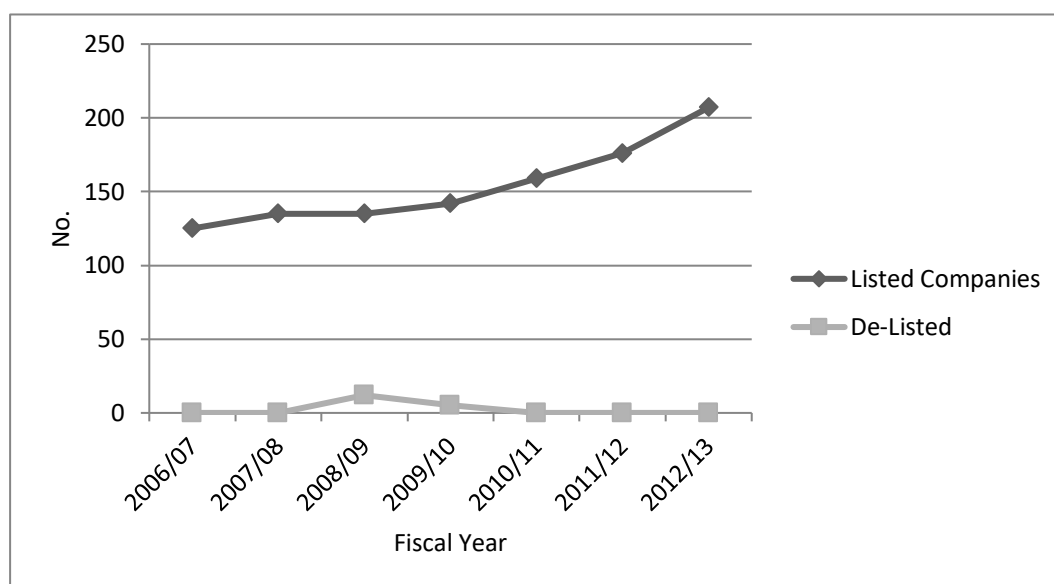
Listing and delisting of companies in the stock exchange is regular annual phenomena of stock market. The NEPSE delists the companies that do not truly follow the act, laws and bylaws related to the stock market. Further, for making the stock market much efficient and making the listed companies much obliged to the rules, the delisting is essential. The annual reports of NEPSE indicate that the number of listed companies has increased in each fiscal year.

The number of listed companies has reached to 207 in the fiscal year 2012/13 from 135 in the fiscal year 2007/08. This purports that the companies have shown much interest for trading their stock through secondary market, and for accentuating their capital, which ultimately builds up the capital market. On the other side, the NEPSE has delisted 12 companies in the fiscal year 2008/09 and 5 companies in the fiscal year 2009/10 for not following the prescribed rules and regulations and for other purposes. Altogether shares amounting Rs. 348.20 and Rs. 174.91 million have been de-listed during the year fiscal year 2008/09 and 2009/10 respectively. There has been highest number of increment in the number of listed companies in the fiscal year 2012/13. The increment in the number of listed companies is a good prospect for the stock market development.

Moreover, there is not delisting activities in the last three fiscal years, and this situation also shows a good prospect of stock market development.

**Figure: 4.4**

**Listed and De-Listed Companies in NEPSE**



**4.1.2 Financial Perspective of Securities Trading System**

Liquidity is another aspect that is facilitated by the stock exchanges. Liquid equity market provides investment opportunities to the investors and to make a certain assets more attractive. It allows savers to acquire asset and sell it quickly and cheaply. Different ratios can be used to witness the liquidity of a stock market. Here Company Trading Ratio, Market Capitalization Ratio, Value Traded Ratio, and Turnover Ratio are employed to find out the liquidity position of NEPSE.

**4.1.2.1 Company Trading Ratio**

It is not necessary that the shares of all the companies listed in the stock exchange are traded, so the listed companies whose shares are traded in the stock exchange are called traded companies. The company trading ratio measures the liquidity of a stock exchange i.e. higher the company trading ratio higher the liquidity and vice-versa.

**Table: 4.5**  
**Company Trading Ratio**

<b>Fiscal Year</b>	<b>Listed Company</b>	<b>Traded Company</b>	<b>CTR (%)</b>
2006/07	125	102	81.60
2007/08	135	110	81.48
2008/09	135	116	85.93
2009/10	142	136	95.77
2010/11	159	137	86.16
2011/12	176	160	90.91
2012/13	207	183	88.41
<b>Mean</b>	<b>154</b>	<b>135</b>	<b>87.18</b>
<b>S.D.</b>	<b>26.79</b>	<b>26.75</b>	<b>4.71</b>
<b>C.V. %</b>	<b>17.38</b>	<b>19.84</b>	<b>5.41</b>

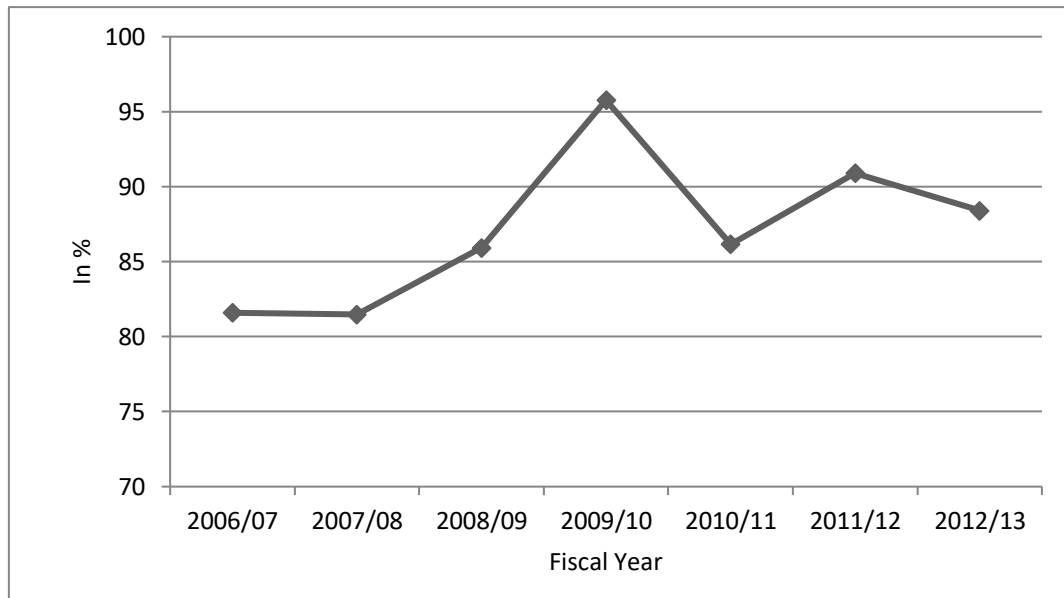
*(Source: Trading Reports, NEPSE)*

The table 4.5 shows that the traded companies to listed companies in the seven year periods. The table depicts that in each fiscal year the number of traded companies is lower than the number of listed companies, purporting that some of the listed companies remain idle by not trading in each fiscal year. The table further manifests that the number of traded companies to the number of listed companies has been in fluctuating trend. The ratio has been computed to be 81.60% in the fiscal year 2006/07, which has decreased to 81.48% in the fiscal year 2007/08, and then increased to 85.93% in the fiscal year 2008/09, again increased to 95.77% in the fiscal year 2009/10, has decreased to 86.71% in the fiscal year 2010/11 and then has increased to 90.91% in the fiscal year 2011/12 and finally has decreased to 88.41% in the fiscal year 2012/13.

The ratio shows that the fiscal year 2009/10 has remained the most satisfactory as highest proportion of the listed companies traded in the market. In average, only 89.54% of the listed companies in NEPSE have been traded within the five year period taken for study. NEPSE should set out new policy and techniques to effectively jerk out the untraded companies in transactions and

thus increase the turnover. Certainly the increasing number of listed companies can enhance the stock market development; however the circumstance of remaining idle of some of the listed companies in each year could push back the securities market business.

**Figure: 4.5**  
**Company Trading Ratio**



#### **4.1.2.2 Market Capitalization Ratio**

The market capitalization ratio is the ratio between market capitalization and Gross Domestic Product (GDP). Market Capitalization Ratio shows the contribution of market capitalization to the GDP. Market capitalization ratio of different fiscal years are calculated and presented in the table.

**Table: 4.6****Market Capitalization Ratio (Rs. in million)**

<b>Fiscal Year</b>	<b>Market Capitalization</b>	<b>GDP at Producer's Prices</b>	<b>MCR (%)</b>
2006/07	61365.89	508321.43	12.07
2007/08	96763.70	514492.32	18.81
2008/09	186301.30	532046.45	35.02
2009/10	366247.56	564525.63	64.88
2010/11	512939.07	591937.28	86.65
2011/12	376871.37	619033.19	60.88
2012/13	323484.34	638178.55	50.69
<b>Mean</b>			<b>47.00</b>
<b>S.D.</b>			<b>24.66</b>
<b>C.V.%</b>			<b>52.47</b>

(Source: Central Bureau of Statistics and Annual Report 2012/13, NEPSE)

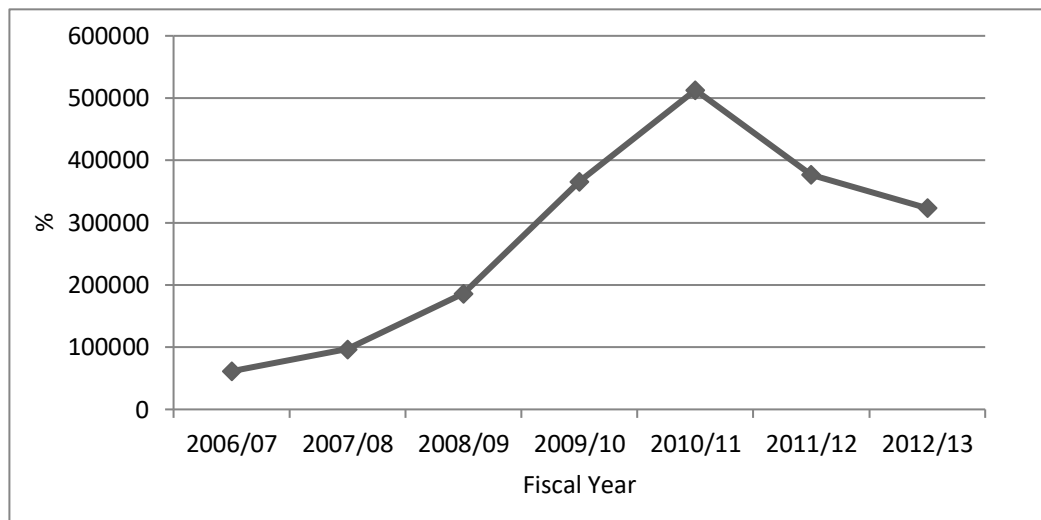
The market capitalization of stock to GDP at producers' prices has been found to be in increasing trend for the first five fiscal years. This indicates that the pace of growth in market capitalization is greater than the pace of growth in GDP at producer's price in these periods. The ratio of market capitalization to GDP is 12.07% in the fiscal year 2006/07, which has gradually increased up to the fiscal year 2010/11, and by the end of the fiscal year 2010/11, it is 86.65%. However, the ratio has been decreased to 60.88% in the fiscal year 2011/12, and to 50.69% in the fiscal year 2012/13, resulting from the decrement in the market capitalization and the persistent increment in GDP.

