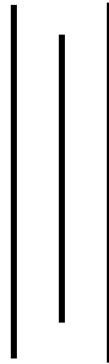


**THE CHALLENGES AND POSSIBILITIES OF PRIMARY
AND SECONDARY STOCK MARKETS IN NEPAL**

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Office of the Dean
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*In partial fulfillment of the requirement for the Degree of
Master of Business Studies (M.B.S)*

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June, 2009

RECOMMENDATION

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DECLARATION

I hereby declare that the work reported in this thesis entitled “**THE CHALLENGES AND POSSIBILITIES OF PRIMARY AND SECONDARY STOCK MARKETS IN NEPAL**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Study (M.B.S.) under the supervision of **Shree Bhadra Neupane** and **Rabindra Bhattarai** of Shanker Dev Campus.

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Rishi Ghimire

Researcher

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ABBREVIATIONS

%	=	Percentage
&	=	And
AD	=	After Death
ADT	=	Average Daily Turnover
BJM	=	Biratnagar Jute mills
BOK	=	Bank of Kathmandu
BS	=	Bikram Sambat
CB	=	Commercial Bank
CDS	=	Central Depository System
CRO	=	Company Registered Office
FY	=	Fiscal Year
GDP	=	Gross Domestic Product
HML	=	Himalayan Bank Limited
i.e.	=	That is
MOF	=	Ministry of Finance
NABIL	=	NABIL Bank Limited
NBL	=	Nepal Bank Limited
NEPSE	=	Nepal Stock Exchange
NIB	=	Nepal Investment Bank
No	=	Number
NRB	=	Nepal Rastra Bank
OTC	=	Over the counter
P	=	Page
SCBNL	=	Standard Chartered Bank Limited
SEBO/N	=	Security Board of Nepal

CHAPTER- I

INTRODUCTION

1.1 Background of the Study

The major concern of many countries of the world has been to accelerate their development process and thereby increase the welfare of their people. This can be done only through sound investment. This would require gearing up of savings, creating conducive and sound investment atmosphere and developing efficient capital market to facilitate mobilization of both ownership and debt capital through appropriate instruments. Such a scenario will help to grow corporate enterprise capable of ushering into a high growth era. The development of corporate culture depends upon a sound financial system, a set of complex and closely connected or inter-mixed institution, agent's process, markets, claims etc. in an economy.

With the worldwide move towards open and market oriented economic system in the world economy, it has led to growth and expansion of banking and financial system too. As a matter development of new financial instrument and improved and diversified financial services are taking place. One of the concrete financial services is merchant banking function. Under merchant banking function, financial institutions provide necessary information on the financial instruments to any industry or any concern involved in business, in addition to consultancy services on procedural formalities to use the instruments and all necessary management services.

Development of capital market in Nepal is linked with the establishment of commercial banks and long term financing institutions like Nepal Industrial Development Corporation (NIDC), market capitalization started in 1994 B. S. with

the enactment of company Act in B. S. 1992. However, failure of a number of companies within a short time deteriorated the spirit and for a long period market capitalization. Efforts were reinforced in 2033 B.S. with the establishment of Nepal Security Trading Center (NSTC) to make it as a road in expanding the base for capitalization and assisting new companies to float easily. The center also operated in a restricted manner and through revitalizing, the market capitalization process did not take off in a sound manner in the absence of an encouraging environment.

Identifying these short comings, along with the pursuance of liberal economic policies, the government introduced the package of policies including capital market development policy in B.S. 2049. This helped to establish the stock exchange market and the floor for secondary market operation. Within the short period, the market boomed and many primary issues were also made. This boom, however, did not last long and both the index and the volume of transaction fell down after 2051 B.S. the scenario has not turned optimistic so far. In this situation it is useful to analyze to growth trends and assesses the strength and weakness of the Nepal Stock Exchange Market.

In term of concept, the growth of capital market is very new in Nepal. It was begun with the floatation of shares by Nepal Bank Limited (NBL) and Biratnagar Jute Mills Ltd. (BJM) in B.S. 1937 under company Act. B.S.1936. No significant attempts had been made in 4-5 year plan to reform the capital market after the establishment of Security Exchange Center (SEC) in B.S 2033 was the first and most important attempts by the government to develop the stock market. The SEC served to promote the primary as well as secondary market for government and corporate securities from fiscal year 2040/41 B.S. although, the growth of the stock market is highly relative to the growth of economy, the shares of corporate sectors in the national economy is still very low due to the legible size of the corporate sector.

The incorporation of Securities Board Nepal (SEBO/N) under the securities exchange Act 1983 and conversion of the SEC into Nepal Stock Exchange (NEPSE) under the Government policy on capital market reform has greatly contributed to the development of primary as well as secondary market for the corporate securities to rise. The stock prices and the market liquidity for corporate securities were observed immediately just after the one year of the incorporation of the SEBO and the NEPSE.

As democracy established in 2007 B.S, the interim Government was much busy in advising the measure to recognize the sick industries and gave little attention to initiate the development of stock market. In 2047 B.S, Reform programs were initiated by the Government to cover almost all the sectors of the economy including trade, investment, fiscal and monetary policies as well as financial and capital markets.

The contribution of primary market to company financing is direct in the sense that it provides additional funds to the companies either for starting a new enterprise or expansion or diversification of the existing one. Before the establishment of security market center, the cases of the new issues were very few. Before the establishment of NEPSE, the issue management activities were undertaken by issuing company themselves. The total market capitalization of listed companies almost doubled to Rs.366.24 billion during the fiscal year 2007/08 as compared to the year 2006/07 B.S. (*NEPSE; 2007/08: 24*) .The central Bank directives to increase the capital to increase the capital based of Banks and financial institutions has the major impact on the market value of listed shares. The issue of capital in primary market is regulated by the securities board. After few months, securities are listed in the stock exchange.

The secondary market plays an indirect role to transfer the ownership of capital. The existence of secondary market provides intuitional base for continuous sale of

securities, and to that extent, lend liquidity and marketability, and play an important part in the process. The secondary market which provides an institutional mechanism was very poor in terms of adequacy, transparency, regulation and gearing to investor protection. After the establishment of NEPSE some improvements were observed. Among them are prescription of norms of intermediaries like brokers in trading/settlement, and the organization of the Board of Stock Exchange with participation from Stock Exchange membership investors. The performance of secondary market shows gradual improvements in terms of number of listed companies, market capitalization and number of shareholders. The listed company which was recorded only 31 in 2043/44 increased to 115 in 2057/58. By the end of chaitra 03, 2009, the numbers of listed companies were 157. For the period between 2048-2058, the public limited companies registered with the company registrar's office were recorded at 638 which were large in size and it is on the trend of increasing.

1.2 Statement of the Problem

Nepalese capital market is very small in comparison other developed stock market. There are few members of broker, limited member of listed companies, and very few transaction of share. In Nepal only one stock market i.e. NEPSE so that the investor does not gain the arbitrage opportunity.

Basically, the problem of stock market in Nepal are limited no of listed companies, small capital market and inefficient market, lack of proper rationalism of investors , lack of appropriate information as required time frame ,incorrect trading system because few investor can affect the whole capital market etc (*SEBON; 2005: 51*).

Stock market is affected by political changes and with this change up and down in the share prices. Due to lack of coordination investors, shareholders and any other interested people cannot take information, news perfect knowledge of the

company. At this situation investor are attracting in bonus share right offering than dividend. On the other hand investors invested in the securities without analysis of financial performance of the company. Stock market is centralized only on the Katmandu valley. So , in the out of valley the investors has not sufficient knowledge about the stock market and limited number of investor and the major problem of the stock are lack of institution of investment consultancy more gap between real and market price of share (*Manandhar; 2004:39*).

The regulating and monitoring body of the market is unable to make the appropriate policy for the development of the stock market. Few person or investor may be able to influencing the whole share market with the hike and liquidity and the secondary market left the positive and impact on the capital mobilization in the economy. However this upward movement in the stock value did not remain for long. In our market ordinary stock is the maximum proportion of the capital structure other debenture and preface share are low used in the capital structure but derivative securities, right option, warrant, future contract, forward contract are not used in Nepal The development of stock market in Nepal is both challenging and difficult. From the view point of number of share transactions, public interest towards stock markets the trend of the price movement information system etc. indicates the low performance of stock market. Long with this the problem like law as strong professional analysis independent buyer and seller, trained manpower and management delay in transfer of shares, rational investor exists from Nepalese stock market. Because of the embryonic nature, Nepalese stock market is not efficient enough to evaluate the price of the stock (*Shrestha; 2008:12*). The study deals with the following issues:

- i. Are the investors rational about the stock market?
- ii. Does the trading system of NEPSE is correct?
- iii. What is the investment trend of Nepalese stock market?
- iv. What is the problem of Nepalese stock market?
- v. Does the information are available?

vi. What is the price movement of five listed commercial banks?

1.3 Objective of the Study

The general objective of this study is to assess the challenges and possibility of primary and secondary stock market in Nepal. The other specific objectives of this study are as follows:

-) To specify the state of primary and secondary market.
-) To identify the challenges and possibilities of primary as well as secondary market.
-) To assess the past and present behaviors of business operation in Nepal Stock Exchange Market.
-) To provide suggestions on the basis of findings.
-) To examine the investment trends of securities.
-) To evaluate the problem and prospects of securities in commercial bank.
-) To analyze the daily price movement of listed commercial bank in Nepal.

1.4 Importance of the Study

Stock market recognizes the situation of economy. When stock market is booming, the economy is good and when the market is declining, the economy is bad. It also represents the countries policies towards industries. Policy is formulated by regularized rules and regulation between different Act and Niyamawali (rules and regulation). This study is needed to find out the challenges and possibility in the near future regarding What polices can be formulated, what regulatory acts are needed and necessity of any amendments if necessary regarding the rules and regulation to develop the capital market and make the market perfect functioning.

It is needed to find out the views of potential investors and Government and other financial institutions about the related organizations. Similarly, it is needed to study about AGM held by organizations and disclosures of them.

The standard is one of another element for the stock market development. Financial statement should be maintained according to the need of various stakeholders which fulfill the requirements and need of related parties' regarding stock market information.

1.5 Limitation of the Study

This study is done for the fulfillment of the Masters Degree of Business Studies (MBS), so it is not a comprehensive study and it focused to analyze certain aspects of primary and secondary stock market in Nepal. Every study will not free from some obstacles. So the research study has also obtained some limitations which are given below:-

-) As the study is only concern to stated share of commercial bank so the result cannot be thoroughly in overall investment in securities in Nepal.
-) The study is limited only to the investment trends problems & prospects of the stock markets.
-) The study is competing with in the limited & covers 7 years (2000/01 to 2006/07) only.
-) Time finance & authentic information are also the major limitation of the study.
-) The study is only based on 5 listed commercial Banks.

1.6 Organization of the Study

As discussed in the previous section, this study intends to find out the challenges and possibility of primary and secondary stock markets in Nepal. This study has been organized into five chapters.

Chapter – I Introduction

The first chapter deals with introduction, problems of the study, objective of the study, limitation of study, importance of the study, organization of the study.

Chapter – II Review of Literature

The second chapter consists of review of literature. This chapter is subdivided into various sections such as conceptual framework, review from different studies, review from journal and article and review from thesis for the concerned topic.

Chapter – III Research Methodology

The research methodology, third chapter presents the methodology adopted for the research. It comprises research design, sources of data, methods of analysis and its descriptive presentation.

Chapter – IV Data Presentation and Analysis

The fourth chapter deals with the techniques used in analyzing the collected data and its descriptive and analytical manner.

Chapter – V Summary, Conclusion and Recommendations

The last topic consists if summary, conclusion and recommendation about the topic concerned.

Reference books, magazine, news paper, previous dissertation is shown under the bibliography documents reviewed and some questionnaire separately shown under appendices.

CHAPTER - II

REVEIEW OF LITERATURE

This chapter deals with the review of related studies and diffident aspects of the topic “Challenges and possibility of primary and secondary stock market in Nepal” in more detail and descriptive manner. In the context of Nepal, there is not any social research studies have been available regarding the stock market behavior and decision making while investing in securities.

Generally in this study there are two part, first part is the conceptual review and the another part is the Review of previous studies, various books, journal, published and unpublished documents such as: articles, some research reports prospects of the particular selected listed companies are consulted and reviewed.

2.1 Conceptual Review

It works as a theoretical framework in the field of research. All the basic knowledge requires in the field of research can be cleared from the conceptual review. The growth of stock market and its regulation is not so old in Nepalese context. The investment sector is getting flourish in recent years as other economic sectors, most of the development countries boosting the economic activities by the help of these investment sectors. The present condition of the countries shows that any types of global activities are influencing most of the investment sector. The incident in one corner of the world recession many developed countries have been facing the problem of economic crisis as a result the top companies cutting the employees. Many Nepalese who have gone to earn money are also returning Nepal that seriously affects the outside remittance income which is the main base for economic development of Nepal. The concepts of those required basic knowledge are as follows.

2.1.1 Capital Market

Capital market is such financial market where long-term securities are transacted. It is also called long-term financial market. In the capital market in which financial assets with a term to maturity of typically more than one year are traded, government and corporations are issued the long term securities. Generally capital market mobilized the national saving fund and issued the shares, debenture, and bonds of organized corporation.

“Capital market means anybody or individuals, where incorporates or not, constituted for the purpose of regulating or controlling the business of buying and selling or delaying in securities” (*Bhalla; 2004:21*).

“Capital market deals with financial assets or securities. Securities will be fairly priced in the capital markets if they are efficient. Capital markets are considered to be efficient if the prices of securities reflect the available information. Depending on the extent of the information being impounded in the securities reflect the available information.

Depending on the extent of the informant being impended in the security prices, capital markets may be efficient in weak semi-strong or strong form, capital market consists of two components the primary capital market and the secondary capital market” (*Pandey; 2007: 430*).

The Nepalese capital market in open market securities is in its infancy stage the government established security marketing centre in 1976. And enacted securities exchange Act in 1983 to promote and regulate the market of open market securities. Then after, the center started secondary market operation by listing corporate securities. In a bid to activate the capital market the government massively amended the Act, constituted security exchange board, and converted securities exchanges center into Nepal stock exchange with these superstructure

facilities Nepal stock exchange now provides full fledged secondary market. As of mid-July 1994, it operated with the help of 6 market makers and 25 brokers and listed Rs. 2182 million worth of securities paid up value of listed securities of 66 listed companies (*Shrestha, Paudel and Bhandari; 2003: 42*).

Capital market is “An ideal market where funds are available at reasonable rate of return for any proposition which offers a prospective yield sufficient to make borrowing worthwhile, given rate for any proposition which offers a prospective yield sufficient to make borrowing worthwhile, given the rules and rates of interest” (*Vaidya; 2001:164*).

2.1.1.1 Primary Market

The primary market is that market where newly issued of by the company or primary issue of securities traded for the first time. In other words primary capital market is a instrument for the sale of new securities. New or listed companies may make the public issues of shares. The initial public offering (IPO) is the public issue of securities by new companies for the first time.

“A primary market is the place where corporations and government issue new securities. All securities, whether in money and capital market are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefits from an issue i.e., the company actually receives the proceeds from the sale of securities” (*Bhattacharai; 2006:11*).

As in everywhere else there are three parties involved in primary market of securities in Nepal. They are (1) Securities issuing companies /government, (2) Securities buyers /investors and (3) Issue manager performing the functions of merchant bank. The government and public limited companies issue securities. General public, for profit and nonprofit organizations are the buyers /investors of

securities and financial companies licensed to carry out merchant banking activities (work as manager of issue in Nepal) (*Shrestha, Paudel and Bhandari; 2003: 29*).

2.1.1.2 Secondary Market

The secondary market is that market where existing outstanding securities are bought as sold. In other words the second time issue of securities is called secondary market. Secondary capital market deals in the second hand issue securities stock exchanges are secondary markets where buyer and seller trade in already issued securities.” The secondary financial markets are the market where many already outstanding financial assets are traded from old to new owners. The secondary market provides liquidity for financial assets making them more attractive. So secondary market is the places where securities once sold are purchased and repurchased to provide liquidity to the Government securities and the secondary market is operate by Securities Exchange center. Securities Exchange Center in order to promote the market, used to support the market even involving it’s self in buying and selling activities, of necessary” (*Pradhan; 2003: 5*). A stock exchange provided the following useful economic functions:

-) Help determining fair price based on demand and supply force and all available information.
-) Provide easy marketability and liquidity for investors.
-) Facilitate in capital allocation in primary market through price signaling.
-) Enable investors to adjusting portfolios of securities (*Pandey; 2002: 424*).

2.1.2 Securities

The terms security will be used to refer to a legal representation of the right to receive prospective future benefits under stated condition. The primary task of security analysis is to identified mispriced securities by determining these prospective future benefits, the condition under which they will be received, the

likely hood of such conditions. There are major securities of capital structure are as follows:-

a) Ordinary Share /Common Stock

Common Stock of a company are papers which represents ownership shareholder enjoy right to dividend, right to vote and right to right shares.

b) Preferred Stock

Preferred stock given a fixed income security, so it is a fixed income security. The preferred stock holder gets first priority for dividend and liquidation right. But after priority bonds and debenture holders, preferred holder has no voting right except same special condition.

c) Debenture /Bond

Debenture gives a fixed interest instead of investment on debenture or bond, according to the length of maturity, debt securities are classified into two classes i.e. short term debt security and long term debt securities. In the short term debt securities, there is commercial paper, certificates of deposit, banker acceptance, T-bill etc. In the long term debt securities are government securities, corporate securities, municipal securities etc.

