

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal has been adopting planned economic development since four decades. For development, requires a steady supply of medium to long-term capital funds. Supply of capital fund is possible through capital market. Capital markets are the institutions, which are engaged in mobilizations of ideas saving in productive opportunity. The financial system or markets perform the function by channeling the nation's saving into best uses.

The organized stock is recent phenomenon in Nepal. The history & securities market began with the flotation of shares by Biratnagar Jute Mills Ltd. & Nepal Bank Ltd., 1937 AD. Introduction of the company act in 1951, the first issue of government bond in 1964 & the establishment of Securities Exchange Centre in 1976 were other significant developments relating to capital markets. Securities exchange central was established in 1976 in with the objective of facilitating & promoting the growth of capital markets. Before conversion into a stock exchange it was only capital market in situation under taking the job brokering under writing, managing public issues, market making for government bonds & other financial services.

Institutional development of securities market in Nepal started from the year 1976 when Securities Exchange Centre (SEC) was established under the companies act with the joint capital contribution of Nepal Rastra Bank & Nepal Industrial Development Corporation. The Industrial Policy of the government also encouraged the promotion of securities exchange activities in Nepal. Nepal government under a program initiated to reform capital market converted securities exchange centre into Nepal Stock Exchange (NEPSE) in 1993. NEPSE is non-profit organization, operating under Securities Exchange Act, 1983.

Nepalese capital market was given proper structure in June 1993 with the establishment, SEBON as the market regulator. Since its establishment, SEBON has been concentrating its efforts on the legal and statutory frameworks, which are the bases for the healthy development of capital market. SEBON Nepal is the supreme body to regulate the Nepalese

securities market. As a part of its continuous efforts to build a sound system, the securities exchange act, 1983 was amended for the second time on Jan 30, 1997. This amendment paved the way for establishing SEBON as an apex regulatory body as it widened the horizon of SEBON by bringing Market intermediaries directly under its jurisdiction and also made it mandatory for the corporate bodies to report annually as well as semi annually regarding their performance. The main objective of SEBON is to promote and protect the interest of investors by regulating the securities market, to monitor and control the entire capital market, sale and distribution of securities and purchase, sale or exchange of securities. SEBON was established with the objective to render contribution to the development of capital markets by making securities transactions fair, healthy, efficient and responsible. Whereas, its main function are to provide licenses to stock exchange and securities business person and to monitor the activities carried by NEPSE to know if they are in accordance with the law or not. Despite this, Nepalese stock market is still underdeveloped and there is lot of shortcomings in Nepalese stock market. Hence, the present study is conducted on Nepalese stock market in order to find out its potential of growth, major problems and prospects by using secondary as well as primary data.

Securities market is the place where people buy & sale financial instrument. These financial instruments may be in the form of ordinary shares, preferences shares, government bonds, and corporate bonds and debentures etc. The parties involved in security market are investors, intermediaries and specialists.

An efficient capital market is one where the stock/security price reflects all information related to it. The information is of utmost importance to all the active participants/investors (in secondary market) to make their investment decision whether it is purchasable of new shares or sale of existing holdings. Security prices are more stable because of the operation of the security market. They improve liquidity by providing continuous markets that make a more frequent but smaller price change. An efficient market is one where the current price security (share/stock) gives the best estimate of its true worth. It is not possible to systematically gain of loss abnormal profits on the basis of available public information. In such an efficient market, the prices of securities reflect investors' estimates of level of return and risk in future cash flows. The higher securities that are priced efficiently guide the financial market allocating funds to the most productive use.

1.2 Statements of the Problem

Development of capital market in general and stock market in particular is must for a sound industrial development of the country. Capital market institutions help to mobilize the surplus unit to deficit unit for productive investments. As it mobilize the scattered resources and channels them in productive sector. It is an effective instrument of expanding productive capacities of the country. In Nepal, unfortunately, despite a history half of decade of planned economics activities to develop real sector of a country, little attention was paid to the development of financial sector. Over the past one and half decade financial sector, despite many problems has developed significantly in Nepal. The growth of stock market is remained satisfactory because of low priority in the government financial reform policies.

Stock Exchange in many countries has a long history of more than one century. For e.g. the India stock market has a history of more than 130 years. The stock exchange of Nepal has not so long history and it has faced so many ups and downs during this short history. However, we must be proud that Nepalese stock market has created a history in very short period. Establishment of NEPSE has given an opportunity to investors to invest in the enterprise sector and participate in the secondary market.

The policy makers are seriously working to make the appropriate policy for the development of the stock market. Stock market is lagging in the use of information technology due to which the stock market mutually has remained stalled. Because of embryonic nature, Nepalese stock market is not effective enough to evaluate the price of stock. There are no private open investment companies (mutual fund) operating at present time. Therefore, the government needs to create incentives for capital mobilization remove impediments to private sector development and provide basic legal regulatory reforms. The company used different rules and regulation in stock market development.

Behavior of the stock prices shows the misevaluation of the stock price in the secondary market. The price earning information was not made available timely to the investors. The investors could not identify the good and bad stocks. So, the lack of value judgment to determine the stock price is the serious problem of the Nepalese stock market. This happens due to the inability of the regularity bodies of the stock market to regulate the market mechanism and failure to win the faith of the investors.

The problem can be solved only when the real determinants of stock prices are diagnosed and identified. The research studies on these issues are not available adequately in the Nepalese stock market. In these context few questions arises and these questions are;

- a. Is the growth of stock market satisfactory?
- b. What are the problems and prospects of stock market of Nepal?
- c. What is the stock price behavior of Commercial banks in Nepalese stock market?
- d. Whether other factors affect the share price?
- e. How earning, book value, dividend, retained earning, current ratio, debt ratio, dividend pay out ratio, turnover, price earning ratio affect to stock price of the company on secondary market?

1.3 Objectives of the Study

The main objective of the study is to evaluate the growth, problem and prospect of stock market of Nepal. The other specific objectives are;

- a. To examine the stock price behaviour of secondary market.
- b. To analyze the secondary market investors views regarding the decision on stock investment.
- c. To evaluate the factors that affect on stock price with the help of NEPSE index.

1.4 Significance of the Study

This study is very beneficial to all parties involved in the stock market.

- a. This will contribute literature to further researcher in this area.
- b. This study is useful for university students who are curious to know about stock price behaviour.
- c. This study may draw attention from every corner of investors and also other interested parties.
- d. All other individuals, researchers and parties can be benefited.

1.5 Limitation of the Study

This study has been conducted with certain limitations, which are follows:

- a. The study is limited only to the stock market of Nepal and does not cover the other financial aspects.
- b. Research is based on the data of NEPSE official records and the data are not verified.
- c. Certain period (5 years) data has been taken for the analysis (2004/05-2008/09 A.D.).
- d. The primary data collection totally relies on the responses of the respondents.

1.6 Organization of the Study

This study has been organized into five different chapters. Each is devoted to some aspects of the study. The present is divided into following chapters:

Chapter I: Introduction

This chapter consist background of the study, statement of the problem, objective of the study, significance of the study and the limitation of the study.

Chapter II: Review of Literature

This chapter deals with review of different literature of the study field. Therefore, this includes the review of major books, journals, research work, and thesis etc. along with conceptual framework.

Chapter III: Research Methodology

This chapter elaborates the research methodology and it includes research design, population and sample, source and technique of data collection, data analysis tools.

Chapter IV: Data Presentation and Analysis

This chapter includes analysis and interpretation of the data using financial and statistical tools. This also includes the major findings of the study.

Chapter V: Summary, Conclusion and Recommendations

This chapter includes summary of the study, and the conclusion made on the basis of data analysis. Further, recommendations have been presented for the enhancement of stock market growth of Nepal.

Finally, bibliography and appendices are presented at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

The basic ideas about the research study can be shown from the books, articles and thesis. They are reviewed under conceptual reviews, articles reviews and thesis review.

2.1 Conceptual Review

Before entering into the core concept of the effects of earning per share and dividend per share on the stock price, it is logical to be familiar with some technical terms, which are in frequent use in researches on capital market. So in this section, some of the technical terms related to capital market are defined here.

2.1.1 Common Stock

A firm can collect funds required by issuing of common stock. Common stock represents ownership interest in the corporation. The ownership capital generally referred equity, when issued to the public for subscriptions in the form of divisible units of equal value is termed as common stock. Unlike debt once a corporations issues common stocks, generally it has no obligation to redeem the stocks by purchasing it from the investors. Usually common stock is issued with a perpetual life. These stocks are subjected to issue and trading in primary and secondary market. The original issue takes place in primary market where it is generally issued with its face value and once the stock gets listed in the stock exchange, the trading starts to take place and this particular market is called secondary market.

“Stock is the ownership interest of a corporation. Each share of stock is a fraction of rights and a privilege that belongs to the owners of a business. A stock certificate is evidence of that fractional; it is tangible, a certificate of title, to part of the company.” (*Henderson, Trennepohl and Wert; 1984: 98*)

“Common stockholders of a corporation are its residual owners, their claim to income and assets comes after creditors and preferred stockholders have been paid in full. As a result, a stockholder’s returns on investments are less certain than the return to lender or to preferred stockholder. On the other hand, the return to common stock holder is not bounded on the upside, as are returns to the others. A share of common stock is can be authorized either with or without par value. The par value of stock is merely a stated figure in the corporate charter and is of little economic significance. A company should not issue stock at a price less than par value, because stockholders who bought stock for less than par value would be liable for the difference between below the par price they paid and the par value.” (*Van Horne; 1997: 124*)

2.1.1.1 Common Stock Values

(a) Par Value or Face Value

The face value of the stock is mentioned in article of association and memorandum of the company. The par value doesn’t changes until there is a stock split or other such initiative by the board of directors, the par value of new issue is usually Rs.100, as directed by Company Act. of respected country.

(b) Market Value

“Market value is determined by interaction of demand and supply in the secondary market. This value is influenced by many factors like economic and industry condition, expected dividend and earning, speculations and other political as well as signaling effects like major events inside as well as outside of the country, government stability.” (*Cheney and Moses; 1995: 237*)

(c) Book Value

It represents the assets value per share after entire obligation of the cooperation in met. It is calculated by dividing the total common equity on the balance sheet by the number of share outstanding.

2.1.1.2 Characteristics of Common Stocks

The characteristics of common stocks are well studied in relation to the rights and privileges enjoyed by the common stockholders as owners. The following are the characteristics of common stocks:

(i) Voting Rights

Common stock holders have the right to vote on stockholders matter, such as the election on of the board of director sales on fixed assets, merger of the company, amendment of corporate charter etc. The ordinary stockholders are required to vote in order to elect the director and change the memorandum of association. For instance, it they want to change its authorized capital or the power of vote for the board of directors and for against major issues (Such as mergers or expansion into new product lines) belong to the common stockholders because they are the owner of the corporation.

(ii) Control

The ordinary shareholders have the legal power to elect the directors of board. If board of directors' ream are success they can change the directors and able to participate in the management of the company though their voting right and right to maintain proportionate ownership.

iii) Claim on Income and Distribution of Other Shares

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

The common stock holders have a claim to residual income, which is earning available for ordinary share holders after paying expenses, interest charges, taxes and preference

dividends if any. The income be split in to two parts, dividends and retained earnings. Dividends are immediate cash flow to shareholders, where as retained earnings are reinvested in the business. A company is not under a legal obligation to distribute dividends out of the available earnings.

iv) Claim on Assets

The common stockholders have a residual claim in the company's assets in case of liquidation, out of the realize value of assets, first the claim of debt holders and then preference shareholders are satisfied and retained balance, if any, is paid to the common stock holders

v) Preemptive Rights

"In this rights, the existing stockholders have right to purchase any additional shares issued by company before they are offered to the public. If the preemptive right is contained in firm's charter then the firm must offer any new common stock to existing share holders. If the charter does not prescribe a preemptive right, the firm has a choice of making the sale of existing stockholders or to an entirely new set of investor." (*Bhattarai; 2006: 151- 152*)

The preemptive right allows stockholders to subscribe to any new issue of stock, so that they can maintain their previous fraction of the total no. of shares sold (Usually called the "Outstanding Shares"). Some states automatically make the preemptive right a part of every corporation charter, in other, its inclusion as part of the charter is optional. "To grant the preemptive right is to recognize that stockholders are part owners of corporations and such as should have an interest in earnings and assets and voice in management proportionate to the fraction of voting shares they own. This right, if exercised, prevents the dilutions of ownership control inherent in additional stock shares. Thus the preemptive right, if exercised guarantees the investor's undiluted maintenance of voting control, share in earning and share in assets." (*Francis; 1983: 39*)

vi) Liquidation Rights

"As owners rather than creditors, common stock holders receive no priority in the distribution of assets resulting from a liquidation of the corporation. Typically, after assets

are sold and liabilities and preferred stockholders are satisfied, little if any cash will be available for common stockholders.” (*Cheney and Moses; 1995: 414- 415*)

vii) Limited Liability

“The common stockholders are the true owners of the company, but their liability is limited to the amount of their investment in shares. If a stockholder has already fully paid the issue price of shares purchased, he has nothing more to contribute in the event of financial distress or liquidation. The limited liability feature of share encourages unwilling investors to invest their funds in the company which helps company to raise funds.” (*Pandey; 1995: 905-908*)

2.1.2 Major Financial Determinants of Market Price per Share

The major financial influencers that are crucial to affect the price level changes in market price per share are;

2.1.2.1 Earning Per Share (EPS)

“Accounting earning that represents the difference between revenues and expenses, including the expenses associated with non-equity source of funds (such as interest to debt, dividend to preference share) is also known as total earning available for common stock. If this portion of income is divided by number of outstanding shares, we get earning per share.” (*Sharpe, Alexander and Bailey; 2001: 622*)

2.1.2.2 Dividend Per Share (DPS)

“The percentage of earning the firm pays in cash to its shareholders is known as dividend. The dividends, of course, reduce the amount of earnings retained in the firm and affect the total amount of internal financing.” (*Van Horne; 2000: 205*)

“Nothing is more important than dividends to stockholders. They buy shares of firm with the hope of sharing profit earned by firms. The sole motive of stockholders is to receive return on their investment, nothing pleases them more than knowing the firm's earning and more profit mean more dividends coming in.” (*Pradhan; 1996: 375- 376*)

Krishman opines that of two stocks with identical earning record and prospect, but the one paying a large dividend than the other, the former will undoubtedly command a higher price merely because stockholders prefer present to future values. "Stockholders often act upon the principle that a bird in the hand is worth two in the bush and for this reason, they are willing to pay a premium for the stock with the higher dividend rate." (*Pandey; 1995: 681*)

2.1.3 Forms of Dividend

a) Cash Dividend:

Payments made in cash to stockholders are termed cash dividends, for which a firm needs to have enough cash in its bank account. When cash dividend is declared, the cash account and reserves account of the firm will be reduced, thus both the total assets and the net worth of the firm are reduced in case of distribution of cash dividend.

b) Stock Dividend (Bonus Share)

"An issue of bonus share represents a distribution of share in addition to cash dividend (known as stock dividend in USA) to the existing stockholders. This practice has the effect of increasing the number of outstanding shares of the company, which are distributed proportionately. Thus, a shareholder retains his/her proportionate ownership of the company." (*Pandey; 1995: 705- 706*)

c) Stock Splits

"Stock splits have an effect on a firm's share price similar to that of stock dividends. A stock split is method commonly used to lower the market price of a firm's stock by increasing the number of share belonging to each shareholder. Quite often, a firm believes that its stock is priced to high and that lowering the market stock will enhance the marketability of the stock and stimulates market activity. A stock split has no effect on the firm's capital structure. It commonly increases the number of shares outstanding and reduces the stock per share par value." (*Gitman; 1988: 627- 628*)

d) Stock Repurchase

“The repurchased of stock can be viewed as a cash dividend, since it involves the distribution of cash to the firm's owners, who are the sellers of the shares. The advantages of stock repurchases are an increase in per share earnings and certain owner tax benefits. The tax advantage stems from the fact that if the cash is paid the owner will have to pay ordinary income taxes on it. Of course, when the stock is sold, if the proceeds are in excess of the original purchase price, the capital gain will be taxed as ordinary income.” (*Gitman; 1988:628- 629*)

2.1.4 Stock Price Behavior

Simply stock price behavior refers the movement of stock price in the secondary capital market, i.e., market value is more than book value, market value is less than book value and market value is more than book value due to the different internal and external factors. Market value can be changed. When we try to study of Nepalese security market, it is necessary to study the other external factors of foreign country due to the globalization, liberation and modernization, all the world has become within the boundary so effect of one area's movement automatically lies upon others. Theory is code of conduct of explanation process is pushed further from where is concrete theme can be derived. In the wide sense, there are three theories concerning the stock price behavior which are as follows;

2.1.4.1 Efficient Market Theory

A market is said to be informational efficient if the current market price instantaneously and fully reflects all relevant available information. The market value of a particular share may be under or overvalued. An efficient market is one where shares are always correctly priced and when it is not possible to out perform the market consistently.

The efficient market theory contends that in a free and perfect competitive market stock price always reflect all the available information and adjust instantaneously every influx of new information. In an efficient market, only price change that would occur are those, which result from new information? “An initial and very important

premise of an efficient market is that there are large numbers of knowledgeable and profit maximizing independent buyers and sellers, new information is generated randomly and the investors adjust the information rapidly.” (Reilly; 1986: 43)

Therefore if market is efficient, it uses all available information to it in setting price. The measure of efficiency involved from the notion of perfect competition, which assumes free and instantly available information, rational investors with no tax and transaction costs.

“The requirements for a securities market to be an efficient market are:

- Price must be efficient so that new investors and better products will cause a firm's securities price to rise and cause investors to want to supply capital to the firm.
- Information must be discussed freely and quickly across the national so all investors can react to new information.
- Transactions cost such as sales commissions on securities are ignored.
- Taxes are assumed to have no noticeable effect on investment policy.
- Every investor is allowed to borrow or lend at the same rate.
- Investors must be rational and able to recognize efficient assets so that they will want to invest money where it is needed most. (i.e., in the assets with relatively high returns)” (Bhalla; 1983: 238)

This constitutes the world of the efficient market theory or more popularly the capital assets pricing model.

As efficient market is concerned with the pricing mechanism of securities market, it has two dimensions of price adjustment. One is the type of information reacting to and another is the speed and quality of adjustment of security to the information. As any random infusion of information instantaneously or lags that are profitable. Pricing not only should be instantaneous, but also should discount accuracy of information so that the price fluctuates closely around its intrinsic value. So Keane rightly pointed out, “It would be clearly an odd interpretation of efficiency if a doubling in price the price of a share were regarded as an efficient reaction to new information, simply

because the movement was instantaneous, if the information in fact warranted a substantial reduction in price.” (*Kene; 1983: 142*)

“Market efficiency refers to the ability of financial asset to quickly adjust and reflect all information that is relevant to value in its price.” (*Francis; 1986: 97*) Therefore, it assumes that any given time the market correctly prices all securities. The result, or so the theory advocates, is that securities cannot be overpriced or under priced for a long enough period to profit there from.