Nonetheless, in average, the ratio of market capitalization to total GDP is 47%, which indicates that market capitalization has substantial role to stimulate the GDP growth. However, the ratio has highly varied in the seven year periods, since the coefficient of variation in the ratio is 52.47%. Eventually, it can be assumed that the development of securities market has crucial role to upgrade

the GDP and thus support the economy of the country. However, from the stock market development facet, its role is debilitating day by day.

**Figure: 4.6**

**Market Capitalization Ratio**



**4.1.2.3 Value Traded Ratio**

Value traded ratio is the complementary of the market capitalization ratio. The value traded ratio is the ratio of value traded or turnover to the Gross Domestic Product (GDP). For testing the liquidity of the security market, value traded ratio is also needed to compare.

**Table: 4.7**

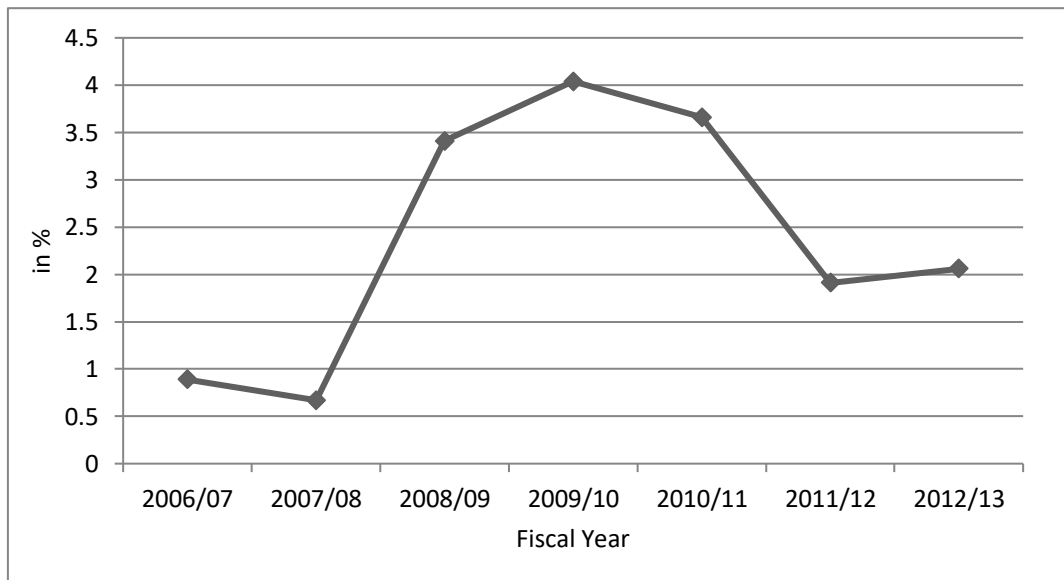
**Value Traded Ratio (Rs. in Million)**

<b>Fiscal Year</b>	<b>Securities Turnover</b>	<b>GDP at Producer's Prices</b>	<b>Value Traded Ratio (%)</b>
2006/07	4507.68	508321.43	0.89
2007/08	3451.43	514492.32	0.67
2008/09	18147.25	532046.45	3.41
2009/10	22820.76	564525.63	4.04
2010/11	21681.14	591937.28	3.66
2011/12	11851.11	619033.19	1.91
2012/13	6665.33	323484.34	2.06
Mean			<b>2.38</b>
S.D.			<b>1.25</b>
C.V.%			<b>52.57</b>

(Source: Central Bureau of Statistics and Annual Report 2012/13, NEPSE)

The table shows that the gross domestic product at producers' price of the nation has increased in each fiscal year. The GDP has increased from Rs. 508321.43 millions in the fiscal year 2006/07 to Rs. 638178.55 millions in the fiscal year 2012/13. Moreover, it has been ascertained that the value traded ratio has fluctuated during the observed periods. The ratio has increased from 0.67% in the fiscal year 2007/08 to 4.04% in the fiscal year 2009/10 and then it has decreased to 3.66% in the fiscal year 2010/11, again it has decreased to 1.91% in the fiscal year 2011/12, and finally it has reached to 1.04%. The decrement in the ratio is solely due to the low increment in the turnover. However in average, the annual turnover has contributed 2.38% of the total GDP of the country. Thus for the economic prosperous of the country, the enhancement in annual turnover of stock market is quite necessary. However, the decreasing trend in the stock turnover is lagging the development of stock market itself.

**Figure: 4.7**  
**Value Traded Ratio**



#### **4.1.2.4 Securities Turnover to Market Capitalization Ratio**

The turnover to market capitalization ratio calculates the activeness of the share market. This ratio calculates the trading relative to the size of the securities market. Turnover ratio is used to determine the liquidity of the securities

market. Higher the turnover ratio, higher will be the liquidity and vice-versa. Turnover Ratios during different fiscal years from FY 2006/07 to FY 2012/13 are calculated and presented in the following table:

**Table: 4.8**

**Securities Turnover to Market Capitalization Ratio (Rs. in Million)**

<b>Fiscal Year</b>	<b>Securities Turnover</b>	<b>Market Capitalization</b>	<b>STMCR (%)</b>
2006/07	4507.68	61365.89	7.35
2007/08	3451.43	96763.74	3.57
2008/09	18147.25	186301.28	9.74
2009/10	22820.76	366247.56	6.23
2010/11	21681.14	512939.07	4.23
2011/12	11851.11	376871.37	3.14
2012/13	6665.33	323484.34	2.06
<b>Mean</b>			<b>5.19</b>
<b>S.D.</b>			<b>3.51</b>
<b>C.V.</b>			<b>48.31</b>

(Source: Annual Reports, NEPSE)

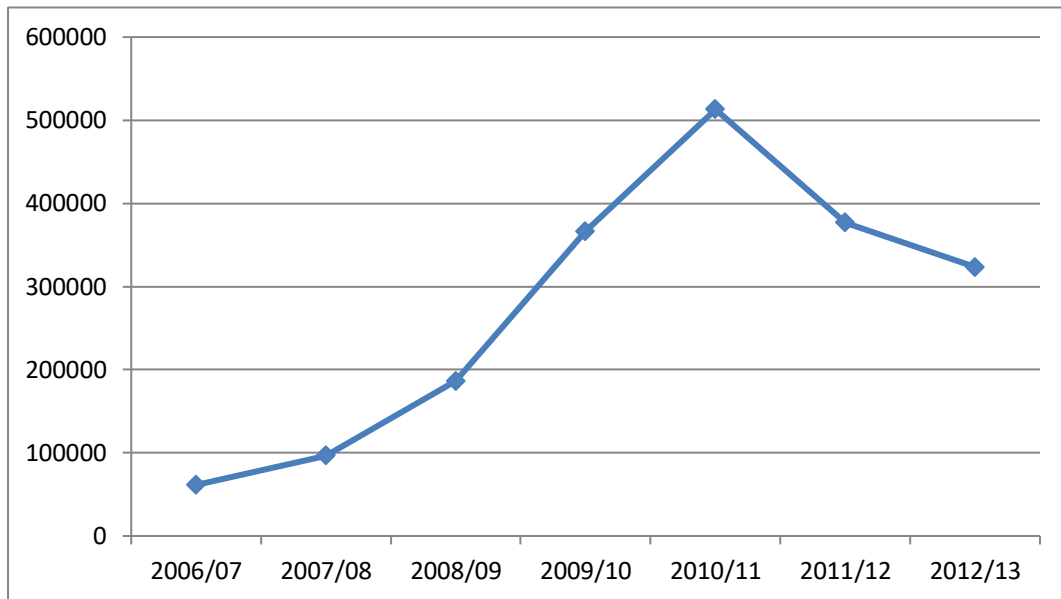
Except in the fiscal year 2008/09, the turnover to market capitalization has decreased in each fiscal year. The turnover to market capitalization of the listed companies is highest, 9.74%, in the fiscal year 2008/09 and lowest, 2.06%, in the fiscal year 2012/13. The turnover to market capitalization has observed to be 7.35% in the fiscal year 2006/07, which decreased to 3.57% in the fiscal year 2007/08, and then increased to 9.74% in the fiscal year 2008/09, decreased to 6.23% in the fiscal year 2009/10, 4.23% in the fiscal year 2010/11, 3.14% in the fiscal year 2011/12, and finally 2.06% in the fiscal year 2012/13.

However, NEPSE has utilized 5.19% of the market capitalization in average in generating turnover. The standard deviation and coefficient of variation of turnover to market capitalization are 3.51% and 48.31% respectively, indicating greater inconsistency in the ratio. It would be better if NEPSE follows the rules and regulations effectively to have high turnover ratio and thus to have satisfactory liquidity. Certainly this decreasing trend in the

turnover ratio is not good for the stock market development, and need to be solved.

**Figure: 4.8**

**Securities Turnover to Market Capitalization Ratio**



**4.1.2.5 Analysis of Present Status**

Present condition of NEPSE is expected to be better than the past but it can not be considered as a satisfying condition. To predict the condition of NEPSE in future, the analysis of present status is the most. For the analysis of current status of NEPSE, monthly analysis has been done in different aspects during the last FY 2012/13.

