

# CHAPTER-I

## INTRODUCTION

### 1.1 Background of the Study

Nepal is one of the least developed countries in the world. Nepal launched planned economic development more than four decades ago. Recently it has adopted the path of economic development through liberalization. Strategy for requires a steady supply of medium to long-term capital funds for productive investment for the mobilization of invisible resources. Capital market is an important intermediary through which effective bridging of the country efficient and effective capital market is a vital importance. The capital market institutions are engaged in mobilization of saving from surplus units and policy funds into the deficits units for productive investment. Capital market can be decomposing into securities and non-securities market to stock. Capital market is an organize market through which buyer and seller of long- term capital are met to buy and sell the long-term funds.

Capital market is place where long-term securities having maturity period greater than one year are trade. The instruments used in capital market are debt, stock, bonds, and convertible issue. The long term debts are installment debts, commercial debts represented by acceptance bills commercial debts and accommodation papers etc. saving and deposits schemes, which are not securities bearing, fall under the non securities segment of market. Capital are also classifies as primary market and secondary markets. Primary are the markets in which corporations raise new capital and in which newly issued securities are involved. If we were to sell new issue of common stock to raise common stock to raise capital, here would be a primary market transaction. The corporation selling the stock receives proceeds from the sale in the primary market transaction.

Secondary markets are those in which in previously issued securities are trade by far the most active secondary market and the most important one to the financial managers is the stock market. It is here that the price of firms stock are established and since the primary goal of financial management is to maximize the firm's stock price, a knowledge of the market, in which the price is established is essential for any one involve in managing the business.

The stock market also imparts liquidity to the securities holders. This offers an opportunity for investors to invest in the long term ventures, while market also enable

them to convert their securities into liquidity cash before the maturity of the project. The liquidity stock market also promotes the primary issuance of share because investors participant in the issuance of share markets for they can get back the fund easily.

Stock market liquidity may influence economic development. Many profitable projects require long-term venture capital finance. Most investor trends to avoid the risk are often reluctant to tie their saving into the long-term commitment. Liquid stock market makes the investment less risky and more attractive. It encourages several to invest in the long-term project, because they can sell the security quickly and easily if they want to get back their savings before the project matures.

The investors in Nepal have shown their growing interest in shares of the public limited companies, banks financial institutions. At the same time, their interest to price volatility has been increasing day by day. Many public limited companies in Nepal are successful in floating the shares in securities market these days. The rising investment consciousness is the direct outcome of the keen interest shown by the public. “whenever the public limited companies issue new shares the stock market gets with crowds of share application”.(Shrestha, 1992:56-57)

In 1983, securities exchange was enact to develop the securities market. Under the act, the securities marketing center was convert into the securities exchange center (SCE) in1984. Securities exchange centre functions were confine to the trading of government stock. Except government stock, securities exchange centre also carried out primary and secondary market services for the corporate securities. The remarkable changes come only after the initiation to reform the market in 1993, when the securities exchange centre was convert into Nepal stock exchange (NEPSE) and new market mechanism was introduced providing membership to market intermediaries allowing participant in the transaction of securities.

## **1.2 Focus of the study**

Capital market helps to mobilize the financial resources and efficiently channel to productive investment. Capital market consists of securities market and non-securities market. Securities market implies mobilization of the funds through issuance of securities share, bonds, and debentures, by corporate sector and bonds bills and debentures by government. The securities available in this market can be in the form of equity such as share and stocks, debts instruments such as corporate bond

and government securities or equity equivalents such as convertible bond or debentures. These securities traded in the market are generally negotiable and hence can be trade in the secondary markets. Non- securities markets refers to the mobilization of the financial resources by the financial institutions in the form of deposits and loans.

Stock market acts as a part of the capital market and can provide major sources for the investment in the economic development. Stock is an institution of paramount importance in the economic life of the any country. In fact, private ownership of business and industry would be inconceivable in the absence of a facility which enables such share ownership right to be bough, transferred, and converted into cash. The stock exchange provides liquidity to private investment in corporate enterprises.

Stock market is a secondary market, a trading market. This is a place where buyer and sellers of securities is bough together. The stock price efficiency occupies an important place in financial management. If there are certain imperfections in the stocks, wise investor attempts to utilize them to achieve a better return. The perception has no rational significance in a world where shares are efficiency priced. In and efficient market, share price should adjust randomly upward with respect to the new information. Stock market efficiency cannot be taste directly. However, by postulating some security price behavior, one can have some idea about market efficiency. History indicates that much time and effort have been devoted in the field of financial research to investigation the movement of share prices. Thus, study has been focused on the behavior of Nepal Stock Exchange index.