2.1.4.2 Fundamental Analysis Theory

Fundamental analysis approach involves working to analyze different factors such as economic influences, industry factors, government action, firm's financial statement, it's competitor and pertinent company information like product demand, earnings, dividends and management in order to calculate an intrinsic value for firm's securities. The analyst is who believes of fundamental facts to determine the intrinsic value of stock is popularly known as popularly known as fundamental analyst or fundamentalist.

Fundamentalist forecast stock price on the basis of economic industry and company statistic. The principal decision variable ultimately takes in the form of earnings and value with a risk – returns framework based upon earning power and the economic environment. “Fundamental analysts delve into company's earnings, their management, economic outlook, firms competitors market conditions and many other factors.” (*Francis; 1986: 398*)

The objective of fundamental security analysis is to appraise the intrinsic value of security. The intrinsic value is the true economic work of financial assets. “The fundamentalist maintain that any points of time every stock has an intrinsic value which should in principle be equal to that present value of the future stream of income from that stock discount at an appropriate risk related rate of interest.” (*Bhalla; 1983: 283*) Therefore the actual price of security is considered to be a function of a set of anticipation. Price change as anticipation changes, which in turn change, as a result of new information. In other words, a new piece of news is released, securities intrinsic values will change, and the securities market price will adjust towards the new values.

“The value of common stock is simply the present value of all the future income which the owner of the share will receives.” (*Francis; 1986: 398*) And the actual price should reflect intrinsic value of stocks i.e., good anticipation of cash flows and capitalization rate corresponding to future time period. But in practice, first, it is not known in advance what the appropriate discount rate should be for a particular stock. Therefore fundamentalists estimate their value by studying in details all matters that are relevant to company. “The study would involve examining its sales earnings, profit margins, dividends, management proficiency, industrial and business outlook, labor competence any factor that would have a bearing on its performance in the future.” (*Raghu; 1991: 167*)

On the basis of such a study fundamentalists project a company's future profits and earning capacity with reasonable accuracy what the price of a company's share ought to be. This estimated price is termed as intrinsic value. The intrinsic value of the stock is generally away from its present market value. Thus, there is difference or gap between them. Fundamentalist reaches and investment decision by comparing this value with the current market price, it is believed that price will rise. In this situation, fundamentalists will acquire shares as this difference presents them with an opportunity to make profit. Alternatively, if the intrinsic value is lower than the market value, the share is called overpriced and is an indication to the fundamentalists to sell. Following these rules, they believe, above average return can be attained, given that market is inefficient in pricing the shares.

“The fundamental analysis work to find new information before other investors so they can get into a position to profit from price changes they anticipate.” (*Francis; 1986: 603*)

“Fundamental analysis uses different models like Top-Down versus Bottom-Up forecasting, probabilistic forecasting econometric models, financial statements analysis etc. to estimate the value of security.” (*Sharpe, Alexander and Bailey; 2001: 850*) Therefore the fundamental analyst reaches an investment decision on the basis of these analytical tools.

Through fundamental analysis approach is used by many security analysts or prospective investors to make a judgment of stock's value with a risk-return framework based upon earning power and the economic environment, it is and time consuming work. "Some of the limitations of fundamental analysis approach are as follows:

- The approach through sound and based on basic financial figures does suffer from drawbacks and to make this approach work efficiently one must be aware of them.
- It tends to ignore market behavior and assumes that the market will act rationally. The market seldom does. Prices flare or drop on the flimsiest of reasons.
- The entire fundamental approach is based on a rational scientific analysis of data. The market is rarely rational.
- The information and analysis itself may be incorrect.
- Many companies with the help of creative/innovative accounting and accounting cosmetics disguise real earnings.
- The fundamentalists' estimates of intrinsic value may be incorrect. This is not only possible but also more probable than not as he has to often forecast growth, profit and other factors without having in his grasp all the facts.
- The fundamentalists may not fully understand the economy or the industry, as there are several external factors.
- There is also the possibility always that the market may not move in the manner a fundamentalist expects and conversely towards the intrinsic value.
- It is also difficult to determine corporate action." (*Raghu; 1991: 168*)

"In short, fundamental approach works exceedingly well in determining the intrinsic value of the company. It is not such an effective tool in determining future price movements and hence it is not very dependable for short-term profits. By nature the fundamentalist is conservative in approach and is generally unwilling to take a quick loss he would rather adopt a buy and hold policy." (*Yasasway; 1992: 155*)

Therefore fundamental analysis allows the analyst to forecast holding-period yield and risky ness of achieving that yield, but these figures alone do not necessarily prompt a buy or sell action.

2.1.4.3 Technical Analysis Theory

The word Technical Analysis peruses sound like gobbledygook to many. But it is an alternative approach to predicting stock price behavior in the literatures of investment management. “Technical analysis is market-oriented philosophy and it can concentrate on the force of supply of and the demand for share as reflected in the actions of market rather than the intrinsic worth of share. The analysts or prospective investors who analyze the security to predict the future price of share on the basis of study of its price movements in the past are known as technical analysts or technician.” (*Fisher & Jordon; 2000: 509*)

“The technician believes the forces of supply and demand are reflected in patterns of price and volume of trading. By examination of these patterns, the predicts whether prices are moving higher or lower, and even by how much.” (*Fisher and Jordan; 2000: 510*)

Therefore, the patterns or trend in price is the basis of technical analysis. Various charts are prepared to determined trends and to determine whether prices are likely to rise or fall. Technicians tend to look backward. “The technician usually attempts to predicts short-term price movements and thus makes recommendations concerning the timing of purchases and sales of either specific stock or groups of stocks (such as industries) or stocks in general. It is sometimes said that fundamentals analysis is designed to answer the question "what?" and technical analysis to answer the question “when?” (*Sharpe, Alexander and Bailey; 2001: 844*)

Technical analysts discern past pattern or trends, which they believe to repeat in the future and recommend for the timely holding and disposing mechanism, which is profitable. Or that recommend for short-term speculation based on its forecast of profitable pattern. In other words technical analysis is backward looking, in which past data are used to calculate the value of the stock. Past trends play vital role.

The technical analysts estimate prices instead of values. They largely ignore the fundamental facts such as the firm's risks and earning growth rates in favor of concentration on various barometers of supply and demand that they have devised.

The premise here is that price moves in trends and that trend is likely to continue than reverse. It is not worthy to mention here the quotation of veteran scientist and investor, Benjamin Franklin that "Show me the man who does not believe in history and I will show you a fool." Technical analysts believe in the history and that history repeats itself. Consequently all their predictions and charts are based on history. Past figure and trends are used to predict the future.

“Technical analysts maintain that the price of share at any time (Present Price) is the balance struck by buyers and sellers at a point in time price movements take place on account of changes in buying and selling pressure. This occurs in account of diverse internal and external factors (Profits, political environment, predictions and the likes). Prices stabilize that a record of price movements over a period of time in the past. As the whole theory is based on the assumptions that history repeats itself. That human nature doesn't change and that man is likely to repeat his patterns of past movements will repeat themselves in the future.” (*Raghu; 1991: 172*)

“The basic assumptions underlying technical analysis are as under;

- Market value is determined solely by interaction of supply and demand.
- Demand and supply are governed by many rational and irrational factors.
- Changes in trend are caused by shifts in supply and demand.
- In disregard of minor fluctuations in the stock market, share price tend to move in trends, which persist for an appreciable length of time.
- Shifts in supply and demand, no matters why they occurs can be detected sooner or later in charts of market action.
- Some chart patterns tend to repeat themselves.” (*Edwards and Magee; 1958: 86*)

In essence, technical analysis believes that past patterns of market action will recur in the future and can therefore be used for prediction purposes.

2.2 Review of Journal and Articles

Huang, (1998), in his article, *"Price Behavior"*, has revealed the daily price limit moves. The sample includes all listed firms on the Taiwan Stock exchange for the period 1991-1993. There are significant price reversals following the limit moves for the both the up-limits and the down- limit cases. The price reversals cannot be attributed to the size effects. When the size effects are adjusted for, the price reversals remain significant.

Abeysekera, (2001), in his article, *"Behavior of Stock Price on the Colombo Stock Exchange (CSE)"* has revealed the consistency of stock price with weak form of the Efficient Markets Hypothesis (EMH). Runs, Autocorrelation and Co-integration tests are applied to daily, weekly and monthly CSE index data for the period of January 1991- November 1996. Results of runs, correlation and co-integration tests powerfully reject the serial independence hypothesis, leading to the conclusion that the behavior of stock price in the CSE is not consistent with the weak form of the EMH.

Abraham, Seyyed and Alsakran, (2002), in their article, *"The Random Walk Behavior and Efficiency of the Gulf Stock Markets"*, have revealed the movement of stock price. Their study renders inaccurate inferences in the presence of infrequent trading. As the observed index in thinly traded markets may not represent the true underlying index value, there is a systematic bias toward rejecting the efficient market hypothesis. For the three emerging Gulf markets examined in these papers, correction for infrequent trading significantly alters the results of markets efficiency and random walk tests. The Beveridge-Neslon decomposition of index returns is done to estimate the underlying index.

Melecky, (2003), in his article, *"Dynamic of Intrinsic Value and Actual Price of Stock in the Markets"*, has revealed the behavior of market participants at undervalued and overvalued markets. The model construction is based on characterization market participant's behavior and on relationship between stock market and economical environment. His aim is to contribute to study of processes, which influence the price dynamics at the stock markets.

Tamrakar, (2003), in his article, *"Share Price Fluctuation in Nepal"*, has revealed that there are many loopholes in our stock- exchange Act. Investors feel insecure here. A few years back there was a company called Nimrod Pharmaceutical Company that floated in shares but where are they now? Similarly, it has been more than a year that Bansbari leather age has allotted its shares but why didn't the company lists its shares in the stock market? It has been three years that Gorkhkali Rubber Udyog hasn't called for its AGM Government has remained silent in all these cases. This is why the general public as well as the institutional buyers are not feeling secure in investing in stock market.

Bajracharya, (2003), in his article, *"Expectation of Investors on Stock"*, has revealed that the return from investment in stock is not short run phenomenon. Investors have to learn few things before they make investment on stock. First of all they should know the financial health of that company. For example: if some body want to invest in investment of bank's shares, he/she must see its balance sheet or at least paid- up capital, last year net profit, current years anticipated profit and calculate earning per share and price earning ratio. These two numbers would give a fair idea about company's health and then market price would judged through the discount factors based upon one of the sound company's data. Market price is equal to earning per share divided by discount factor. EPS can derive by dividing total net profit after tax by total number of share and price earning ratio by dividing market price with capital gain and other.

Baniya, (2004), in his article entitled, *"Selecting Right Company for Investment"*, has revealed that investment in share has traditionally been done by rating the institutions on the basis of price earning ratio or dividend. Hardly do investors compare current assets with current liabilities or take a look at the debt equity ratio. Unless investors are analyzing the intricate financial details of corporate institutions before making investment decision the market cannot develop smoothly.

Share investment has traditionally been guided by the investor's returns. Most earnings of investors here have been in the form of dividends rather than capital gains, through high dividend are often seen in corporate finance theory as a wasteful use of scares capital. With

the commercial bank becoming the only potential investment destination, with other stock market participants hardly making profit and even if they did failing to meet investor's expectations, demand for shares of commercial banks outpaced supply and their prices boomed.

Now the latest sums in secondary market, despite a pretty good performance by commercial banks, make it more apparent that investment in the past was done on whim. Even officials at the stock exchange and the securities board, refuting investors, allegations of the market manipulation and insiders trading of last February discreetly claimed that the Nepalese stock market is in a has cent stage and that investment are made more in an impulse rather than through market study and credit rating.

Tripathi, (2004), in his article, *"Investment in Secondary Market"*, has revealed that one should analyze and develop various alternatives to anticipate the best returns before making a decision. That however is not enough. Investors have to use their own common sense to make a right decision. Considering the risks, investors also need to be gutsy while investing in stock. Starting the journey somehow and learning the tricks along the way. It is commonly known that profit and loss is part of the game. There may be some monetary loss in the beginning, but investors should not worry as they learn lesson in this way, which can prove to be an asset in the long term. Start by playing safe and along the journey, be patient and try to develop a proper understanding of market language, investor's psychology and market behavior.

Investment in the capital market now has become very uncertain sending the investors in search of avenues of more certain returns. The equality in investment is considered riskier than investment in bond and preferred stock etc. the secondary market is not performing well. The NEPSE index is moving around 208 and 215 since long. After great slump in Nepal stock market in fiscal year 2000/01, dissatisfaction has increased in the mind of investors. The NEPSE index on 3rd November 2000 had reached the peak of 545.82 and after that is continuously on the decline.

Sapkota, (2006), in his article, *“Rumors in Capital Market”*, has revealed that speculators spread propaganda about NB Bank's future prospects after its management was taken over by Nepal Rastra Bank (NRB). NB Bank's share gained over Rs.100 reaching Rs.335 after NRB took over NBB's management. This was quite unjustified on the basis of bank's fundamentals. The book value of the Bank at the end of fiscal year 2004/05 was only Rs.65 P.S. Just before NRB's takeover; depositors had withdrawn over Rs.3.5 billion from the bank drastically reducing its business capacity.

Mahat, (2008), in his article, *“Capital Market Financial Flow and Industrial Finance in Nepal”*, has revealed that Nepalese stock market is still in infancy stage and some drawbacks to the development of stock markets are strong historical and social reasons as well as mass poverty and illiteracy in Nepalese society. He further points out that some conscious and educated people of urban areas are also not investing in the industrial sector instead they are investing on the real estate especially building construction. Although the book is written in the early stage of the development of stock market, the limitations of Nepalese society regarding the investment in stock market is still reality of Nepalese capital market.

Basnet, (2009), in his article, *“Pace of Growth of Share Price”*, has revealed that the NEPSE index was bullish experiencing a revival after an abysmal performance. The index ended up gaining a swashbuckling 62.66 points when compared to the last month's opening at 512.38 and closing 575.04. The Sensex though increased less proportionately by 17.4 points opening at 128.18 and closing at 145.58. Shares trading also increased in comparison to the previous month.

Nepali shares closed at 813.77 points on the last day of the trading from the opening of 796.34 points on Sunday. On the first day of the trading, the sole secondary market index set a record by crossing 800 points mark for the first time in its 14 year long history and posted 811.98 points.

On the second day of the trading, NEPSE index registered 828.77 points and it witnessed an investment of 12.12 points on the third day as the index posted 833.56 points. However, the NEPSE index could not continue its growth throughout the week as it posted 821.44 points on the fourth day. Finally the NEPSE index closed only 1.79 points higher on the last day of the trading from Sunday's closing, as one of the current market driver hydropower group registered a loss of 43.62 points.

2.3 Review of Thesis

There are many masters degree thesis prepared by various researcher related with stock price. Among them some are reviewed here for analysis of literatures. These are as follows.

Sharma, (2001), has conducted a study on, “*The General Behavior of Stock Market Price.*” The prime objective of the study was to find the laws of price fluctuation in the stock market. However, the specific objectives of the study were as follows:

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

The main findings of the Study were:

- a. The rejection of hypothesis makes clear that the knowledge of past now becomes useful in predicting the future movements in stock market prices.
- b. The investors, on the floor of exchange for securities can make high expected profits in the future based solely on those historical prices series under certain systematic trading scheme (i.e. Market average return) of the general market for securities.
- c. Anomaly of weak form tests of efficient market hypothesis has an important implication bearing behavior of security price variations in the past and in performing future research in this field.
- d. In broadly speaking the implications with respect to conclusions derived by the study are of two natures: statistical and economic.

- e. Statistically, the characteristic feature of stock market movement with respect to distribution of price change implies that the general shape has been demonstrated previously, due to higher values of standard deviations for individual price changes.
- f. Higher standard deviations are result of frequent large price fluctuation. According to this device of measuring risk, individual stock and aggregate market can be interpreted as highly risk opportunity for investment.
- g. The economic reason for higher values of standard deviations implies that the inherent instability of market, change in economic environment.

Thapa, (2002), has conducted a study on, “*Dividend and Stock Prices: An Empirical Study.*” The main objectives of the study were as follows:

- a. To test the difference between dividends per share and stock prices.
- b. To determine the impact of dividend policy on stock price.
- c. To identify whether it is possible to increase the market value of the stock changing dividend policy or payout ratio.

The main findings of his study were:

- a. The difference between dividend per share and stock prices is positive in the sample companies.
- b. Dividend per share affects the share prices variedly indifferent sectors changing dividend policy or dividend per share might help to increase the market price per share.
- c. The difference between stock prices and retained earning per share is not prominent.
- d. The difference between stock price and lagged earnings ratio is negative.

Tamrakar, (2003), has conducted a study on, “*Dynamics of Stock Market in Nepal.*”

The objectives of the research were as follows:

- a. To analyze the trend of Nepal stock market.
- b. To diagnose and compute sectorial financial status of the stocks in Nepalese stock market.
- c. To analyze the market share price of Nepalese stock market.
- d. To find out the impact of the secondary on primary market and vice versa.

- e. To recommend for the improvement of stock, market in Nepal.

The major findings drawn on the research are:

- a. The stock market and economic activities move in similar direction. They influence each other. The development of the former is reflected in the latter.
- b. The stock market mobilizes the investment to finance the long-term large projects in the economy. The stock market therefore can be regarded as a heart of economy.
- c. The investors are interested to invest their resources in the shares of corporate sector through the stock market in the Nepalese economy. It is necessary to develop the entrepreneurship and encourage the entrepreneurs to starts the productive venture as soon as possible.
- d. A management capability of entrepreneurs is a key for better performance of the firms. Government should launch programs to enhance management capabilities of entrepreneurs, which may contribute to raise the return from investment.

Shakya, (2004), has conducted a study on, “*Stock Price Behavior in Nepal.*” This study aims to examine the efficiency of the stock market in Nepal. The objectives of the research were as follows:

- a. To examine the serial correlation of the successive daily price change of the individuals stocks.
- b. To determine whether the sequence of price changes is consistent with changes of the series of random numbers expected under the independent Bernoulli's process.
- c. To determine the efficiency of the stock market through the theoretical model of efficient market hypothesis in Nepalese stock market.
- d. To provide feedback policy input towards institutional development of efficient market.

The main findings of his research are as follows:

- a. The serial correlation coefficients of the daily price changes for 1 and 2 lag days, and runs of the series of daily price changes lead to conclude that the successive price changes are not independent random variables for the 30

sample stock listed in Nepal Stock Exchange Ltd. (NEPSE). Therefore, the random walk theory is not a suitable description for the stock market price behavior in Nepal.