2.1.3 Major Problems Faced By Nepalese Securities Market

At present there are many problem faced by the Nepalese securities market. In Nepal, the commercial Bank provided low interest rate in deposit its direct effect the economic development of Nepal because interest rate and inflation rate is the main variable indicator of the economy. In Nepal inflation rate is higher than interest rate as a result saving has decreases and production and GDP also Decrease. On the other hand, Nepalese capital market is very small and only one stock market so there is no arbitrage opportunity and investor has not sufficient knowledge to investment on the securities.

There are not enough public issues to meet the demand of all retail investors. The performance of the companies which have gone to public for using capital are also unable to meet the expectations of the interest as in the sense that they are unable to provide the minimum acceptable rate of return to the investors. If we analyze the present status of securities market of Nepal almost every public issue has been oversubscribed during 15 years. It shows the well coming response from retail investors but it can also be interpreted as the sufficient knowledge of investor about the capital market and the main problem faced by stock market are as follows:

1) Lack of Appropriate Rules and Regulations

Due to the lack of appropriate rules and regulations affect the stock market in Nepal. The security Laws are unclear and inadequate from several aspects. Process and procedure for enforcement and investigation in securities legislation are not clear this restricts the regulator from correcting the unethical and unfair market practices.

2) Lack of Political Stability

Political instability creates the Negative Environment to the investors. So in which country there is political instability. In that situation there is more fluctuation on share price.

In Nepal there is suffering from poor law and order situation, killing, terror, hike and violence obstructed the regular movement of the activities of the government. Due to this reason the investor's desire and expectations has been changes to investment on the securities.

3) Lack of Institutional Support for Training the Qualified Manpower

Stock market is more dynamic market than other market so well trained, brilliant and hard working staffs are request for the successful operator of stock exchange and the other hand less institutional support for training to qualified manpower.

4) High Cost of Public Issue

Cost of public issue (i.e. underwriting cost advertising printing and other expenses, collection and refund charge and issue management commission) is relatively high in Nepal as compared to neighboring countries the aggregate cost of public issue is 0.34% at minimum and 24.25 % at maximum of the issued amount in Nepal and this cost is 7.10% or at minimum and 10.30% at maximum in India (*SEBO Journal, Oct 2005: 51*).

5) High Transaction Cost

Cost relating to secondary trading of securities is taken here as transaction cost lower the transaction cost higher the return to the investors on securities trading and vice versa. Competent transition cost is incentive to increase volume of share trading low transaction cost helps to stabilize securities market by reducing volatility in price thereby provide investors a safer place to invest.

6) Lack of Accounting and Auditing Standards

In Nepal due to the poor Accounting and auditing practice that do not show the real picture of corporate sector this do not allow informed investment decisions in the securities market. Nepalese Accounting and auditing standards are yet to be effectively implemented by empowering the regulators and creating required awareness in the corporate sector

7) Lack of Efficient Tax Policy

There is a need to rationalized tax policies towards capital formation, to encourage the private sector secondary market transactions. There is the high level of taxation of transactions executed on the stock exchange. Stock brokers pay one third of commission earned in the form of transaction taxes or fee to the NEPSE. In most emerging markets, transaction cost to Investors taking high transaction cost and capital gains in order to encourage basic trading. High transaction cost and capital gain taxes discourage investing in the stock market and tend to reduce

market liquidity. Another way, tax offices have wide discretionary powers and this leads to reluctance on part of companies to published objectively audited accounts which in turn deprives the investors the essential basis for judging such company. In the absence of true information investors are reluctant to invest in the share of those companies. So, unsuitable tax policy also is one of the problems having in the Naples capital Market.

8) Insufficient Knowledge and Information Problem to the Investor

The regulatory authority role to educate general investor on securities market is also not sufficient most of all small investors do not know when and how to sell and buy their shares . They do not know how the stock market functions what should be their return whether their company is functioning satisfactory or not etc.

On the hand, the main factor affecting to the share market is the lack of information at timely and properly. Though, NEPSE is publishing annual report, trading report and financial information of listed companies it has not been so transparent and most of the times these have been found incomplete for public purpose. Thus the lack of stock market statistic has also infinite squeezing the turnover level as well as slow growth of Nepalese stock market.

9) Low Capital Formation

Capital is like a life blood of the every business. Capital is needed to smoothly operation and developing the business. In Nepal there is slow formation of capital it required for investment in business is raised from capital formation. The capital is formed from the saving of the people. Nepal being an underdeveloped country with 90% of the population dependent on agriculture has too low income to make sufficient saving. Event the saving are spent in unproductive activates rather than in commercial or industrial activities.

Thus, due to the low saving and hence low capital information the primary market could not develop in Nepal

10) Limited Market

In Nepal, around 90 percentage of the total population depend on agriculture and the rural area of the country more than urban area. Due to these report the market of securities is limited in urban area. Here is only one stock market (i.e. NEPSE) therefore; the investor would not gain arbitrage opportunity from the market. There is a major problem of stock market in Nepal.

11) Inadequate Infrastructures

Infrastructure is also a major problem faced by Nepalese stock market. Since, major parts of the country is cover by the hilly region ,good roads ,school ,college, postal service and communication and transportations facilities are not available easily in that area. Due to the inadequate infrastructure efficient communication, transportation, different resources, trading place those who wishes to invest in stock market also cannot do properly

2.1.4 Prospects of Nepalese Stock Market

Capital plays a vital role in the economic development of a country. Being a capital deficient country, Nepal has to make every endeavor to mobilize available capital efficiently secures markets provide mobility of the scattered saving Retail investors with limited capital fund could also participate in the industrial development process of the country through their investment in the securities. However, both individuals and institutions are putting most of their saving into bank deposit and bullion market because of the present state of the security market. Thus, long-term saving that should be invested in the securities markets are going into short term investments. Presently, stock exchange facility is available only in Katmandu valley. Hence, there is a scope of expanding this facility in other region of the country. Privatization of public enterprises such as

Nepal telecommunication, corporation, Nepal Airlines and other public enterprises using share sale made of privatization as announced by HMG/N In the budget speech of F.Y.2003/04 could provide a huge investment opportunity in the securities markets (*SEBO, Journal, June 2004:78*).

Strategic Plan Launched By SEBO

With the objective of carrying out the market development activities in a planned way, SEBO has brought the five years strategic plan (2002-2007). The strategic plan will help for the improvement in the legal and regulatory framework of the capital markets. The major strategic plans are as follows:

-) To modernize the security market.
-) To make effective regularity system of security market.
-) To increase and expand the capital market through the proper allocation and operational efficiency.
-) To make transparent and the viable to the security market system.
-) To increase the depth and breadth of security market.

The Electronic System of Trading

NEPSE has launched a computerized technology so that all transaction and related activities are done by software and online trading. It helps the efficiency of share transaction in stock market. It also the major prospects of stock market in Nepal.

Investment on Tourism and Hydropower Sector

Tourism and hydropower sector can be the backbone of Nepal's economic development. Hydropower projects, in particulars are long term investment projects and Nepalese banks which normally lend for short term purpose; cannot be a suitable source of financing. Hence the issue of debt securities for this purpose could provide a strong dynamic for the development of the securities market in Nepal.

Facilities to Entry and Exist of Securities Business Person

Corporate bodies willing to operate securities business such as issue manager, stock broker, share register etc. have applied for SEBO's permission. However there is a lack of clear provision in the prevailing securities legislation regarding the entry and exist of securities business persons. So, necessary provision has been incorporated in the proposed security exchange act. Besides, initiatives to facilitate the entry and exist process being taken under the framework of present securities legislation. This is also one of the gates for the development of Nepalese stock market.

Growth of Stock Market Indicators

Generally, in Nepalese stock market, its indicators are increasing in yearly figure. NEPSE Index was 226.03 in 1993/94 and it was 683.95 in 2006/07. Currently, NEPSE crossed 1224 at Nov. 2008, it was indicates that the potentials of development of stock market in Nepal is very high.

Opening of OTC Market in Nepal

Currently, the OTC market is open for security exchange in Nepal. The SEBO/N has provided authority for the operations of OTC market on 27 may 2008. It has been operating from 4 June 2008. Forty companies are delisting which is exchange in OTC market, but not listed in Nepal stock exchange. It also may be prospects of the Nepalese stock market.

2.3 Review of Existing Rules and Regulation of Capital Market in Nepal

- Securities Exchange Act 2040 is the main law to regulate the securities market in Nepal. This act has been amended 3 times within the 13 years of its history. The 3rd amendment took place recently. Under this act, securities Exchange regulation 2050 and membership of stock exchange and transaction By-Law, 2050 have been formulated and enforced.

Recently both regulations as well as By-Law have been amended to suit the changing environment of the securities market.

- Company Act, 2011 have been replaced by new companies act, 2053 with a view to make simple transparency in formation, operation and administration of the companies. Various formats related with articles and memorandums of association, prospectus, and application form for purchase of shares, balance sheet and profit and loss account have been prescribed.
- Security investment trust act, 2053 have been formulated and enforced for the operation of trust funds such as mutual funds and unit funds.

A) Major Regulating Agencies

The Government agencies, viz. Securities Board, Company Registers' Office and Nepal Rastra Bank are involved in approving and registration of public issues. Through securities Board is the only regulatory body in securities market to supervise and regulate the overall functioning of the duplication of works. Here, how all these three bodies work in approving and registering the public issue are elaborated.

B) Securities Board

Securities Board is empowered by Securities Exchange act, 2040 for the development of capital market, protection of investors' interest, approval of stock exchanges, regulation of market intermediaries, secondary and primary markets, mutual funds and investment awareness programs for various interest groups.

When prospectus is submitted for the registration purpose, vetting is done by the securities board and if disclosures in the prospectus are found adequate then Board Registers the securities to be issued in the public and grants permission on it.

C) Nepal Rastra Bank (NRB)

NRB, the central bank, approves when public issue is proposed by Banks and finance companies. It also gives permission to issue debentures in the public along with the approval on interest rate on debentures and bonds. Under NRB Directive Bank and finance companies are required to issue shares equivalent to at least 30 and 40 percent in both situations of they have foreign joint venture stake. But while in debentures and bonds issue NRB get assured, by vetting the prospectus, about the size of the issue, interest rate, collateral and repayment of the loan.

D) Company Registers' Office (CRO)

Company Registrar is only agency where companies are registered monitors the operations of the companies and makes arrangements for winding up of the companies when required. Approval on prospectus is granted by CRO only. Before granting approval it obtains the advice/opinion from securities board and for banking and finance companies opinion/advises on prospectus is taken from Nepal Rastra Bank too.

E) Nepal Stock Exchange (NSE)

While issuing securities to the general public consent should be obtained from the NSE. For this issuing companies and issue managers are required to submit the prospectus. In the meantime before concluding agreement along with the 5% of commission amount should be forward to the NSE. This is applicable for underwriting arrangements too.

F) Insurance Board

When a public issue is made by an insurance company insurance board also performs the vetting of prospectus as it is done by NRB.

G) Concerned Ministers of Nepal Government

The companies which are incorporate by special acts are required to get approved the prospectus from concerned from concerned ministers. For example, companies such as NIDC, Citizen Investment Trust (CIT) and Rastriya Beema Sansthan (RBS) are under the preview of minister of Industry and Minister of Finance. Thus prospectus of these companies is required to be approved from Ministry of Industry and Ministry of Finance instead of Company Registrars' office.

2.2.1 Review of Company Act

Before the amendment in securities Exchange Act and securities exchange regulation market makers were permitted to provide issue management services. In other words, one of the functions of market makers was to provide issue management services. However, this scenario has been streamlined by second amendment in securities exchange act and regulation by providing separate class of membership in Nepal stock exchange ,viz. security dealer (primary market). As per the company act 2053 all the companies are required to appoint issue managers for raising capital from the general public allotment and other related matters.

i) Appointment of Issue Managers

Issue managers are appointed by the share issuing companies. There are the NMB, CIT, NIDC, ACE Bank ltd. are actively working as the issue management activities. Issue managers are required to analyze the issuing company every respect and should be prime face, self assured.

ii) Capital Based Requirement

The total capital base required to eligible for markets and securities dealer is Rs.15 million as paid up capital. License for market making and securities dealer is issued to corporate bodies only. Securities dealers are categorized into two, viz.

securities dealer (primary market) and securities dealer (secondary market). The role of securities dealer is confined to provide and post issue management services, underwriting services and other related services.

iii) Preparation of Prospectus

Preparation of the prospectus is guided by company act 2053 new issue guidelines of securities board and securities listing bylaws of the Nepal Stock Exchange. Company act 2053 have prescribes the format of the prospectus. Following 26 items are to be contained in the prospect.

- Objective of the company and main clauses contained in the memorable and articles of association are available.
- Minimum number of shares to shares to be subscribed to be the director and salaries, allowance or remuneration fixed or then.
- Particulars regarding remuneration or prize paid or to be paid in cash to promoters or directors or directors of the company.
- Arrangement regarding bonus shares.
- Arrangement for reservation of shares for shareholders, employees or for any others.
- Introduction of directors.
- Reasons and justification of shares are to be sold at premium to general public.
- Representation arrangement in board of directors from the general public.
- Minimum number of shares to be subscribed and advance payment amount for the shares.
- Reasons if loan has been raised by issuing debentures and number of debentures redeemed and outstanding loan amount.
- Brokerage charges on shares and debentures.
- Inherent economic risk factors in company activities.

- Financial arrangement and net worth of the company after adjusting all the liabilities.
- Name of the auditors and audit reports if any.
- Time when allotment of shares is to be published.
- Brokerages chares to be received by trust for being trustee for the transaction of securities, of any.
- If shares are being underwritten particulars for the same and commission for the same.
- If directors or promoters have any amount belonging in property purchased or to be purchased by the company, and the particulars regarding if promoter or company, the details of the same.
- Name and address of the institution where securities are translated.
- Name of the shareholders who have subscribed more than five percent of issued capital.
- Terms and conditions for preference shareholders (*SEBO; 2005: 12-25*).

2.3. Review of Journals and Articles

Various related studies have been found in the field of share market in Nepal. There are as follows:-

2.3.1 Review of International Studies

Researches studies have been done internationally on the stock market. Some of them are as follows:-

Ross Levine (2003) in his article “*Stock Markets Growth and Tax Policy*” published by Blackwell publishing for the American finance Association. He explains that this paper addressed the question: how does trading of financial assets and tax policy affect economic growth? The paper examines a model in which liquidity and productivity risk elicit the creation of a stock market & studies

how the resulting stock market changes the incentives of investors in ways that alter steady state growth rates. In particular, stock markets accelerate growth by (1) facilitating the ability to trade ownership of firms without disrupting the productive processes occurring within firms and (2) allowing investors to hold diversified portfolios. Stock market arises in this model to help agents manage liquidity and productivity risk, and in so doing stock markets accelerate Growth. In the absence of financial market firm specific productivity shocks may discourage risk adverse investors from investing in firm's stock market, however allow individuals to invest in a large number of firms and diversify against idiosyncratic firm shocks. This raises the fraction of resources allocated to firms expedites human capital accumulation and promotes economic growth.

Cecil L. Dunn (2005) in his articles "*Problems of the Postwar Capital Market*" published by stage publications, Inc. In association with the American Academy of political and social science, he had recommitted that the capital market are as follows:

- The creation of voluntary, community – sponsored business financing corporations on the pattern of the "Industrial foundations" should be encouraged a major function of these agencies should be the position of a meeting grown for investors and business in need of funds. The contacts between such parties should be uniformly drawn with their major provisions subject to the decision of the agency. The existence of this service should be widely publicized and every effort should be made to draw the attention of investors to local opportunities.
- Banking institutions should make avoidance research advisory and management service which will permit them to liberalize lending with little hazard to liquidity.
- Banks should create Joint insurance funds in a form somewhat like a credit pool to permit the liberalization of lending practices especially with

respects to term and installment loan.

- The question of publicly financed and managed agencies should be made the subject of further study to be undertaken in the light of the success of the voluntary measures purposed and in consideration of the probable effects of pending federal legislation to extend the lending service of the reconstruction finance corporation to equity investments in small business.

Ziemba and Schwartz (1991) in his article "*The Growth in the Japanese stock Market, 1949-90 & Prospects for the Future*" he has highlighted the growth of Japanese stock market more than other stock market of the world. He had found that the end of 1988 market share to be: united states, 32.6% Japan, 39.0% Europe 22.2% and all others 6.2% therefore Japan's market share is still larger than that of the united states but by not as much.

Europe is share increases only slightly because many of the major European market's also have large cross holding that are nearly as large as those in Japan. The two economic in the world that seem to be doing best today, Japan and Germany, both have very large cross holdings. This effect on the resulting business practice leads to better relationships, product quality, sales and long – run profits.

The Indicator of stock market reflects the development of an economy it is important to predict the course of national economy because economic activity affects the corporate profits. Investor attitudes, expectations & ultimately securities price. The key for the analysis is that overall economic activity manifest itself in the behavior of stock price or the stock market .This linkage between economic activity and the stock market is critical.

2.3.2 Review of Nepalese Context

The future of NEPSE hinges on the economic policies of the government. The government has to spell out clearly what policies it will follow. For instance when there was a talk that the Maoists would adopt us socialist type of economy it had a negative reaction type of economy. It had a negative reaction in the stock market. When government policies are not clear investors will adopt a wait and watch mode which not good for the economy. An investor needs to feel secure of his/her investments within the last decade a strong foundation for a liberal economy has already been laid and trying to break that will push us further down the drain.