**4.1.2.5.1 Number of Traded Companies under Different Sectors in FY 2012/13**

The number of traded companies in NEPSE at the end of fiscal year 2012/13 was 183. These companies are categorized into 8 different sectors. Each sector possesses the different number of traded companies. The numbers of traded companies according to the sectors are presented in the table 4.9.

**Table: 4.9****Sector-wise Number of Traded Companies in FY 2012/13**

<b>Sectors</b>	<b>Numbers</b>	<b>Percentage</b>
Commercial Bank	24	13.11
Development Bank	52	28.42
Finance Company	67	36.61
Insurance Company	21	11.48
Hotel	3	1.64
Manufacturing & Processing Company	6	3.28
Trading Company	2	1.09
Others	8	4.37
<b>Total</b>	<b>183</b>	<b>100</b>

*(Source: Annual Report 2012/13, NEPSE)*

The table ascertains that the finance companies have greater preponderance on the total traded companies in NEPSE. The number of traded finance companies is 67, representing 36.61% of the total traded companies in the fiscal year 2012/13. Next to it, the weight of development banks is greatest. The number of traded development banks is 52, representing 28.42% of the total traded companies. Similarly, 23 commercial banks are traded in NEPSE and thus it represents 13.11% of the total list. In addition, 21 insurance companies, representing 11.48%, 3 hotels, covering 1.64%, 6 manufacturing and processing, covering 3.28%, 2 trading companies, representing 1.09%, and 8 others, which represents 4.37% of the total traded companies. Since the number of finance companies in Nepal is greatest, and the number of listed finance companies is also greatest, it is obvious that the traded finance company is also greatest. In addition to such inference, it can be assumed that the investors also show interest to invest in the securities of finance companies. Not all the companies of each classified sectors have been listed in stock market, thus such non-listed companies could have the potentiality to augment the capital, if they are listed in the upcoming periods.

#### 4.1.2.5.2 Securities Turnover in FY 2012/13

The total amount of stocks traded in the FY 2012/13 is Rs. 6665.33 million. In the previous fiscal year, however, it is Rs. 11851.11 million. The sector-wise turnover in the FY 2012/13 is presented in the table 4.10.

**Table: 4.10**

#### **Sector-wise Securities Turnover of NEPSE in FY 2012/13**

<b>Sector</b>	<b>Turnover</b>	<b>Percentage</b>
Commercial Bank	3431.82	51.49
Development Bank	813.24	12.20
Finance Company	630.69	9.46
Insurance Company	377.15	5.66
Hotel	151.93	2.28
Manufacturing & Processing Company	363.06	5.45
Trading Company	27.53	0.41
Other Company	869.91	13.05
<b>Total</b>	<b>6665.33</b>	<b>100.00</b>

*(Source: Annual Report 2012/13, NEPSE)*

Although the number of traded finance companies is greatest among the listed companies in NEPSE, the commercial bank has the largest turnover of Rs. 3431.82 million, representing 51.49% of the total stock turnover. In addition, the trading amount of development bank is Rs. 813.24 million, representing 12.20% of the total stock turnover. Moreover, finance sector has the turnover of Rs. 630.69 million, which is 9.46% of the total stock turnover, and the insurance sector covers 5.66% of the total with the turnover of Rs. 377.15 million. The least turnover is of trading sector which covers only 0.41% of the total with the turnover of only Rs. 27.53 million, and the turnover of manufacturing & processing sector is Rs. 363.06 million, which is 5.45% of the total stock turnover, and the hotel sector has the turnover of only Rs. 151.93 million with 0.2.28% of the total stock turnover.

Finally, the other sectors, which includes mutual fund, preferred stock, hydropower, promoter shares and other, has the turnover of Rs. 869.91 million, which is 13.05% of the total stock turnover. Although, the number of traded companies is dominated by the number of finance companies, the turnover of stock market depends to commercial banks in great extent. Thus, the role of commercial banks in rendering turnover to the stock market is substantial. Eventually, it can be inferred that the investors are willing to pay high prices to the stock of commercial banks in comparison to that of other traded companies. This crave in the investors, although it may affect other sectors' turnover, can would certainly aid in stock market growth. However, the incapability of finance sector in generating highest turnover in relation to its highest existence in the stock market could pull down the stock market growth.

#### **4.1.2.5.3 Market Capitalization of Listed Companies in FY 2012/13**

Market capitalization truly depicts the market value of the stock and thus it gauges the interest of investors in various sectors. The market capital of the stock market has increased in each fiscal year, indicating high enthusiasm of investors in stock business. By the end of the fiscal year 2012/13, the market capitalization is Rs. 323484.34 millions, which has been comprised by the contribution of various sectors. Thus, to measure the contribution of each sector in enhancing the stock market, the sector-wise market capitalization has been analyzed.

**Table: 4.11**  
**Sector-wise Market Capitalization in FY 2012/13**

Sector	Market Capitalization	Percentage
Commercial Bank	111938.05	34.60
Development Bank	13210.54	4.08
Finance Company	13756.06	4.25
Insurance Company	9937.18	3.07
Hotel	3040.64	0.94
Manufacturing & Processing Company	9577.84	2.96
Trading Company	1380.74	0.43
Other Company	160643.29	49.66
<b>Total</b>	<b>323484.34</b>	<b>100.00</b>

*(Source: Annual Report 2012/13, NEPSE)*

The role of other sectors, which comprises of promoter share, mutual fund, preference share, hydropower and other, is highest among the 8 sectors. Concisely, the market capitalization of other companies is Rs. 160643.29 millions, and thus it covers 49.662% of the total market capitalization. Next to other sectors, the commercial banks in increasing the market capital is crucial, and thus the coverage on the market capitalization of commercial banks is greatest, which is Rs. 111938.05 millions, representing 34.60% of the total market capital in the fiscal year 2012/13.

Similarly, the market capital of finance companies is Rs. 13756.06 millions, representing 4.25% of the total market capital, and the market capital of development bank is Rs. 13210.54 millions, covering 4.08% of the total market capital. Likewise, the coverage of insurance company, hotel, manufacturing and processing and trading company is 3.07%, 0.94%, 2.96% and 0.43% respectively. Thus, it can be assumed that for enhancing the market capital of the securities business, the other sector, mainly the hydropower, has the crucial role. The interest shown by the investors, despite the interest in commercial banks, in other sectors; especially in hydropower, as a result of which the sub-

index of hydropower is highest among those of others, can be favorable for the stock market development.

#### 4.1.3 Estimation of NEPSE Index

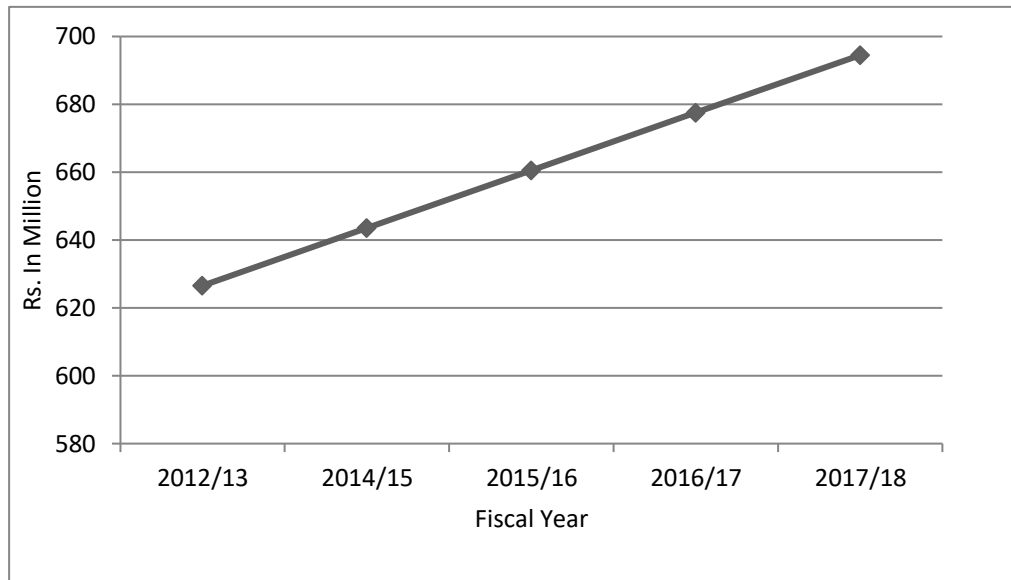
Under this section of the study, the NEPSE Index in the upcoming periods has been estimated. For this, the Index has been assumed to be a dependent variable on the time period, independent variable. The estimation has been done by using the least square method.

**Table: 4.12**  
**Estimated NEPSE Index (Index in Point)**

<b>Fiscal Year</b>	<b>NEPSE Index</b>	<b>Regression Equation</b>
2012/13	626.57	<b>Index = 490.71 + 16.98 X</b>
2014/15	643.55	
2015/16	660.53	
2016/17	677.51	
2017/18	694.50	

The table shows that there would be slight improvement in the NEPSE index in the upcoming periods. All other things being constant, on the basis of the past trend of NEPSE, it has been ascertained that the index would grow by 16.98 points in each fiscal year, which could be the favorable situation, though not high, for the securities investors. The estimated NEPSE index in the fiscal year 2011/12 would be 626.57 points and that in the fiscal year 2017/18 would be 694.50 points.

**Figure: 4.9**  
**Estimated NEPSE Index**



## **4.2 Primary Data Analysis**

To analyze the opinions related to the securities market, the primary data have been collected by conducting the questionnaire. For this a questionnaire containing 16 questions has been prepared and requested to the 10 personnel of securities brokers, 15 investors and 15 students. However, 3 personnel of securities brokers and 1 student have not responded and thus the responses have been collected from remaining 7 personnel of brokers, 15 investors and 14 students.

### **4.2.1 Satisfaction on Securities Trading System**

To investigate the level of satisfaction on the present securities trading system in Nepal, the respondents were asked whether they are satisfied with the trading system. The responses achieved from them are presented in the following table.