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

Aryal, (2005), has conducted a study on, “*Corporate Practice in Nepal.*” The main objectives of the study were: -

- a. To explain whether companies paying larger dividends have a good financial position or not, whether the companies with higher payouts have an improved or not.
- b. Whether the companies with higher yield having an improved financial ratio or not.
- c. Whether the difference between dividends and stock price, dividend payout affect the share prices of finance and non-finance sectors differently or not.
- d. The motives of paying cash and stock dividends whether dividend is a residual decision or not.
- e. If there is any types of company's announcements of earning on market price of share.
- f. Whether legal restriction on share repurchases should continue to prevail of a share.

- g. The major factors affecting corporate dividend policy.
- h. Kind of dividend policy should be followed by Nepalese enterprises.

The major findings of the study were as follows:

- a. Stocks with larger ratio of dividend per share to book value per share have higher liquidity. However, liquidity position of stocks paying higher dividends is also more variable as compared to stocks paying lower dividends.
- b. Stocks with larger ratio of dividend per share to book value per share have lower leverage ratios. It shows that companies paying higher dividends are reluctant to employ higher degree of leverage in their capital structure. Leverage ratios of stocks smaller dividends are also more variables as compared to stocks paying higher dividends.
- c. When the difference between dividends and profitability is studied, it revealed that stocks with larger ratio of dividend share to book value per share have higher profitability. However, these profitability ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends.
- d. Positive difference is observed between the ratio of dividend per share to book value per share and turnover ratios. However, turnover ratios of stocks paying larger dividends are also more variable that of stocks paying dividends.
- e. Stocks with higher ratio of dividend per share to book value per share also have higher interest coverage. A positive difference is found between dividend payouts and current ratio where as negative difference is found between dividends payouts and quick ratio. It may be due to more reduction of quick assets rather than current assets when more dividends are paid out.
- f. The position of quick ratio of stocks paying larger dividends whereas the position of quick ratio of stocks paying larger dividend is less variable as compared to stocks paying lower dividends. There is a negative difference observed between dividend payouts and earnings before tax to net worth. On other hand, there is a positive difference between dividend payouts and earnings before tax to total assets. However, the return on both of total assets and net worth is more variable for stock paying higher dividends.
- g. The difference between dividends payouts and turnover ratios has been observed to be positive. Stocks with larger dividend payouts have higher

turnover ratios. However, turnover ratios of stocks paying larger dividend are more variable. Positive difference is also observed between dividends payouts and interest coverage. Stocks with higher dividend payouts also have higher interest coverage. Interest coverage of stocks paying larger dividends are also has more variable.

- h. When studied the difference between dividend per share to market price per share ratio and liquidity ratio, the study revealed that the stocks with larger ratio of dividend per share to market price per share have higher liquidity. Liquidity positions of stocks paying larger dividend are also more variable as compared to stocks paying lower dividends.

Bhattacharai, (2006), has conducted a study on, “*Financial Performances and Common Stock Pricing.*” The main objectives of his research were:

- a. To study and examine the difference of financial performances and stock prices.
- b. To examine the relationship of dividends and stock price.
- c. To explore the signaling effects in on stock price.

The main findings of his study were:

- a. Nepalese stock market is in infancy stage. In general it is very new and just started to develop.
- b. Dominance of banking sector is prevalent in the market due to other industries including finance companies, insurance and manufacturing is not encouraging.
- c. Corporate firm with long history have a relatively stable profitability parameters that the firms established after the economic liberalization of 1990.
- d. Older firms have been issuing bonus shares more times than the new one.
- e. Dividend per share is relatively more stable than the dividend payout ratio. That's why payout ratio and dividend yields have been fluctuating.
- f. Due to lack of proper investment opportunity most of the investors have directed their saving towards the secondary stock market. This computed by such agency.
- g. People have a misconception that the issuance bonus shares and right shares, which actually decrease the net worth per share and resultantly ought to decrease the market price of stock also, do not decrease the price and this

makes them invest even at a too high price with the expectation of getting the same to increase their overall wealth.

- h. There is significant positive correlation between the dividends paid and stocks prices of banking and manufacturing industries. All other industries have not a perfect correlation between the dividends paid and stock prices.
- i. There is positive correlation between the net worth per share and stock prices of banking, airline, and hotel industries, there is no perfect correlation between the net worth per share and common stock price.

Bohara, (2007), has conducted a study on, "*Role of Financial Indicators in Determining Share Price in Nepalese Financial Market.*" The objectives of his research are:

- a. To examine and evaluate the relationship of MPS with various financial indicators like NWPS, EPS, DPS, ROE, etc.
- b. To analyze the market trends of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.
- c. To find out whether stocks of the sampled companies are equilibrium priced or not.
- d. To identify qualitative factors affecting the stock price.

The major findings of Bohara are as follows:

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

Amatya, (2009), has conducted a study on, "*Stock Price Determinants in Nepal Stock Exchange.*" The major objective of the study is to identify the prime determining factor of share price fluctuation of Nepalese Commercial Banks. The other supporting objectives of his research are:

- a. To examine and evaluate the relationship between MPS with the various financial indicators like EPS, BPS, DPS etc.
- b. To analyze the market trends of MPS with financial indicators.
- c. To conduct the opinion survey of potential investors regarding various aspects of share behaviours in Nepal.

The major findings of Devkota were as follows:

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

Research Gap

All of the past research made represented try to show the relationship of MPS with other financial and non financial indicators. However, these studies have ignored the problem and prospects of the stock market growth. So to fulfill such gap, the present

study has been conducted by analyzing the growth, problem and prospects of stock market along with tracing the major determinants of MPS.

CHAPTER - III

RESEARCH METHODOLOGY

Research Methodology is a way to systematically solve the research problem. Methodology is the research method used to test the hypothesis. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying a problem with certain objectives. It describes the methods and process applied in the entire aspects of the study

3.1 Research Design

The research is based on recent historical data. It deals with the common stock of various types of public limited companies on the basis of available information. In this study, historical as well as descriptive research design is adopted. To find out the effect of earning, book value and dividend on stock price, historical research design is adopted along with correlation and regression analysis.

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In this study, historical as well as descriptive research design is adopted. To analyze the sensitivity of earning, net worth, dividend on stock price, historical research design is adopted along with correlation and regression analysis. The descriptive research design is followed to the parametric and non-parametric test of the data.

3.2 Population and Sample

According to the annual report of SEBON 2008/09, there are altogether 241 listed companies in the NEPSE from different sector. The concern of the study is only on commercial banking sector, therefore the size of population is total number of commercial banks operating in Nepal, i.e. 27 commercial banks including the youngest bank, Janta Bank Limited.

This study explores the objectives set in the previous section and it is also expected that this study will help in analyzing the stock market scenario. On the basis of convenient sampling techniques, top 5 private commercial banks on the basis of their performance and these banks are categorized in group a classification for the sample in this research.

Standard Chartered Banks Ltd

NABIL Bank Ltd

Bank of Kathmandu Ltd

Nepal Investment Bank Ltd.

Himalayan Bank Ltd

3.3 Sources of Data

The study is based on secondary data as well as primary data. Secondary data are used to analyse the factors, which affect the sensitivity of stock price, primary data are collected from the respondents through research questionnaire.

The following secondary sources of information are used to extract the required information:

- Annual reports of the company
- Financial statements
- Books, Journals, Newspaper Bulletins
- Previous dissertation papers, studies
- Periodical publication from Central Bureau of Statistics
- Securities Board, Nepal
- Nepal Stock Exchange
- Nepal Rastra Bank
- Related Websites

3.4 Data Collection Procedure

The data are collected from secondary source as well as primary source. To collect the secondary data, the opinion survey has also been taken with annual reports of the listed company, journals, magazines, books, previous dissertation papers, websites, NEPSE, SEBON, NRB etc.

To collect secondary data, the researchers visited Campus Library of NCC, TU Central Library, SDC Library, Public Youth Campus Library, SEBO/N, Library and Nepal Rastra Bank's Library. For the collection of the primary data, the questionnaire approach was adopted. The questionnaire was carried out with different Companies, Share Brokers, Chartered Accountant, Financial expert, Businessman, Teacher of Finance/Investments and Investors Shareholders of Listed Companies.

3.5 Period Covered

The necessary data and information have been collected from various sources covering a period of five years, i.e., 2004/2005 to 2008/09. There are 241 Nepalese enterprises listed in the NEPSE at present.

3.6 Tools for Analysis

The primary and secondary data collected from various sources leads to the logical conclusion. According to the nature of data, they have been presented through meaningful tables, which have been shown in table. Homogeneous data have been sorted in one table and similarly various tables have been prepared effectively and clearly, odd data excluded from the table. Using financial as well as statistical tools, the data have been analyzed and interpreted clearly. Financial and statistical tools are the main tools to be used in the analysis of the data, which are explained separately.

3.6.1 Statistical Tools

Statistical tools are to function as a tool in designing research, analyzing its data and drawing conclusions there from. Statistics is the science which deals with classification and tabulation of numerical facts as the basis of explanation description and comparison of phenomenon. Various statistical tools can be used to analyze the data. In this study, these statistical tools are used in research to analyze the data.

1. Arithmetic Mean

“Arithmetic mean is the number which is obtained by adding the various numbers of all the items of a series and dividing the total by the number of items. Arithmetic mean is a useful tool in statistical analysis.

The most popular and widely used measure of representing the entire data by one value is what most laymen call an average and what the statisticians call the arithmetic mean.”
(Gupta; 2000: 180)

Formula,

$$\bar{X} = \frac{\sum X}{N}$$

Where,

\bar{X} = Arithmetic Mean

$\sum X$ = Sum of elements

N = Number of observation

2. Standard Deviation

“The standard deviation measures the absolute dispersion, the greater the standard deviation the greater will be the magnitude of the deviation means a high degree of uniformity of the observation as well as homogeneity of a series and a large standard deviation means just the opposite. Standard deviation is extremely useful in judging the representativeness of the mean.” (Gupta; 2000: 283)

Formula,

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

Where,

$$\frac{\sum (X - \bar{X})^2}{N} = \text{variance}$$

3. Coefficient of Variation

Coefficient of variation is the relative measure of dispersion. Coefficient of variation is the percentage variation in means standard deviation being considered as the total variation from the mean.

$$\text{Coefficient of variations (C.V)} = \frac{\sigma}{\bar{X}} \times 100$$

4. Correlation Coefficient

It is a useful statistical tool for measuring the intensity of the magnitude of linear relationship between two variables. The most important method of measuring the correlation between the two variables is "Karl person's coefficient of correlation. "If the values of the variables are directly proportional then the correlation is said to be positive. On the other hand, if the values of the variables are inversely proportional, then the correlation is said to be negative. The correlation coefficient always remains within the limit of +1 to -1. The correlation coefficients (r) between two variables X and Y can be obtained by using following formula." (Gupta; 2002: 541)

Formula,

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

Where,

r = The correlation coefficient between two variables of X and Y

Proprieties:

It lies between -1 and +1

If r = +1, then there is perfect positive correlation.

If r = -1, then there is perfect negative correlation.

If r = 0, then there is no correlation.

If r = 0.7 to 0.99 (or- 0.7 to -0.99) then there is high degree positive or negative correlation.

5. Coefficient of Determination

“Coefficient of correlation between two variables series is a measure of linear relationship between them and indicates the amount of variation of one variable which is associated with or is accounted for by another variable. A more useful and readily comprehensible measure for this purpose is the coefficient of determination which gives the percentage variation in the dependent variable that is accounted for by the independent variable. In other words, the coefficient of determination gives the ratio of the explained variance to the total variance. The coefficient of determination is given by the square of the correlation coefficient i.e., r^2 .” (Gupta; 2002: 585)

$$\text{Coefficient of Determination } (r^2) = \frac{\text{Explained Variance}}{\text{Total Variance}}$$

Probable Error (P.E.)

The probable error denoted by P.E. is used to measure the reliability and test of significance of correlation coefficient. Significance of relationship has been tested by using the probable error (P.E.) and it is denoted by the following model:

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

if $r < \text{P.E.}$, it is insignificant, i.e. there is no evidence of correlation

if $r > 6 \text{ P.E.}$, it is significant

if $\text{P.E.} < r < 6 \text{ P.E.}$, nothing can be concluded

3.6.2 Financial Tools

1. Market Price Per Share

One of the major data of this study consists of market price of stock. Records of maximum, minimum and closing prices are available for the purpose of this study. Since the calculation of real average price is constrained by lack of adequate information regarding volume and price of each transaction throughout the year, the closing price has been used as market price of stock.

$$\text{MPS} = \frac{\text{Total Market Capitalization}}{\text{No.of Shares Outstanding}}$$

2. Earning Per Share

The earning per share is the share is the share of a stock on the earning of the organization.

$$\text{EPS} = \frac{\text{Total Earning of Organization}}{\text{No.of Shares Outstanding}}$$

3. Book Value per Share

The BPS represents the real net worth per share. It is simply the ratio of net worth (share capital plus retained earnings/ general reserve) divided by the number of shares outstanding.

$$\text{BPS} = \frac{\text{Net Worth}}{\text{No.of Shares outstanding}}$$

4. Dividend per Share

Both cash dividend and stock dividend and stock dividend (bonus share) declared

by each company have taken into account for the purpose of this study. Total amount of dividend has been calculated as follows:

Total Amount of Dividend =

Cash Dividend + Stock Dividend % × Next Year's MPS

$$\text{DPS} = \frac{\text{Total Dividend Paid}}{\text{No.of Shares Outstanding}}$$

5. Filter Rules

Evgene Fama and Marshall Blume designed the programmed to trade the securities of an X percent filter rule and this strategy operates as if the price of a security raises at least X percent buy and hold the security until its prices drops at least X percent from a subsequent height. Then liquidate the long position and assume a short position until the price rise by X percent. But under this strategy the research reported that nobody could outperform the naïve buy & hold strategy.

Buy: % of market price rise \geq x%

Sell: % of market price fall \geq x %

6. Run Test

Another technique used to analyze the behavior of stock price is the run tests have files not affected by the filter rule. Run is based on the percentage change in price. A run occurs in a series of numbers wherever the changes in the positive (+ve %), Negative (-ve %) & zero run until the price changes alter (i.e.) the change in positive to negative (+ve to zero etc) the total changes, it is called one run.

The run tests also found that active traders who search for various types of Non random trends from which to earn a profit will not be able to beat a naïve buy and hold strategy on average.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Secondary Data Analysis

Under this section, the secondary data collected have been tabulated and analysed using the statistical tools. Mainly this section concentrates on the factors that influences the market price of the share and also highlights the situation of stock market in Nepal.

4.1.1 Examination of Relationship of EPS, DPS and BPS to MPS

In this section the relationship of EPS, DPS and BPS with MPS is examined, assuming that fluctuation in MPS is dependent on the fluctuation of EPS, DPS and BPS. For such evaluation the correlation coefficient and regression analysis have been conducted.

4.1.1.1 Standard Chartered Bank Limited

The following table outlines the major financial performance of Standard Chartered Bank Limited over the past five years from 2004/05 to 2008/09. The relationship of MPS with DPS, BPS and EPS has been explained thereafter.

Table: 4.1

Summary of the Financial Performance of SCBNL

(Unit in Rs.)

Year	MPS	DPS	BPS	EPS
2004/05	2345	120	422.38	143.14
2005/06	3775	140	468.22	175.84
2006/07	5900	130	512.12	167.37

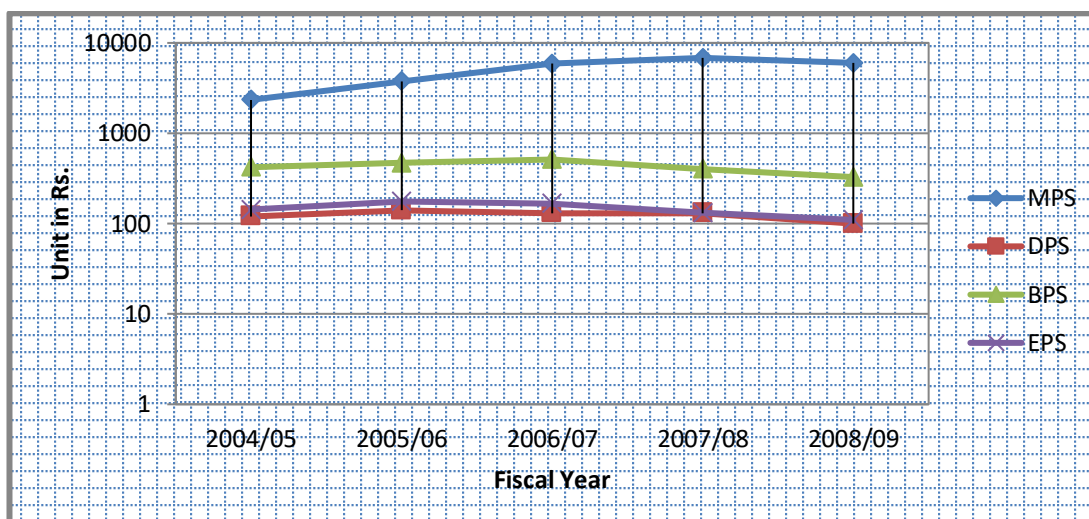
2007/08	6830	130	401.52	131.92
2008/09	6010	100	327.53	109.99
Mean	4972	124	426.35	145.65
S.D.	1656.79	13.56	643.20	23.87
C.V.%	33.32	10.94	150.86	43.86

(Source: Annual Report of SCBNL)

The above table presents the summary of financial performance of Standard Chartered Bank Limited from 2004/05 to 2008/09. From the table, it can be revealed that Market Price per Share is increasing trend for the first four years and has ranged from Rs. 2345 in the fiscal year 2004/05 to Rs. 6830 in the fiscal year 2008/09. While the MPS has decreased to Rs. 6010 in the fiscal year 2008/09. However, the DPS, BPS and EPS have fluctuated over the period. The DPS has ranged from Rs. 100 in the fiscal year 2008/09 to Rs. 140 in the fiscal year 2005/06. Similarly, BPS has ranged from Rs. 327.53 in the fiscal year 2008/09 to Rs. 512.12 in the fiscal year 2006/07. Likewise, the EPS has ranged from Rs. 109.99 in the fiscal year 2008/09 to Rs. 175.84 in the fiscal year 2005/06. In the same way, coefficient of variation of MPS, DPS, BPS and EPS are 33.32%, 10.94%, 150.86% and 43.86% respectively. It indicates that DPS is less volatile among all whereas BPS is most volatile one.

Figure: 4.1

Summary of the Financial Performance of SCBNL



The relation of MPS with BPS, DPS and EPS has been presented in the following Table 4.2.