The major drawbacks of NEPSE are as follows: - One major drawback is the absence of central depository system (CDS). What is happening at present is that according to regulations we are suppose to transfer ownership names on to share certificate within 15 days but in reality it takes two to three months. Another drawback is that NEPSE has not been able to act as an economy barometer because it is mostly concentrate with financial institutions. And next is ratio of trading turnover to market capitalization has not gone over 5 percent which should have been 40 to 50 percent for a developing market. And the other hand when we looked at our annual trading to GDP, it is only one percent which should have been at least 25 percent. Lastly, with the professionalism of stock brokers who are mostly concentrating in taking fees for transaction, they should be counseling investors too. Also, the number of brokers has gone down. The lack of institutional investors has hindered the growth of stock market (*Manandhar; 2004: 19*).

The factors which helped to push the NEPSE, which are as follows: First, more than 90 percent of the market is dominated by banks, finance companies and insurance companies and the financial performance of these companies is continuously improving. Second, the stock market is totally concentrated in the Kathmandu Valley and the people fee safer in this area. So the people have feel safer to invest in the stock market. Third, the Nepali stock market has no impact

from the situation out of the value. If there is some such effect the people who had their investment in the assets outside the valley have diverted in to the stock market in the valley. Fourth, the buying and selling pressure in the market is totally dependent on the valleys limited investors. Fifth, there is the diversion of the investment from gold to the stock market. Lastly, as the opportunities to invest in other sectors are limiting, the people are increasing investing in the stock market (*Gurung; 2004: 23*).

The primary and secondary stock markets are gradually improving in Nepal. There is a growth of both market in terms of various indicators such as number of new issue companies, volume of new share, volume of shares, no of listed companies, capitalization, no of shareholder, however with in the short period, stock market faced with both boom and bearish trend (*Shrestha; 2005:28*).

The empirical results shows that the stock market has not been developed us enough to effect and push development of various sectors of the economy. Lack of promotion and expansion of economy the stock market is in infancy stage. It means the Nepalese stock market is still small and capture limited sector of the economy. Therefore the result is consistent in Nepalese context that increase in GDP pushes capital market to enlarge and expand (*Shrestha; 2005:28*)

The NEPSE index that was 494.59 points in mid April 2007 went up 78% by the beginning of the October 2007 and it is approaching 900 marks. Increasing expectations of the investors towards the bonus and right share from the financial institutions are pushing the market every day. Due to this, the investors are not heeding the warnings issued by the regulations. They are not caring about the current fluid political situation either furthermore; the bull-run is leveraged by the automated trading system and manipulation by the well known but not declared market scandlers. The automated trading system has enable the broker to increase

the market by quoting the market price in the maximum range and executing the transaction in a small no of shares, thus creating an artificial scarcity of the shares (*SEBON; Oct2007: 46*).

At present retail buyer are increasing pushing the index up. The new investors should be very careful not to be fooled .meanwhile, Security Board of Nepal (SEBO/N); issuing a press statement has urged the investors to be very careful while investing “Be careful of the noise creators who can mislead.” States the press note. Investors might find themselves on the road over night, if they do not look at profit and loss account management, income per share, book value, risk factor and financial health of the company, warns the board, the regulatory authority of the capital market (*SEBO Annual Report; 2008: 47*).

Thapa (2008) in his article “*Problems and Prospects of Nepalese Stock Market*” said that the organized transaction of Nepalese share market has started since 2050. Considering the development of share transaction, it is heading towards the right direction like the country’s economic development. The country’s development of Nepalese share market is also new. After the success of second democratic resolution, the investors are quite optimistic towards the share market. The countryside people awareness regarding right share issue of agriculture development bank is one good example of it.

The current share issued by sunrise bank limited. The bank collected the total application amount of 10 billion rupees which is 26 times greater than the issued from four hundred thousand applicants. The NEPSE index which was maximum of 388.49 in Ashad 2065 has increase to 1128.30 on 22 Shrawan. This proves that the new player are attracted towards Nepalese share market.

In the current situation different economic indicators have been failing, the unpredictable increase in share market are due to following causes:-

1. Out of total stock transaction, the 80% transaction are covered by banking and financial sectors. This proves that only the number of financial institution is increased. The country's economic development of red productive sectors but these sectors are not developed rather only the number of financial institution.
2. Due to the lack of sound management of proper regulatory and concerned agencies, the unfair practices done by some handful of limited clots people in the issue of primary share has been increased.
3. The increasing no. of investors who take investment opportunities as gambling without having proper knowledge of share market to conduct share transaction.
4. There are 23 professional license holder brokers and amongst these only few are involved actively in trading of securities. These existing shareholders do not give much priority to small investors.
5. The situation that some big investors who hold large no. of stock of different companies can manipulate the market. They can influence the entire stock market and bring the charge.
6. The buying and selling of securities is still done through the old traditional system which is long and time consuming. Due to the lack of central depository system, effective system of transaction is not being done.
7. The clear, transparent system regarding capital gain tax is still not developed. The tax is deducted from the profit or capital gain earned by the investor but the loss is not adjusted.
8. The rules and regulation are frequently changed by regulatory bodies. This can abuse a psychological fear in the mind of investors and which can create the long term effect and due to the lack of proper coordination the chain effect of direction is reflected either positively or negatively in the stock market.
9. The infuriation regarding accounting system, organizational culture,

auditing report, future plans and policies of some listed companies are not clear and transparent and the concerned regulating agencies are also not following active neither taking nor action to provide the remedies.

10. While buying the stock in secondary market, it is not necessary to disclose the income source due to which the unfair practices done to legalized the illegal income and different strategies followed by some profit oriented organization to increase the property valuation can unnecessarily increase the share price.

To solve the above problems of Nepalese share market, Nepal got security board of Nepal, NEPSE, Nepal Rastra Bank and other concerned institution and agencies have to study to find the effective way to clear out the problem. Nepalese share market is passing through many different challenges and possibilities, Rather than pessimistic towards the continuous fluctuating and inconsistent Nepalese share market. It is necessary to search out scientific, transparent and effective way to find the permanent solution to solve these problems. Everyone from different sectors who are affected by the problem must come under one ground and should united together to solve the problem. Similarly, permanent law, good government, strong political decisions are preconditions to be met such an environment should be created to create the favorable investment climate.

1. The country's pure economic development is reflected by the development of productive sectors. Like hydropower, herbal, medicine etc. the investors should be encouraged to invest in these sector.
2. To control and discourage the unfair practices done by some limited class people. The regulatory and concerned agencies should take necessary step to formulate related rules and regulation.
3. To protect the right and interest of the overall investors. The stock market awareness programmed should be initiated through different means and mediums.

4. The no. of professional bookers should be increased while the bad practices done by some big investors to manipulate the market should be avoided.
5. To protect the interest of some small investors, mutual fund should be developed.
6. The central depository system should be developed to systematized and modernize the share market regarding some listed companies. The effective system should be developed to provide the information regarding the accounting system, organizational culture, auditing practices and strategies in a clear and transparent way. Similarly the related agencies have to regularly monitor and control the activities of the organization.
7. With the coordination of related concerned agencies. The regulatory body should issue rules and regulation to facilitate share transaction but while doing so the regulatory agencies should not be demanded.
8. The practical polices regarding sale and purchase of promotional shares and its ownership transfer should be developed. The clear and transparent scientific system regarding capital gain and scientific system should be developed.

2.4. Review of Thesis

There are many thesis prepared by various researchers in the past year. Among them, some thesis is reviewed for analysis of literature:-

Rishi Khanal (2003), in his thesis “*Growth Problems & Prospectus of Stock Market in Nepal*” shows the major objectives are as follows:-

- To study the growth trend and current position of stock market in Nepal.
- To find out the existing problems faced by the Nepalese stock market.
- To examine the sector- wise financial status of stocks in Nepalese stock

market.

- To analyze the prospectus of Nepalese stock market.
- To suggest improvement in stock market of Nepal.

The analysis of this study based on both primary and secondary data. He had taken the whole stock market as a sample and he had taken the different tools: GDP, Interest rate, inflation, trend analysis etc.

After this study he found the following conclusions:-

- The aspect of the liquidity in the stock market is not functioning well in Nepalese stock market. There is almost no liquidity in the stock market for shares except that of banking and some financial and insurance sector.
- The manufacturing sector do not have good performance in Nepalese stock market due to the reasons of all firms in this sector have sustained loss.
- The investors are interested to invest their resource in the shares of corporate through the stock market in the Nepalese economy.
- Nepalese stock market is the infancy stage and NEPSE is the only one institution in the country.
- Transparency and openness of transaction, quality professional services, adequate corporate financial disclosures and improved legal, regulatory and supervisory frame work are the urgent needs of Nepalese stock market.
- Investors' confidence in Nepalese stock market relatively low because of stock market volatility, low return in investment, inadequate information, lack of financial market instruments.

He makes the following major recommendations:-

- The number of staff should be adequate and properly trained in all aspects of securities market.
- The government should formulate appropriate policies for improving the environment for private sector development for efficient mobilization of

saving through the stock market.

- The government should allow foreign investors to invest in Nepalese capital market.
- The bodies of SEBO should developed public awareness and investor's education program.
- There should be efficient coordination and cooperation among DEBO/N, NEPSE& NRB In order to develop the stock market.
- The NEPSE should be computer based technology in trading system.

Ramesh Timilsina (2007), in his thesis "*Investment Trend of Securities in Nepal*" tries to shows the trends of Capital market problem and its impact the economic development in Nepal. He set the major objectives are as follows:-

- To find act investing trend of securities in Nepal of stated commercial banks in NEPSE.
- To find out the problem and prospective of investing securities in Nepal.
- To analyze individual behaviors to take a decision of investing in securities.

The analysis of this study based on both primary and secondary data. He had taken five commercial banks as a sample of total listed commercial banks. He had taken the different tools to analysis like, Trend analysis, Technical Analysis.

After the analysis of this study, of this study, He found the conclusions are follows:-

- The investor is not conscious to take investment decision due to the lack of sufficient knowledge.
- The activity on the stock market and the share price are determined by the excessive speculation, they have little correspondence with fundamentals real performance of the economy.
- Due to the political instability are the prominent factors for the under development of the security market in Nepal.

- Market index reflects market trends and it takes all issues listed on the exchange on the account.

He makes also recommendations are as follows:-

- Investor must be beware about the stock market.
- Investor should read the morning journals as well as daily newspaper for sufficient knowledge.
- The investor should always be aware of the daily stock price and volume traded figure of stock price records published by NEPSE.
- The investors should not “act on whim” and should properly analyze the study the market trends before making their investment decision.
- Investors awareness programmer should be launched the provided with investment guidelines.

Srijana Shrestha, (2008) had research on “*Growth & Prospects of Stock Market in Nepal*” it describes about the growth of Nepalese stock market and its prospectus. The main objectives of her researcher study are as follows:-

- To assess the situation of the stock market in Nepal.
- To analyze the growth trend of Nepalese stock market.
- To evaluate the problems in Nepalese stock market.
- To examine the sector wise financial status of stock in Nepalese stock market.

The analysis of this study based on both primary and secondary data. She has taken five commercial banks as a sample. She has taken to analysis the different financial tools i.e. trend analysis, expected return, Standard deviation and coefficient of variation etc. In her study, she tried to find out the problems related to the capital market & current situation of stock market in Nepal. Major finding are as follows:-

- Most of the people use to take guidance from friend rather than stock

broker.

- Mainly investor motives about the return and asserts price appreciation.
- More than 80% people said the information provided by the company to NEPSE is not appropriate.
- Current rules and regulation of NEPSE and SEB O/N are not sufficient to develop stock market.

She makes the following major recommendations:

- Investor must have sufficient knowledge about the securities to invest.
- The trading system of NEPSE should be modernized or computerized.
- Free information about stock market must be available in the market.
- Companies should be maintaining their financial statement structure according to the international accounting standard.
- The government, regulating Authority the stock exchange, listed companies, market players etc should understand their respective roles and play their roles with sincerity.

Research Gap

There have been done several researches in stock market. All of those researches have many fruitful finding and their own limitations too. For example,

Khanal (2003) shows descriptive and diagnostic in its theoretical point of view rather than practical bases. He has done research in stock market growth trend through the NEPSE index, market capitalization and turnover etc. but not used any technical Analysis to show the price fluctuation which is the most important factor for Analyzing the growth/ trend of stock market.

Timilsina (2007) tries to show the trend of stock market including problem but it

is not enough to Analysis the market. His analysis only based on total market like, NEPSE, Index, turnover, capitalization etc but not separately analysis of commercial bank. This is mainly base on investment trend of securities only.

Shrestha (2008) tries to show the current status and prospects of stock market but not analysis of problem related to stock market. Also, she did not analysis of price fluctuation on share price and separately analysis of commercial bank indicator. The main focus in this study is to analyze the growth, prospects and price fluctuation of the main focus in this study is to analyze the growth, prospects and price fluctuation on the stock market. This study helps to analyze the development and improving the stock market also, analyze the price increasing and decreasing trend.

From the above studies, there seem more theoretical aspects than the practical aspects. They do not studied focusing a particular sector like commercial banks, finance companies, trading and so on listed in stock exchange. Their studies do not show the NEPSE index, market capitalization, issued approval, turnover etc. of the commercial bank which is more important in current situation because of the demand, goodwill, confidence and fully faith towards the banking sectors mainly the commercial bank. This study helps to analyze the development and improving the stock market also, analyze the price increasing and decreasing trend.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is the systematic methods of finding solution to the research problem i.e. systemic collection, recollection, recording, analysis, interpretation and reporting of information." Methodology refers the various steps that are generally adopted by a researcher in studying his research Problem along with the logic behind it. Thus research methodology is away to systematically solve the research problem" (*Kothari; 1999: 2003*)

This chapter deals about the research methodology by which the collected data are analyzed to get the result, in this regard, this chapter is carried out to diagnose the stock market activities in Nepal. To achieve the objective, the study has been described as follows:-

3.2 Research Design

This study is carried out to get the empirical result of the stock market. To conduct the study, analytical and descriptive research approach is adopted for the reality available historical data. All the data used in this study are primary and secondary in nature.

3.3 Population and Sample

According to the annual report of SEBO/N 2007/08, there are altogether 142 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 listed in the NEPSE i.e. 17 Commercial bank up to year 2007/08.

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.

- 1) Standard Chartered Banks Ltd
- 2) NABIL Bank Ltd
- 3) Nepal Investment Bank Ltd.
- 4) Himalayan Bank Ltd
- 5) Bank of Kathmandu Ltd

3.4 Nature and Sources of Data

With the fulfilling the predetermined objective that are set up for the study both primary as well as secondary sources are included. The main place of data was the central office of Nepal stock exchange (NEPSE), Security Board office, Thapathali, Kathmandu and economic survey published by ministry of finance. The main sources of data is annual report of SEBO/N, annual report of NEPSE, various bulletins available and useful to the study are also taken into consideration. The research is mainly based on primary as well as secondary data for analysis.

3.4.1 Primary Data

Those data which are collected for the first time for any specific purpose are called the primary data. Primary data gathered by the researcher for the research project at hand collection of primary data is comparatively expensive than the collection of secondary data but they are exactly in the form that the researcher requires.

Primary data are collected through questionnaire and informal interview of the

concerned persons like officer of SEBO/N, NEPSE, banks, brokers and issue manager.

3.4.2 Secondary Data

The secondary sources of data are the annual report of security board of Nepal, Trading report of NEPSE, different books from library, periodicals, newspaper, cutting, company magazines etc. Guideline and unpublished thesis, research work that directly related to financial performance and stock market would from secondary data for the purpose of this study. Significant information is also collected from internet and various websites like www.nepalstock.com, www.sebon.com, www.google.com for this study.

3.5 Data Collection Procedure /Technique

The main required data and information have been collected from the primary as well as secondary data. The primary sources are descriptive, possibly subjective responses from the target group or personnel regarding the prevailing practices about investment. And secondary sources of data are collected from different report, journals, article etc.

3.5.1 Primary Collection Procedure

The primary data are collected from different group of related field like staff of SEBO, NEPSE, Bank, Brokerage firm and issue manager by using questionnaire and interview methods.

Regarding the primary data, 45 questionnaires are distributed among them from SEBO/N there are approximately 50 staffs but 10 staffs are taken as a research sample. Similarly from NEPSE there are approximately 100 staffs and 15 staffs are taken as a research sample. Accordingly from banks, from brokers and from issue manager there 17 commercial bank, 27 brokers and 9 issue manager among them 10 staffs are taken as a sample from 2 commercial banks, 5 staffs are taken

as a sample from 2 brokerage firm and 5 staffs are taken as a sample from issue manager . All together 50 copies of questionnaire are distributed but 45 copies are receipted as a rood response.

3.5.1.1 Questionnaire

As a part of methodology a questionnaire (see appendix - I) was design to elicit of much information as possible on the trading activities more precisely on investment attitude of investors. The questionnaire design for this study also solicited informal of specific cases albeit not with much success, which involved the application or use of technical analysis approach for forecasting stock movement of particular company. The questionnaire was design to seek two kinds of responses viz.

-) Yes/ No answer
-) Multiple choice answer

A number of questions were put up by means of 50 copies of questionnaire; categorically the questions raised through this means were of two types namely. Yes/no question, multiple choice questions. The questionnaire so collected is thus related to find out the opinion of investors for investment decision to shares, problem and prospects of security market.

3.5.1.2 Interview

With a view to reduce into the limelight the impediments that erode the confidence of small investors in the stock exchange ,causing instability to the market price or shares, personnel interview were held with many of the concerned personalities, interaction with the brokers ,investors and authorities of NEPSE was taken place to explore the information and data available with them. In addition to this, some formal or informal discussion are held in order to elicit the true information about the subject matter.