**Table: 4.13**

**Satisfaction on Securities Trading System**

Response	Responses			Total	
	Brokers	Investors	Student	No.	%
Yes	6	9	8	23	64
No	1	6	4	11	30
Don't Know	0	0	2	2	6
<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>36</b>	<b>100</b>

*(Source: Field Survey, 2013)*

The above table has shown that out of 7 personnel of brokerage firms, 6 are satisfied with the existing trading system, however 1 is not satisfied with the trading system. Similarly, 9 investors are satisfied and 6 are not satisfied and 8 students are satisfied, 4 are not satisfied and 2 have remained neutral on the satisfaction of existing securities trading system. In overall, 64% of the respondents are satisfied, 30% are not satisfied and 6% remained neutral. As the majority of the respondents, 23 out of 36, are satisfied with the securities trading system, it can be considered that the appropriate trading system is followed in NEPSE and there is good prospect of security market in future as well.

#### **4.2.2 Influencer of Security Price**

The investors are attracted in the security of companies by analyzing various factors. Such factor creates rise or fall in the security price. To examine which factor most influence the investor on buying security of certain company and influences the security price of the listed company, the respondents were asked on this regard. The opinions obtained from them are presented in the following table.

**Table: 4.14**  
**Influencer of Security Price**

Response	Responses			Total	
	Brokers	Investors	Student	No.	%
Dividend	4	10	8	22	61
Rumor	0	0	2	2	6
Financial Condition	2	2	3	7	19
Management	1	3	1	5	14
<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>36</b>	<b>100</b>

*(Source: Field Survey, 2013)*

The above table depicts that the majority of the respondents, 22 out of 36 (61%), have stated that dividend is the most influencing factor of security price. Similarly, 6%, 19% and 14% of the respondents affirmed that rumor, financial situation of the company and management of the company respectively are the influencing factors of the security price. Analyzing each category, the majority of each category; 4 out of 7 brokers, 10 out of 15 investors and 8 out of 14 students, have stated that dividend is the main factor that moves the security price. Hence, it can be concluded that dividend distribution pattern of the company is the major motive behind investing on the share of certain company and which raises or falls the security price.

#### **4.2.3 Effects of Rules and Regulations of SEBON**

To determine whether the rules and regulations of SEBON affect the security value, the respondents were asked on this matter. The answers achieved from them have been presented in the following table.

**Table: 4.15**  
**Effects of SEBON**

Response	Responses			Total	
	Brokers	Investors	Student	No.	%
Yes	4	8	5	17	47
No	2	3	6	11	31
Don't Know	1	4	3	8	22
<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>36</b>	<b>100</b>

*(Source: Field Survey, 2013)*

The table shows that the majority of the respondents, 17 out of 36, have stated that the rules and regulations of SEBON causes rise or fall on security value of the company. However, 31% respondents (11 out of 36) have affirmed that there is no relationship between rules and regulations of SEBON and the value of security. Likewise, 22% respondents (8 out of 36) have remained neutral on this matter. Looking each category, the majority of brokers, 4 out of 7, and investors, 8 out of 15, opined that the rules and regulations affect the security value. However, the majority of the students, 6 out of 14, have stated that stock value is not affected by such rules and regulations. Rather mixed opinion has been obtained in this matter. Hence, analyzing the overall majority, 47% respondents and the experience of respondents engaged in share transactions, it can be concluded that the rules and regulations of SEBON directly affect the security price.

#### **4.2.4 Problems of Securities Trading System**

Many factors are hindering the security trading in Nepal. To detect which factor barricades most in the trading system of Nepal, the respondents are asked to express their view. The responses obtained from them are presented in the following table.

**Table: 4.16**  
**Problems of Stock Market Growth**

Response	Responses			Total	
	Brokers	Investors	Student	No.	%
Small Capital Market	3	4	4	11	31
Growing Investors' Diffidence	1	6	8	15	42
Restriction on Foreign Investors	2	0	0	2	5
Insufficient Rules and Regulations	1	5	2	8	22
<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>36</b>	<b>100</b>

(Source: Field Survey, 2013)

The above table shows that growing investors' diffidence is the major problem that is barricading the security trading system in Nepal. About 42% of the total respondents, 1 broker, 6 investors and 8 students, have said that the investor's diffidence is the major problem that is hindering the securities market growth. Similarly, 31% of the total respondents, including 3 brokers, 4 investors and 4 students, have opined that the small capital market is the major problem of the securities market. In addition, 22% of the respondents, consisting of 1 broker, 5 investors and 2 students, have opined that the insufficient rules and regulation is the major barricade behind the prosperous of the securities market. Further, 5% of the respondents, which includes 2 brokers, have affirmed that restriction on foreign investors on the securities market is the major problem of the securities market growth. Thus, on the basis of the majority it can be indicated that the lack of investor's confidence is the major hindrance in securities trading system of Nepal. Besides this, small capital market is also the next problem of trading system.

#### **4.2.5 Prospects of Security Market**

NEPSE has adopted various techniques for the enhancement of security market in Nepal. So to examine which method is appropriate for the amelioration of securities trading system, the respondents are asked to express their opinions.

**Table: 4.17**  
**Prospects of Security Market**

Response	Responses			Total	
	Brokers	Investors	Student	No.	%
Trading through WAN	3	2	3	8	22
Automated Trading System	2	5	2	9	25
Increasing Interest	0	3	4	7	19
Profit Seeking NEPSE	2	2	3	7	19
Promoters' Share Started	0	1	1	2	6
Extended Trading Hours	0	2	1	3	9
<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>36</b>	<b>100</b>

(Source: Field Survey, 2013)

The above table shows that the adoption of the automated trading system is the most important prospects of security market in Nepal. About 25% of the respondents, including 2 brokers, 5 investors and 2 students have pointed out this point. Similarly, 22% of the respondents, consisting of 3 brokers, 2 investors and 3 students, have opined that the starting of the trading through WAN is the most important prospect for the securities business. Also, 19% of the respondents have pointed out increasing interest of educated people on securities and 19% of the respondents have stated that the conversion of NEPSE into profit oriented is the main prospect of the securities business. However, 6% of the respondents have opined that the starting of transaction of promoter's share and 9% of the respondents have stated that the extension of the trading hours of NEPSE is the major prospect for the enhancement of the securities business.

#### **4.2.6 Malpractices in Security Market**

The malpractices in share market have created the uncertainty in the stock price. General investors are facing huge losses from the malpractices existing

in the stock market and obviously abolishing the effective securities trading system. To examine which of the major malpractices is causing problem in the securities trading system, the respondents are asked to express their opinions on the basis of their past experience in security trade.

**Table: 4.18**  
**Malpractices in Security Market**

Response	Responses			Total	
	Brokers	Investors	Student	No.	%
Warehousing	0	1	2	3	8
Pooling	1	4	2	7	19
Organized Runs	4	4	3	11	31
Insider Trading	2	6	5	13	36
Ramping	0	0	2	2	6
<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>36</b>	<b>100</b>

*(Source: Field Survey, 2013)*

The above table shows that insider trading, the leakage of the information of the decision of the board of directors of the company regarding dividend, is the major malpractice in the existing security trading system. About 36% of the total respondents, including 2 brokers, 6 investors and 5 students, have supported this view. Similarly, 31% of the total respondents, consisting of 4 brokers, 4 investors and 3 students, have said that the organized run is the major malpractice in the securities market. In addition, 19% of the respondents, embracing 1 broker, 4 investors and 2 students, have stated that pooling, buying and selling shares within a group, is a major malpractice in the existing security trading system. Similarly, 8% of the respondents and 6% of the respondents have pointed out warehousing and ramping respectively as the major malpractice. The stock exchange of Nepal should introduce new rule and regulations to control such malpractice. The introduction of fines and penalties is essential for the person committing such malpractice. Effective administration by NEPSE can control such malpractices and also keeping very

confidential the unpublicized decision of the listed company can also control the malpractice like insider training.

#### 4.2.7 Role of Political Fluctuation

Generally in most of the countries, the political situation has impact on the share price of the stock. To confirm whether political situation has effect on the stock price, the respondents are asked on this issue.

**Table: 4.19**

**Political Situation to Change the Share Price**

Response	Respondents			Total	
	Broker	Investor	Student	No.	%
Increase in share trading volume	3	5	2	10	28
Decrease in share trading volume	2	3	3	8	22
Decrease in share price	2	7	5	14	39
Increase in share price	0	0	4	4	11
No impact	0	0	0	0	0
<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>36</b>	<b>100</b>

*(Source: Field Survey, 2013)*

The above table shows that the national political environment is also responsible on the determination of share price because more political fluctuation cause the decrease in Share Price. It is revealed that 28% of the total respondents, including 3 brokers, 5 investors and 2 students, agree that political instability increases the share trading volume, 22% of the respondents, consisting of 2 brokers, 3 investors and 3 students, assert decrease in share trading volume, 39% of the respondents, embracing 2 brokers, 7 investors and 5 students, affirm decrease in share price, 11% of the respondents, including 4 students, have avowed increase in share price. Thus, on the basis of the majority it can be concluded that political instability causes decrease in share price.

#### 4.2.8 Public Awareness about Share Investment

To foster the stock exchange activities, awareness in public about the share related process is crux. Thus, to examine whether the investors are aware, the respondents are asked on this matter.

**Table: 4.20**  
**Public Awareness about Share Investment**

Response	Respondents			Total	
	Broker	Investor	Student	No.	%
Yes	5	10	6	21	58
No	1	4	8	13	36
Can't Say	1	1	0	2	6
<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>36</b>	<b>100</b>

*(Source: Field Survey, 2013)*

It has been revealed from the study that 58% of the respondents, which encompasses 5 brokers, 10 investors and 6 students, said that the investors are aware about the share market and the market phenomenon of the shares, 36% of the respondents, which includes 1 broker, 4 investors and 8 students, said that they are investing in share without proper knowledge about share. They said that they are investing in Share because they are influenced by some relatives or friends to earn profit. Rest 6% of the respondents, including 1 broker and 1 investor, wanted to say nothing about this. It would be worthwhile if NEPSE and SEBON organize programmes to mentor the public about the share related activities.

#### 4.2.9 Adequacy of Present Laws & Policies

Appropriate laws and policies are essential to smoothly operate the share transaction. To examine whether the present laws and policies adequate for transacting the share, the respondents are asked to opine their views.