Table: 4.2

Relationship of BPS, EPS and DPS with MPS of SCBNL

Variables	r	r ²	P.E.	6 P.E.	Remarks
MPS vs. DPS	-0.1499	0.0225	0.2949	1.7692	Insignificant
MPS vs. BPS	-0.2103	0.0442	0.2883	1.7298	Insignificant
MPS vs. EPS	-0.3636	0.1322	0.2618	1.5706	Insignificant

(Source: Appendix- III)

The table 4.2 given shows the relation of MPS with DPS, BPS and EPS. It reflects that MPS of Standard Chartered Bank is negatively correlated with DPS, BPS and EPS. It means raise in these indicators results the fall in MPS and vice versa. The simple correlation coefficient of DPS, BPS and EPS with MPS is -0.1499, -0.2103 and -0.3636. However, the probable error denies that DPS, BPS and EPS have no statistically significant relationship with the MPS, since the absolute value of the correlation coefficient of each variable with MPS is less than the calculated 6 P.E.

The **Simple Regression** equation of DPS, BPS and EPS taking MPS as dependent variable is given below:

Table: 4.3

Regression Equation of SCBNL

Relationship	Regression Equation
MPS vs. DPS	$MPS = 7241.74 - 18.30 \text{ DPS}$
MPS vs. BPS	$MPS = 7350.04 - 5.58 \text{ BPS}$
MPS vs. EPS	$MPS = 8647.64 - 25.24 \text{ EPS}$

(Source: Appendix – III)

The regression equation of MPS on DPS depicts that Re. 1 increase in DPS causes Rs. 18.30 decrease in MPS, if the other variable, -7241.74, remains constant. Similarly, the regression equation of MPS on BPS signifies that Re. 1 increase in BPS leads to Rs. 5.58 decrease in MPS, if the other variable, 7350.04 remains stable. Similarly, the regression equation of MPS on EPS indicates that if EPS increases by Re. 1, the MPS decreases by Rs. 25.24, if the other variable, 8647.64, remains uniform. Among these three indicators, EPS is the most influencing determinants of MPS.

4.1.1.2 NABIL Bank Limited

The following table outlines the major financial performance of NABIL Bank Limited over the past five years from 2004/05 to 2008/09. The relationship of MPS with DPS, BPS and EPS has been explained thereafter.

Table: 4.4**Summary of the Financial Performance of NABIL****(Unit in Rs.)**

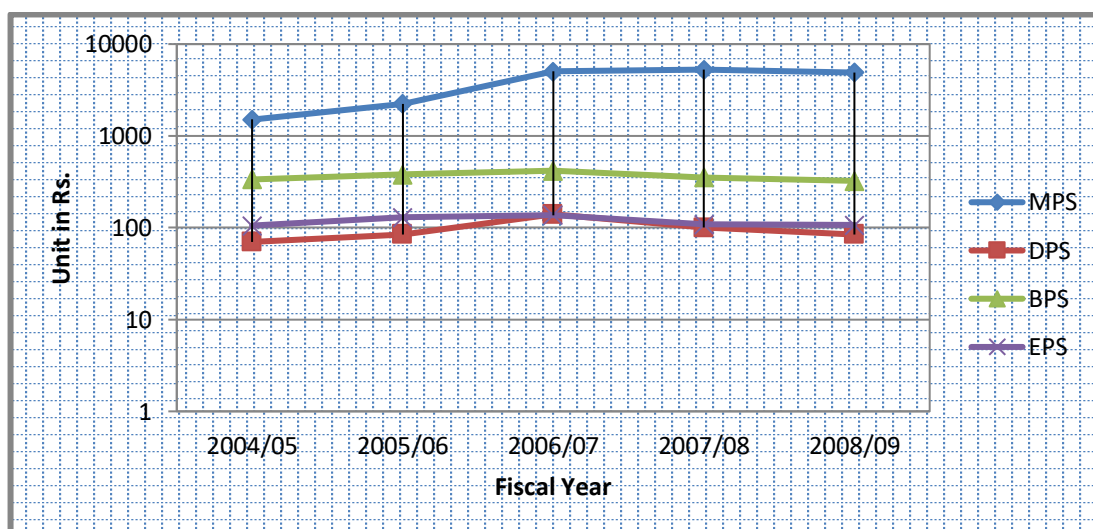
Year	MPS	DPS	BPS	EPS
2004/05	1505	70	337	105.49
2005/06	2240	85	381	129.21
2006/07	5050	140	418	137.08
2007/08	5275	100	354	108.31
2008/09	4899	85	324	106.76
Mean	3793.80	480	1814	117.37
S.D.	1590.37	23.96	501.27	13.15
C.V.%	41.92	24.96	138.17	11.20

(Source: Annual Reports of NABIL)

The table 4.4 presents the summary of financial performance of NABIL Bank Limited for the last five years. The table depicts that the MPS of NABIL has increased up to the fiscal year 2007/08 and then decreased in the fiscal year 2008/09. The MPS has ranged from Rs. 1505 in the fiscal year 2004/05 to Rs. 5275 in the fiscal year 2007/08. In the fiscal year 2008/09, the MPS has decreased to Rs. 4899. Alike MPS, the other indicators, DPS, BPS and EPS, have increased for the first three fiscal years and then has decreased in the last two fiscal years. The DPS has ranged from Rs. 70 to Rs. 140, BPS has ranged from Rs. 324 to Rs. 418 and EPS has ranged from Rs. 105.49 to Rs. 137.08 in the five year period taken for study. Likewise, the coefficient of variation indicates that there is highest fluctuation in BPS (138.17%) than others, MPS (41.92), DPS (24.96%) and EPS (11.20%).

Figure: 4.2

Summary of the Financial Performance of NABIL



The relation of MPS with BPS, DPS and EPS has been presented in the following Table 4.5.

Table: 4.5

Relationship of BPS, EPS and DPS with MPS of NABIL

Variables	r	r ²	P.E.	6 P.E.	Remarks
MPS vs. DPS	0.6595	0.4349	0.1705	1.0227	Insignificant
MPS vs. BPS	0.1657	0.0275	0.2934	1.7602	Insignificant

MPS vs. EPS	0.0804	0.0065	0.2997	1.7982	Insignificant
-------------	--------	--------	--------	--------	---------------

(Source: Appendix- III)

The table 4.5 shows the relation of MPS with DPS, BPS and EPS. It reflects that MPS of NABIL Bank is positively correlated with DPS, BPS and EPS. It indicates that rise in these indicators results the rise in MPS and vice versa. The simple correlation coefficient of MPS with DPS, BPS and EPS are 0.6595, 0.1657 and 0.0804 respectively. It means if DPS rise by Rs. 100, the MPS will be raised by Rs. 65.95. In the same way, Rs. 100 increase in BPS and EPS results the increment of Rs. 16.57 and Rs. 0.0804 in MPS respectively. However, since the absolute value of the correlation coefficient each lower than the respective 6 P.E., it can be concluded that there exists no such statistically significant relationship of these financial indicators with MPS and thus MPS may not increase/decrease with the increase/decrease in DPS, BPS and EPS.

The **Simple Regression** equation of DPS, BPS and EPS taking MPS as dependent variable is given below:

Table: 4.6

Regression Equation of NABIL

Relationship	Regression Equation
MPS vs. DPS	$MPS = -408.83 + 43.78 \text{ DPS}$
MPS vs. BPS	$MPS = 944.05 + 7.85 \text{ BPS}$
MPS vs. EPS	$MPS = 2652.25 + 9.73 \text{ EPS}$

(Source: Appendix- III)

The table 4.6 shows that per rupee increase in DPS leads to Rs. 43.87 increase in MPS if the other variable (-408.83) remains constant. Similarly, per rupee increase in BPS causes Rs. 7.85 increase in MPS if the variable, 944.05, remains constant. Likewise, MPS increases by Rs. 9.73 with the per rupee increase in EPS, if other variable remains neutral. The simple regression equations delineate that DPS is the most sensitive factor of MPS than DPS and BPS in case of NABIL.

4.1.1.3 Bank of Kathmandu

The Table 4.7 shows the financial summary of Bank of Kathmandu over the last five years and the relationship of EPS, DPS and BPS to MPS along with the significance of such relationship.

Table: 4.7

Summary of the Financial Performance of BOK

Year	MPS	DPS	BPS	EPS
2004/05	430	15	213.60	30.10
2005/06	850	48	230.67	43.67
2006/07	1375	20	164.68	43.50
2007/08	2350	42.11	222.51	59.94
2008/09	1825	47.37	206.25	54.68
Mean	1366	34.50	207.54	46.38
S.D.	681.38	14.12	347.94	10.33
C.V.%	49.88	40.92	167.65	22.27

(Source: Annual Reports of Bank of Kathmandu)

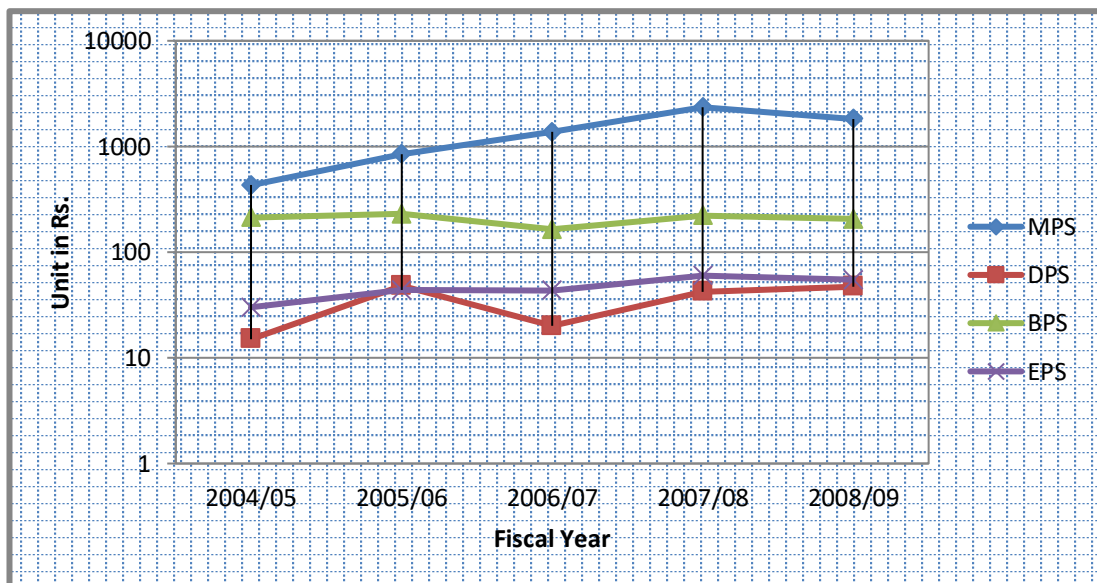
The table 4.7 presents the detail financial summary of Bank of Kathmandu for five years taken for research. As table shows, the MPS of the bank has followed increasing trend for the first four fiscal years and thus has increased from Rs. 430 in the fiscal year 2004/05 to Rs. 2350 in the fiscal year 2007/08, i.e. more than five folds, and finally decreased to Rs. 1825 in the fiscal year 2008/09. Unlike MPS, the DPS of the bank is in fluctuating trend and thus has ranged from Rs. 15 in the fiscal year 2004/05 to Rs. 47.37 in the fiscal year 2008/09. Since the company distributed more dividends in the later year, it shows that the company is in better financial strength in the later years. Similarly, the BPS has also fluctuated during the

periods and thus has ranged from Rs. 164.64 in the fiscal year 2006/07 to Rs. 230.67 in the fiscal year 2005/06. Also, the EPS has ranged from Rs. 43.50 in the fiscal year 2006/07 to Rs. 59.94 in the fiscal year 2007/08.

The BPS seems to be much volatile for the company with the coefficient of variation 167.65% whereas the EPS seems to be less volatile with the coefficient of variation 22.27%. Similarly, the MPS and DPS are moderately volatile with the coefficient of variation 49.88% and 40.92% respectively.

Figure: 4.3

Summary of the Financial Performance of BOK



The relation of MPS with BPS, DPS and EPS has been presented in the following table 4.8:

Table: 4.8

Relationship of BPS, EPS and DPS with MPS of BOK

Variables	r	r ²	P.E.	6 P.E.	Remarks

MPS vs. DPS	0.5105	0.2606	0.2230	1.3382	Insignificant
MPS vs. BPS	-0.0493	0.0024	0.3009	1.8055	Insignificant
MPS vs. EPS	0.9595	0.9206	0.0240	0.1438	Significant

(Source: Appendix- III)

Table 4.8 shows the relation of MPS with DPS, BPS and EPS. It shows that MPS is positively correlated with DPS and EPS, while negatively correlated with BPS. It means rise in DPS and EPS results rise in MPS and rise in BPS causes fall in MPS. Among these three indicators, Earning per Share seems to be more positively correlated with the Market Price per share. Likewise, Dividend per Share is positively correlated second to EPS. Hence, a little rise in Earning per Share causes bigger increase in MPS. Though in smaller amount, the increase in DPS also increases MPS. The correlation coefficient between MPS and DPS is 0.5105, MPS and BPS is -0.0493, and MPS and EPS is 0.9595. However, only the relationship between MPS and EPS is statistically significant, since the correlation coefficient between only these two variable is greater than the 6 P.E.

The **Simple Regression** equation of DPS, BPS and EPS taking MPS as dependent variable is given in Table 4.9.

Table: 4.9

Simple Regression Equation of BOK

Relationship	Regression Equation
MPS vs. DPS	$MPS = 515.94 + 24.64 \text{ DPS}$
MPS vs. BPS	$MPS = 1669.66 - 1.46 \text{ BPS}$
MPS vs. EPS	$MPS = -1569.42 + 63.29 \text{ EPS}$

(Source: Appendix- III)

The first equation is the regression equation of MPS on DPS. The regression constant equals to 515.94. This means that when DPS falls to zero, MPS equals to Rs. 515.94. Likewise, the constant for DPS equals to 24.64 meaning that when DPS increases/decreases by Re. 1, MPS

increases by Rs. 24.99 and vice versa. The second equation refers to the regression equation of MPS on BPS. The regression constant equals to 1669.96. This means that when BPS becomes zero, MPS will fall to Rs. 1669.66. Likewise, the constant for BPS equals to -1.46 meaning that when BPS increases by Re. 1, MPS decreases by Rs. 1.46 and vice versa. In the same way the last equation indicates the regression equation of MPS on EPS. The regression constant for EPS equals to -1569.42 meaning that when EPS increases by Re. 1, MPS increases by Rs. 63.29 and vice versa.

4.1.1.4 Nepal Investment Bank Limited

The table 4.10 outlines the major financial performance of Nepal Investment Bank Limited over the past five years from 2004/05 to 2008/09. The relationship of MPS with DPS, BPS and EPS has been shown in the table.

Table: 4.10

Summary of the Financial Performance of NIBL

Year	MPS	DPS	BPS	EPS
2004/05	800	12.50	200.80	39.50
2005/06	1260	55.46	239.67	59.35
2006/07	1729	30.00	234.37	62.57
2007/08	2450	40.83	223.17	57.87
2008/09	1388	20.00	162.35	37.42
Mean	1525.40	31.76	212.07	51.34
S.D.	549.88	15.21	319.86	10.65
C.V.%	36.05	47.88	150.83	20.74

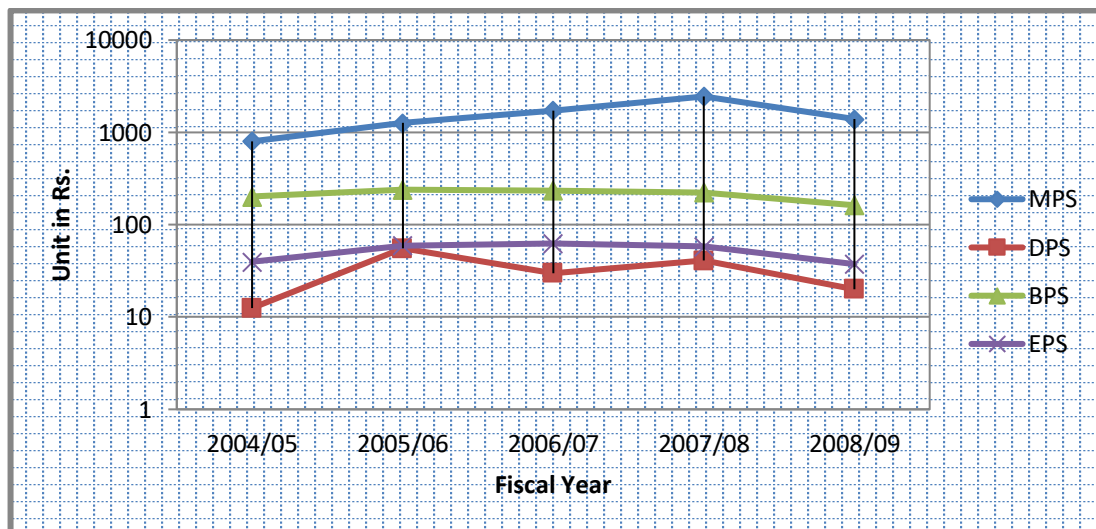
(Source: Annual Reports of NIBL)

The Table 4.10 presents the summary of financial performance of Nepal Investment Bank Limited for the last five years (2004/05 to 2008/09). The table shows that Market Price per

Share of NIBL is in increasing trend, except in the fiscal year 2008/09 when the MPS decreased nearly by one-half compared to the MPS of previous year. The MPS of NIBL is Rs. 800 in the base year 2004/05 and finally reached to Rs. 2450 maximum in the fiscal year 2007/08, and again decreased to Rs. 1388 in the fiscal year 2008/09. However, the DPS of NIBL is in fluctuating trend. The DPS is highest, Rs. 55.46, in the fiscal year 2005/06 and lowest, Rs. 12.50, in the fiscal year 2004/05. Similarly, the BPS and EPS are also in fluctuating trend, the BPS has ranged from Rs. 162.35 in the fiscal year 2008/09 to Rs. 239.67 in the fiscal year 2005/06 and EPS has ranged from Rs. 37.42 in the fiscal year 2008/09 to Rs. 62.57 in the fiscal year 2006/07. The coefficient of variation of MPS is 36.05% whereas that of DPS is 47.88%. In the same way it is 150.83% for BPS and 20.74% for EPS. It indicates that the degree of variability is highest in BPS and hence is more volatile than others. EPS bears the low degree of volatility in comparison to others.

Figure: 4.4

Summary of the Financial Performance of NIBL



The relation of MPS with BPS, DPS and EPS has been presented in the following Table 4.11.