3.5.2 Secondary Collection Procedure

The secondary data are collected NEPSE, SEBO/N, Past research, Journals, Article, Newspaper and other sources. Mainly, in this study no of listed companies, annual turnover, market capitalization, NEPSE index, closing price of commercial bank etc are taken to analyze the study.

3.6 Data Processing and Analysis

Data collected from questionnaire were in row from. They were classified and tabulated in the require format. Simple arithmetic percentage tools were used for analyzing in primary data. Data collected from secondary sources were analyzed and presented in bar diagram, pie chart and percentage.

3.7 Methods of Analysis

The methods of analysis employed in this study include the use are follows:-

Trend Analysis

Trend analysis is one of the suitable statistical tools to measure the index, market capitalization, turnover, listed companies, paid up value etc. during the selected period also known about the trend of price fluctuate in NEPSE index .Trend analysis also help to the forecasting future growth in Nepalese stock market. It also describe about the stock market trend by using percentage of growth and increase and decrease of volume.

Trend analysis is analyzed to find out the problems associated with stock market and future potential to develop the stock market in Nepal. Commercial banks in NEPSE are taken as a sample and different indicators like issue approved, market capitalization, paid up value, no of listed companies, annual turnover and price fluctuate in NEPSE have been used to perform the analysis .

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 rises 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 x%

Sell: % of market price fall x %

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 %), Negate (-ve %) & zero run until the price charges 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 hard strategy on average

Moving Average Analysis

One the most reliable and easily read technical indicates to investor is the moving average of closing prices of security or market indexes. The effect of averaging is to give a smoother curve and to lessen the fluctuations that pull the actual figure from the generate trend. In American Context, 30-week and 200 days moving average of closing prices or market index is popular but here in the study 5-days moving average of market index is presented for analysis purpose in a short

period.

Chart construction: In a 5 day's moving average, the first moving average is obtained by adding up the 5 day's value of market indexes and divided 5 and is placed against the middle of 5 days i.e. three days, similarly, the second 5 days moving Average is calculated by dividing at second, third fourth, fifth etc value of market index and is placed against the middle of the day, A line chart of these moving averages is plotted along with a line chart of market index. Each day charts are up dated they examined for trends to see if there is buying or selling present somewhere.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

Introduction

This chapter is the main body of the study. This chapter includes analysis of collected primary and secondary data and their presentation. In this chapter the relevant and available information from NEPSE, Security Board Nepal (SEBO/N), and different books and articles are analyzed to find out the problems associated with stock market and future potential to develop the stock market in Nepal. Also, appropriate statistical and financial tools have been used to perform the analysis.

4.1 Analysis of Secondary Data

Analysis of secondary data has been analyzed by using the different indicators, Issued approved, market capitalization, turnover, NEPSE Index, trend of fluctuation on stock price etc.

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

Table 4.1

No. of Listed Companies No. of Traded Company and No. of Listed Securities

Fiscal Year	No. of listed company				No. of Traded company	% of Growth	No. of listed securities (in million)	% of Growth
	Total	% Growth	CB	% Growth				
2000/01	115	0.00	10	0.00	67	-	124971	-
2001/02	96	- 16.52	10	0.00	69	1.54	134150	7.34
2002/03	108	12.50	10	0.00	80	15.94	159958	19.24
2003/04	114	5.56	12	20.00	92	15.00	161141	0.74
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

Source: Annual Reports, NEPSE

The highest number of listed companies is in 2006/07 is 135 and in 2007/08 is 142, lowest in 2001/02 i.e. 96 only. Growth rate of listed companies is positive in all these years except in 2001/02 because NEPSE deleted some companies from its list because of Non-disclosure of necessary information correctly and timely. The growth rate was the highest in 2002/03 i.e. 12.50 percent and lowest percent was – 16.52 in 2001/02. In the other hand, listed companies of commercial Bank (CB) is also increasing trend. It was height growth rate was in 2007/08 i.e. 31.88.

Figure 4.1

No. of Listed Companies

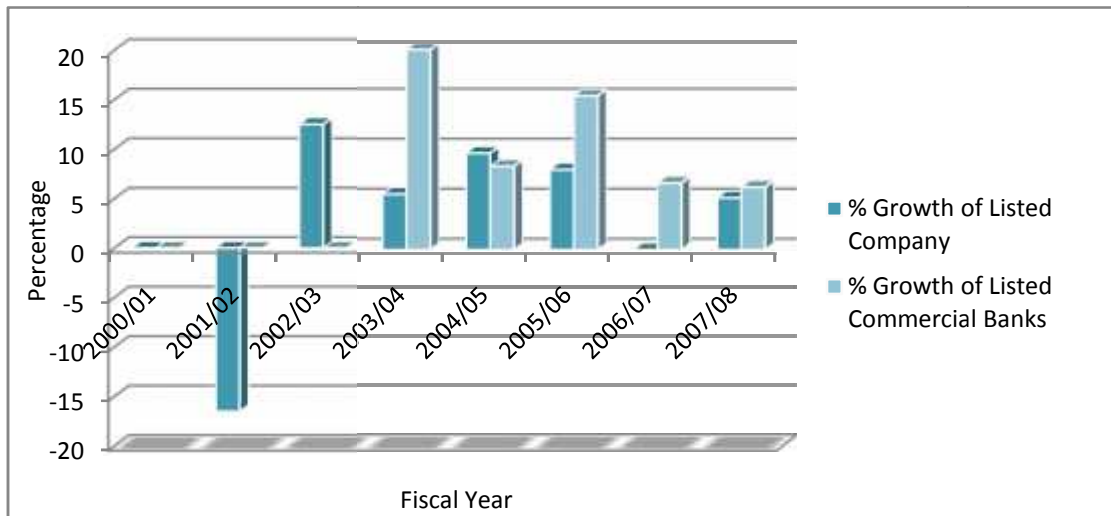
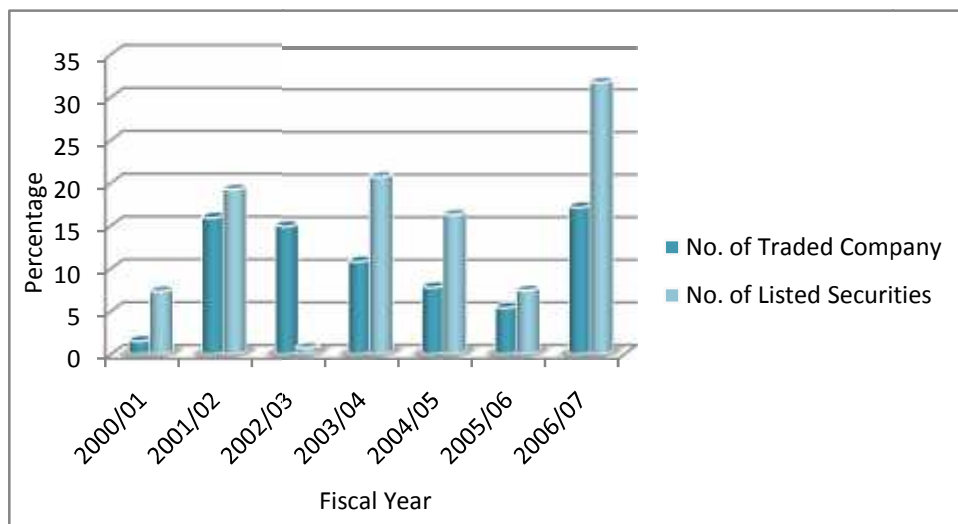


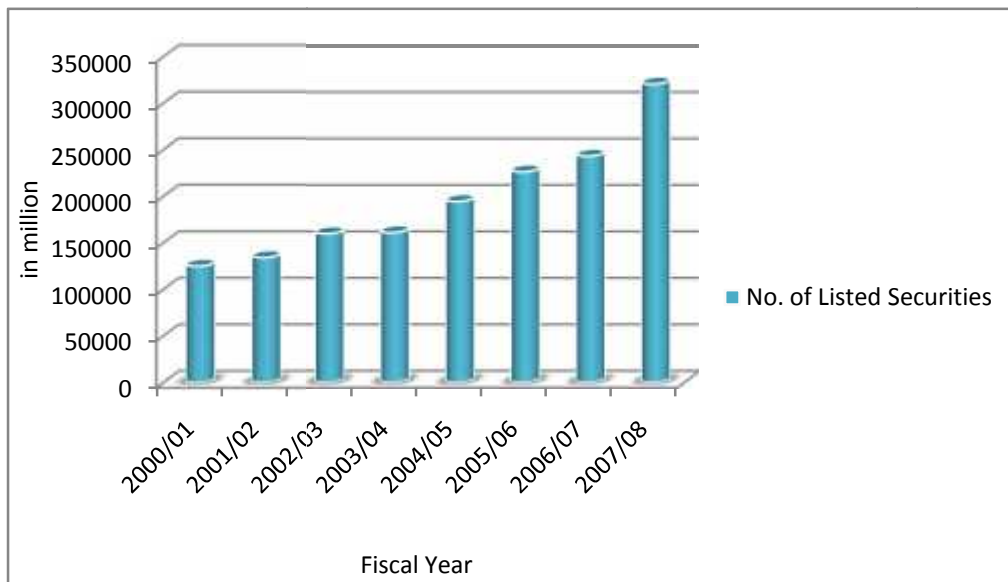
Figure 4.2

No. of Traded Company



Number of traded company in 2000/01 was 67 and 116 in 2006/07. It is continuously increased and reached to 136 in 2006/07. This figure shown that trading company is in increasing trend. The highest growth percent of traded company in 2007/08 was 17.24 percent growth and lowest in 2001/02 was 1.54 percent.

Figure 4.3
No of Listed Securities



The present system is that the securities issued to the public should be listed in stock exchange within 45 days after the allotment date. Regarding the above figure No. of listed securities was positive in every year. It is highest in 2007/08 i.e. 31.88 percent and lowest growth rate in the year 2003/04 i.e. 0.74 percent. In the year 2007/08 the number of listed securities were 321131, which grows by 31.88 percent in comparison with the year 2006/07.

4.1.2 Analysis of Trend of NEPSE and Commercial Bank Index

Table 4.2

NEPSE and Commercial Bank Index

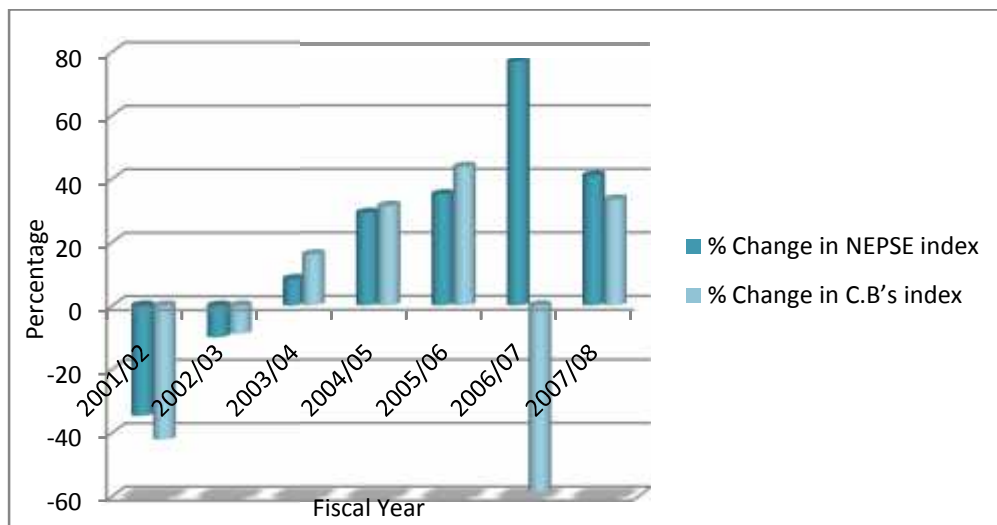
Fiscal Year	NEPSE index	% change on index	C.B's index	% change in index
2000/01	348.43	-	379.38	-
2001/02	227.54	-34.70	219.35	-42.18
2002/03	204.86	-09.97	199.90	-8.88
2003/04	222.04	8.39	231.97	16.04
2004/05	286.67	29.11	304.67	31.33
2005/06	386.83	34.94	437.49	43.61
2006/07	683.95	76.81	181.07	-58.61
2007/08	963.4	40.86	241.41	33.32

Source: Annual Reports, NEPSE

By analyzing the table 4.2, NEPSE index in base year 2000/01 was 348.43 then after was declined up to 2002/03 than after it was increasing trend up to year 2007/08 i.e. it was 963.4 growing 40.86 percent which is less increment than that of the fiscal year 2006/07. Due to the political instability, manipulation in price and most of listed companies expect banking sector not making transaction in capital market the NEPSE index again in down ward trend.

Figure 4.4

Percentage Change in NEPSE Index and Commercial Bank Index



Similarly, Commercial Bank's index in the base year 2000/01 was 379.38 than after it was up & down situation up to 2006/07 and showing positive growth rate in 2007/08. Commercial Bank's & Index was highest in 2005/06 i.e. it was 437.49 and the growth rate also highest i.e. 43.61 percent and lowest price and lowest growth rate was in 2006/07 i.e. 181.07 & -58.61 percent.

4.1.3 Analysis of No. of Transaction

Table 4.3
Number of Transaction

(in million)

Fiscal Year	No. of transactions		C.B's no. of transactions	% of Growth
	Total	% of growth		
2000/01	46095	-	27619	-
2001/02	42028	- 8.82	17363	- 37.13
2002/03	69163	64.56	12798	- 26.29
2003/04	85533	23.67	26000	103.16
2004/05	106246	24.22	24966	149.87
2005/06	97374	- 8.35	45886	- 29.37
2006/07	120510	23.76	42648	- 7.06
2007/08	150800	25.13	54314	27.35

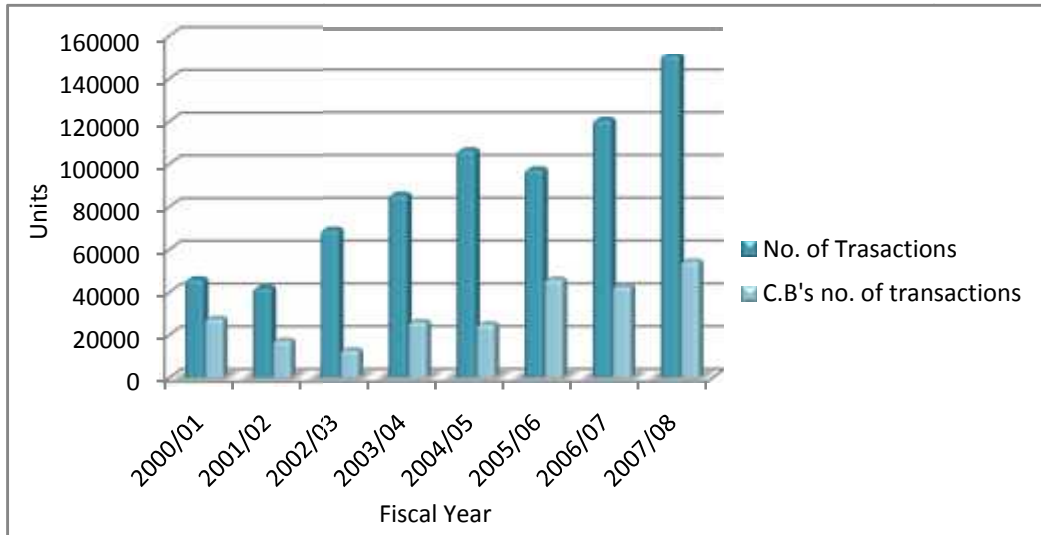
Source: Annual Reports, NEPSE

Number of transaction in NEPSE and C.B. were fluctuating in yearly basis. The maximum number of transactions in 2007/08, it is 150800 only 42028 transactions in NEPSE was made in the year 2001/02. The highest growth rate of transaction in year 2002/03 was 64.56 percent and lowest was negative in year 2001/02 i.e. -8.82 percent.

Similarly, No of transaction of commercial bank (CB) the maximum number of transaction in 2004/05, it was 64966 transaction, it was also highest growth rate i.e. 149.87 percent and the lowest was in year 2002/03 i.e. 12798 transactions and

the lower growth rate was in year 2001/02 i.e. -37.13 percent. CB's transaction is not increased also in 2007/08, somehow it shows the positive response having 27.35 growth rate.

Figure 4.5
Number of Transaction



4.1.4 Analysis of Total Paid up Value and paid up Value of Commercial Bank

Table 4.4

Total Paid Up Value and Paid Up Value of C.B.