**Table: 4.21****Adequacy of Present Laws & Policies**

Response	Respondents			Total	
	Broker	Investor	Student	No.	%
Yes	6	6	5	17	47
No	1	8	8	17	47
Don't Know	0	1	1	2	6
<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>36</b>	<b>100</b>

(Source: Field Survey, 2013)

The above table shows that 47% of the respondents, 6 brokers, 6 investors and 5 students, feel that the prevailing laws and policies regarding buying and selling of share are perfect. Precisely the same percentage, 47%, of the respondents, 1 broker, 8 investors, and 8 students, have said that the present laws and policies are not perfect to regulate the share market proficiently. And 6% of the respondents, including 1 investor and 1 student, have said they don't know anything about the laws and policies. It will be better if SEBON predicts the forthcoming problems and formulates the rules and regulations to avoid such problem in future.

**4.2.10 Reasons for Securities Investment by Investors**

To examine the reasons behind which the mass of investors are diverting toward the securities business, the brokerage companies are asked to express their view.

**Table: 4.22****Reasons for Securities Investment by Investors**

Responses	Respondents			Total	
	Broker	Investor	Student	No.	%
Cash Dividend	2	4	5	11	31
Right Share	4	10	7	21	58
Interest on Bond	1	1	2	4	11
Utilization of Excess Fund	0	0	0	0	0

<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>36</b>	<b>100</b>
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(Source: Field Survey, 2013)

The table delineates that 67% of the respondents, consisting of 4 brokers, 10 investors and 7 students, affirmed that investors are showing interest in securities business mostly to get the right share of the company. Further 31% of the respondents, including 2 brokers, 4 investors and 5 students, said that with the hope of getting high cash dividend, the investors are investing their savings. And 11 of the respondents, 1 broker, 1 investor and 2 students, pointed out the interest on bond has motivated the investors to make investment in securities, while none of the investors have stated that the utilization of excess fund as the main reason behind the investment. Thus, it can be concluded that right share has been the main factor behind the investment in securities business.

#### 4.2.11 Settlement Period

A settlement cycle/interval is the amount of time that elapses between the trade date (T) and the settlement date (S). The longer the settlement period, the longer will be the risk and may create problem. So to determine about the appropriateness of the settlement period i.e. T+3 adopted in Nepal's Securities Market, the respondents were asked on this issue.

**Table: 4.23**  
**Settlement Period**

<b>Responses</b>	<b>Respondent</b>			<b>Total</b>	
	<b>Broker</b>	<b>Investor</b>	<b>Student</b>	<b>No.</b>	<b>%</b>
Long	0	6	2	8	22
Appropriate	6	8	10	24	67
Inadequate	1	1	2	4	11
<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>6</b>	<b>100</b>

(Source: Field Survey, 2013)

The table shows that 67% of the respondents, which embraces 6 brokers, 8 investors and 10 students, responded that the current settlement period i.e. T+3

adopted is appropriate in the context of Nepal. Similarly, 22% of the respondents, 6 investors and 2 students, said that the T+3 should be decreased and should follow the shorter settlement period like (T+2). However, 11% of the respondents, 1 broker, 1 investor and 2 students, opined that the current settlement period T+3 is inadequate to settle the transaction and should follow the older settlement period T+5 adopted by Nepal Stock Exchange in earlier period. Since, the majority of the people supported T+3 settlement period and also the major countries of the world is adopting the international standard T+3 settlement period, NEPSE should continue this T+3 settlement period.

#### 4.2.12 Time Period for Transferring the Title by the Companies

Company Act (2006) has mentioned that, if it is not possible to transfer the title, company should inform the buyer and seller of the securities within 15 days after the date of application received. With respect to the duration of time for transferring the title by the companies as mentioned in the Company Act (2006), the following responses were achieved as presented in the table.

**Table: 4.24**

#### **Time Period for Transferring the Title by the Companies**

Responses	Respondents			Total	
	Broker	Investor	Student	No.	%
Long	1	10	5	16	44
Short	0	0	1	1	3
Appropriate	6	5	8	19	53
<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>6</b>	<b>100</b>

*(Source: Field Survey, 2013)*

The above table shows that 44% of the respondents, including 1 broker, 10 investors and 5 students, opined that it takes a long period, so it does not protect the interest of investors. Similarly 3% of the respondents, including 1 student, is in the opinion that it takes a short period as a result company cannot transfer the title within this period. Likewise, 53% of the respondents, which includes 6 brokers, 5 investors, and 8 students, hold the view that it is an

appropriate period, which protects the interest of investors and companies can transfer the title within this period. Rather mixed opinion has been founded in this question.

#### 4.2.13 Investor's Achievement on Long Processing Cycle

The essence of the settlement issue can be summed up as nothing good can happen between trade date and settlement, only bad things can happen. And the longer the settlement cycle, the greater will be the risk. So what the investors achieves in long processing cycle of trading, clearing and settlement can be the question of enthusiasm, and such question has given the following result.

**Table: 4.25**

#### **Investor's Achievement on Long Processing Cycle**

<b>Responses</b>	<b>Respondents</b>			<b>Total</b>	
	<b>Broker</b>	<b>Investor</b>	<b>Student</b>	<b>No.</b>	<b>%</b>
Investors lose money	3	9	6	18	50
Investors gain money	4	4	7	15	42
No gain no loss	0	2	1	3	8
<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>36</b>	<b>100</b>

*(Source: Field Survey, 2013)*

The above table shows that 50% of the respondent, 3 brokers, 9 investors and 6 students, said the investors bear loss, 42% of the respondents, 4 brokers, 4 investors and 7 students, said that investor gains and 8%, 2 investors and 1 student, said that investor neither gains nor losses. Since, various settlement risks such as replacement risk, principal risk and liquidity risk can arouse by lengthening the securities settlement period, there is uncertainty whether investor gains, loses or remains indifferent.

#### 4.2.14 Cost of Investor

The prime objective of all stakeholders is to reduce the cost and complexity of clearing and settlement. Investors have to bear higher cost in longer processing cycle. To know approximately how much cost does an investor have to bear annually of their investment, respondents were given different ranges and

requested to express their opinions. The following responses were achieved on this matter.

**Table: 4.26**  
**Cost of Investor**

Responses	Respondents			Total	
	Broker	Investor	Student	No.	%
1% to 5%	2	6	3	11	30
5% to 10%	5	8	10	23	65
10% and above	0	1	1	2	5
<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>36</b>	<b>100</b>

(Source: Field Survey, 2013)

The above table shows that 65% of respondents; 5 brokers, 8 investors and 10 students, have stated that the investor has to bear the cost ranging from 5% to 10% of the total investment due to long clearing and settlement period. Similarly, 30% of the respondents, including 2 brokers, 6 investors and 3 students, have said that the cost ranges from 1% to 5%. In addition, 5% of respondents, including 1 investor and 1 student, have said that investors have to face up a cost ranging from 10% and above respectively of their investment. Since, the majority of the people (65%) said that investors have to bear a cost of 5% to 10% annually, it will be better if securities clearing and settlement period are reduced to decrease cost considering the risk that may arise in shorter period.

#### **4.2.15 Existence of Matching**

If a same broker gets both selling and buying order, then matching can occur. The broker may decrease the price if he is closer to buyer and may increase the price if he is closer to seller to match the order. However, this kind of activity has been prohibited from Ashad 2062 B.S. To examine to what extent the matching exists in the brokerage industry, the respondents were asked on this concern.

**Table: 4.27**  
**Existence of Matching**

<b>Responses</b>	<b>Respondents</b>			<b>Total</b>	
	<b>Broker</b>	<b>Investor</b>	<b>Student</b>	<b>No.</b>	<b>%</b>
High	0	3	5	8	22
Average	0	9	7	16	45
Low	7	3	2	12	33
<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>36</b>	<b>100</b>

*(Source: Field Survey, 2013)*

The table delineates the existence of matching, an unhealthy method of manipulating the market, in the securities business. The table enumerates that 45% of the respondents, including 9 investors and 7 students, stated that the matching, to raise the price of the securities unnaturally, is in average level. Similarly, 33% of the respondents, including 7 brokers, 3 investors and 2 students, said that the involvement of brokerage company on matching the securities price is in low, and also 22% of the respondents, including 3 investors and 5 students, said that there is high degree of practice of matching among the brokerage company. Thus it can be concluded that the practice of matching to manipulate the securities price in brokerage company is in average level. However, SEBON should try to eliminate such practice and should punish such brokerage company who makes direct or indirect involvement in such unhealthy practice.

#### **4.2.16 Most Responsible to Enhance Securities Transactions**

To enhance the securities business should be the main motto of all the individuals/organizations who directly or indirectly participate in securities transactions. To understand who should be most responsible for ameliorating the securities transactions under the existing rules and regulations, the questionnaire has been presented.

**Table: 4.28**

**Most Responsible to Enhance Securities Transactions**

<b>Response</b>	<b>Respondents</b>			<b>Total</b>	
	<b>Broker</b>	<b>Investor</b>	<b>Student</b>	<b>No.</b>	<b>%</b>
Brokers	0	6	3	9	25
Securities Businessman	2	4	2	8	22
Market Maker	4	2	1	7	20
All of the above	1	3	8	12	33
<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>36</b>	<b>100</b>

*(Source: Field Survey, 2013)*

The table presents that none of the brokers are willing to undertake the most responsibility to enhance the securities market. 25% of the respondents, including 6 investors and 3 students, blamed that the brokers should be most responsible for ameliorating the securities transaction under the existing rules and regulations. Similarly, 22% of the respondents, including 2 brokers, 4 investors and 2 students, said that securities businessman should be most responsible for the enhancement of securities transactions and 20% of the respondents, 4 brokers, 2 investors and 1 student, stated that market maker should be most responsible, while 33% of the respondents, including 1 broker, 3 investors and 8 students, have stated that all; brokers, securities businessman and market maker, should be equally responsible for the enhancement of securities market. Hence, from this analysis it can be concluded that the amelioration of the securities transaction under the existing rules and regulations by single group is almost arduous task and thus should be done by all the parties that are related to securities business.