Table: 4.11

Relationship of BPS, EPS and DPS with MPS of NIBL

Variables	r	r ²	P.E.	6 P.E.	Remarks

MPS vs. DPS	0.4144	0.1717	0.2499	1.4991	Insignificant
MPS vs. BPS	0.2898	0.0840	0.2763	1.6579	Insignificant
MPS vs. EPS	0.5704	0.3254	0.2035	1.2209	Insignificant

(Source: Appendix- III)

The table 4.11 shows the relation of MPS with DPS, BPS and EPS. It reflects that MPS of NIBL Bank is positively correlated with DPS, BPS and EPS. It indicates that rise in these indicators results the rise in MPS and vice versa. The simple correlation coefficient of MPS with DPS, BPS and EPS are 0.4144, 0.2898 and 0.5704. It means if DPS rise by Rs. 100, the MPS will be raised by Rs. 41.44. In the same way, Rs. 100 increase in BPS and EPS results the increment of Rs. 28.98 and Rs. 57.04 in MPS respectively. However, the lower the value of correlation coefficient than the calculated value of 6 P.E. indicates that the individual relationship of DPS, BPS and EPS with MPS is statistically insignificant, and thus it is not mandatory that MPS should increase/decrease with the increase/decrease in these variables.

The **Simple Regression** equation of DPS, BPS and EPS taking MPS as dependent variable is given below:

Table: 4.12

Simple Regression Equation of NIBL

Relationship	Regression Equation
MPS vs. DPS	$MPS = 1049.57 + 14.98 \text{ DPS}$
MPS vs. BPS	$MPS = 327.70 + 5.65 \text{ BPS}$
MPS vs. EPS	$MPS = 12.89 + 29.46 \text{ EPS}$

(Source: Appendix – III)

The simple regression equations of MPS on DPS, MPS on BPS and MPS on EPS indicate that per rupee increase in DPS, BPS and EPS leads to increase of Rs. 14.98, Rs. 5.65 and Rs. 29.46 in MPS respectively. The equations show that EPS is most influencer to MPS than DPS and BPS.

The **Multiple Regression** equation of MPS of Nepal Investment Bank Limited on DPS and EPS is represented by the following equation.

4.1.1.5 Himalayan Bank Limited

The table 4.13 outlines the major financial performance of Himalayan Bank Limited over the past five years from 2004/05 to 2008/09. The relationship of MPS with DPS, BPS and EPS has been explained thereafter.

Table: 4.13

Summary of the Financial Performance of HBL

Year	MPS	DPS	BPS	EPS
2004/05	920	31.58	239.59	47.91
2005/06	1100	35	228.72	59.24
2006/07	1740	40	264.74	60.66

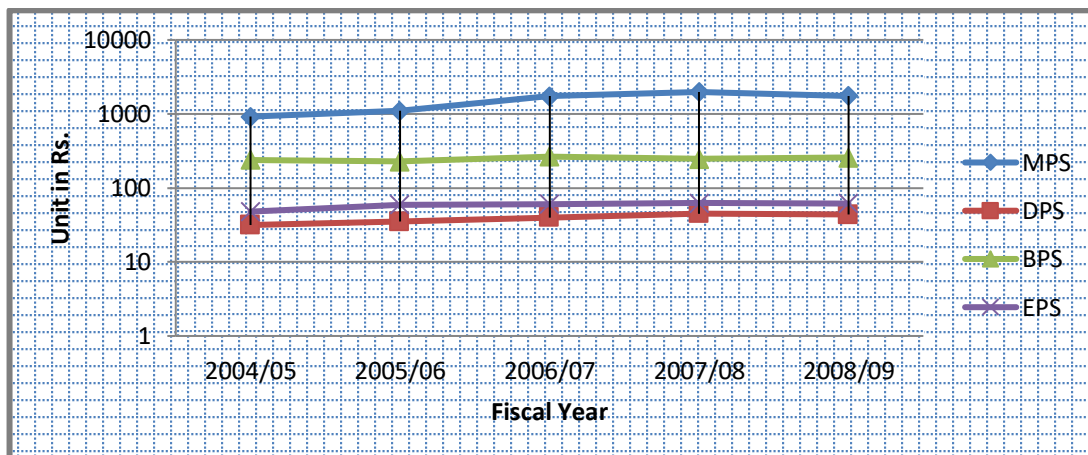
2007/08	1980	45	247.95	62.74
2008/09	1760	43.56	256.52	61.90
Mean	1500	39.03	247.50	58.49
S.D.	412.08	5.08	104.74	5.42
C.V.%	27.52	13.01	42.32	9.27

(Source: Annual Report of HBL)

The Table 4.13 reveals that the MPS of HBL has increased in each fiscal year, except in the fiscal year 2008/09, and has ranged from Rs. 920 in the fiscal year 2004/05 to Rs. 1980 in the fiscal year 2007/08, and is Rs. 1760 in the fiscal year 2008/09. However, the DPS has fluctuated during the period and has ranged from Rs. 31.58 in the fiscal year 2004/05 to Rs. 45 in the fiscal year 2007/08. Similarly, BPS is highest, Rs. 264.74 in the fiscal year 2006/07 and lowest, Rs. 228.72, in the fiscal year 2005/06. Alike MPS, EPS has increased for the first four years, i.e. from Rs. 47.91 in the fiscal year 2004/05 to Rs. 62.74 in the fiscal year 2007/08, and is Rs. 61.90 in the fiscal year 2008/09. Comparing the coefficient of variation, there is highest fluctuation in BPS (C.V. 42.32%) and lowest fluctuation in EPS (C.V. 9.27%) compared with other variables, DPS (C.V. 13.01%) and MPS (C.V. 27.52%).

Figure: 4.5

Summary of the Financial Performance of HBL



The relation of MPS with BPS, DPS and EPS has been presented in the following Table 4.14:

Table: 4.14

Relationship of BPS, EPS and DPS with MPS of HBL

Variables	r	r ²	P.E.	6 P.E.	Remarks
MPS vs. DPS	0.9744	0.9495	0.0152	0.0915	Significant
MPS vs. BPS	0.7227	0.5254	0.1441	0.8645	Insignificant
MPS vs. EPS	0.8298	0.6886	0.0939	0.5635	Significant

(Source: Appendix- III)

The relation of MPS with DPS, BPS and EPS is shown in Table 4.14. It shows that MPS of Himalayan Bank is positively correlated with DPS (0.9744), BPS (0.7227) and EPS (0.8298). It indicates that raise in DPS, BPS and EPS results the rise in MPS and vice versa. The coefficient of determination indicates that 94.95% variation in MPS, 52.54% variation in MPS and 68.86% variation in MPS is explained by change in DPS, BPS and EPS respectively. However, only the relationship of DPS and EPS with MPS is statistically significant, since the value of correlation coefficient is greater than the respective 6 P.E. And the relationship of BPS with MPS is statistically insignificant, since the value of correlation coefficient is lower than the value of 6 P.E., which implies that MPS may not increase/decrease with the increment/decrement of BPS.

The **Simple Regression** equation of DPS, BPS and EPS taking MPS as dependent variable is given below:

Table: 4.15

Regression Equation of HBL

Relationship	Regression Equation
MPS vs. DPS	MPS = -1592.41 + 79.24 DPS
MPS vs. BPS	MPS = -4259.59 + 23.67 BPS
MPS vs. EPS	MPS = -2196.50 + 63.20 EPS

(Source: Appendix- III)

The first equation is the regression equation of MPS on DPS. The regression constant equals to -1592.41. This means that when DPS increase by Re. 1, the MPS of increases by Rs. 79.24. Likewise, when BPS increases by Re. 1, MPS increases Rs. 23.67, if the other variable remains constant. Similarly, one rupee increase in EPS leads to Rs. 63.20 increase in MPS, if other variable remains constants. It seems that EPS is the most influencer of MPS than DPS and BPS, since the variation in MPS is greater in EPS with the same rupee increment.

4.1.1.6 Individual MPS to Industry Aggregate MPS

The following table outlines the comparison of individual bank's market price to banking industry's market price over the past five years from 2004/05 to 2008/09.

Table: 4.16

Individual MPS to Industry Aggregate MPS

(Unit in Rs.)

FY	Industry	SCBNL	NABIL	BOK	NIBL	HBL
2004/05	564.76	2345	1505	430	800	920
2005/06	843.18	3775	2240	850	1260	1100
2006/07	1545.82	5900	5050	1375	1729	1740
2007/08	1933.71	6830	5275	2350	2450	1980
2008/09	1368.49	6010	4899	1825	1388	1760
Mean	1251.19	4972	3793.80	1366	1525.40	1500
S.D.	490.73	1656.79	1590.37	681.38	549.88	412.08
C.V.%	39.22	33.32	41.92	49.88	36.05	27.52

(Source: Trading Reports of NEPSE)

The Table 4.16 makes comparison of each studied bank with the banking industry's on the ground of MPS. The table shows that the MPS of banking industry is in increasing trend for the first four, i.e. from Rs. 564.76 in the fiscal year 2004/05 to Rs. 1933.71 in the fiscal year

2007/08, and finally has decreased to Rs. 1368.49 in the fiscal year 2008/09. In average, the MPS of industry for the five fiscal year has remained Rs. 1251.19 and the coefficient of variation is 39.22%. Comparing to each bank, the MPS of SCBNL, NABIL, NIBL and HBL is higher than that of industry's MPS in each year. However, the MPS of BOK is lower than that of industry in the fiscal year 2004/05 and 2006/07. In average, the MPS of each bank is greater than that of industry. Also the fluctuation in MPS of each bank is lower than that of industry.

4.1.2 Analysis of Trend of No. of Listed Companies, No. of Traded Company, and No. of Listed Securities

Listing and de-listing of the companies in NEPSE is the regular process. NEPSE de-list the companies which does not transact within the compliance of rules and regulations set out. However, it is not necessary that all the companies should be traded after being listed in NEPSE.

Table: 4.17

No. of Listed Companies, Traded Companies and Listed Securities

(Unit in %)

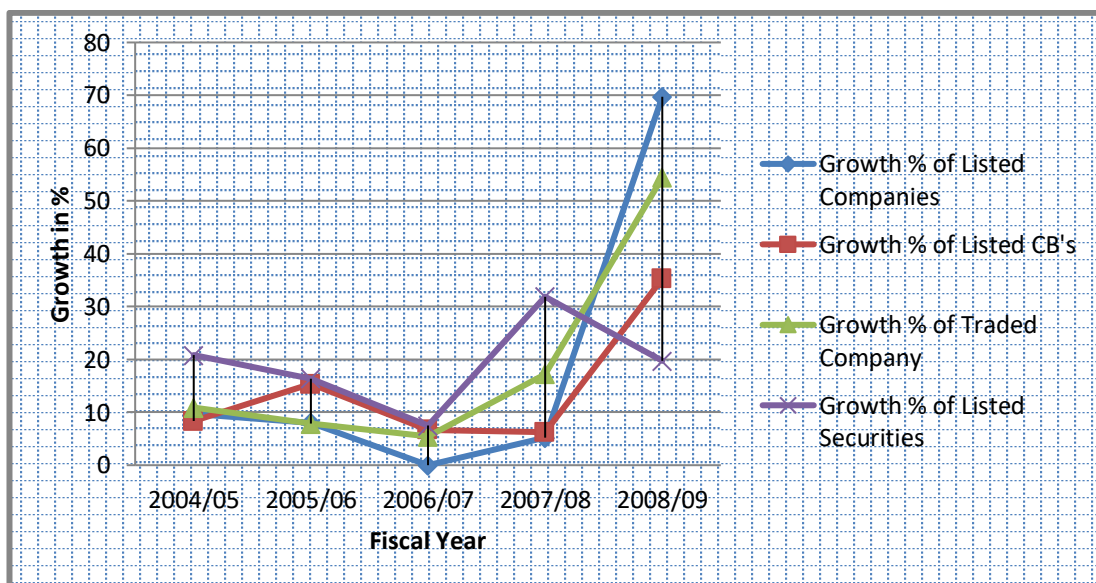
FY	No. of Listed Company				Traded Company		Listed Securities	
	Total	Growth %	CB	Growth%	No.	Growth %	No. (in Million)	Growth %
2003/04	114	-----	12	-----	92	-----	161141	-----
2004/05	125	9.65	13	8.33	102	10.87	194673	20.81
2005/06	135	8.00	15	15.38	110	7.84	226540	16.37
2006/07	135	0.00	16	6.67	116	5.45	243504	7.49
2007/08	142	5.18	17	6.25	136	17.24	321131	31.88
2008/09	241	69.72	23	35.29	210	54.41	384413	19.71

(Source: Annual Reports of NEPSE)

The number of listed companies has been found to be in increasing trend except in the fiscal year 2006/07, when the number has remained to be the same as that of the fiscal year 2005/06, i.e. 135. By the arrival of the fiscal year 2008/09, the number of listed companies is 241 including 23 commercial banks, 34 development banks, 17 insurance companies, 62 finance companies, 18 manufacturing and processing companies, 4 hotels, 4 trading company, 4 hydropower, 15 government bond, 13 corporate bond, 1 preferred stock, 1 mutual fund, 43 promoter share and 2 others. The table shows that the growth percentage of both listed companies and the commercial bank is highest in the fiscal year 2008/09, when the growth rate of listed companies is 69.72% and that of commercial banks is 35.29%. Similarly, the number and growth rate of traded company is highest in the fiscal year 2008/09, when the number is 210 and growth rate is 54.41%. In addition, the number of listed securities is highest in the fiscal year 2008/09, which is 384113 millions and the growth rate is 19.71%.

Figure: 4.6

No. of Listed Companies, Traded Companies and Listed Securities



4.1.3 Trend of NEPSE and Commercial Bank Index

The index is taken as a measuring tool whether the performance of stock market is good or not. 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.

Table: 4.18

Trend of NEPSE and Commercial Bank Index

(Unit in Point)

FY	NEPSE		Commercial Bank	
	Index	Change %	Index	Change %
2003/04	222.04	-----	231.97	-----
2004/05	286.67	29.11	304.67	31.33
2005/06	386.83	34.94	437.49	43.61
2006/07	683.95	76.81	181.07	-58.61
2007/08	963.40	40.86	241.41	33.32
2008/09	814.13	-15.49	233.12	-3.43

(Source: Annual Reports of NEPSE)

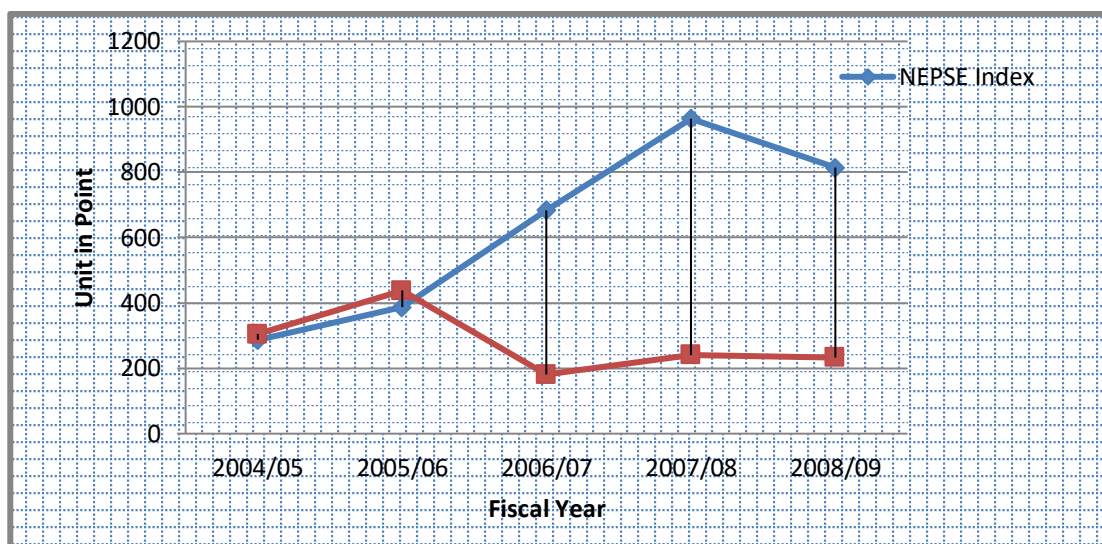
NEPSE index in base year 2000/01 is 348.43 then after has declined up to 2002/03, and then is in increasing trend up to year 2007/08 i.e. it is 963.4, growing by 40.86 percent, and finally decreased to 814.13 points. Due to the political instability, manipulation in price the stock price of the listed companies of NEPSE has decreased in the fiscal year 2008/09 unexpectedly.

The stock market has opened with the NEPSE index of 222.04 points at the beginning of the FY 2003/04 and has ended with 814.13 points in the FY 2008/09. The NEPSE index has increased highest (76.81%) in the fiscal year 2006/07 and finally has decreased by 15.49% in the fiscal year 2008/09 compared to the index of previous year. As per the annual report of NEPSE, the NEPSE index has reached the high of 1064.09 points on 17 December 2007. Of the NEPSE Index, banking sub-index has gone up by 437.49 point (which is also the highest point) during the fiscal year 2005/06. The banking sub-index measures the transactions of

companies listed under commercial bank group. It touched the lowest point of 181.07 point in the fiscal year 2006/07. In the fiscal year 2008/09, the commercial bank index is 233.12 point, which has decreased by 3.43% compared to the previous year index.

Figure: 4.7

Trend of NEPSE and Commercial Bank Index



4.1.4 Number of Transaction

Greater the number of transactions higher will be the turnover. To determine how many times the each share is transacted annually, the number of transactions is essential. Hence, the number of transactions in each fiscal year and the percentage change is presented in the Table 4.19.