(Rs. In Million)

Fiscal Year	Total paid up value	% increase in total paid up values	C.B.'s paid up values (Rs. in millions)	% increase
2000/01	8165.20	-	2843.60	-
2001/02	9685.00	18.61	2942.01	3.46
2002/03	12560.10	29.69	4584.92	55.84
2003/04	13404.90	6.73	5380.45	17.35
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	58.00

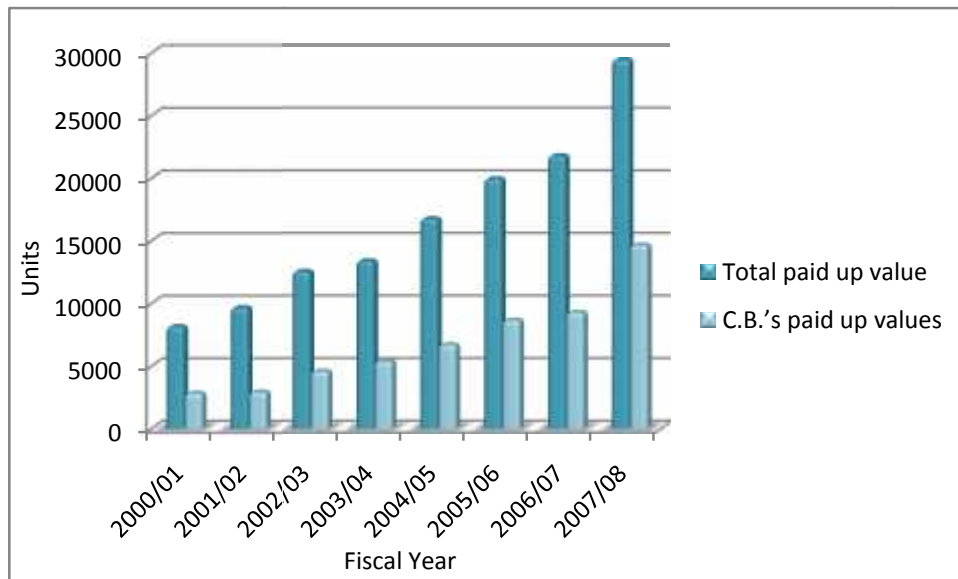
Source: Annual Reports, NEPSE

By analyzing the table 4.4, by the end of this fiscal year 2007/08, the paid up value of listed securities increased by 35.17 percent and reached to Rs. 29465.80 million in comparison with Rs. 21799 million in year 2006/07. Total paid up value in 2000/01 was Rs. 8165.20 million and it was in increasing trend till the year 2008. The growth rate of total paid up value was highest in 2002/03 i.e. Increased by 29.69 percent and lowest growth rate in the year 2003/04 i.e. increased by 6.73 percent. Percentage increased in total paid up value is satisfactory.

Similarly, paid up value of commercial bank was also increasing trend up to 2007/08 because all are positive growth rate. The highest paid up of CB was in year 2007/08 i.e. 14667.27 million and the lowest was in year 2001/02 i.e. 2843.60 million. The highest growth rate of C.B.'s paid up value was in year 2002/03 i.e. 55.84 percent and lowest was in year 2001/02 i.e. 3.46 percent.

Figure 4.6

Total Paid Up Value and Paid Up Value of C.B.



4.1.5 Analysis of No. of Issues Approval and Amount of Issue Approval

Table 4.5

No. of Issues Approval and Amount of Issue Approval

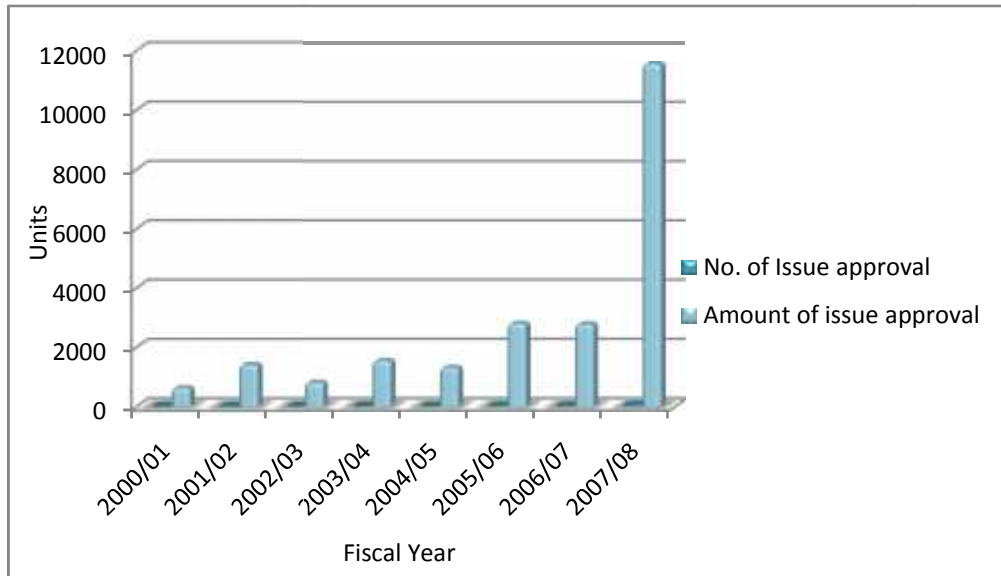
Fiscal Year	No. of Issue approval	Amount of issue approval (Rs. in million)	% of growth
2000/01	9	634.29	-
2001/02	16	1416.63	123.34
2002/03	17	813.74	- 42.56
2003/04	16	1547.20	90.13
2004/05	12	1315.80	- 14.96
2005/06	38	2800.96	112.87
2006/07	34	2785.40	- 0.56
2007/08	72	11567.86	315.30

Source: Annual Reports, NEPSE

From the table 4.5, total amount of issue approval were fluctuation in yearly basis up to year 2006/07 and increased to 72 in the year 2007/08. In the fiscal year 2005/06, SEBO registered the securities 38 companies and granted issue approval amounting to Rs. 2800.96 million. The highest percentage growth of issue approval is in the recent year 2007/08 i.e. 315.30 percent and the lowest growth of issue approval was in year 2002/03 i.e. – 42.56 percent. SEBO registered the securities of 9 companies was in year 2000/01 i.e. the lowest no of issue approval.

Figure 4.7

No. of Issue Approval and Amount of Issue Approval



4.1.6 Analysis of Total Market Capitalization and C.B.'s Market Capitalization

Table 4.6

Total Market Capitalization and C.B.'s Market Capitalization

(in million)

Fiscal Year	Total market capitalization	% of Growth	Market Capitalization of C.B.	% of Growth
2000/01	463349.41	-	31235.21	-
2001/02	34703.87	- 25.13	21227.42	- 32.04
2002/03	35240.39	1.55	21436.72	0.49
2003/04	41424.77	17.55	27147.42	26.64
2004/05	61365.89	48.14	40119.88	44.79
2005/06	96763.74	57.68	68694.36	71.22
2006/07	186301.30	92.53	135588.40	97.38
2007/08	366247.6	96.59	218264.2	60.97

Source: Annual Reports, NEPSE

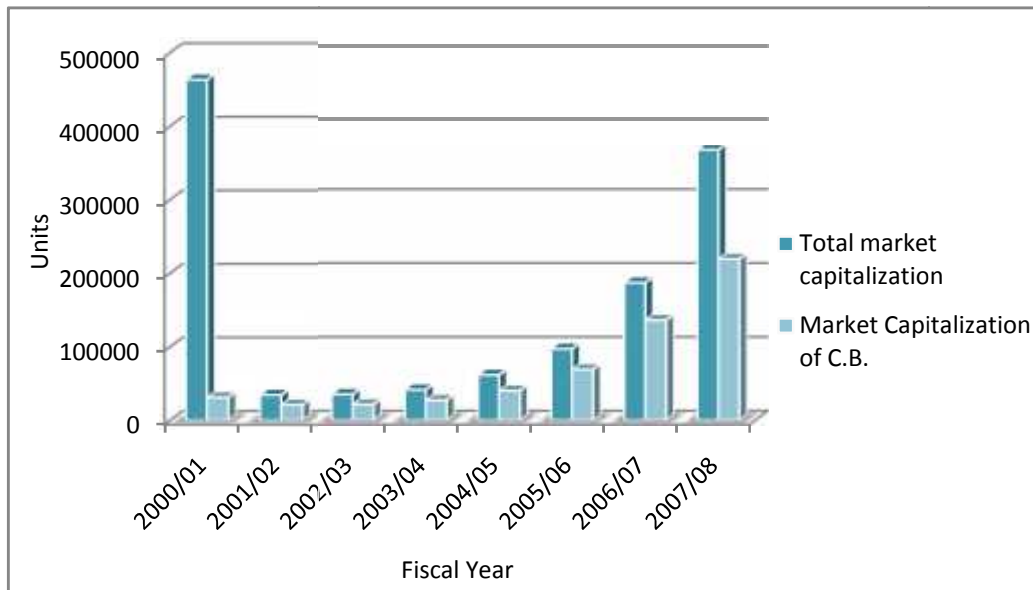
Total market capitalization of listed securities at the end of fiscal year 2007/08 is Rs. 366247.6 million. It was the highest total market capitalization & lowest in the

year 2001/02 i.e. Rs. 34703.87 million. The highest growth rate of total market capitalization was in 2007/08 i.e. 96.59 percent and lowest growth rate was in year 2001/02 i.e. -25.13 percent.

Similarly, the market capitalization of listed commercial bank at the end of fiscal year 2007/08 is Rs 218264.2 million. It was the 60.97 percent portion of total market Capitalization. The highest capitalization & lowest in the year 2001/02 i.e. Rs. 21227.42 million. The highest growth rate of C.B's capitalization was in 2006/07 i.e. 97.38 percent and lowest growth rate was in year 2001/02 i.e. – 32.04 percent.

Figure 4.8

Total Market Capitalization and C.B.'s Market Capitalization



4.1.7 Analysis of Total Number of Share Traded and No. of Share Traded of C.B

Table 4.7

Total No. of Share Traded and No. of Share Traded of C.B.

(Share unit in '000')

Fiscal Year	No. of Share traded			
	Total	% of increase	C.B	% of increase
2000/01	4989.15	-	1623.12	-
2001/02	6004.68	20.35	1935.55	19.25
2002/03	2427.89	- 59.57	858.98	- 55.62
2003/04	6468.18	166.41	2737.52	218.69
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	28599.8	57.59	11241.4	57.60

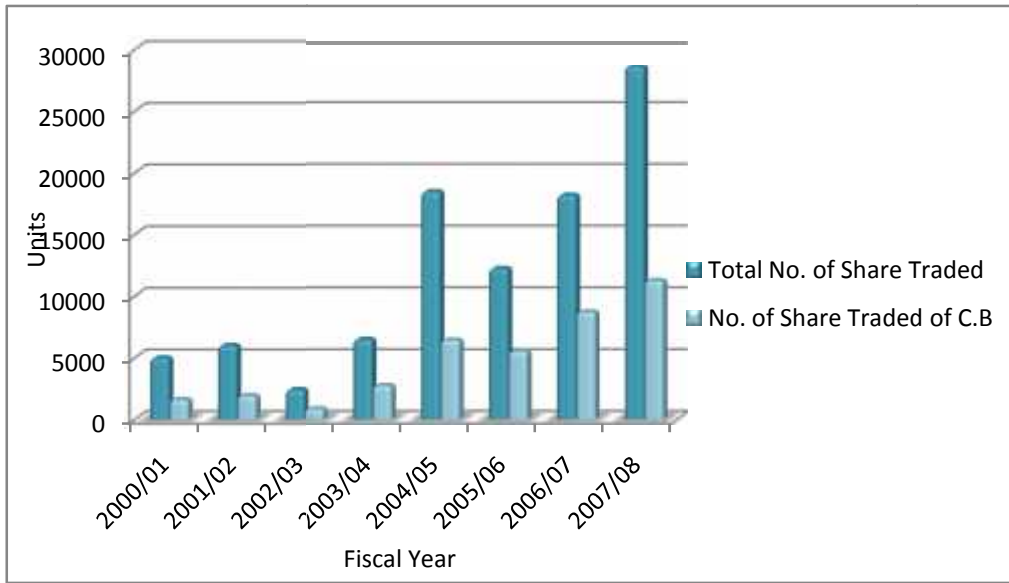
Source: Annual Reports, NEPSE

By the table 4.7, the highest total no of share traded was in year 2004/05 i.e. 18433.55 thousand. It was also highest growth rate i.e. 184.99 percent and lowest total no. of share traded was in year 2002/03 i.e. 2427.89 thousand and it was also lowest growth rate i.e. -59.57 percent.

Similarly, the highest no. of share traded of C.B. was in year 2007/08 i.e. 11241.4 thousand & lowest was in year growth rate of C.B was in year 2003/04 i.e. -218.69 percent & lowest was in year 2002/03 i.e. -55.62 percent.

Figure 4.9

Total No. of Share Traded & No. of Share Traded of C.B.



4.1.8 Analysis of Market Days and Average Daily Turnover

Table 4.8

Market Days and Average Daily Turnover

Fiscal Year	Market days	% of Growth	Average daily turnover (Rs. in million)			
			Daily Turnover Total	% of Growth	Daily Turnover C.B	% of Growth
2000/01	240	-	9.73	-	8.08	-
2001/02	246	2.50	6.26	- 35.66	4.68	- 41.57
2002/03	238	- 3.25	2.24	- 61.18	1.40	- 70.09
2003/04	243	2.10	8.82	264.46	3.55	153.57
2004/05	236	- 2.88	19.10	116.55	17.04	380.00
2005/06	228	- 3.99	15.14	- 20.73	11.83	- 30.58
2006/07	232	1.75	36.03	137.98	23.98	102.70
2007/08	235	1.29	97.1	169.49	38.08	58.82

Source: Annual Reports, NEPSE

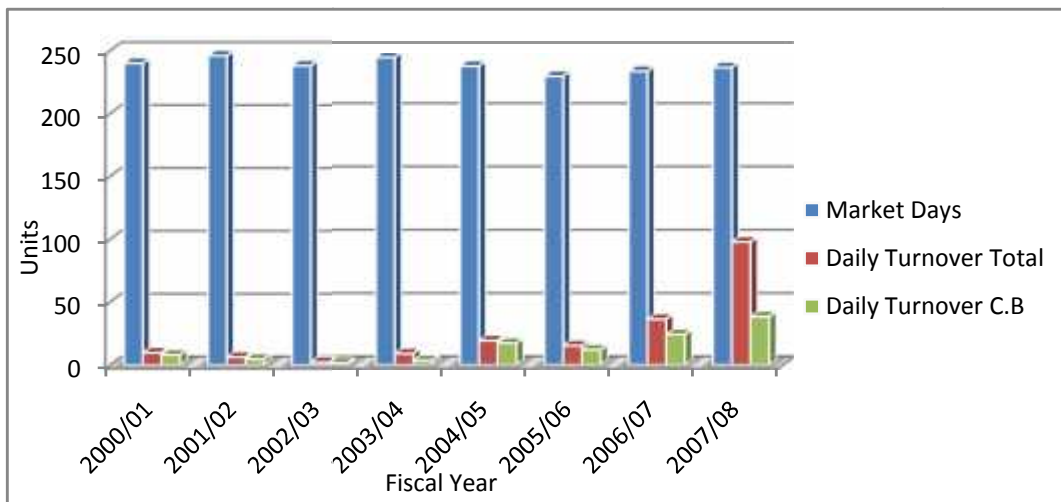
One of the most important stock market development indicators is average daily turnover. Daily turnover provides the liquidity to the stock market and commission

to the stock brokers. Stock brokers won't survive without having transaction in the stock market by analyzing the above figure. It has been seen that average turnover in NEPSE was in consistency. A.D.T. in the year 2002/03 was Rs. 2.24 million and Rs. 97.1 million in 2007/08. It was highest and lowest A.D.T. in the year 2003/04 the growth rate of turnover was exceptionally high i.e. it was growth 264.46 percent in comparison with the year 2002/03. Similarly, AD.T of commercial bank in the year 2007/08 was Rs. 38.08 million and Rs. 1.40 million in 2002/03. It was highest and lowest A.D.T. In the year 2004/05 the growth 380 percent in comparison with the year 2003/04 i.e. the highest growth of C.B and the lowest was in the 2002/03 i.e. -70.09 percent.

Market day also affects the A.D.T in stock market. Highest no of market day was 2001/02 i.e. 246 days and lowest number of market day was in 2005/06 i.e. 228 days. But in growth rate of market day in 2001/02 was the year having maximum growth of market day and the year 2005/06 was the having lowest growth rate - 3.39 percent i.e. 228 market day. It seems that higher the market day per year, higher the chances of growth of stock market. Therefore, it can be assumed that the trend of stock market day per year in Nepalese stock market is satisfactory.

Figure 4.10

Market Days and Average Daily Turnover (ADT)



4.1.9 Analysis of Sector Wise Market Capitalization in year 2007/08

Table 4.9

Sector Wise Market Capitalization

(in million)

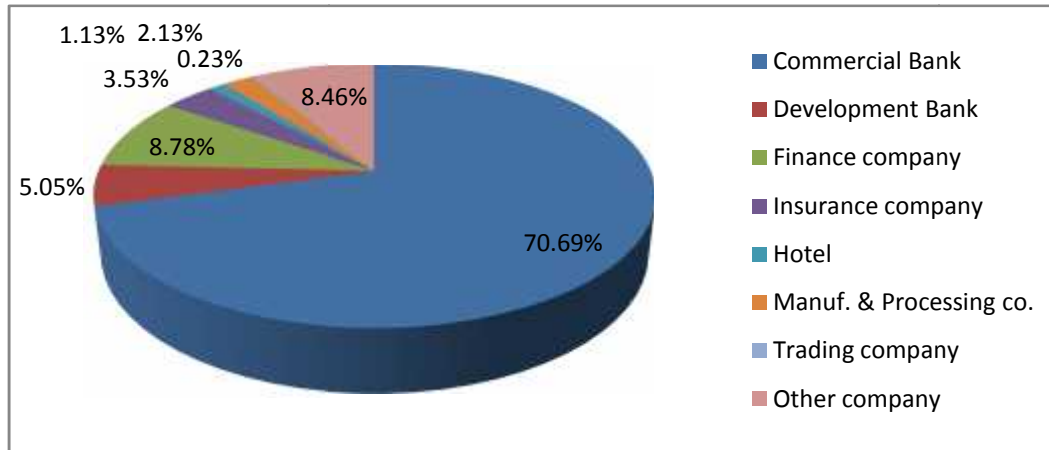
S.No.	Sectors	Market Capitalization	Percentage
1	Commercial Bank	218264.2	70.69
2	Development Bank	15619.4	5.05
3	Finance company	27113.6	8.78
4	Insurance company	10897.2	3.53
5	Hotel	3484.1	1.13
6	Manuf. & Processing co.	6576.2	2.13
7	Trading company	686.7	0.23
8	Other company	26129	8.46
	Total	308770.4	100

Source: Annual Reports, NEPSE

By the end of F.Y. 2007/08, the market capitalization of the listed securities reached to Rs. 308770.4 million. The highest capitalization of C.B. was 218264.2 million i.e.70.69 Percent by sector wise analysis and the lowest capitalization of other company is 261.29 million i.e. 8.46 percent. It means the maximum portion of total capitalization is the commercial bank.