### **4.3 Major Findings of the Study**

On the basis of the analysis of the collected data, the following major findings have been drawn;

### **Findings from Secondary Data**

- The NEPSE index has increased for the four fiscal years and then it has started to decrease from the fiscal year 2010/11. The NEPSE index at by end of the fiscal year 2013/13 is 362.85 points, and the NEPSE index is highest, 963.36 points, in the fiscal year 2009/10.
- The common share turnover and preference share turnover have fluctuated during the periods. However, the turnover from bond and total turnover has increased in most of the fiscal years. The total turnover of the NEPSE has increased from Rs. 6007.88 millions in the fiscal year 2006/07 to Rs. 42848.53 millions in the fiscal year 2013/13.
- The market capitalization has substantial role to upgrade the gross domestic product of the nation. The market capitalization is highest, Rs. 512,939.07 millions in the fiscal year 2010/11.
- The number of listed companies by the end of the fiscal year 2013/13 is 207. Within the observed periods, 12 companies are delisted in the fiscal year 2008/09 and 5 companies are delisted in the fiscal year 2009/10.
- In average, 87.18% of the total listed companies have traded within the observed periods. The number of traded companies at the end of the fiscal year 2013/13 is 183.
- The average market capitalization ratio is 47.00% of the total GDP in average. Likewise, the stock turnover has represented 2.38% of the total GDP. And the stock turnover to market capitalization is 5.19%.
- The number of traded companies has been weighted by the number of finance companies. In contrast, the turnover of the stock market in the fiscal year 2013/13 is dominated by the turnover from securities transaction of commercial banks, which has covered 51.49%.

### **Findings from Primary Data Analysis**

- The majority of the respondents, 64%, said that the investors are satisfied with the existing security trading system. In addition, 61% of the respondents revealed that the dividend payment system is the most

important determinant of the market price of share. Also, 47% of the respondents are of the opinion that the rules and regulations of SEBON affect the value of security.

- Similarly, 42% of the total respondents stated that growing investor's diffidence is the major problem of trading system. However, 25% of the respondents have said that the initiation of the automated trading system is the major prospects of security market in Nepal. The major malpractice, insider trading, is widespread in security market and thus is creating uncertainty in security price.
- 39% of the respondents stated that the political instability certainly decreases the market price per share. And, 58% of the respondents have stated that the investors are fully aware about the process in share investment. However, there is conflict in the sufficiency of present laws and policies to facilitate the securities market for smooth operation.
- 58% of the respondents have stated that the investors make investment in share price for getting the right share. Moreover, 67% of the total respondents have opined that the existing T+3 settlement period is appropriate in Nepalese context. Also, 53% of the respondents have stated that the existing time period, 15 days, for transferring the title by the company is appropriate time.
- Similarly, 50% of the respondents have stated that the investors lose money if the settlement processing cycle is long. In addition, 65% of the respondents have stated that the cost for investors ranges from 5% to 10% of the total investment due to the long processing settlement cycle.
- 45% of the total respondents have opined that the existence of matching, one of malpractice of stock exchange, is in average level. Finally, 33% of the respondents have stated that all of the related parties, including broker, securities businessperson and market maker, should be equally responsible for fostering the securities business of the country.

## CHAPTER - V

### SUMMARY, CONCLUSION AND SUGGESTIONS

#### 5.1 Summary

Securities market is an economic institute within which take place sale and purchase transactions of securities between subjects of economy on the base of demand and supply. Also securities market is a system of interconnection between all participants (professional and nonprofessional) that provides effective conditions: to buy and sell securities, to attract new capital by means of issuance new security (securitization of debt), to transfer real asset into financial asset, and to invest money for short or long term periods with the aim of deriving profit.

Securities markets affect economic activity through the creation of liquidity. Many profitable investments require a long-term commitment of capital, but investors are often reluctant to relinquish control of their savings for long periods. Liquid equity markets make investment less risky and more attractive because they allow savers to acquire an asset, equity, and to sell it quickly and cheaply if they need access to their savings or want to alter their portfolios. At the same time, companies enjoy permanent access to capital raised through equity issues. By facilitating longer-term, more profitable investments, liquid markets improve the allocation of capital and enhance prospects for long-term economic growth. Further, by making investment less risky and more profitable, stock market liquidity can also lead to more investment. Put succinctly, investors will come if they can leave.

The determination of the overall growth of an economy depends on how efficiently the stock market performs its allocative functions of capital. As the stock market mobilizes savings, concurrently it allocates a larger proportion of it to the firms with relatively high prospects as indicated by its rate of returns

and level of risk. The importance of this function is that capital resources are channeled by the mechanism of the forces of demand and supply to those firms with relatively high and increasing productivity thus enhancing economic expansion and growth. Given that the stock market provides some services that ginger economic growth, this study, therefore, empirically investigates whether the stock market promotes economic growth in Nepal.

## **5.2 Conclusion**

On the basis of primary data, it can be concluded that the lack of investors' confidence is the major problem of stock growth. Besides this, small capital market and inappropriate rules and regulations have also barricaded the stock growth. Similarly, the increasing interest of educated people, conversion of NEPSE into profit-oriented organization recently, starting of OTC market and adoption of sophisticated technique are the main prospects of stock growth. However, the malpractices like pooling, washsale, organized runs and cornering or warehousing are creating uncertainty in stock price and breaking the confidence of general investors. Similarly, dividend is the most influencing factor and motives of investors for stock investment. The analysis also concluded that SEBON is responsible for appropriate trading system in stock market and for the smooth operation of the secondary market. Many investors are not fully aware about the trading system in secondary market as well. Besides NEPSE Index, dividend payout ratio and company's profit is the major basis for share investment.

On the basis of secondary data analysis, it can be concluded that the Nepalese stock market is in developing stage. The instability of the government, strike, malpractices in the stock market, investors' interest to other sectors like real estate and others have greatly influenced the securities market of Nepal in the recent year and thus the NEPSE index has been diminished. Despite this, it can be concluded that the charm of the securities market in investors have been growing in greater extent and thus investors are paying more market price for

taking the possession on shares. The increasing trend of market capitalization indicates increase in market price per share of the companies listed, which indicates positive impact of securities market on the investors. The number of listed companies has almost been in increasing trend although the growth trend has decreased. This indicates that the NEPSE might have incorporated most of the institutions and thus there is slow growth in listing.

Observing the company traded to listed ratios, it can be assumed that NEPSE should monitor the obstacles in the market that are preventing the listed companies to remain untraded. Further, it can be concluded that market capitalization has substantial role to stimulate the GDP growth. Moreover, the development of securities market has crucial role to upgrade the GDP and thus buttress the economy of the country. Thus for the economic prosperous of the country, the uplift in annual turnover of securities market is quite necessary. Although, the listed companies in NEPSE has been highly dominated by finance companies, the contribution of commercial banks in generating turnover is highest, and the market capitalization of other institutions, which comprises hydropower, promoter share, mutual fund, preference share and other is strongest.

### **5.3 Suggestions**

On the basis of major findings and conclusions drawn, the following suggestions have been made;

- a. 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.
- b. 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.

- c. 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.
- d. Approval process should be streamlined to make it easy and hassle free. If possible, one window policy should be adopted in providing approval.
- e. Increase awareness amongst the general public about the capital market, regarding nature of risk and return, through promotional campaigns, seminars, publications and programs in FM/TV etc.
- f. Discourage the possibilities of pooling, insider's trading and other malpractices through improved corporate governance and initiate strict corrective measures for compliance.
- g. 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 be hired to develop the system.
- h. 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.
- i. Signaling factors should be analyzed so that future movements of price can be predicted from the side of analyst and from the side of investors.
- j. 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.

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## APPENDIX – I

### QUESTIONNAIRE

I, a student of MBS, am gathering data and information to conduct research, related to securities market of Nepal, for the partial fulfillment of the requirement for MBS degree, TU. Thus, I humbly request you to fill up the following questionnaire with the best answer in your view. I would be grateful to you for the contribution of your valuable time and effort.

Name: .....

Status: Investor/Brokerage Services/Student (Please Tick One)

*Please tick the appropriate answers.*

1. Are you satisfied with the Securities Trading System of Nepal?  
a. Yes                                      b. No                                      c. Don't Know
  
2. In your opinion which of the following is the main influencer of security price?  
a. Dividend  
b. Rumor  
c. Financial Situation of the Company  
d. Management of the Company
  
3. Does SEBON rules and regulation affect the value of security?  
a. Yes                                      b. No                                      c. Don't Know
  
4. In your opinion what are the problems of securities trading system?  
a. Small Capital Market  
b. Growing Investor's Diffidence  
c. Restriction on Foreign Investors  
d. Insufficient Rules and Regulations
  
5. What major prospects do you see for the growth of security market?  
a. Trading through WAN started  
b. Automated Trading System  
c. Increasing interest of educated people  
d. NEPSE converted Profit Seeking  
e. Trading of Promoters' Share  
f. Trading Hours Extended

6. In your opinion which of the following malpractices is major problem in security market?

- a. Warehousing
- b. Pooling
- c. Organized Runs
- d. Insider Training
- e. Ramping

7. What is the impact of political change in the stock price?

- a. Increase in share trading volume
- b. Decrease in share trading volume
- c. Decrease in share price
- d. Increase in share price
- e. No impact

8. Do you think that investors are fully aware about the security market practices in Nepal?

- a. Yes
- b. No
- c. Can't Say

9. In your experience the prevailing laws and policies regarding the buying and selling of security are perfect?

- a. Yes
- b. No
- c. Don't know

10. What could be the major reason behind the investment in securities by investors?

- a. Cash Dividend
- b. Righ Share
- c. Interest on Bond
- d. Utilization of Excess Fund

11. The international standard of settlement period is T+3, what do you think the current settlement period (T+3) of Nepal?

- a. It is a long period, so it should be reduced.
- b. It is appropriate for Nepal's Capital Market.
- c. It is inadequate for Nepal's Capital market, so the time should be increased.

12. According to the prevailing Companies Act, the duration for the transfer of title should be within 15 days. What do you think about this time period?

- a. It is too long.
- b. It is too short.
- c. It is appropriate.

13. What do you think about long stock processing cycle towards investors?

- a. Investors lose their money.
- b. Investors gain from their money.
- c. Investors are indifferent.

14. What do you think about investors cost (annual) that the investors should bear within the clearance and settlement period (i.e. three days settlement plus fifteen days transfer to title)?

- a. 1% - 5%
- b. 5% - 10%
- c. 10% and above

15. To what extent, is the matching exists to manipulate the securities prices?

- a. High
- b. Average
- c. Low

16. Who should be most responsible to enhance the securities transaction under the existing regulation?

- a. Broker
- b. Investor
- c. Market Maker
- d. All of the above

Thank You.