Table: 4.19

Number of Transaction

FY	NEPSE		Commercial Bank	
	Total	Change %	Total	Change %
2003/04	85533	-----	26000	-----
2004/05	106246	24.22	24966	-3.98

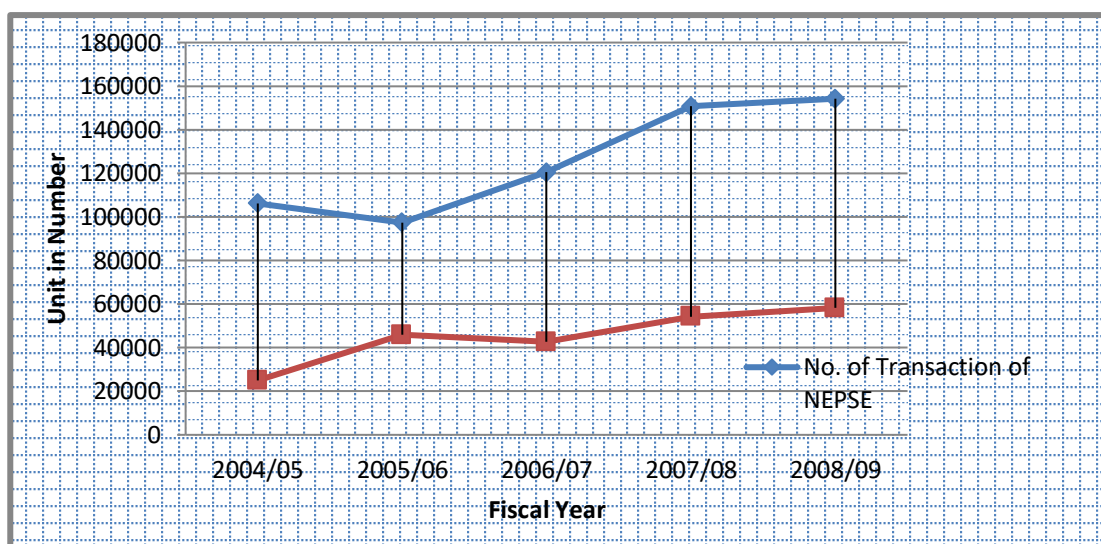
2005/06	97374	-8.35	45886	83.79
2006/07	120510	23.76	42648	-7.06
2007/08	150800	25.13	54314	27.35
2008/09	154237	2.28	58216	7.18

(Source: Annual Reports of NEPSE)

The Table 4.19 shows that the number of transactions made during the five year periods of NEPSE is in increasing trend except in the fiscal year 2005/06, when the transaction has decreased to 97374 from 106246 in the fiscal year 2004/05. The number of transaction made in total of NEPSE is 152237 in the fiscal year 2008/09. In the five year periods, the number of transaction of securities as a whole has increased by 25.13% in highest in the fiscal year 2007/08. Similarly, the number of transaction of commercial banks' stock is increasing trend except in the fiscal year 2006/07, when the transaction has decreased to 42648 from 45886 in the fiscal year 2005/06. In the fiscal year 2008/09, the number of transaction of stock of commercial bank is 58216. Likewise, the growth percentage is highest, 83.79%, in the fiscal year 2004/05 and lowest, -7.06%, in the fiscal year 2006/07. It seems that up to the arrival of the fiscal year 2008/09, the number of transactions of commercial banks' stock have almost increased by two fold, while that of NEPSE increased by one-half.

Figure: 4.8

Number of Transaction



4.1.5 Paid up Value

To evaluate the increase/decrease in the total paid up capital of listed companies and the commercial banks, the paid up capital in five fiscal year period is taken. The five years' paid up capital also elucidates the financial health of NEPSE.

Table: 4.20

Total Paid Up Value

(Rs. in Million)

FY	NEPSE		Commercial Bank	
	Total	Change %	Total	Change %
2003/04	13404.90	-----	5380.45	-----
2004/05	16771.90	25.12	6700.16	24.53
2005/06	19958.00	19.00	8666.73	29.35
2006/07	21799.00	9.22	9281.93	7.10

2007/08	29465.80	35.17	14667.27	58.02
2008/09	32381.39	9.89	17273.41	17.77

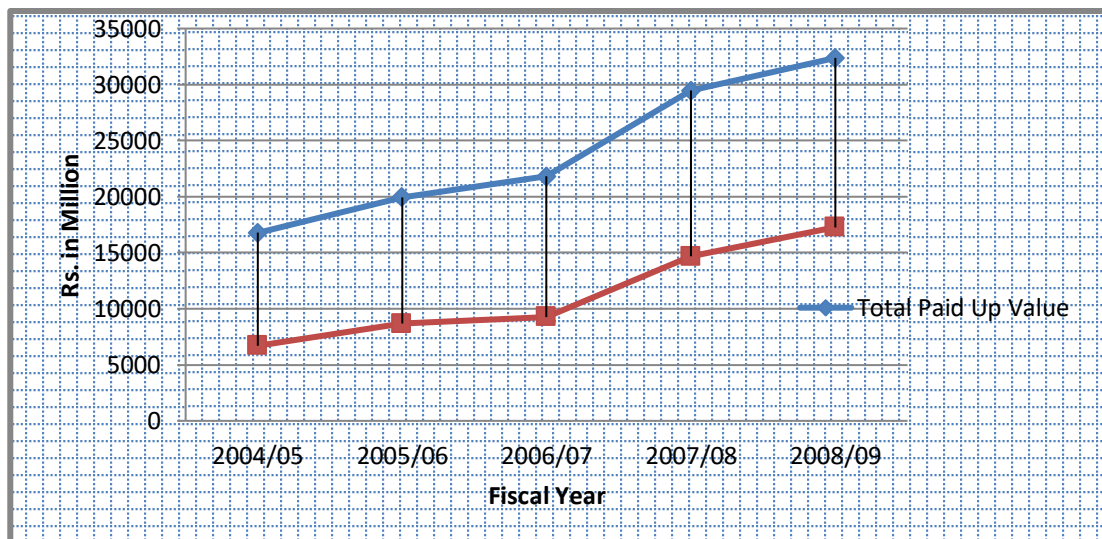
(Source: Annual Reports of NEPSE)

By analyzing the Table 4.20, by the end of the fiscal year 2008/09, the paid up value of listed securities has increased by 9.89 percent and has reached to Rs. 32381.39 million in comparison with Rs. 29465.80 million in year 2007/08. Total paid up value in 2003/04 is Rs. 13404.90 million and it is in increasing trend till the year 2008/09. The growth rate of total paid up value is highest in 2007/08, i.e. 35.17 percent, and lowest growth rate in the year 2006/07, i.e. 9.89 percent.

Similarly, paid up value of commercial bank is also in increasing trend up to 2008/09. The highest paid up of commercial bank is in the fiscal year 2008/09, i.e. Rs. 17273.41 million and the lowest in the fiscal year 2003/04, i.e. Rs. 5380.45 million. The highest growth rate of commercial bank's paid up value is in the fiscal year 2007/08, i.e. 58.04 percent, and lowest in the fiscal year 2006/07, i.e. 7.10 percent.

Figure: 4.9

Paid Up Value



4.1.6 Total Market Capitalization

This indicates the total market value of the listed companies during the research period. The total market capitalization of listed companies and the percentage change in the five year period is presented in the Table 4.21.

Table: 4.21

Total Market Capitalization

(Rs. in Million)

FY	NEPSE		Commercial Bank	
	Total	Change %	Total	Change %
2003/04	41424.77	-----	27147.42	-----
2004/05	61365.89	48.14	40119.88	47.79
2005/06	96763.74	57.68	68694.36	71.22
2006/07	186301.30	92.53	135588.40	97.38
2007/08	366247.60	96.59	218264.20	60.98
2008/09	401365.31	9.59	246353.32	12.87

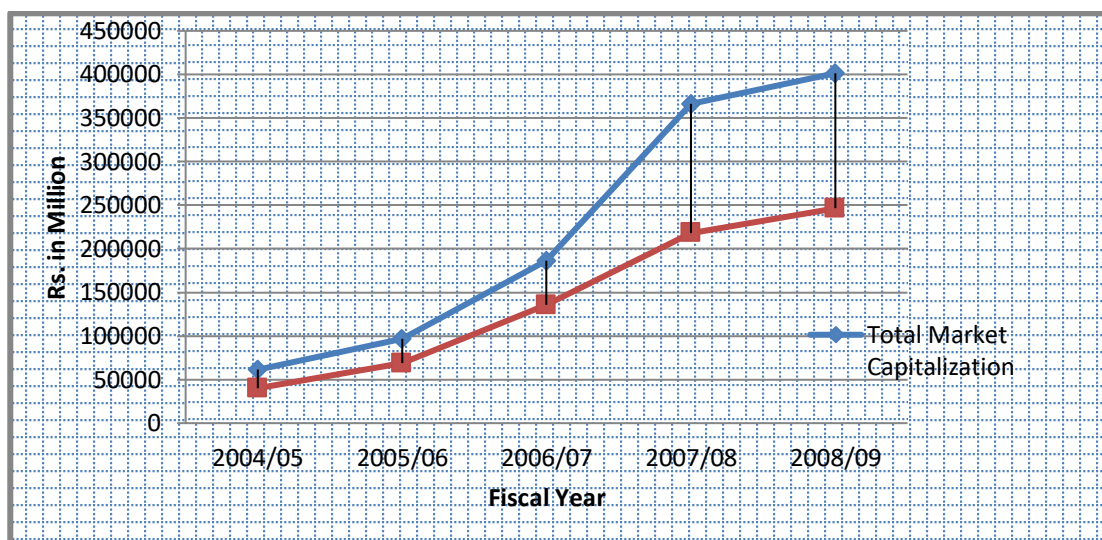
(Source: Annual Reports, NEPSE)

Total market capitalization of listed securities at the end of fiscal year 2008/09 is Rs. 401365.31 million, which is the highest total market capitalization. Similarly, the total market capitalization is lowest in the fiscal year 2003/04, when it is Rs. 41424.77 million. The highest growth rate of total market capitalization is in 2007/08, i.e. 96.59 percent, and lowest growth rate is in fiscal year 2008/09, i.e. 9.59 percent.

Similarly, the market capitalization of listed commercial bank at the end of fiscal year 2008/09 is Rs. 246353.32 million. It is the almost 61.38 percent portion of total market Capitalization. The highest growth of market capitalization of commercial bank is in fiscal year 2006/07, when it has grown by 97.38%. Taking base year as 2003/04, the market capitalization of commercial banks has increased almost by nine times, while total market capitalization has increased almost by ten times.

Figure: 4.10

Total Market Capitalization



4.1.7 Total Number of Share Traded

The total number of shares traded indicates the trend of shares trade during the period taken for research. Also, the percentage change in number of shares traded is presented in the following Table 4.22.

Table: 4.22

Total Number of Share Traded

(Number in Thousand)

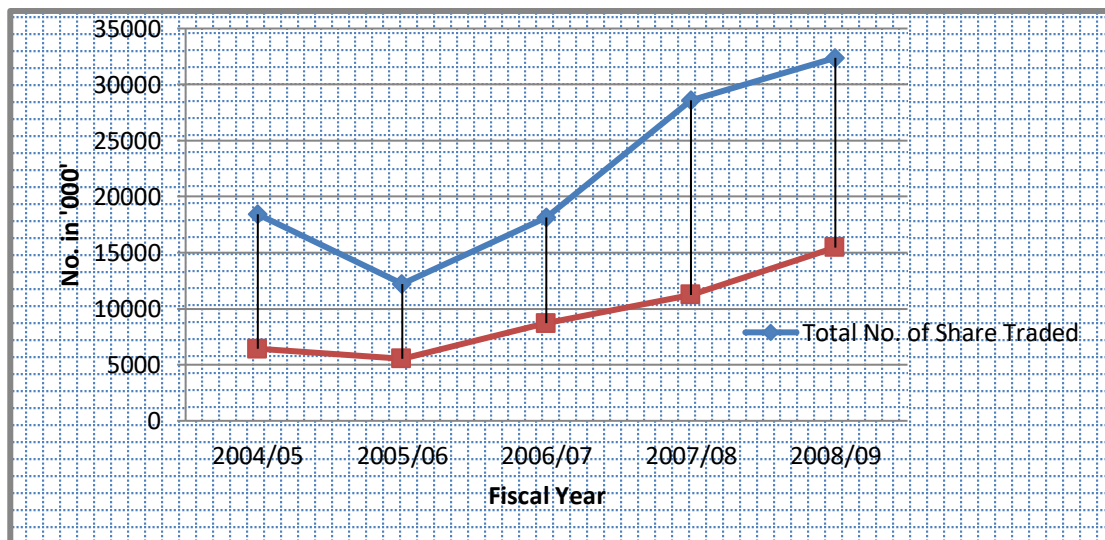
FY	NEPSE		Commercial Bank	
	Total	Change %	Total	Change %
2003/04	6468.18	-----	2737.52	-----
2004/05	18433.55	184.99	6416.57	134.39
2005/06	12221.93	-33.70	5534.72	-13.74
2006/07	18147.25	48.48	8700.20	57.19
2007/08	28599.80	57.60	11241.40	29.21
2008/09	32381.79	13.22	15464.21	37.56

(Source: Annual Reports of NEPSE)

The Table 4.22 shows that the highest total number of share traded is in the fiscal year 2008/09, i.e. 32381.79 thousand. However, the highest growth rate is in the fiscal year 2004/05, when the growth rate is 184.99%, and lowest growth rate is in the fiscal year 2005/06, when the growth rate is -33.70%, indicating decrement. Similarly, the highest number of share traded of commercial bank is in the fiscal year 2008/09, i.e. 15464.21 thousand. Taking fiscal year 2003/04 as base year, the number of shares traded of commercial bank has increased almost by six times. Likewise, the highest growth rate, 134.39%, of shares traded of commercial bank is in the fiscal year 2004/05.

Figure: 4.11

Total Number of Share Traded



4.1.8 Trend of Price Fluctuation of Commercial Bank

Filter Rule and Run Test are germane to analyze the price fluctuation trend of share. However, due to the unavailability of data the test has been done by taking May, 2009 as the base year. By using filter rule and run test we can find out daily price movement of price, they are as follows:

Table: 4.23

Prices Changes of Standard Chartered Bank

Date	Day	Closing Price	Filter Rule			Run Test	
			% Change	X = 4% Buy/sell decisions	X = 8% Buy/sell decisions	Price Change (Rs.)	Set of Run
2009-5-07	1	4659	-	-	-	-	Run 1 +ve run
2009-5-10	2	4700	0.88	-	-	41	
2009-5-11	3	4755	1.17	-	-	55	
2009-5-12	4	4765	0.21	-	-	10	
2009-5-13	5	4800	0.73	-	-	35	
2009-5-14	6	4825	0.52	-	-	25	
2009-5-17	7	4900	1.66	-	-	80	
2009-5-18	8	5225	6.52	Buy	-	320	
2009-5-19	9	5151	- 1.42	-	-	- 74	Run 2- ve run

2009-5-20	10	5201	0.97	-	-	50	Run 3 +ve run
2009-5-21	11	5145	- 1.08	-	-	- 56	Run 4 –ve run
2009-5-24	12	5270	2.43	-	-	125	Run 5 +ve run
2009-5-25	13	5450	3.41	-	-	180	
2009-5-26	14	5580	2.38	-	-	130	
2009-5-27	15	5899	5.72	Buy	-	319	

(Source: Annual Reports, NEPSE)

On the basis of Table 4.23, it can be concluded that the share of Standard Chartered Bank's has fluctuated more than that of the fiscal year 2006/07. The price changes from day 1 to 15 shows two Buy signal because their price has been increased in 4 percent. But in 8 Percent, there is no any buy or sell signal, because the change in the price of all days is less than 8%.

Under the run test, in the above 15 days data of Standard Chartered Bank, 3 positive, 2 negative run are present, as well Price from day one to eight have been increased and it is considered, day 8 to 9 have negative run and day 10 is positive run, Day 11 again negative run and day 12 to 15 positive run.

Table: 4.24

Price Changes of NABIL Bank Limited

Date	Day	Closing Price	Filter Rule			Run Test	
			% Change	X=4% Buy/sell	X=8% Buy/sell	Price Change	Set of Run

				decisions	decisions	(Rs.)	
2009-5-07	1	3630	-	-	-	-	-
2009-5-10	2	3650	0.55	-	-	20	Run 1 +ve run
2009-5-11	3	3645	- 0.14	-	-	- 5	Run 2 –ve run
2009-5-12	4	3640	- 0.14	-	-	- 5	
2009-5-13	5	3649	0.25	-	-	9	Run 3 +ve run
2009-5-14	6	3660	0.30	-	-	11	
2009-5-17	7	3710	1.37	-	-	50	
2009-5-18	8	3870	4.31	Buy	-	160	
2009-5-19	9	3851	- 0.49	-	-	- 19	Run 4 –ve run
2009-5-20	10	3850	- 0.03	-	-	- 1	
2009-5-21	11	3855	0.13	-	-	5	Run 5 +ve run
2009-5-24	12	3970	2.98	-	-	115	
2009-5-25	13	4150	4.53	Buy	-	180	
2009-5-26	14	4270	2.89	-	-	120	
2009-5-27	15	4580	7.26	Buy	-	310	

(Source: Annual Reports, NEPSE)

From the Table 4.12, the price of NABIL Bank is also in fluctuating trend. The above calculation of price changes from day 1 to 15 shows three buy signals because their price has been increased at 4% but at 8% there is not any buy and sell signal, because the change in the price of all days less than 8% . Under the Run test, Run 1, 3 and 5 are the positive Run test, Run 2 and 4 are negative run.

Table: 4.25

Price Change of Bank of Kathmandu

Date	Day	Closing Price	Filter Rule			Run Test	
			% Change	X=4% Buy/sell decisions	X=8% Buy/sell decisions	Price Change (Rs.)	Set of Run
2009-5-07	1	1396	-	-	-	-	-
2009-5-10	2	1427	2.22	-	-	31	Run 1 +ve run
2009-5-11	3	1415	- 0.84	-	-	- 12	Run 2 - ve run
2009-5-12	4	1415	0.00	-	-	0	Run 3 0 run
2009-5-13	5	1414	- 0.07	-	-	- 1	Run 4 -ve run
2009-5-14	6	1420	0.42	-	-	6	Run 5 +ve run
2009-5-17	7	1450	2.11	-	-	30	
2009-5-18	8	1510	4.14	Buy	-	60	
2009-5-19	9	1485	- 1.65	-	-	- 25	Run 6 – ve run
2009-5-20	10	1420	- 4.38	Sell	-	- 65	

2009-5-21	11	1451	2.18	-	-	31	Run 7 +ve run
2009-5-24	12	1482	2.14	-	-	31	
2009-5-25	13	1549	4.52	Buy	-	67	
2009-5-26	14	1600	3.29	-	-	51	
2009-5-27	15	1600	0.00	-	-	0	Run 8 0 run

(Source: Annual Reports, NEPSE)

From the above table 4.25, the price of BOK is also in fluctuating trend. Under the run test there are 8 runs. Day 1, 5 and 7 have positive run, day 4 and 15 have zero run and day 2 and 6 have negative run test. There is 2 buy and one sell signal at 4 %. The price changes from 1 to 15 shows 2 buy signal on day 8 and 13 at 4 percent which is more than 4 percent and 1 sell signal on day 10 at 4 percent which diminished by -4 %. There is no any buy and sell signal at 8 percent because the price of BOK do not fluctuate at 8 percent.