Figure 4.11

Sector Wise Market Capitalization



4.1.10 Analysis of Sector Wise Turnover in year 2007/08

Table 4.10
Sector Wise Turnover

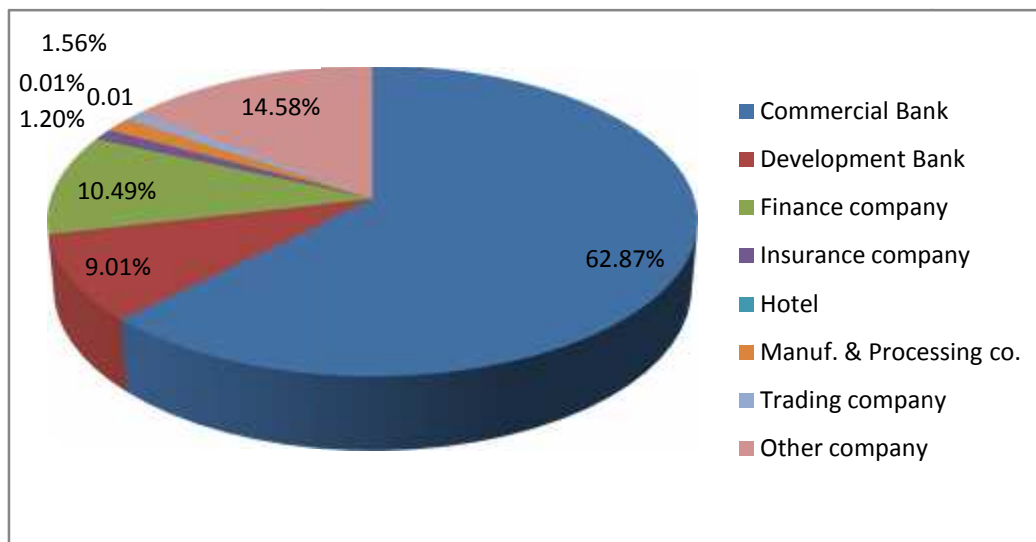
(in million)

S.No.	Sectors	Market Turnover	Percentage
1	Commercial Bank	13822.1	62.87
2	Development Bank	1981.1	9.01
3	Finance company	2307.5	10.49
4	Insurance company	264.9	1.20
5	Hotel	27.7	0.01
6	Manuf. & Processing co.	343.4	1.56
7	Trading company	33.7	0.01
8	Other company	3206	14.58
	Total	21986.4	100

Source: Annual Reports, NEPSE

In this fiscal year, the percentage turnover of commercial bank was the highest i.e. 62.87 percent and the lowest of the trading company and Hotel i.e. 0.01 percent each. It means that the highest turnover is also commercial bank by sector wise analysis.

Figure 4.12
Sector Wise Turnovers



4.2 Trend of Price Fluctuation of Commercial Bank

Trend analyses of price fluctuation by different technical methods are as follows:

4.2.1 Filter Rule

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

Buy: % of market price raise X%

Sell: % of market price raise X%

4.2.2 Run Test

Another technique used to analyze price movement of stock prices is the run test. It is based on the increase or decrease of closing price or change of closing price.

A run occurs in a series of numbers wherever the changes in the (+ve), negative (-ve) & zero run. Until the price change alters (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 far various types of non random trends from which to earn a profit will not able to beat a naïve buy and hold strategy on average.

By using filter rule and run test we can find out daily price movement of price, there are as follows:

Table 4.11
Prices Changes of Standard Chartered Bank

Date	Days	Closing Price	Filter Rules			Run Test	
			% Change	X=4% Buy/sell decisions	X=8% Buy/sell decisions	Price Change (Rs.)	Set of Run
2009-5-7	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

By the above table 4.11, we just conclude that the share of Standard Chartered Bank's was fluctuate more than that of the fiscal year 2006/07. So that it some rare news to knows and less transaction were made during the period cause less action were taken for this kind. The price changes from day 1 to 15, shows two Buy signal because their price have been increased by 4 percent. But in 8 Percent there is no any buy or sell signal, because the change in the price of all days 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 4.12
Price Changes of NABIL Bank Limited

Date	Days	Closing Price	Filter Rules			Run Test	
			% Change	X=4% Buy/sell decisions	X=8% Buy/sell decisions	Price Change (Rs.)	Set of Run
2009-5-7	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	
2009-5-20	10	3850	- 0.03	-	-	- 1	Run 5 +ve run
2009-5-21	11	3855	0.13	-	-	5	
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 increasing and decreasing trend. The above calculation of price changes from day 1 to 15 shows three buy signals because their price has been increased by more than 4% but at 8% there way 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. It helps the calculation of price trend of stock.

Table 4.13
Price Change of Bank of Kathmandu

Date	Days	Closing Price	Filter Rules			Run Test	
			% Change	X=4% Buy/sell decisions	X=8% Buy/sell decisions	Price Change (Rs.)	Set of Run
2009-5-7	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 4.13, the price of BOK is also in increasing and in decreasing trend increasing trend. Under the run test there are 8 run test. 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 2buy 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 deminished 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 4.14
Price Change of Nepal Investment Bank

Date	Days	Closing Price	Filter Rules			Run Test	
			% Change	X=4% Buy/sell decisions	X=8% Buy/sell decisions	Price Change (Rs.)	Set of Run
2009-5-7	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 4.14 , 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 4.15
Price Change of Himalayan Banks Limited

Date	Days	Closing Price	Filter Rules			Run Test	
			% Change	X=4% Buy/sell decisions	X=8% Buy/sell decisions	Price Change (Rs.)	Set of Run
2009-5-7	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 4.15 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 change 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.

4.2.3 Moving Average

One of the most reliable and easily read technical. Indicators to investors are the moving average of closing prices of security or market indexes. The effect of averaging is to give a smoother curve and to lesson. The fluctuations that pull the

actual figure from the general trend. In American context, 30- week and 200 day moving average of closing prices or market index is popular but here in the study, 5 days moving average of market index is presented for analysis purpose in a short period.

Chart construction: In a 5 day moving average, the first moving average is obtained by adding up the five days values of market indexes and divided by 5 and is placed against the middle of 5 days i.e. 3rd day and moving 1st day's price and adding the following 5 days and so on.

Chart interpretation: when weekly market indexes penetrate the moving average line, technicians interprets this penetration as signal. When market index move down ward through moving average they frequently fail to rise again for many months. Thus a down word penetration though a moving average line is signal and to sell. When indexes are above the moving average but the difference is narrowing, this is a signal that a bull market may be ending.

Moving average chart & Figure of commercial bank is as follows:

Table 4.16
5- Day Moving Average Index of Commercial Bank

Days	SNCBL	NABIL	NIB	BOK	HBL
1-5	4735.8	3642.8	1194.4	1413.4	1513
2-6	4769	3648.8	1187.8	1418.2	1509.8
3-7	4810	3660.8	1182.8	1422.8	1499.8
4-8	4904	3705.8	1188.6	1441.8	1505.8
5-9	4981.2	3748	1191.4	1455.8	1517.8
6-10	5016.4	3788.2	1198	1465.6	1541.8
7-11	5125.4	3827.2	1203	1471.8	1557
8-12	5198.4	3879.2	1211	1478.2	1574
9-13	5243.4	3935.2	1218.2	1486	1588
10-14	5329.2	4019	1236.4	1509	1613
11-15	5468.8	4165	1277.4	1536.4	1664.6

Source: Annual Reports, NEPSE

Table 4.17**Actual Closing Price of Commercial Bank**

Days	SNCBL	NABIL	NIB	BOK	HBL
2009-5-11	4755	3645	1195	1415	1520
2009-5-12	4765	3640	1195	1415	1500
2009-5-13	4800	3649	1172	1414	1475
2009-5-14	4825	3660	1172	1420	1504
2009-5-17	4900	3710	1180	1450	1500
2009-5-18	5225	3870	1224	1510	1550
2009-5-19	5151	3851	1209	1485	1560
2009-5-20	5201	3850	1150	1420	1595
2009-5-21	5145	3855	1197	1451	1530
2009-5-24	5270	3970	1220	1482	1585
2009-5-25	5450	4150	1260	1549	1620
2009-5-26	5580	4270	1300	1600	1685
2009-5-27	5899	4580	1410	1600	1853

Source: Annual Reports, NEPSE

By the above figure 4.13 shows the 5 days moving average of standard charted bank. In this figure, there is fluctuating over the 11 day's price. Generally the price has increasing trend. The actual trend increasing from second day it is the right time to buy and decreasing then moving average at 4 day, it is the right time to sell and also increasing from 5 days it should buy and lastly, actual trend is fall down than average trend after ten days so it is the right time to sell.

Figure 4.13

Actual and Moving Average Trend of SCBNL

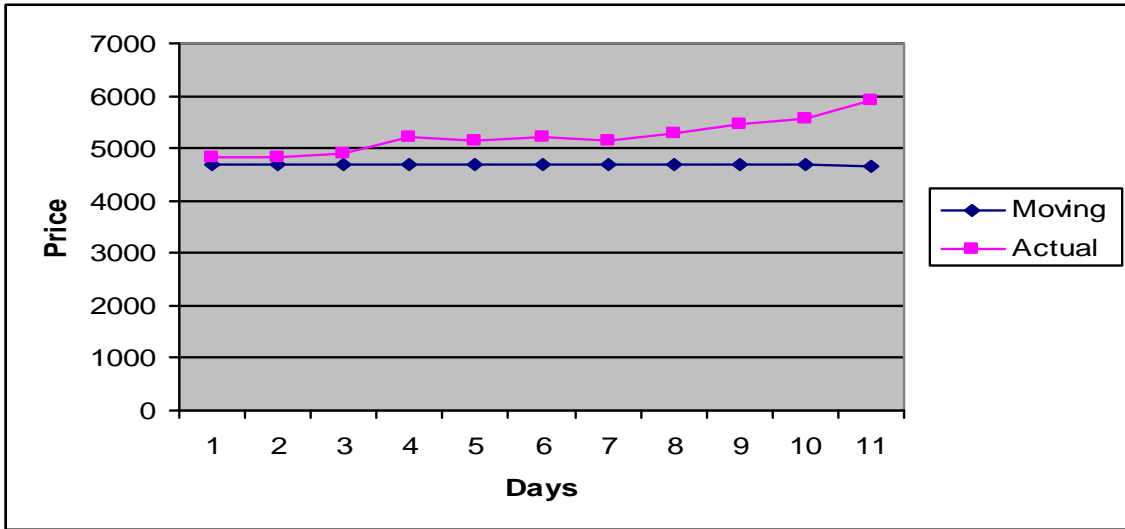
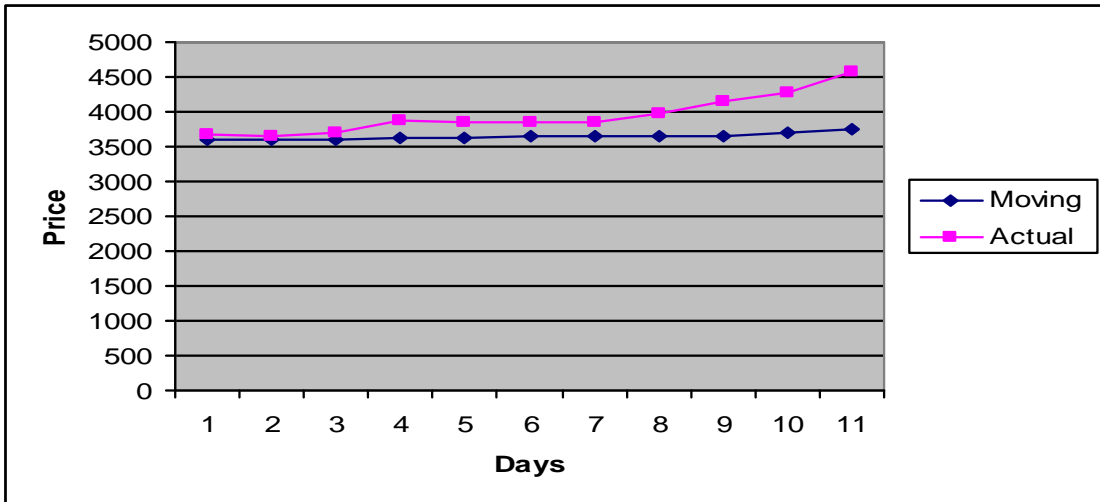


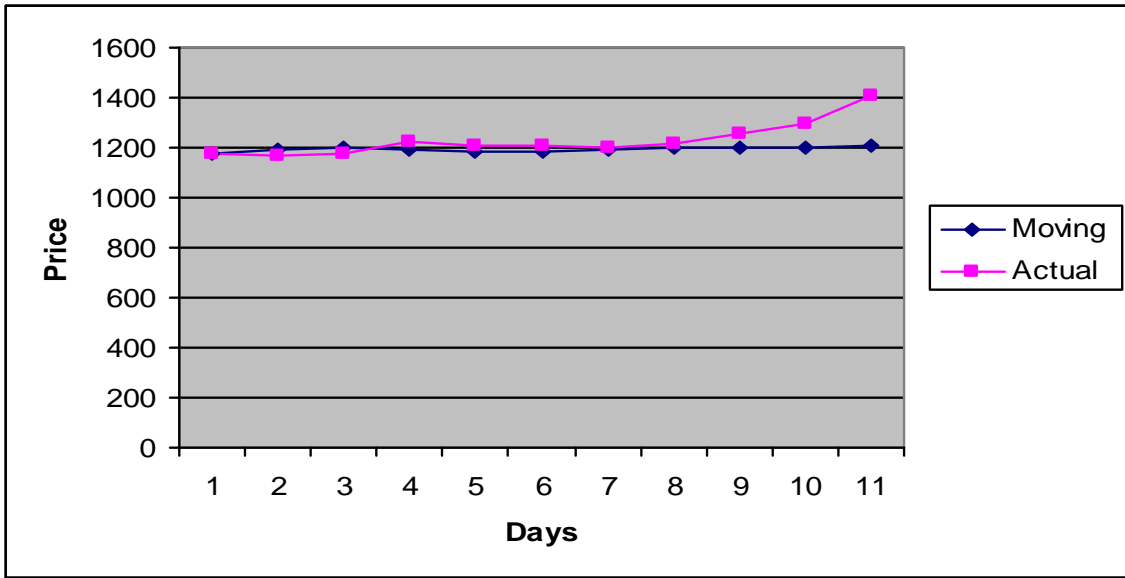
Figure 4.14

Actual and Moving Average Trend of NABIL Bank



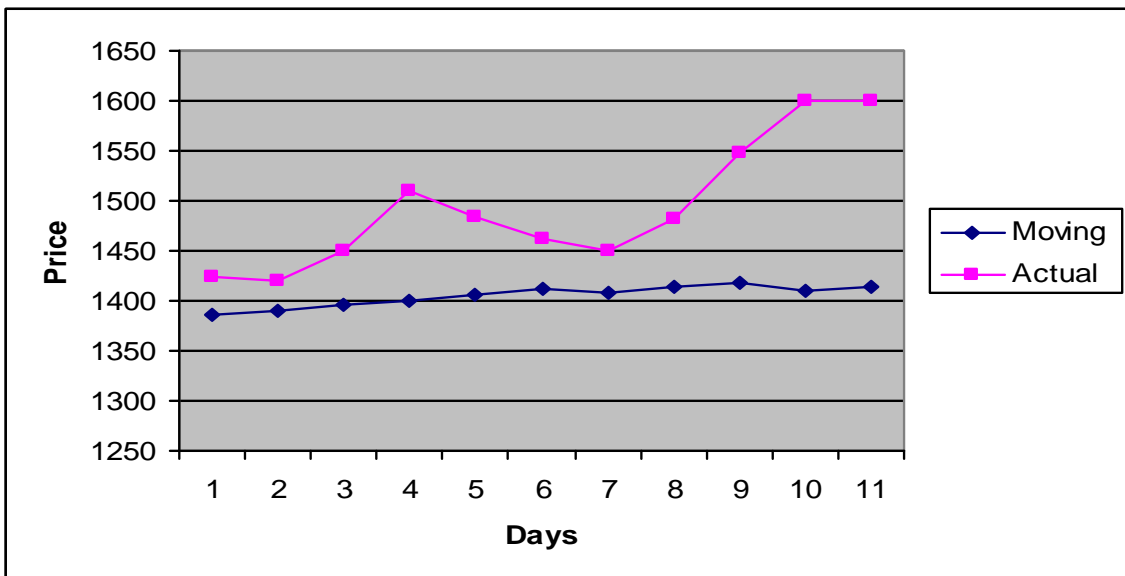
By the above figure 4.14 shows the 5 days moving average and actual trend of Nabil Bank Ltd. The trend also fluctuated over the eleven day's price. The actual trend increasing from second day and eight day from moving average trend so it is right time to buy. The actual trend decreasing from third, six, ten days from moving average trend so it is right time to sell of stock.