**APPENDIX -  
III  
NEPSE  
Index**

**Mid July 2012- Mid July 2013**

Date	Com. Bank	Manufact- & Pros.	Hotel	Other	Hydro Power	Trading	Insurance	Fin
18-Jul-10	441.87	427.89	400.26	538.13	878.16	282.08	547.58	
19-Jul-10	438.03	427.89	402.87	538.13	878.56	282.08	546.96	
20-Jul-10	441.21	427.89	400.64	540.48	878.03	282.08	548.48	
21-Jul-10	444.74	427.89	400.64	549.87	872.01	276.77	551.96	
22-Jul-10	443.24	427.89	400.64	549.87	802.03	276.94	552.49	
25-Jul-10	437.48	427.89	400.64	546.35	789.26	276.94	532.97	
26-Jul-10	434.23	427.89	404.99	546.35	781.53	282.08	525.24	
27-Jul-10	435.22	427.89	404.99	546.35	776.05	282.08	521.82	
28-Jul-10	433.42	427.89	404.99	540.48	781.85	282.08	510.97	
29-Jul-10	437.33	427.89	404.99	540.48	780.79	282.08	500.86	
1-Aug-10	438.21	427.89	404.99	542.83	776.86	282.08	503.25	
2-Aug-10	436.84	427.89	410.81	540.48	746.59	282.08	504.25	
3-Aug-10	436.89	427.89	411.90	538.13	747.79	282.08	505.19	
4-Aug-10	436.94	427.89	415.38	546.35	742.97	282.51	506.08	
5-Aug-10	433.52	427.89	411.14	546.35	740.49	282.51	507.64	
8-Aug-10	434.98	427.89	409.40	552.22	731.15	282.51	507.13	
9-Aug-10	432.84	427.89	409.40	545.18	730.59	282.51	505.48	
10-Aug-10	431.50	427.89	406.68	541.65	730.83	282.51	506.65	
11-Aug-10	431.76	427.89	408.20	545.18	716.33	282.51	506.47	
12-Aug-10	431.03	427.89	406.61	541.65	710.84	282.51	503.86	
15-Aug-10	430.87	427.89	403.14	540.48	704.46	282.51	502.74	
16-Aug-10	429.78	427.89	400.86	540.48	704.99	282.51	502.98	
17-Aug-10	419.96	440.97	400.00	536.95	692.36	282.51	500.75	
18-Aug-10	411.31	440.97	400.00	539.30	704.88	282.51	496.51	
19-Aug-10	410.68	440.97	403.47	540.48	696.12	282.51	496.63	
22-Aug-10	394.92	440.97	403.47	529.91	702.05	282.51	495.29	
23-Aug-10	398.06	440.97	403.47	528.73	707.45	287.22	492.71	
26-Aug-10	397.32	440.97	403.47	534.60	706.76	287.22	488.48	
29-Aug-10	393.79	445.54	400.00	526.38	709.96	287.22	486.90	
30-Aug-10	391.00	445.54	400.00	529.91	708.97	287.22	486.55	
31-Aug-10	385.27	445.54	398.26	522.86	702.54	282.08	485.18	
2-Sep-10	385.60	445.54	401.73	522.86	703.07	282.08	481.76	
5-Sep-10	364.81	445.54	398.26	528.73	697.64	282.08	475.78	
6-Sep-10	370.43	445.54	398.26	529.91	701.10	282.08	482.43	
7-Sep-10	377.57	445.54	394.78	527.56	702.98	282.08	486.64	
8-Sep-10	387.02	445.54	394.78	520.51	704.68	282.08	487.01	
9-Sep-10	379.23	445.54	394.78	516.99	687.88	282.08	482.57	
12-Sep-10	377.55	445.54	394.78	519.33	687.88	282.08	481.58	
13-Sep-10	376.77	445.54	394.78	507.59	684.93	282.08	483.12	
14-Sep-10	374.73	445.54	394.78	516.99	671.02	276.77	480.56	
15-Sep-10	372.30	445.54	394.78	505.24	683.36	276.77	483.64	
16-Sep-10	368.98	445.54	395.34	499.37	694.33	276.77	483.44	
19-Sep-10	363.89	445.54	395.91	505.24	703.85	276.77	478.46	
20-Sep-10	361.15	445.54	395.91	511.11	707.48	276.77	476.92	

21-Sep-10	363.93	450.16	394.17	515.81	707.39	276.77	475.37
23-Sep-10	365.61	450.16	394.17	511.11	708.96	276.77	477.50
26-Sep-10	369.43	450.16	397.65	511.11	708.42	277.07	478.08
27-Sep-10	369.99	450.16	395.91	512.29	712.35	266.87	475.26
28-Sep-10	368.02	450.16	395.91	506.41	712.03	266.87	463.57
29-Sep-10	370.22	450.16	395.91	499.37	706.93	266.87	459.13
30-Sep-10	369.35	450.16	397.04	500.54	707.98	266.87	459.97
3-Oct-10	369.24	450.16	400.51	500.54	707.98	266.87	459.20
4-Oct-10	369.16	454.88	399.76	509.94	707.77	266.87	456.77
5-Oct-10	370.31	459.08	399.76	511.11	707.20	266.87	457.31
6-Oct-10	372.67	459.08	399.76	518.16	705.33	266.87	450.97
7-Oct-10	380.88	459.08	399.76	516.99	715.75	266.87	455.44
10-Oct-10	387.47	459.08	399.76	522.86	715.32	266.87	456.18
11-Oct-10	389.44	461.68	403.23	526.38	714.36	266.87	459.65
12-Oct-10	389.40	466.66	403.23	529.91	715.48	266.87	457.70
13-Oct-10	390.31	471.69	403.23	528.73	714.65	266.87	458.68
20-Oct-10	390.15	471.69	403.23	538.13	708.13	266.87	459.18
21-Oct-10	391.51	471.69	402.48	528.73	715.10	266.87	455.91
24-Oct-10	400.45	471.69	402.48	528.73	717.56	266.87	457.24
25-Oct-10	397.87	471.69	402.48	538.13	716.59	266.87	457.86
26-Oct-10	397.10	471.69	402.48	534.60	710.68	266.87	455.75
27-Oct-10	393.70	471.69	402.48	528.73	714.58	266.87	456.21
28-Oct-10	393.94	471.69	402.48	542.83	718.33	266.87	458.17
31-Oct-10	393.27	471.69	402.48	540.48	716.13	266.57	457.49
1-Nov-10	395.15	471.69	402.48	540.48	716.13	266.57	458.38
2-Nov-10	395.02	471.69	402.48	528.73	719.36	266.57	459.32
3-Nov-10	394.19	471.69	402.48	528.73	719.89	266.57	467.71
4-Nov-10	395.88	471.69	402.48	534.60	714.52	266.57	473.85
9-Nov-10	395.27	471.69	402.48	528.73	714.39	266.57	476.60
10-Nov-10	394.32	471.69	402.48	528.73	714.92	266.57	489.46
11-Nov-10	395.14	471.69	402.48	531.08	719.92	266.57	496.42
14-Nov-10	392.88	471.69	399.26	531.08	725.56	266.57	491.58
15-Nov-10	393.82	471.69	399.26	529.91	726.09	266.57	491.30
16-Nov-10	395.91	471.69	399.26	529.91	731.89	266.87	491.46
18-Nov-10	396.08	471.69	399.26	533.43	731.86	266.87	490.25
21-Nov-10	393.17	471.69	399.26	532.26	724.95	266.87	494.63
22-Nov-10	389.06	471.69	393.82	528.73	714.38	265.15	491.16
23-Nov-10	389.68	471.69	393.82	526.38	715.67	260.27	492.31
24-Nov-10	388.41	471.69	393.82	526.38	716.69	259.97	495.19
25-Nov-10	387.91	471.69	394.38	522.86	711.89	259.97	496.53
28-Nov-10	385.27	471.69	394.38	528.73	710.36	259.97	495.59
29-Nov-10	383.31	471.69	392.87	528.73	707.83	259.97	494.21
30-Nov-10	380.02	471.69	392.87	529.91	703.59	264.77	491.28
1-Dec-10	377.78	471.69	392.87	528.73	703.28	264.77	490.61
2-Dec-10	371.70	471.69	403.04	528.73	706.49	264.77	490.94
5-Dec-10	369.16	471.69	403.04	533.43	704.53	264.77	488.33
6-Dec-10	364.00	471.69	406.43	528.73	697.68	264.77	488.25
7-Dec-10	361.45	476.83	406.43	528.73	695.72	264.77	480.16
8-Dec-10	360.16	498.47	406.43	527.56	701.38	264.77	481.31
9-Dec-10	358.39	498.47	406.43	522.86	697.28	264.77	481.72
12-Dec-10	352.92	498.47	406.43	522.86	699.54	264.77	480.48
13-Dec-10	349.53	498.47	406.43	528.73	699.81	264.77	477.92
14-Dec-10	348.42	498.47	409.82	528.73	702.44	264.77	476.51