Table: 4.26

Price Change of Nepal Investment Bank

Date	Day	Closing Price	Filter Rule			Run Test	
			% Change	X=4% Buy/sell decisions	X=8% Buy/sell decisions	Price Change (Rs.)	Set of Run

2009-5-07	1	1205	-	-	-	-	-
2009-5-10	2	1205	0	-	-	0.00	Run 1 0 run
2009-5-11	3	1195	- 0.83	-	-	- 10	Run 2 – ve run
2009-5-12	4	1195	0	-	-	0.00	Run 3 0 run
2009-5-13	5	1172	- 1.92	-	-	- 23	Run 4 - ve run
2009-5-14	6	1172	0	-	-	0.00	Run 5 0 run
2009-5-17	7	1180	0.68	-	-	8	Run 6 +ve run
2009-5-18	8	1224	3.37	-	-	44	
2009-5-19	9	1209	- 1.22	-	-	- 15	Run 7 -ve run
2009-5-20	10	1150	- 4.88	Sell	-	- 59	
2009-5-21	11	1197	4.09	Buy	-	47	Run 8 +ve run
2009-5-24	12	1220	1.92	-	-	23	
2009-5-25	13	1260	3.17	-	-	40	
2009-5-26	14	1300	3.17	-	-	40	
2009-5-27	15	1410	8.46	-	Buy	110	

(Source: Annual Reports, NEPSE)

By the above table 4.26 , in the filter rule X = 4% from 1 to 15 days shows 1 buy decision at day 11 and 1 sell decision to day 10. Under the run test there are 8 run set up, where 6 and 8 are positive run, run 2,4 and 7 are negative run and ,1,3 and 5 run are zero run. It means the more fluctuation price of Nepal. It is better to buy share of Nepal investment bank than other because of that there is also buy decision at 8 percent due to the more fluctuation of price from day 11 to 15. It also shows buy signal on day 15 in the filter rule x= 8 Percent.

Table: 4.27

Price Change of Himalayan Bank Limited

Date	Day	Closing Price	Filter Rule			Run Test	
			% Change	X=4% Buy/sell decisions	X=8% Buy/sell decisions	Price Change (Rs.)	Set of Run
2009-5-07	1	1520	-	-	-	-	-
2009-5-10	2	1550	1.97	-	-	30	Run 1 +ve run
2009-5-11	3	1520	- 1.93	-	-	- 30	Run 2 - ve run
2009-5-12	4	1500	- 1.32	-	-	- 20	
2009-5-13	5	1475	- 1.67	-	-	- 25	
2009-5-14	6	1504	1.97	-	-	29	Run 3 +ve run
2009-5-17	7	1500	- 0.27	-	-	- 4	Run 4 –ve run
2009-5-18	8	1550	3.33	-	-	50	Run 5 +ve run
2009-5-19	9	1560	0.64	-	-	10	Run 5 -ve run
2009-5-20	10	1595	2.24	-	-	35	
2009-5-21	11	1530	- 4.07	Sell	-	- 65	
2009-5-24	12	1585	3.59	-	-	55	Run 7 +ve run
2009-5-25	13	1620	2.21	-	-	35	

2009-5-26	14	1685	4.01	Buy	-	65	
2009-5-27	15	1853	9.97	-	Buy	168	

(Source: Annual Reports, NEPSE)

From the above table 4.27, the filter rule $X = 4\%$ from 1 to 15 days shows 1 buy and 1 sell decision on day 14 and 11 because the price changes more than 4 % and 8 % increase/decrease from the closing price and in the $X = 8\%$. from 1 to 15 days shows 1 buy decision on day 15 under the run test there are 8 run set up, where run 1, 3,5 and 7 are positive run test, run 2, 5 and 6 are negative run test. It means more fluctuation of price.

4.2 Primary Data Analysis

The primary data has been collected by conducting questionnaire to the 50 investors, which include 15 SEBON and NEPSE personnel, 20 lecturer and students, and 15 banking personnel. The questionnaire comprises close ended questions have objective answers and contains 14 questions. The respondents are asked to fill up the questionnaire to trace out the problem, growth and prospect of the Nepalese Stock Market.

4.2.1 Satisfaction on Growth Trend

To determine whether the investors engaged in different professionals are satisfied with the growth trend of the stock market of Nepal, the respondents are asked to express their views. The responses obtained from them are presented in the table.

Table: 4.28

Satisfaction on Growth Trend

Responses	NEPSE & SEBON	Lecturer & Student	Bank Employee	Total	%
Yes	8	11	9	28	56
No	7	4	4	15	30

Don't Know	0	5	2	7	14
Total	15	20	15	50	100

(Source: Opinion Survey, 2010)

The above table shows that the majority of the SEBON and NEPSE personnel are satisfied with the growth trend of stock market. 8 out of 15 have affirmed that they are satisfied with the trend. However, 7 out of 15 have said that they are not satisfied with the growth of stock market. Similarly, the majority of the lecturer and student, 11 out of 20, have shown satisfaction on growth of stock market. While, 4 lecturer & student and 5 lecturer & student have said that they are not satisfied and don't know on the growth trend of stock market.

Likewise, the majority of the bank employee, 9 out of 15, have shown satisfaction, 4 bank employees have shown dissatisfaction and 2 employees have remained neutral on the growth of the stock market of Nepal. It seems that the majority of each category of the respondents are satisfied with the growth of the stock market of Nepal.

In overall, the satisfaction level has represented 56% of the total respondents, i.e. 28 out of 50, the dissatisfaction level has represented 30% of the total respondents, i.e. 15 out of 50, and the indifferent level has represented 14% of the total respondent, i.e. 7 out of 50. Thus, it can be concluded that most of the people related to the securities transactions are satisfied with the stock market growth of Nepal.

4.2.2 Preference on Investment

Different investors are interested in different companies to invest their savings. To evaluate on which sectors the investors are most interested to invest their money, the respondents are asked to present their opinions.

Table: 4.29

Preference on Investment

Responses	NEPSE & SEBON	Lecturer & Student	Bank Employee	Total	%
------------------	------------------------------	-----------------------------------	--------------------------	--------------	----------

Bank & Finance	8	7	10	25	50
Manufacturing & Processing	4	4	2	10	20
Trading	2	5	1	8	16
Others	1	4	2	7	14
Total	15	20	15	50	100

(Source: Opinion Survey, 2010)

The above table shows the opinion of the different sectors on the preference given by the investors while investing. The table shows that the majority of the NEPSE and SEBON personnel have said that investors give more preference to banking and finance institutions while making investment. About 8 out of 15 respondents have supported this view. Similarly, 4 NEPSE and SEBON personnel have said that the investors give more preference to manufacturing and processing securities while making investment.

Likewise, 2 out of 15 have said that trading company's securities are more alluring to investors and 1 NEPSE and SEBON personnel has said that the securities of others like hotel, hydropower is more fascinating to investors. Similarly, the majority of the lecturer and student, 7 out of 20, as well have said that the investors give more preference to the securities of bank and financial institution's securities while making investment. 4 lecturer and student, 5 lecturer and student, and 4 lecturer and student have said that the investors prefer manufacturing and processing securities, trading companies securities and other's securities respectively.

Also, the majority of the bank employees, 10 out of 15, have stated that investors' prefer banking and financial securities, and 2 employees, 1 employee, and 2 employees have affirmed that the investors' prefer manufacturing and processing companies' securities, trading companies' securities and others' securities while making investment. In overall, the majority of the respondents, 25 out of 50, 50%, said that investors' prefer bank's and finance securities. Only 10 respondents, 8 respondents, and 7 respondents have said that investors' prefer manufacturing and processing securities, trading securities and other's securities

respectively. On the basis of the overall majority and the majority of each category, it can be assumed that certainly investors first preference to banks' and finance's securities while investing.

4.2.3 Major Problem of Stock Market

There are various problems confronted by the stock market, which hinders the growth either directly or indirectly. To trace out the major problem of stock market in the development, the respondents are asked to present their opinions.

Table: 4.30

Major Problem of Stock Market

Responses	NEPSE & SEBON	Lecturer & Student	Bank Employee	Total	%
Small Capital Market	5	6	6	17	34
Lack of Investor's Confidence	0	0	1	1	2
Lack of Proper Knowledge	7	10	5	22	44
Lack of Co-ordination between monitoring bodies	0	1	0	1	2
Inappropriate rules & regulation	0	1	2	3	6
Restriction of Foreign Investor	3	2	1	6	12
Total	15	20	15	50	100

(Source: Opinion Survey, 2010)

The above table shows that the majority of the NEPSE and SEBON personnel, 7 out of 15, lecturer and student, 10 out of 20, have stated that lack of proper knowledge in investors is the major problem of stock market that is hindering the growth of the stock market. Whereas, the majority of the bank's employees, 6 out of 15, have pointed small capital market as the major problem of stock market development. Similarly, 5 NEPSE and SEBON personnel and 6 lecturer and student have pointed small capital market, and 5 banking

personnel have pointed lack of proper knowledge as the major problem. Likewise, 1 banking personnel has highlighted lack of investor's confidence, 1 lecturer and student has pointed lack of co-ordination between regulating bodies of NEPSE, 1 lecturer and student and 2 banking personnel have pointed inappropriate rules and regulations, and 3 NEPSE and SEBON personnel, 2 lecturer and student, and 1 banking employee have pointed restriction of foreign investors on securities transactions as the major problem of stock market of the nation.

In overall, 34%, 2%, 44%, 2%, 6% and 12% of the respondents have said small capital market, lack of investor's confidence, lack of proper knowledge on investors, lack of co-ordination between monitoring bodies, inappropriate rules and regulations, and restriction of foreign investors as the major problem. Considering the overall majority, it can be assumed that lack of proper knowledge on investors is the major problem of stock market of country.

4.2.4 Major Prospect of Stock Market

Instead of having problems, there are various prospects which can enhance the stock market development of Nepal. To trace out which prospect is the most germane to the stock market growth, the respondents are asked on this matter.

Table: 4.31

Major Prospect of Stock Market

Responses	NEPSE & SEBON	Lecturer & Student	Bank Employee	Total	%
Increasing no. of large companies listed in NEPSE	6	9	5	20	40
Stock market provides maximum return	2	2	1	5	10
Liquidity and Marketability	1	0	4	5	10
Increasing interest of educated public towards stock market	4	5	4	13	26

Limited opportunities to invest investors' long term saving of share investment	2	4	1	7	14
Total	15	20	15	50	100

(Source: Opinion Survey, 2010)

The above table depicts that the majority of the each category of the respondents and the overall majority have pointed out that increasing number of large companies in NEPSE is the major prospect of stock market. About 40% of the total respondent, 20 out of 50, have supported this view. Next to this view, 26% of the overall respondents, 13 out of 50, have stated that increasing interest of educated people toward the stock market is the major prospect of stock market growth. Similarly, 14% of the total respondents have affirmed that the limited opportunities to invest investor's long term savings have diverted investors toward the stock market and thus are the major prospect for stock market enhancement.

Likewise, 10% of the total respondents each have stated that liquidity and marketability of the stock and the maximum return provided by stock transaction respectively are alluring the investors toward securities transactions and thus is the major prospect for stock market development. However, on the basis of the overall majority and the majority of each respondent, it can be concluded that increasing number of entry of large companies in NEPSE is the major prospect of stock market development.

4.2.5 Influencing Factor of Stock Price

To examine which factor most influence the investor on buying shares of certain company and influences the stock price of the listed company, the respondents are asked on this regard. The opinions obtained from them are presented in the following table.

Table: 4.32

Influencing Factor of Stock Price

Responses	NEPSE & SEBON	Lecturer & Student	Bank Employee	Total	%

Dividend	6	2	2	10	20
Rumors	0	12	8	20	40
Financial situation of company	6	2	2	10	20
Management of company	3	4	3	10	20
Others	0	0	0	0	0
Total	15	20	15	50	100

(Source: Opinion Survey, 2010)

The above table shows that the majority of the lecturer and student, 12 out of 20, and the majority of banking employees, 8 out of 15, have stated that rumor is the most influencing factor in fluctuating the price of stock, however, the majority of NEPSE & SEBON personnel each, 6 out of 15, have pointed dividend and financial situation of company is the most influencing factor in raising/lowering the price of stock.

In overall, the majority of the respondents, 20 out of 50, 40%, have pointed rumor as the most influencing factor in stock price fluctuation. Whereas 20% of the total respondents, 10 out of 50, have pointed dividend, 20% of the total respondents have pointed financial situation of the company, and 20% of the respondents have stated management of the company as the major influencing factor for share price. It seems that the stock market of Nepal is highly affected by the rumors. It would be worthwhile if the monitoring bodies highly concentrate in deducing the rumor and make the stock market transparent and efficient.

4.2.6 Motive for Investment

To trace out the main motive on the basis of which the investors makes investment on stock, the professional investors are asked about their motive of investment. Each investor has different motive in investing on the stock of the company.

Table: 4.33

Motive for Investment

Responses	NEPSE & SEBON	Lecturer & Student	Bank Employee	Total	%
Capital Gain	7	8	5	20	40
Dividend	3	4	2	9	18
Friends and Family	0	3	2	5	10
Stock Brokers	2	1	2	5	10
Marketability	3	4	4	11	22
Others	0	0	0	0	0
Total	15	20	15	50	100

(Source: Opinion Survey, 2010)

The above table delineates that the capital gain is the major motive for investment to investors. About 40%, 20 out of 50, respondents have supported this view. Also, the majority of each category, 7 out of 15 NEPSE and SEBON personnel, 8 out of 20 lecturer and student, and 5 out of 15 bank employee have stated that capital gain is most crucial for investors to make investment. Similarly, 22% of the total respondents, 11 out of 50, have stated that the ease marketability of the stock is the major motive for investment.

Likewise, 18% of the respondents have egged on dividend distribution is the major motive for investment. While 10% of the respondents each have said that friend and family and stock brokers is the major motive for investors to jump on the securities market. However, on the basis of the overall majority and the majority of each category, it can be concluded that the expectation of capital gain is fascinating the investors in securities market and thus is the major motive for investment.

4.2.7 Environmental Effect on Stock Price

Each environment factor has different impact in upgrading or degrading the price of stock. To examine which environment affects most in the price of stock, the respondents are asked to express their views. The responses obtained thereafter are presented in the below table.

Table: 4.34

Environmental Effect on Stock Price

Responses	NEPSE & SEBON	Lecturer & Student	Bank Employee	Total	%
Political Environment	3	2	3	8	16
Economic Environment	1	4	3	8	16
Socio-Cultural Environment	1	2	1	4	8
Technological Environment	2	2	1	5	10
International Environment	4	1	2	7	14
Above All	4	9	5	18	36
Total	15	20	15	50	100

(Source: Opinion Survey, 2010)

The above table depicts that the combination of political, economic, socio-cultural, technological and international environment is crux in affecting the price of stock. About 36% of the total respondents have supported this view. Similarly, 16% of the respondents each have stated political and economic environment is the major influencer in stock market.

Likewise, 14% of the total respondents, 7 out of 50, have stated international environment as the major influencer. Also, 10% of the respondents pointed out technological environment as the major environment in influencing the stock market. While 8% of the respondents have stated socio-cultural environment as the major influencer. Eventually, it can be concluded that the contribution of each aforementioned environment is equally crucial in stock market environment.

4.2.8 Appropriateness of Information

Usually before making investment on certain company, investors collect information. To examine whether the information provided by such companies is really appropriate while investing in such company, the respondents are asked to share their views.

Table: 4.35

Appropriateness of Information

Responses	NEPSE & SEBON	Lecturer & Student	Bank Employee	Total	%
Yes	10	2	8	20	40
No	5	18	7	30	60
Don't Know	0	0	0	0	0
Total	15	20	15	50	100

(Source: Opinion Survey, 2010)

The above table shows that the majority of lecturer and student, 18 out of 20, have stated that the information provided by the concerned companies is not appropriate for the investment. However, the majority of the NEPSE and SEBON personnel, 10 out of 15, and the majority of the bank employees, 8 out of 15, have stated that the information provided is appropriate.

Likewise, 5 NEPSE and SEBON personnel and 7 bank employees have stated that the information provided by the concerned companies is not appropriate for stock investment. And, 2 lecturer and student have opined that the information is appropriate. Rather mixed responses have been obtained in this matter. Considering the overall majority, it can be concluded that the information provided by the concerned companies is not appropriate, since 60% of the total respondents have supported this view, however only 40% of the respondents said the information is appropriate.

4.2.9 Effect of SEBON Rules and Regulation

SEBON is the central body to monitor the activity of the stock market. To examine whether the rules and regulation of SEBON really affects the price of stock, the respondents are asked on this matter.

Table: 4.36

Effect of SEBON Rules and Regulation

Responses	NEPSE & SEBON	Lecturer & Student	Bank Employee	Total	%
Yes	12	18	10	40	80
No	2	1	3	6	12
Don't Know	1	1	2	4	8
Total	15	20	15	50	100

(Source: Opinion Survey, 2010)

The Table 4.36 shows that the majority of each category, 12 out of 15 NEPSE & SEBON personnel, 18 out of 20 lecturer and student, and 10 out of 15 bank employees have stated that the SEBON rules and regulation are germane for the price fluctuation of the stock price. In total, 80% of the respondents, 40 out of 50, have strongly said yes to this question. Similarly, only 2 NEPSE & SEBON personnel, 1 lecturer and student, and 3 banking personnel have stated that such rules and regulations have no role to fluctuate the stock price. In total, 12% of the respondents said 'no' to this question.

Likewise, 1 NEPSE & SEBON employee, 1 lecturer and student, and 2 banking employee, and 8% in total have said that they have no idea. Considering the overall majority and the majority of each category, it can be undoubtedly concluded that certainly SEBON's rules and regulation affect the stock price of Nepal.

4.2.10 Awareness of Investors

For the effective operation and for the growth of stock market, the awareness of investors about the rules regulations and the present market condition is crucial. To investigate whether investors are fully aware about the activities of the stock market, the respondents are asked to express their opinions.

Table: 4.37

Awareness of Investors

Responses	NEPSE & SEBON	Lecturer & Student	Bank Employee	Total	%
Yes	3	2	2	7	14
No	12	12	11	35	70
Don't Know	0	6	2	8	16
Total	15	20	15	50	100

(Source: Opinion Survey, 2010)

The Table 4.37 delineates that the majority of the each category, 12 out of 15 NEPSE & SEBON personnel, 12 out of 20 lecturer and student, 11 out of 15 bank employees, and 70% of the total respondents, i.e. 35, have affirmed that the investors are not fully aware about procedures of trading, activities of stock market and so on. Similarly, 3 NESPE & SEBON personnel, 2 lecturer and student, 2 bank employees, and 14% of the total respondents have said that the investors are aware about the activities of stock market. However, only 6 lecturer and student, 2 bank employees and 16% of the total respondents have said that they have no idea. Thus, it can be concluded that most of the investors are not aware about the activities in stock market. It would be worthwhile if SEBON conducts awareness program to people for the enhancement of the stock market growth.

4.2.11 Basis for Investment

Generally, the investors make investment after analyzing various factors. To know the basis of investment in the stock market, the respondents are asked on this matter. The different opinions obtained from the investors are presented in the following table.