Figure 4.15
Actual and Moving Average Trend of NIB



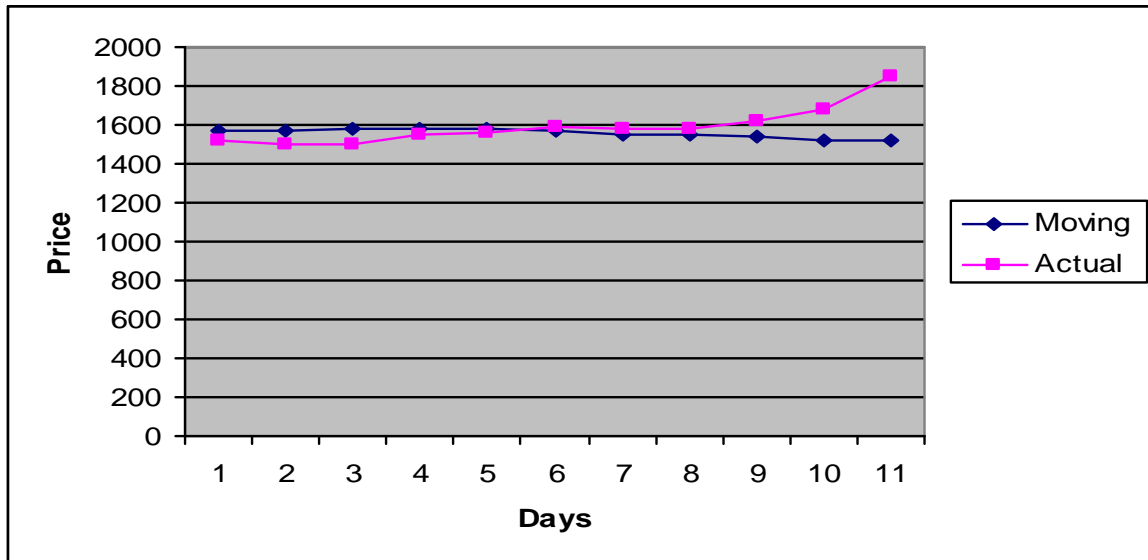
By the above figure 4.15 shows the 5 day moving average and 11 day's actual price of NIB. The actual trend has increasing from third day and 8 day from moving average trend, so it is right time to buy and the actual trend decreasing from fourth and tenth day so it is right time to sell.

Figure 4.16
Actual and Moving Average Trend of BOK



By the above figure 4.16 shows the 5 days moving average and 11 days actual price of BOK. The actual trend increasing from third day, second day from moving average trend so it is right time to buy. The peak point of actual trend is 10th day. The actual trend increasing from five days moving average trend so it is right time to sell.

Figure 4.17
Actual and Moving Average Trend of HBL



By the above figure 4.17 shows the 5 days moving average and 11 days actual price of HBL. It is shows that the more fluctuate than other bank's price. The actual trend increasing from second, six day from moving trend so it is right time to buy and the actual price decreasing from third and ninth day from moving average so it is right time to sell.

4.3 Analysis of Primary Data

For the purpose of the study on the topic "The Challenges and Possibilities of Primary and Secondary Stock Market in Nepal" interviews and questionnaire methods have been used as a source of primary data. Returned answers from respondent are presented below.

4.3.1 Analysis of Interviews

While taking interview with senior official of SEBO/N, NEPSE, Brokers, and Issue Manager about the problems and prospects of securities. It was know that Nepalese stock market has suffering from lots of problems even though it has some prospects. According to the officers of SEBO and NEPSE the market has not got well trained and qualifies manpower. The regulatory bodies are not able to discharge their regulatory functions properly, investor are not aware about the stock market. The emphasized that Nepalese stock market is dominated by retailing investors come forward to act in publish manner.

So growth and stability cannot be fully achieved unless rational and institutional investors come forward to participate in the stock market and they explains that the prospects of stock market are increasing no of listed companies, start of O.T.C. market, start of electronic trading system etc.

On the other hand, the brokers and issue manager said that there is small capital market in Nepal, lack of rational investor about the securities, rules and regulations are not appropriate, Regulating bodies are not effective. They also express their anger to the government for sharp fall in share price due to weak law and order situation in the country. They also said that they are not fully satisfied with the growth trend of stock market.

4.3.2 Questionnaire Analysis

Regarding primary data, fifty copies of questionnaire were distributed to express their views about the stock market to senior officials of SEBO, NEPSE, brokers, issue manager, lecture, students and bank (see appendix-1). But only, 45 copies of the questionnaire were collected during the study period. The questionnaire is related to find out the problems faced by the Nepalese stock market and the points that provide the prospects of the market. Their responses have been analyzed as follows.

1. Analysis of Growth Trend

Table 4.18

Responses to Growth Trend of Stock Market

S.no.	Research Variables	No. of respondent	% of respondent
1	Yes	25	55.56
2	No	14	31.11
3	Do not know	6	13.33
	total	45	100

Sources: Field Survey 2008

Table 4.18 shows that 55.56 percent respondents are satisfied on growth trend of stock market, as well as 6 percent of them said that they do not know about it and finally 14 percent have no answered, it means they are not satisfied with the growth trend of Nepalese stock market.

2) Analysis of Problem Faced by Stock Market

Table 4.19

Number of Respondents on Problems

S.no.	Research Variable	No. of respondent	% of respondent
1	Small capital market	15	33.33
2	Lack of investors' confidence	1	2.22
3	Lack of proper knowledge of investors	20	44.44
4	Lack of co-ordination between monitoring body of stock market	1	2.22
5	Inappropriate rules and regulations	3	6.67
6	Restriction of foreign investors	5	11.11
	Total	45	100

Source: Field Survey 2009

Table 4.19 indicates that the respondents are asked to know about the given problems of Nepalese Capital market. There are 44.44 percent respondents said the main problem is lack of proper knowledge of investor about the stock market,

as well as 33.33 percent respondents said that small capital market in Nepal, likewise 11.11 percent respondent said that restriction to foreign investor to make investment in Nepalese capital market and other 6.67 and 2.22 percent are inappropriate rules and regulations, lack of investor confidence, lack of co-ordination between monitoring bodies respectively.

3. Analysis of Prospects to Nepalese Stock Market

Table 4.20

Number & Percentage of Respondents on Prospects

S.No.	Research Variables	No. of respondent	% of respondent
1	Increasing no. of large companies listed in NEPSE.	18	40
2	Stock market provides maximum return	4	9
3	Liquidity and marketability	5	11
4	Increasing interest of educated public towards stock market.	13	29
5	Limited opportunities to invest investors long term saving of share investment.	5	11
	Total	45	100

Source: Field Survey 2009

Table 4.20 Reveals that the majority of respondents for prospects to Nepalese stock market is 40 percent, it said that there is increasing number of large companies listed in NEPSE. In this way 29 percent respondents assume the increasing interest of educated public towards stock market and 11 percent said that stock market provides maximum return & limits opportunities to invest investors' long term saving instead of share investment. Trend of large companies listed in NEPSE and educated people attracts toward this market mean it has great prospect to develop.

4. Analysis of Main Influencing Factor the Price of the Stock.

Table 4.21

Main Influencing Factors on Share Price

S.No.	Research variables	No. of respondent	% of respondent
1	Dividend	9	20
2	Rumors	18	40
3	Financial situation of company	9	20
4	Management of company	9	20
5	Others	-	-
	Total	45	100

Source: Field Survey 2009

Regarding the influencing factors for prices fluctuation of share in stock market different investors have given different views. According to Table 4.21 the majority of respondents for main influencing factor on share price are 40 percent in rumors. Out of sixty percent equally agreed for dividend, management of the company and rumors affect on price and financial situation of the company.

5. Analysis of Factors Motive to Makes Investment

Table 4.22

Factor Motive to Makes Investment

S.No.	Research variables	No. of respondent	% of respondent
1	Capital Gain	18	40
2	Dividend	8	17.78
3	Friends and family	5	11.11
4	Stock brokers	4	8.88
5	Marketability	10	22.22
6	Others	-	-
	Total	45	100

Source: Field Survey 2009

Regarding this question, what factors motive you to makes investment in stock market?

Table 4.22 reveals that the 40 percent are interested to invest for capital gain, marketability make to invest in stock market by 22.22 percent, 17.78 percent said the investors invest for dividend, 11.11 percent said friends and family finally 8.88 percent said stock brokers. So, dividend is the major motivational factor to the investors.

6. Analysis of Information Provided by the Company is Appropriate

Table 4.23

Appropriate Information Provided by the Company

S.No.	Research variables	No. of respondent	% of respondent
1	Yes	18	40
2	No	27	60
3	Do not know	-	-
	Total	45	100

Source: Field Survey 2009

Regarding this question, do you think that information provided by the company is appropriate? In response Table 4.23 shows that 60 percent respondent are agreed appropriated information does not provided by the company and in it's against 40 percent respondent give the answer.

7. Analysis of SEBO/N Rules and Regulations Affect the Value of Stock

Table 4.24

SEBO/N Rules and Regulation Affect the Value of Stock

S.No.	Research variables	No. of respondent	% of respondent
1	Yes	36	80
2	No	5	11
3	Do not know	4	9
	Total	45	100

Source: Field Survey 2009

Table 4.24 explains that 80 percent respondents are in favored of SEBO/N rules and regulation affect the value of stock, and in against 11 percent respondent are appear SEBO/N rules and regulation does not affect the value of stock and remaining 9 percent are unknown about it.

8. Analysis of Awareness of Investor

Table 4.25
Awareness of Investor

S.No.	Research variables	No. of respondent	% of respondent
1	Yes	6	13
2	No	32	71
3	Do not know	7	16
	Total	45	100

Source: Field Survey 2009

Table 4.25 explained that the 71 percent investors are not aware, likewise, 13 percent are aware and remaining 16 percent unknown about the stock market.

9 Analysis of Basic of Decision Making the Stock Market

Table 4.26
Basic of Decision Making on Stock Market

S.no.	Research variables	No. of respondent	% of respondent
1	NEPSE index	4	9
2	Closing price	4	9
3	Turnover	1	2
4	Company's goodwill	9	20
5	Company's profit	27	60
6	Others	-	-
	Total	45	100

Source: Field Survey 2009

Table 4.26 indicate that 60 percent respondents are affected by the company's profit in the decision making on stock market, such ways 20 percent made decision on the basis of company's goodwill and equally 9 percent replied that they made decision on the basis of NEPSE index and closing price, as well as 2 percent made decision on the basic of turnover.

10. Analysis of Nepalese Stock Market is Informational and Operationally Efficient

Table 4.27

Nepalese Stock Market is Informational and Operationally Efficient.

S.no.	Research variables	No. of respondent	% of respondent
1	Yes	2	4.44
2	No	7	15.56
3	In between	36	80
	Total	45	100

Source: Field Survey 2009

Table 4.27 represents that 80 percent respondents are in between, 15.56 respondent no and 4.44 percent respondent yes about Nepalese stock market is informational and operationally efficient.

11. Analysis of Most Responsible for Appropriate Trading System

Table 4.28

Most Responsible for Appropriate Trading System

S.No.	Research variables	No. of respondent	% of respondent
1	Investors	9	20
2	NEPSE	18	40
3	Brokers	9	20
4	SEBO/N	4	9
5	Other main regulating bodies	5	11
	Total	45	100

Source: Field Survey 2009

Table 4.28 reflects that 40 percent respondents said that NEPSE is the most responsible for appropriate trading system, like this equally 20 percent said that investors and Brokers are the main responsible and 11 percent said that other main regulating body is responsible, remaining 9 percent respondents said that most responsible is SEBO/N.

12. Analysis of NRN's Enrollment in Nepalese Stock Market

Table 4.29

NRN's Enrollment in Nepalese Stock Market

S.No.	Research variables	No. of respondent	% of respondent
1	Yes	36	80
2	No	9	20
3	Do not know	-	-
	Total	45	100

Source: Field Survey 2009

Table 4.29 reflects that 80 percent of the respondent shows positive views towards the investment from the NRN's side whereas 20 percent of them deny bringing the NRN for the investment in stock market.

13. Analysis of the Deficiency of Stock Market from the Government Side

Table 4.30

Deficiency of Stock Market from the Government Side

S.No.	Research variables	No. of respondent	% of respondent
1	Amendment of rules and regulations	32	70
2	Develop more stock exchange	9	20
3	Increase the no. of brokers	4	10
	Total	45	100

Source: Field survey 2009

About the question what should be done by the government to remove the deficiency of stock market? In response table 4.30, 70 percent of the respondent

said that there should be amendment of rules and regulation whereas 20 and 10 percent said for the development of more stock exchange and increase the no. of brokers respectively.

4.4 Major Finding of the Study

Major Findings of the Secondary Data

The major findings of the study from the secondary data are as follows:

Trend Analysis

-) The growth rates of total listed companies are positive in all years except in 2002 because deleted some companies from its list because they did not disclose necessary information correctly and timely. But growth rate of commercial bank are positive in all years and no of traded company are positive in all years.
-) The numbers of listed securities are increasing gradually and NEPSE index are fluctuating up to 2004 but there after increasing trend. Similarly commercial banks index has fluctuating manner. Also, no of transitions in NEPSE and C.B. are in fluctuating manner.
-) Total paid up value and paid up value of C.B. has increasing trend up to around 58 percent from around 3.46 percent. Banking sector covered majority of paid up values in every year.
-) The number of issue approval and amount of issue approval the fluctuation in every year. It has maximum no of issue approval i.e. 72 companies that includes right share, ordinary and dividend maximum amount of issue approval i.e. Rs. 11567.86 million
-) Total market capitalization and banking sector market capitalization are positive in all years except in 2001. Banking sector also covered most of the market capitalization in NEPSE than other sector in every year.

-) Growth of average daily turnover, market days are at satisfactory level. Because generally it has increasing trend.
-) Total no. of share traded and no. of share traded of C.B. are fluctuated manner.
-) Commercial Bank has highest market capitalization then other Bank & trading company and the market capitalization of trading company is least among all.
-) The total turnover of commercial Bank is 13822.1 that occupies 62.87% where as trading company and hotels have least turnover covering 0.01% only.

Filter rule

Four and eight percent of filter rule was experienced for every bank only for the sake of predict the decision of buy and sell. 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 1 buy and 1 sell at 4% and also 1 buy at 8% decision ,for HBL there are only 1 buy and one sell at 4% and only 1 buy decision at 8%.

Run Test

Run test was examining to analysis the behavior of stock prices of different bank. 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 NIB than the other banks because the maximum run is these three Banks.

Moving Average

By the above figure, it has taken 5 -day moving average of 5 commercial banks. According to this price range of almost all the closing price of all Banks is in

increasing trend. Generally SCBNL, NABIL, BOK and HBL are increased rapidly in the days selected for calculation.

Major Findings of the Primary Data

The major findings of the study from the primary data are as follows:

-) By taking the indirect interview with senior officer and staff of SEBO/N, NEPSE general investor, brokers etc. It was found the infancy stage of Nepalese stock market, rules and regulations is not effective, investor less awareness about the stock market etc.
-) By analyzing the questionnaires, majorities of respondents are satisfied with the growth trend of the market.
-) Due to the lack of proper knowledge of investor about the stock market are big problem and most of the respondents answer was the prospects of Nepalese stock market is increasing no. of listed large companies in NEPSE.
-) The major motivator factor for investor to make investment in stock market was capital gain that after rumors made by the issuing company is the main influencing factor for the price of the stock that after dividend, financial situation, Management of the company are the main influencing factor for the price of the stock that equally influence.
-) The respondent number of 60 percent said that information provided by the company is not appropriate about the stock market.
-) The respondent number of 80 percent people said that SEBO/N rules and regulation does affect the value of stock.
-) Most of the respondents said that investor does not awareness about the stock market.
-) The respondent number of 60 percent respondent said that company's profit is the basic of decision making on stock market and 80 percent are

- against the Nepalese stock market is information and operational efficient.
-) Majority of respondents blames to the NEPSE is the most responsible for appropriate trading system than other regulating body.
 -) NRN's also showing their keen interest to invest in stock market. 80% of the respondents are positive to bring them for investment after the proper rules and regulation from the Government side.
 -) The respondents of 70% 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

Capital market plays dominant role in the economy for developing and underdeveloped nations. Capital market contributes to gain economic growth. There is no way to gain economic growth until capital market is operating smoothly. Therefore, stock market is the back bone of investment. Sector of country, it also provided the capital formation. So by promoting the stock market, government can also develop the economic sector it gives the economic development by mobilizing saving in to productive sectors by making suitable investment opportunities. In Nepalese stock market, NEPSE index, volume and number of share traded, rates of listing, paid up value, market capitalization etc are the determinates for investment as well as growth indications.

Nepalese stock market is the institutional development of securities market started in 1976 A. D., it is still at an underdeveloped stage, characterized by legal inadequacy, low resource availability to the regulator, low liquidity, double taxation on dividend and capital gain tax, poor corporate governance practice, low involvement of institutional investor, poor discloser practices, high cost of public issue, high transaction cost, lack of enforcement of accounting and auditing standard, lack of qualified manpower, lack of sufficient knowledge to the investor etc.

This study has attempted to identify the problems associated with Nepalese stock market and the area, which provides the potentials for the growth of the market. The main objectives of this study is to examine the growth trends of securities, problems and prospects of securities and to evaluate the daily price movement of listed commercial bank and to suggested improvement in stock market of Nepal.

Five listed commercial banks in NEPSE are taken as sample and analysis of their price fluctuation by using technical analysis i.e. (filet rule, run test, Moving average) on the other hand, primary and secondary data used to analyze of this study. In the primary data, there are interview and questionnaire method to analyze from different respondents person. In the secondary data, there are analyzing the growth trend of stock market by using different indicators like: no of listed company, turnover market capitalization, number of securities traded, securities analysis etc. and tables and diagram are used to present the data and results secondary data are collected from NEPSE, SEBO/N, related, News paper, articles etc.