15-Dec-10	346.08	509.94	413.21	541.65	704.34	259.89	476.06
16-Dec-10	346.06	509.94	416.60	528.73	694.33	259.89	475.13
16-Dec-10	346.06	509.94	416.60	528.73	694.33	259.89	475.13
19-Dec-10	346.63	509.94	424.51	520.50	687.25	259.89	475.78
20-Dec-10	347.02	509.94	433.55	520.50	684.76	259.89	473.89
22-Dec-10	354.46	516.81	433.55	514.63	687.59	259.89	471.84
23-Dec-10	361.55	516.81	438.07	519.33	688.70	259.89	475.31
26-Dec-10	373.55	516.81	447.11	521.68	682.65	259.89	476.77
27-Dec-10	373.32	522.83	445.60	528.73	683.34	259.89	476.83
28-Dec-10	368.45	522.83	445.60	522.85	688.84	259.89	477.54
29-Dec-10	366.22	521.87	448.99	528.73	693.32	259.89	480.68
2-Jan-11	362.42	521.87	448.99	522.85	692.39	259.89	479.19
3-Jan-11	360.12	521.87	453.51	516.98	689.29	259.80	479.38
4-Jan-11	362.67	521.87	470.84	516.98	684.31	259.80	480.23
5-Jan-11	362.55	517.72	475.36	525.20	694.70	264.60	478.64
6-Jan-11	361.41	517.72	471.97	527.55	694.69	264.60	480.42
9-Jan-11	359.27	517.72	471.97	524.03	694.34	264.60	480.30
10-Jan-11	361.65	517.72	470.07	524.03	702.71	264.60	479.47
11-Jan-11	365.02	517.72	470.07	520.50	696.90	264.60	477.44
12-Jan-11	364.14	517.72	459.14	519.33	710.06	264.60	477.32
13-Jan-11	367.93	517.72	456.88	520.50	707.67	264.60	476.65
16-Jan-11	367.91	517.72	452.36	524.03	713.30	264.60	477.10
17-Jan-11	368.28	517.72	455.75	525.20	722.47	264.60	477.75
18-Jan-11	368.72	517.72	455.75	522.85	718.82	264.60	476.93
19-Jan-11	370.77	517.72	455.75	522.85	717.09	264.60	477.38
20-Jan-11	372.85	517.72	453.29	532.25	721.17	264.60	483.89
23-Jan-11	373.01	517.72	452.91	529.90	723.73	264.60	483.97
24-Jan-11	377.18	517.72	452.53	540.47	731.32	264.60	482.74
31-Jan-11	377.65	517.72	449.14	540.47	733.73	264.60	484.03
1-Feb-11	377.29	517.72	450.28	539.30	740.90	269.48	483.40
2-Feb-11	376.03	517.72	450.28	527.55	736.07	274.54	486.37
3-Feb-11	373.23	517.72	451.80	528.73	739.52	274.54	486.77
6-Feb-11	382.75	517.72	452.56	534.60	744.46	274.54	488.45
7-Feb-11	375.55	517.72	452.56	528.73	738.28	274.54	486.55
8-Feb-11	373.72	517.72	451.04	526.38	737.15	274.54	486.16
9-Feb-11	372.31	513.57	450.28	524.03	730.85	274.54	482.06
10-Feb-11	371.11	508.38	450.28	528.73	721.41	274.54	482.41
13-Feb-11	370.29	508.38	450.85	528.73	718.05	274.54	480.78
14-Feb-11	369.73	513.57	450.85	529.90	715.07	274.54	483.11
15-Feb-11	368.73	513.57	456.88	534.60	721.88	274.54	486.93
16-Feb-11	368.95	515.48	456.88	536.95	735.18	274.54	486.83
17-Feb-11	371.53	521.50	456.88	546.35	728.15	274.54	486.46
20-Feb-11	368.21	522.52	458.01	542.82	722.39	274.54	482.40
21-Feb-11	367.25	522.52	458.01	541.65	723.44	274.54	483.89
22-Feb-11	364.76	526.88	458.01	532.25	719.49	274.54	485.02
23-Feb-11	360.02	526.13	458.01	534.60	723.43	274.54	482.53
24-Feb-11	360.38	526.13	458.01	528.73	719.02	274.54	481.29
27-Feb-11	354.63	526.13	459.14	531.08	719.02	274.54	481.29
28-Feb-11	350.13	526.13	459.14	534.60	713.58	274.54	480.37
1-Mar-11	349.78	526.13	463.66	534.60	703.24	274.54	482.47
3-Mar-11	355.68	526.13	463.66	541.65	698.12	274.54	482.62
7-Mar-11	354.28	526.13	463.66	538.12	700.26	273.08	484.11
9-Mar-11	352.39	526.13	459.14	539.30	699.61	273.08	475.64

10-Mar-11	350.12	526.13	459.14	531.08	693.06	273.08	474.41
13-Mar-11	347.03	526.13	459.14	534.60	691.85	273.08	473.52
14-Mar-11	340.81	526.13	457.63	534.60	690.10	271.10	472.03
15-Mar-11	334.34	526.13	451.59	519.33	659.66	271.10	464.54
16-Mar-11	336.03	526.13	451.03	528.73	654.25	271.10	465.21
17-Mar-11	335.70	526.13	455.55	519.33	655.22	271.10	465.99
20-Mar-11	334.89	526.13	455.55	524.03	655.88	271.10	467.43
21-Mar-11	335.46	526.13	456.11	536.95	655.75	271.10	466.13
22-Mar-11	334.70	526.13	456.11	540.47	655.72	271.10	465.74
23-Mar-11	331.50	526.13	453.85	542.82	655.25	271.10	466.47
24-Mar-11	330.89	525.11	452.72	540.47	655.25	271.10	464.44
27-Mar-11	323.45	525.11	450.46	538.12	660.63	271.10	461.90
28-Mar-11	313.33	518.88	449.52	528.73	668.62	271.10	460.73
29-Mar-11	305.45	512.81	440.48	516.98	670.35	271.10	459.38
30-Mar-11	305.13	512.81	440.48	528.73	669.65	271.10	456.09
31-Mar-11	314.11	512.81	432.57	534.60	674.03	271.10	459.01
4-Apr-11	313.98	506.84	437.09	534.60	672.93	271.10	458.68
5-Apr-11	311.95	501.75	437.09	540.47	676.91	271.10	456.72
6-Apr-11	312.05	501.75	437.09	540.47	676.51	271.10	455.51
7-Apr-11	314.20	501.75	437.09	540.47	676.63	271.10	455.32
10-Apr-11	315.79	501.75	437.09	541.65	698.27	271.10	454.29
11-Apr-11	313.97	501.75	435.96	539.30	714.02	271.10	452.29
13-Apr-11	322.75	501.75	435.96	556.92	730.43	271.10	450.69
17-Apr-11	312.91	501.75	434.83	556.92	729.46	271.10	452.65
18-Apr-11	309.91	499.16	434.83	556.92	725.04	266.05	451.62
19-Apr-11	307.73	506.30	434.83	556.92	726.97	266.05	448.83
20-Apr-11	304.88	506.30	434.83	547.52	726.36	266.05	445.53
21-Apr-11	302.51	506.30	434.83	540.47	725.87	261.08	444.53
25-Apr-11	300.09	506.30	434.83	540.47	726.64	261.08	442.94
26-Apr-11	298.79	507.83	434.83	540.47	727.22	261.08	443.28
27-Apr-11	299.26	509.88	434.83	498.19	722.86	261.08	442.68
28-Apr-11	296.87	509.88	434.83	493.49	717.32	261.08	442.52
2-May-11	293.75	509.88	434.27	486.44	717.68	261.08	430.34
3-May-11	290.07	509.88	434.27	468.82	716.53	261.08	426.83
4-May-11	287.08	509.88	434.27	477.04	717.22	261.08	428.12
5-May-11	289.63	509.88	434.27	472.34	716.86	261.08	427.44
8-May-11	290.49	509.88	434.27	477.04	717.71	261.08	428.18
9-May-11	291.07	509.88	434.27	477.04	716.88	261.08	428.12
10-May-11	297.37	509.88	429.75	477.04	715.01	261.08	425.77
11-May-11	298.31	509.88	429.75	477.04	718.76	261.08	427.25
12-May-11	301.11	509.88	425.23	479.39	720.03	261.08	424.84
15-May-11	307.74	509.88	420.71	477.04	693.61	261.08	426.17
16-May-11	310.62	504.17	416.19	475.87	696.87	265.96	427.51
18-May-11	305.64	504.17	415.05	477.04	664.11	265.96	426.05
19-May-11	304.48	504.17	415.05	474.69	626.14	265.96	422.98
22-May-11	303.59	504.17	415.05	473.52	605.35	265.96	421.17
23-May-11	302.19	504.17	415.05	473.52	582.92	265.96	421.06
24-May-11	303.10	504.17	400.36	468.82	576.20	265.96	421.31
25-May-11	303.97	504.17	402.06	468.82	561.76	265.96	420.73
26-May-11	304.74	504.17	402.06	486.44	552.54	265.96	422.06
30-May-11	305.88	504.17	402.06	472.34	540.97	256.11	418.82
31-May-11	298.22	498.46	402.06	464.12	528.89	251.31	419.55
1-Jun-11	295.33	498.46	402.06	468.82	530.77	251.31	419.20

2-Jun-11	292.00	498.46	402.06	468.82	530.43	251.31	419.50
5-Jun-11	285.23	492.91	402.06	458.25	525.73	251.31	420.34
6-Jun-11	279.11	492.91	398.66	452.38	525.47	241.97	419.21
7-Jun-11	271.38	492.91	398.66	446.50	519.77	241.97	416.45
8-Jun-11	264.76	490.54	402.06	434.76	519.91	241.97	411.43
9-Jun-11	259.67	483.25	405.45	442.98	506.24	241.97	412.41
12-Jun-11	255.06	486.65	404.32	430.06	500.98	241.97	410.78
13-Jun-11	248.82	488.41	402.06	442.98	486.19	241.97	406.48
14-Jun-11	242.72	485.03	402.62	444.15	472.97	241.97	404.20
15-Jun-11	234.01	496.13	402.62	441.80	477.52	241.97	398.09
16-Jun-11	248.44	501.79	400.35	460.60	485.26	241.97	400.77
19-Jun-11	266.49	506.73	399.97	489.96	510.21	241.97	402.87
20-Jun-11	284.45	516.14	399.03	487.61	543.39	241.97	409.73
21-Jun-11	303.62	518.23	399.03	493.49	574.64	241.97	415.77
23-Jun-11	326.81	526.03	399.03	524.03	625.43	241.97	429.99
26-Jun-11	309.90	536.90	399.03	472.34	588.79	241.97	433.07
27-Jun-11	286.53	544.70	402.42	447.68	560.73	241.97	434.47
29-Jun-11	291.28	557.22	402.42	452.38	574.68	241.97	430.52
30-Jun-11	289.94	570.95	402.42	486.44	564.80	241.97	426.32
3-Jul-11	288.46	577.98	405.81	469.99	562.19	241.97	419.92
4-Jul-11	288.98	571.14	405.81	475.87	569.71	241.97	414.48
5-Jul-11	296.24	574.69	405.81	494.66	573.13	241.97	412.45
6-Jul-11	301.69	574.45	409.20	493.49	602.60	241.97	411.29
7-Jul-11	300.40	569.52	405.81	475.87	608.33	241.97	410.32
10-Jul-11	306.32	586.44	409.20	485.26	600.01	241.97	412.88
11-Jul-11	308.53	607.22	412.59	469.99	615.77	241.97	410.87
12-Jul-11	313.43	607.22	412.59	487.61	644.04	241.97	409.92
13-Jul-11	320.77	603.16	412.59	485.26	651.66	241.97	407.76
14-Jul-11	328.70	591.52	412.59	492.31	673.44	241.97	407.14