Table: 4.38

Basis for Investment

Responses	NEPSE & SEBON	Lecturer & Student	Bank Employee	Total	%
NEPSE Index	3	4	2	9	18
Closing Price	3	3	3	9	18
Turnover	0	1	0	1	2
Company's Goodwill	0	1	0	1	2
Company's Profit	9	11	10	30	60
Others	0	0	0	0	0
Total	15	20	15	50	100

(Source: Opinion Survey, 2010)

The Table 4.38 depicts that the majority of each category, 9 out of 15 SEBON & NEPSE staff, 11 out of 20 lecturer and student, 10 out of 15 bank employees, and 60% of the total respondents, 30 out of 50, have stated that the investors makes the company's profit as basis for making decision on investment. Similarly, 18% of the total respondents, 9 out of 50, have stated that NEPSE index and closing price of stock each is the major basis for making investment decision. Likewise, 2% of the respondents have said that turnover and company's goodwill each is the major basis for investment decision. However, gazing the overall majority, it can be concluded that the company's profit is the most alluring factor for investors to make investment decision.

4.2.12 Efficiency of Nepalese Stock Market

To measure whether the stock market is operationally and informationally efficient, the respondents are asked to express their opinions. The responses obtained from them are presented in the table below.

Table: 4.39

Efficiency of Nepalese Stock Market

Responses	NEPSE & SEBON	Lecturer & Student	Bank Employee	Total	%
Yes	3	0	0	3	6
No	2	3	3	8	16
In Between	10	17	12	39	78
Total	15	20	15	50	100

(Source: Opinion Survey, 2010)

The Table 4.39 depicts that the majority of each category, 10 out of 15 NEPSE and SEBON personnel, 17 out of 20 lecturer and student, 12 out of 15 bank employee, and 78% of the total respondents, 39 out of 50, have remained in between. However, 2 NEPSE and SEBON personnel, 3 lecturer and student, 3 bank employees, and 16% of the total respondents have clearly stated Nepalese Stock Market is not operationally and informationally efficient. Similarly, only 3 NEPSE and SEBON personnel, i.e. 6% of the total respondents have said that the stock market is efficient. Considering the majority, it can be concluded that the stock market is not operationally and informationally efficient.

4.2.13 Most Responsible Party for Appropriate Trading System

To know who is most responsible for the appropriate trading system in the stock market, the respondents were asked to opine their views. The opinions obtained from them are depicted in the following table.

Table: 4.40

Most Responsible Party for Appropriate Trading System

Responses	NEPSE & SEBON	Lecturer & Student	Bank Employee	Total	%
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Investors	3	4	3	10	20
NEPSE	6	10	4	20	40
Brokers	3	4	3	10	20
SEBON	3	1	1	5	10
Other Regulating Bodies	0	1	4	5	10
Total	15	20	15	50	100

(Source: Opinion Survey, 2010)

The table delineates that NEPSE should be most responsible for appropriate trading system of stock market, since 40% of the total respondents, 20 out of 50, have pointed it. Next to NEPSE, Brokers and Investors should be equally responsible for ameliorating the trading system of stock, since 20% of the total respondents each have pointed them. Similarly, SEBON and other regulating bodies should also be responsible for the effective trading system, about 10% of the total respondents appointed each of them. In conclusion, it can be assumed that NEPSE is most accountable for the appropriate trading system.

4.2.14 Suggestions for Improvement

To examine the necessary steps that should be taken by the government for the enhancement of the stock market, the respondents are asked on this issue. The responses obtained from them are presented in the Table 4.41.

Table: 4.41

Suggestion for Improvement

Responses	NEPSE & SEBON	Lecturer & Student	Bank Employee	Total	%
Amendment of Rules and Regulations	11	15	9	35	70
Develop More Stock Exchange	4	3	3	10	20
Increase the no. of brokers	0	2	3	5	10
Total	15	20	15	50	100

(Source: Opinion Survey, 2010)

The Table 4.41 shows that the majority of each category, 11 out of 15 NEPSE and SEBON personnel, 15 out of 20 lecturer and student, 9 out of 15 bank employees, and 70% of the total respondents, 35 out of 50, have suggested that the government should amend rules and regulation and make the rules and regulations that will benefit the market structure of Nepal. Similarly, 4 NEPSE and SEBON employee, 3 lecturer and student, 3 bank employee, and 20% of the total respondents have suggested development of more stock exchange. Whereas only 2 lecturer and student, 3 banking employees, and 10% of the total respondents have suggested increment in the number of brokers for the enhancement of the stock market. Considering the majority, it can be concluded that amendment of rules and regulations will be the best suggestion for government to enhance the stock market growth.

4.3 Major Findings of the Study

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

4.3.1 Findings from the Secondary Data

- The MPS of SCBNL is negatively correlated with DPS, BPS and EPS. The correlation coefficient of MPS with DPS, BPD and EPS is also insignificant.

- The MPS is positively correlated with DPS, EPS and BPS in NABIL. However, none of the relationship is statistically significant.
- Similarly, the MPS is positively correlated with EPS and DPS for BOK but it is negatively correlated with BPS. The correlation coefficient of MPS with EPS only is significant, while the correlation coefficient of MPS with the rest of other variables is insignificant.
- In case of NIBL, the MPS is positively correlated with DPS, EPS and BPS, however the relationship of MPS with these variables is statistically insignificant.
- Likewise, the MPS of HBL is positively correlated with DPS, EPS and BPS. Further, the relationship of MPS with EPS and DPS is significant and the relationship of MPS with BPS is insignificant.
- Total paid up value and paid up value of CBs has been in increasing trend. Banking sector covered majority of paid up values in every year.
- Total number of share traded and number of share traded of CBs have increased in most of the years, except in some fiscal year.
- The market capitalization of commercial banks has increased almost by nine times, while total market capitalization has increased almost by ten times.
- For SCBNL there are two buy decisions at 4%. For NABIL banks Ltd., there are three buy decisions at 4%, for Bok, there are two buy and one sell decision at 4%. For NIB there are 1 buy and 1 sell at 4% and also 1 buy at 8% decision ,for HBL there are only 1 buy and 1 sell at 4% and only 1 buy decision at 8%.
- There are 5 run of NABIL bank Ltd, 5 run of SCBNL where as BOK, NIB and HBL have 8 run each. It shows that there is more fluctuation price of HBL, BOK and NIBL than the other banks because the maximum run is these three Banks.

4.3.2 Findings from the Primary Data

- It is found that Nepalese stock market is in infancy stage the rules and regulation is not very effective, and investors are also less aware about the stock market etc.
- By analyzing the questionnaires, majorities of respondents are satisfied with the growth trend of the market. The 56% respondents have said that they are satisfied with the growth trend.
- While analyzing the research for sector wise preference for investment, it has been found that majority of respondents are interested to invest in banking and finance

sectors. The 50% of the respondents said for banking and finance sectors while 20%, 16% and 14% said for manufacturing and processing, trading and others.

- The lack of proper knowledge of investor about the stock market is the big problem. The selection priority is mostly influenced by whims and rumors from the analysis it has been found that the major motivating factor for investor to make investment in stock market is the capital gain which they received after certain period of time.
- From the analysis it has been found that the information provided by the most of the companies is not appropriate.
- The SEBON rules and regulation does affect the value of stock. While doing the research, it is found that 80% respondent said that the value of stock is really affected by SEBON rules and regulations
- While conducting the research about the basis of decision making, 60 percent respondent have said that company's profit is the main basis of decision.
- Majority of respondents have blamed NEPSE to be the most responsible for appropriate trading system than other regulating body.
- The 70% respondents have said that Government should amend the rules and regulation to remove the current deficiency of stock market.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nepalese Capital Market is still in primary stage. Average citizens and investors have not proper ideas about the capital market, share, book value, par value, market price, pricing mechanism and the factors affecting the market price of share. They are willing to invest but are not able to do so due to the lack of knowledge in this subject. In spite of poor condition of the security market in Nepal, government of Nepal has not given priority in its current three years interim plan. Government has not been able to create basic infrastructures, sound policies and laws and their effective implementation, for the capital market development. As a result, there is not transparency in the performance of the listed companies and the capital market due to which capital it is struggling to mature.

Market price of the stock moves daily in the NEPSE. The securities market is essential; cause of price change may be signaling effect, low return and high risk, lack of knowledge, low income of the investors and high price of the stock. Price of the stock is determined by the interaction between demand and supply, this situation is in security market or not. These are burning issues regarding stock price determining of secondary market in Nepal.

The main objective of the study is to evaluate the Nepalese Stock Market Growth, Problem and Prospects. For such, the relationship of market price of stock with various financial indicators like EPS, DPS, and BPS have been calculated. To find out the above stated objective, financial as well as statistical tools have been used. The relationships of EPS, DPS and BPS with MPS have been checked by correlation and regression analysis. The filter rule and run test analysis of secondary data, have also been analyzed to predict the fluctuation of share price and investors response towards it. The primary data has also been collected from the research questionnaire to find out the major problem, prospects of the stock market.

5.2 Conclusion

From the secondary data analysis, it is known that there is not consistent performance in the relationship of MPS with EPS, DPS and BPS of the five sampled listed Commercial Banks. For some of the Banks, the correlation coefficient of MPS with independent variable (EPS, DPS and BPS) is significantly positive whereas some others have significantly negative correlation. Even though, most of the correlation coefficients of MPS with the independent variables are found positive. Although, EPS, DPS and BPS affect the MPS positively; there are other various factors in the internal as well as external environment of the organization, which significantly affect the MPS. Theoretically when earning, dividend and net worth of stock increases, the market price of share also increase and vice versa.

From the primary data analysis, elements causing the fluctuations of the Share price in NEPSE are identified. Such internal factors affecting the share price are earnings, dividend paid, net worth and risk associated with the company. Similarly, there are other environmental factors affecting the market price of share. Such environment factors affecting the share price are Nepal Rastra Bank's guidelines, price trend, information, demand and supply, time of AGM, political stability, bonus shares etc. NEPSE is in primitive stage and it has not yet established significant and effective tax rate, the stock dividend, global/national economy, change in management, market liquidity are also other important elements affecting stock pricing.

The study concludes that there is a gap between the theory and practice of investment in Nepalese stock market due to the lack of proper analysis of stock market for the smooth operation of the secondary market. There are small group of investors who believes on price- trend, they only invest on such companies whose prices are increasing and which leads to the fluctuation of share prices.

5.3 Recommendations

To solve the problems of Nepalese share market, Nepal government security board of Nepal, NEPSE, Nepal Rastra Bank and other concerned institutions and agencies have to coordinate and undergo the micro study program to find out the effective way to clear out the problem. Nepalese share market is passing through many different challenges. Rather than being pessimistic towards the continuous fluctuating inconsistent Nepalese share market, it is necessary to search and follow scientific transparent and effective way to find the permanent solution to solve these problems.

The findings of the study may provide important information for those who concern, directly or indirectly with the stock market activities. Thus, the following recommendations can be outlined for the concerned

- The country's pure economic development is reflected by the development of productive sectors like hydropower, manufacturing industries, herbal medicine etc. These sectors are not given more priorities. The investors should be encouraged to invest in these sectors.
- Most of the manufacturing industries of Nepal are suffering problems. The government of Nepal should take necessary steps to save these industries
- To control and discourage the unfair practices done by some limited class of people, the regulatory and concerned agencies should take necessary steps to formulate appropriate rules and regulations.
- To protect the right and interest of the overall investors, the stock market awareness program about the capital market should be initiated.
- The central depository system should be developed to systematized and modernize the share market of Nepal.
- The effective system should be developed to provide the information regarding the accounting system, organizational culture, auditing practices, future policies and strategies in a clear and transparent way, similarly the related agencies have to regularly monitor and control the activities of the organization.
- The practical policy regarding the sale and purchase of promotional shares and its ownership transfer should be developed. The clear and transparent scientific system regarding capital gain tax should be developed
- NEPSE must expand its services to the regional levels rather than just concentrating solely in the valley.
- Increment on awareness amongst the general public about the capital market,

regarding nature of risk and return, through promotions campaigns, seminars, publications and programs in FM/TV etc. are necessary.

- NEPSE should increase their broker license to ease the transaction without any problems.
- The government should make not only policies for capital market development but also implement these policies appropriately.
- Most of the stocks of banking and finance are overvalued in the stock market. So, investors are recommended to clearly analyze the performance of these banks before making investment
- The government should attract foreign investors to invest in Nepalese capital market. It can help to increase of market size.

APPENDIX - I

QUESTIONNAIRE

Dear Sir/Madam

I have been conducting a research on "*Nepalese Stock Market Growth, Problem and Prospects*" in partial fulfillment of master degree of business studies. I am preparing some question about the study & it helps to know the major element that affect the share price. I request you to fill up this questionnaire from your side, which can be helpful for me to conduct the research in this topic please do co-operate by explaining your opinion in this given form .your opinion is important to analyze this research paper.

Thank you

Respondent

Name :

Education:

Organization:

Position:

Date:

Questions: Please tick { } the following Questions:-

Q. N. 1 Are you satisfied with the growth trend of Nepalese stock?

{ }Yes

{ }No

Do not know

Q.N. 2 In which of the following sectors do you want to invest in the shares

- Banking Manufacturing and processing
- Trading Others

Q. N. 3 In your opinion, what are the problems of stock market in Nepal? [no 1 is the most important , please rank this answer].

- Small capital market.
- Lack of investor confidence.
- Lack of proper knowledge of investor.
- Lack of coordination between monitoring body of stock market.
- Inappropriate rules & regulations.
- Restriction of foreign investor.

Q. N.4 Which of the following is the major prospects of Nepalese stock market.

- Increasing number of large companies listed in Nepal stock exchange.
- Stock market provides maximum return.
- Liquidity and marketability of securities.
- Increasing interest of educated public towards stock market.
- Limited opportunities to invest investors long term saving instead of share investment.

Q.N 5. In your opinion which of the following this main influencing factor the price

of the stock?

- Dividend
- Financial situation of company
- Others
- Rumors
- Management of the company

Q.N 6 what factors motive you to make investment in stock market?

- Social status
- Dividend
- Friends and family
- Stock broker
- Marketability
- Others

Q.N 7 Which of the following Environment mostly affect the stock market ?.

- Political Environment
- Economic Environment
- Socio cultural Environment
- Technological Environment
- International Environment

Q.N 8.Do you think that information provided by the company is appropriate?

Yes

No

Do not know

Q. N9. Does SEBON rules & regulation affect the value of stock?

Yes

No

Do not know

Q. N 10. Do you think investors in the Nepalese stock market are aware?

Yes

No

Do not know

Q. N 11. On what basis do you make decision to invest in share in the secondary market?

NEPSE index

Closing price

Turnover

Company's goodwill

Company's profit

Others

Q.N 12. Do you think that Nepalese stock market is informational and operationally efficient?

Yes

No

Do not know

Q.N. 13 Who is most responsible for appropriated trading system in stock market?

Investors

NEPSE

{ } Main Regulating Body

Q.N. 14 What should be done by the Government to remove the deficiency of stock market?

{ } Amendment of rules and regulations

{ } Develop more stock exchange

{ } Increase the no. of brokers

APPENDIX - II

Calculation of Mean, S.D. and C.V. of financial indicators of SCBNL

Year	MPS X	DPS Y	BPS Z	$x = X - \bar{X}$	$y = Y - \bar{Y}$	$z = Z - \bar{Z}$	x^2	y^2
2004/05	2345	120	422.38	-2627.00	-4.00	-3.97	6901129	16.00
2005/06	3775	140	468.22	-1197.00	16.00	41.87	1432809	256.00
2006/07	5900	130	512.12	928.00	6.00	85.77	861184	36.00
2007/08	6830	130	401.52	1858.00	6.00	1431.65	3452164	36.00
2008/09	6010	100	327.53	1038.00	-24.00	-98.82	1077444	576.00
Total	24860	620.00	2131.77				13724730	920.00

i) Calculation of Mean

For \bar{X}	For \bar{Y}
Mean $X = \frac{\sum X}{5} = 4972.00$	Mean $Y = \frac{\sum Y}{5} = 124.00$
For \bar{Z}	
Mean $Z = \frac{\sum Z}{5} = 426.35$	

ii) Calculation of Standard Deviation (σ)

For MPS	For DPS
$\sigma_x = \sqrt{\frac{\sum (x-x)^2}{N}} = \sqrt{\frac{13724730}{5}} = 1656.79$	$\sigma_y = \sqrt{\frac{\sum (y-y)^2}{N}} = \sqrt{\frac{920.00}{5}} = 13.56$

For BPS

$$\sigma_z = \sqrt{\frac{\sum (z-z)^2}{N}} = \sqrt{\frac{2068500.81}{5}} = 643.20$$

iii) Calculation of Coefficient of Variation (C.V.)

For MPS	For DPS
$C.V.x = \frac{\sigma_x}{X} = \frac{1656.79}{4972.00} = 33.32$	$C.V.y = \frac{\sigma_y}{Y} = \frac{13.56}{124.00} = 10.94$

For BPS

$$\begin{aligned} \text{C.V.z} &= \frac{\sigma_x}{\bar{x}} = \frac{643.20}{426.35} \\ &= 150.86 \end{aligned}$$

Note: The mean, standard deviation, and c.v. of EPS of SCBNL and other variables of other banks is also calculated using same method.

APPENDIX - III

Calculation of regression line of MPS on DPS

DPS	DPS X	MPS Y	x = X - \bar{X}	y = Y - \bar{Y}	x ²	y ²
2004/05	120	2345	-4.00	-2627.00	16.00	6901129.00
2005/06	140	3775	16.00	-1197.00	256.00	1432809.00
2006/07	130	5900	6.00	928.00	36.00	861184.00
2007/08	130	6830	6.00	1858.00	36.00	3452164.00
2008/09	100	6010	-24.00	1038.00	576.00	1077444.00
Total	620	24860.00			920.00	13724730.00

i) Calculation of Mean

	For \bar{X}		For \bar{Y}		
Mean	$X = \frac{\sum X}{5} =$	124.00	$Y = \frac{\sum Y}{5} =$	4972.00	

ii) Calculation of Correlation Coefficient between DPS and MPS

$$r_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}} = \frac{-16840}{\sqrt{920} \sqrt{112368.82}} = -0.1499$$

iii) Calculation of Standard Deviation (σ)

For DPS			For MPS	
$\sigma_x = \sqrt{\frac{\sum (x-x)^2}{N}}$		$= \sqrt{\frac{920.00}{5}}$	$\sigma_y = \sqrt{\frac{\sum (y-y)^2}{N}}$	
		$= 13.56$		$= 1656.79$

iv) Simple Regression Equation of MPS on DPS

$$Y - \bar{Y} = r \times \frac{\sigma_y}{\sigma_x} (X - \bar{X})$$

or, $Y - 4972 = \frac{0.1499 \times 1656.79}{13.56} (X - 124)$

or, $Y - 4972 = 18.30 X + 2269.74$

or, $Y = 7241.74 - 18.30 X$

Note: Same process has been done to calculate the relationship
of MPS with other variables of SCBNL and other banks.

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