Securities market plays a crucial role in mobilizing a constant flow of saving and channeling these financial resources for expanding productive capacity in the countries. Thus, securities markets assume a greater role and significance in the present day economics.

5.2 Conclusion

Due to the dynamism of stock market affect the price of commercial sector than other sector. Also, more fluctuated price of commercial bank because an almost indicator of it's higher than other sector. On the other hand, investors have very little alternatives of investment available. They are not well aware of the fact that investing in shares involving risk. So, the converted bodies should feel responsible to providing sufficient and reliable information about investment in shares. So that the rational could the upgraded and the pricing may become effective.

After analyzing this study, from primary and secondary data the following conclusion can be drawn which are as follows:

-) Due to the increasing number of listed companies, number of traded companies and number of listed securities, it can beneficial for investor to investment in stock market.

-) NEPSE index is a barometer that represents value of shares of companies listed with stock market. It is a benchmark to measure investors' confidence when the index increases; the performance of the corporate sector also increases.
-) The analysis of shares through technical approach is based on actual price movement in the market and it is not based on anticipated or forecasted value:
-) Thus, analyzing the shares with technical tools, increasing chances of taking right action at the right time but it largely depends on the skill or expertise of analyst.

Average daily turnover provides the liquidity to the stock market and commission to the stock brokers. Stock brokers will not survive without having transactions in the stock market. Generally increasing trend of A.D.T., it means more liquidity provide to the stock market.

-) No of share traded, capitalization and turnover has increasing trend it means Nepalese capital market is developing stage and it may be more marketability and liquidity in future.
-) On the basic of sector wise analysis, shows the most portions of market capitalization and turnover i.e. commercial bank sector.
-) The major problem of the stock market is insufficient knowledge of the investor because they invest on stock price by rumors and whim they don't calculate the financial situation of the company, also small capital market in Nepal.
-) The major prospects of the Nepalese stock market is increasing number of large companies in NEPSE and its increase the more liquidity in the market.

-) Lack of appropriate rules & regulations the stock market is not developing as well and is not responsible for appropriate trading system by different regulating body.
-) Dividend is the most important factor motive to makes investment decision and investor desires the maximum return on their investment.
-) There should be transparency and openness of transaction, quality professional services. Adequate corporate financial disclosures and improved large regulatory and supervisory framework are the urgent needs of Nepalese stock market.
-) Investors are investing in primary and secondary market without having proper knowledge of investment and also unknown about the financial performance/position of the issuing company. It seems that they were investing on rumor and from the pressure of their friends, family and relatives.

5.3 Recommendations

Nepalese stock market is on infancy stage. There are prevailing various kinds of obstacles or problems. These obstacles should be addressed to develop the markets. As per the analysis of the study and findings following recommendation are as follows:

-) The government and other major regulating body should formulate appropriate rules and regulations about the stock market, which can help to develop the stock market.
-) The government should attract foreign investors to invest in Nepalese capital market. It can help to increase of market size.
-) The investor should not consider the stock market as an important gambling place to make fortunes overnight. They should not 'act on whim' and should properly analyze and study daily newspaper, financial news, journals articles etc.

-) The political instability creating many hindrances on the smooth functioning of stock market. Therefore the government should take necessary steps to make better environment for investment in stock market
-) The securities board Nepal has the responsibility of regulating the entire securities market in Nepal. To make the board effective, the number of staff should be adequate and properly trained in all aspects of securities markers. It should bring new and emerging stock market regulatory regimes to match international standards.
-) Free information about stock market must be available in the market so that people or investor would have willingness and curiosity to learn and understand about stock market in Nepal.
-) NEPSE, SEBO/N & Government should be introduce the program to increase the investor confidence..
-) There should be efficient coordination and co-operation among regulating body like government, CRO, SEBO/N, NEPSE, MOF etc.
-) Shareholders should also learn and believe to facilities improvement in the performance of the company
-) While investing or trading in the primary and secondary market, the major consideration should be made that of the promoters, directors and managers in Nepal. Other considerations may be market prospects, professionalism of management and overall environment.
-) For developing of stock market, there should be expansion of stock exchange and brokers out of valley. Also, trading of share should be made out of valley.
-) Strong accounting and auditing standards should be effective implemented by empowering the regulator and creating requital awareness in the corporate sector.

-) Investor's awareness programmer should be lunched and provided with investment guidelines by the main regulating body.
-) SEBO/N should focus to play its role in infrastructure development, improvement of professionalism of the market participants, enhance disclosure standards, supervise market and take enforcement actions to ensure fairness and transparency in the market.
-) NRN is also showing their keen interest to invest in share market of Nepal.
-) So the government should make the investment opportunity after the preparation of the required rules and regulation.
-) There should be increasing the market size and transaction ratio by both financial and real sector.

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APPENDIX - I
QUESTIONNAIRE

Dear Sir/Madam

I have been conducting a research on “*The Challenges and Possibilities of Primary and Secondary Stock Markets in Nepal*”. In partial fulfillment of master degree of business studies. I am preparing some question about the study & it helps to know the problems & prospects of the stock market. 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 will be a grateful to analyze this research paper.

I am looking forward for your favorable response.

Thank you

Researcher

Rishi Ghimire

Roll No – 605/062

M .B. S.

Sankar Dev Campus

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 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.3 Rank the following prospects of Nepalese stock market. [no 1 is the most important]

- 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 4 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 5 what factors motive you to makes investment in stock market?

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

Q.N 6 Do you think that information provided by the company is appropriate?

- Yes No
- Do not know

Q. N.7 Does SEBON rules & regulation affect the value of stock?

- Yes No
- Do not know

Q. N 8 Do you think investors in the Nepalese stock market are aware?

- Yes No
- Do not know

Q. N 9 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 10 Do you think that Nepalese stock market is informational and operationally efficient?

- Yes No
- Do not know

Q.N. 11 Who is most responsible for appropriated trading system in stock market?

Investors

NEPSE

Main Regulating Body

Q.N.12 NRN has been continuously showing their keen interest in various investment activities. Do you think that concerned agencies should bring appropriate rules and regulation to attract them in Nepalese stock market?

Yes

No

Do not know

Q.N. 13 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

Thank You!

APPENDIX-II

Name of the Listed Companies in Stock Exchange

SN	Name of the Companies
Commercial Banks	
1	Nabil Bank Ltd.
2	Nepal Investment Bank Ltd.
3	Standard Chartered Bank Ltd.
4	Himalayan Bank Ltd.
5	Nepal SBI Bank Limited
6	Nepal Bangladesh Bank Ltd.
7	Everest Bank Ltd
8	Bank of Kathmandu
9	Nepal Industrial & Co.Bank
10	Machhachapuchhre Bank Ltd
11	Laxmi Bank Limited
12	Kumari Bank Ltd
13	Lumbini Bank Ltd.
14	Nepal Credit & Com. Bank
15	Siddhartha Bank Limited
16	NMB Bank Limited
17	Development Credit Bank Ltd.
Development Banks	
1	Nepal Industrial Dev. Corp.
2	Nepal Development Bank
3	Nirdhan Utthan Bank Ltd.
4	Chhimek Vikash Bank Ltd.
5	Paschimanchal Bikash Bank
6	Diprox Development Bank
7	Gandaki Dev. Fin. Inst.
8	Business Dev. Fin. Inst.
9	Siddhartha Vikash Bank Ltd
10	Bhrikuti Vikash Bank Ltd.
11	Sanima Vikash Bank Ltd.
12	Narayani Industrial Dev. Bank
13	Bageshori Dev. Bank Ltd.
14	Sahayogi Vikas Bank Ltd.
15	Gurkha Vikas Bank Ltd.
16	Annapurna Bikas Bank Ltd.

17	Swabalamban Bikas Bank Ltd.
18	Ace Development Bank Ltd.
19	Himchuli Bikas Bank Ltd.
20	Excel Development Bank
21	Malika Bikas Bank Ltd.
22	Biratlaxmi Bikas Bank Ltd.
23	Infrastructure Development Bank Ltd.
Finance Companies	
1	Nepal Finance and Saving Co.Ltd.
2	NIDC Capital Markets Ltd.
3	National Finance Co. Ltd.
4	Nepal Share Markets Ltd.
5	Annapurna Finance Co.Ltd.
6	Kathmandu Finance Limited.
7	Peoples Finance Limited.
8	Union Finance Co. Ltd.
9	Citizen Investment Trust
10	Nepal Aawas Bikas Beeta Co. Ltd.
11	Narayani Finance Limited
12	Yeti Finance Company Ltd.
13	Gorkha Finance Ltd.
14	Samjhana Finance Co. Ltd.
15	Universal Finance Ltd.
16	Nepal Housing & Merchant Fin.
17	General Finance Ltd.
18	Maha Laxmi Finance Ltd.
19	Lalitpur Finance Ltd.
20	Goodwill Finance Co. Ltd.
21	Paschimanchal Finance Co. Ltd
22	Pokhara Finance Ltd.
23	Lumbini Finance Ltd.
24	Siddhartha Finance Limited
25	Alpic Everest Finance Co. Ltd.
26	United Finance Ltd
27	International Leasing & Fin. Co.
28	Shree Investment Finance Co. Ltd
29	Central Finance Co. Ltd.
30	Nepal Shree Lanka Merchant Bank
31	Premier Finance Co. Ltd

32	Nava Durga Finance Co.Ltd.
33	Butwal Finance Ltd
34	Janaki Finance Ltd.
35	Standard Finance Ltd.
36	Om Finance Ltd.
37	Cosmic Mer.Bank & Fin.
38	Fewa Finance Co. Ltd.
39	KIST Merchant Bank. & Fin
40	World Merchant Bank Ltd
41	Birgunj Finance Ltd
42	Capital Mer. Bank & Fin
43	Everest Finance Ltd,
44	Prudential Bittiya Sanstha
45	Shrijana Finance(Bittiya Sanstha)
46	Royal Mer. Bank.& Fin
47	Guheyshwori Mer. Bank. Fin
48	IME Financial Institution
49	Bhajuratna Fin. & Sav. Co. Ltd.
50	Patan Finance Ltd.
51	Imperial Financial Inst. Ltd.
52	Civil Merc.Bittiya Santha Ltd.
53	ICFC Bittiya Santha Ltd.
54	Nepal Express Finance Ltd.
55	Kuber Mer. Finance Ltd.
Insurance Companies	
1	Nepal Insurance Co.Ltd.
2	Rastriya Beema Sansthan
3	National Life &Gen.Insu.Co.Ltd.
4	Himalayan Gen.Insu. Co.Ltd.
5	United Insurance Co.(Nepal)Ltd.
6	Everest Insurance Co. Ltd.
7	Premier Insurance co. Ltd.
8	Neco Insurance Co.
9	Alliance Insurance Co. Ltd.
10	Sagarmatha Insurance Co.Ltd
11	NB Insurance Co. Ltd.
12	Nepal Life Insurance Co. Ltd.
13	Life Insurance Co. Nepal
14	Prudential Insurance Co.

15	Lumbini General Insurance
16	Shikhar Insurance Co. Ltd.
17	Siddhartha Insurance Co. Ltd.
Manufacturing and Processing Companies	
1	Bottlers Nepal Ltd.(Balaju)
2	Nepal Lube Oil Ltd.
3	Nepal Vanaspati Ghee Udhog Ltd
4	Raghupati Jute Mills Ltd.
5	Butwal Spinning Mills Ltd.
6	Gorakhakali Rubber Udhog Ltd.
7	Jyoti Spinning Mills Ltd (ord.)
8	Arun Vanaspati Udhog Ltd.
9	Bottlers Nepal (Terai)Ltd.
10	Harisiddhi Brick and Tile Fac.Ltd.
11	Birat Shoe Ltd.(Ord.)
12	Uniliver Nepal Ltd.
13	Nepal Khadya Udhog Ltd.
14	Shree Bhrikuti Pulp & Paper Ltd
15	Fluer Himalayan Limited
16	Shree Ram Sugar Mills Ltd
17	Nepal Bitumin and Barrel Udyog
18	Himalayan Distillery Ltd.
Trading Companies	
1	Salt Trading Corporation
2	Bishal Bazar Co. Ltd.
3	Nepal Trading Ltd.
4	Nepal Welfare Company Ltd.
Hotels	
1	Yak and Yeti Hotel Ltd.(Ord.)
2	Soaltee Hotel Ltd.
3	Taragaon Regency Hotel
4	Oriental Hotel Ltd.
Hydro Power	
1	National Hydro Power Co.
2	Butwal Power Co. Ltd.
3	Chilime Hydro power Co.
Others	
1	Nepal Film Dev. Co. Ltd.

APPENDIX-III

List of Licensed Securities Business Persons

S.No.	Firm name	Code	Address
1	Kumari Securities Pvt. Limited	1	Dilli Bazar,Kathmandu
2	Arun Securities Pvt. Limited	3	Putalisadak,Kathmandu
3	Opal Securities Investment Pvt. Limited	4	Ramshah Path,Kathmandu
4	Market Securities Exchange Company Pvt. Ltd.	5	Kichha Pokhari,Kathmandu
5	Agrawal Securities Pvt. Limited	6	Shankardev Marga, Putalisadak,Kathmandu
6	J.F. Securities Company Pvt. Limited	7	Putalisadak,Kathmandu
7	Ashutosh Brokerage & Securities Pvt. Limited	8	Kichha Pokhari,Kathmandu
8	Pragyan Securities Pvt. Limited	10	Kamalpokhari,Kathmandu
9	Malla & Malla Stock Broking Company Pvt. Limited	11	Dillibazar,Kathmandu
10	Annapurna Securities Service Pvt. Limited	13	Putalisadak,Kathmandu
11	Nepal Stock House Pvt. Limited	14	Anamnagar,Kathmandu
12	Primo Securities Pvt. Limited	16	Shankardev Marga, Putalisadak,Kathmandu
13	Khandelwal Stock Broking Company Pvt. Limited	17	Indrachowk,Kathmandu
14	Sagarmatha Securities Pvt. Limited	18	Putalisadak,Kathmandu
15	Nepal Investment & Securities Trading Pvt. Limited	19	Old Baneshowar,Kathmandu
16	Sipla Securities Pvt. Limited	20	NewRoad,Kathmandu
17	Midas Stock Broking Company Pvt. Limited	21	Putalisadak,Kathmandu
18	Siprabi Securities Pvt. Limited	22	Kupondol,Lalitpur
19	Sweta Securities Pvt. Limited	25	Putalisadak,Kathmandu
20	Asian Securities Limited	26	Bagbazar, Kathmandu
21	Shree Krishna Securities Limited	28	Dharmapath, Kathmandu
22	Trishul Securities Limited	29	Newplaza, Kathmandu
23	Premier Securities Limited	32	Putalisadak,Kathmandu

APPENDIX - IV

List of Top Ten Companies Mid July 2007- Mid July 2008

Top Ten on The Basis of Traded Amount

S.No.	Name of the Companies	Traded Amount
		Rs. In Million
1	National Hydro Power Co. Ltd.	1969.85
2	NABIL Bank Ltd.	1777.02
3	Bank of Kathmandu Ltd.	1663.84
4	Nepal Bangladesh Bank Ltd.	1519.69
5	Standard Chartered Bank (Nepal) Ltd.	1110.80
6	Machhapuchchhre Bank Ltd.	1089.68
7	Kumari Bank Ltd.	1024.18
8	Chilime Hydro Power Co. Ltd.	905.43
9	KIST Merchant Bank & Finance Ltd.	871.03
10	Lumbini Bank Ltd.	851.33

Top Ten on The Basis of Share Traded

S.No.	Name of the Companies	No. of Share
		In 000
1	National Hydro Power Co. Ltd.	6384
2	Nepal Bangladesh Bank Ltd.	1936
3	Lumbini Bank Limited	1567
4	Machhapuchchhre Bank Ltd.	1304
5	Nepal Credit & Com. Bank Ltd.	1269
6	Kumari Bank Limited	1087
7	Harisiddhi Brick & Tile Fac. Ltd.	1082
8	Bank of Kathmandu Ltd.	956
9	Kist Merchant Bank. & Finance Ltd.	855
10	Gurkha Development Bank Ltd.	733

Top Ten on the Basis of Number of Transactions

S.No.	Name of the Companies	No. of Transaction
1	Gurkha Development Bank Ltd.	18390
2	ICFC Bittiya Sanstha Ltd.	10263
3	Annapurna Bikas Bank Ltd.	9718
4	Sanima Bikash Bank Ltd.	6305
5	Bank of Kathmandu Ltd.	6106
6	Nepal Bangladesh Bank Ltd.	5216
7	Kumari Bank Ltd.	4717
8	National Hydro Power Co. Ltd.	4387
9	Machhapuchhre Bank Ltd.	4061
10	Nepal Ind. & Comm. Bank Ltd.	3934

Top Ten on the Basis of Market Capitalization

S.No.	Name of the Companies	Capitalization
		Rs. In million
1	Standard Chartered Bank (Nepal) Ltd.	42337.95
2	NABIL Bank Limited	36259.98
3	Nepal Investment Bank Limited	24564.54
4	Himalayan Bank Limited	16054.04
5	Bank of Kathmandu Limited	14173.82
6	Butawal Power Co. Ltd.	13080.91
7	Everest Bank Limited	11838.96
8	Chilime Hydro Power Com. Ltd.	11396.35
9	Machhapuchhre Bank Ltd.	10393.89
10	Nepal Ind & Commerc. Bank Ltd.	10169.28