### **1.3 Statement of the Problem**

The Nepalese capital market has been passing through a transitional phase over the few decades. A breakthrough was achieved in the development of stock market in Nepal, when the security transaction centre was converted into Nepal stock exchange in 1994. Market maker and stock brokers were engages to transact business through a trading floor provided by Nepal stock exchange under an atmosphere of competition.

Stock market provides investors good investment opportunity with fair return and instant liquidity with minimal risk or loss. It helps to mobilize financial resources for the investment in development projects and there by helps for economic

development, in turn, further develop the stock market. The investment strategy based on the technical analysis is more profitable than buy and holds policy timing of selling and buying. Fundamental analysis theory holds the view that there exists intrinsic value of the stock, which helps to select the right stock at a time. Market is efficient in pricing the share. In that condition, investment decision becomes simple. However, investors are losing interest in the performance of share market mainly due to the behavior of fraudulent and scandalous activities. Investors are confused which stock is good or bad.

The study period is no longer and enough to other comprehensive test in short data series seems that the study was focus on the methodological study only. The study mainly has sought the answer to the following question:

How many companies listed in Nepal stock exchange?

- What is the trend in market capitalization?
- What is the behavior of NEPSE index?
- Why financial index is more growth than manufacture and other sector?
- Why NEPSE index is increase faster than previous?
- What is the trend of annual turnover of the Nepal stock exchange?

#### **1.4 Objective of the Study**

This study aims to examine the efficiency of the behavior of NEPSE index.

The specific objectives of the study are as follows:

- ) To analysis the trend of annual turnover of Nepal stock exchange.
- ) To analyze the behavior of listed companies in NEPSE.
- ) To analyze the behavior of NEPSE index.
- ) To analyze investor's view while making investment decision.
- ) To analyze investing technique in stock market.

#### **1.5 Significance of the Study**

There are various factors that cause market fluctuation of stock price in the market, mainly two factor and non- economic factor s. the most fundamental factor in stock price fluctuation lays change in corporate earnings; interest rates and business cycle trends contribute to makeup the economic factors. Political change, administrative changes, changes in weather and other natural conditions. The stock

price is directly affected by the volumes of transaction, institution investor, transactions etc. although margin transaction increase purchase whose stock price is going up, once the price begins to fall, they become a selling factor and accelerate price decline.

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

If the successive price changes of the share dependent on their past values, there exist 'trends' or 'patterns' in the price movement which are profitable to the securities analysis. "When successive price changes are independent, there can be no chart reading technique which makes the expected profits of the investors "greater than they would be under a naïve buy and hold model." (Fama 1965)

## **1.6 Limitation of Study**

Nepal stock exchange consists of eight sectors. The study was based on these eight sectors to study the behavior of the Nepal stock exchange (NEPSE). The study period covers for 3 years, starting from 16 July 2005 to 16 July 2008. It was not doing as individually but done in sector wise. The study was limited only to the stock market of Nepal.

## **1.8 Organization of Study**

It includes five chapters;

### **CHAPTER-I INTRODUCTION**

This chapter deals with subject matter of the study consisting of background of the study, focus of the study, statement of the problem, significance of study, limitation of the study and hypothesis formation.

### **CHAPTER-II- REVIEW OF LITERATURE**

This chapter deals with review of the different literature of the study field. It includes theoretical review along with the review of major books. Journals, research works and thesis.

### **Chapter-III RESEARCH METHODOLOGY**

This chapter deals with research methodology to be adopted for the study consisting research design, source of data, population sample etc.

#### CHAPTER-IV DATA PRESENTATION AND ANALYSIS

The fourth chapter deals with presentation analysis and interpretation of data. It consists testing of hypothesis, analysis of questionnaires, and analysis of open-end opinions and major findings of the research.

#### CHAPTER-V SUMMARY CONCLUSION AND RECOMMENDATION

The last chapter covers the summery, conclusion and recommendation of the study.

## **CHAPTER-II**

### **LITERATURE OF REVIEW**

#### **2.1 Theoretical Reviews**

Numerous factors cause the share fluctuation in the market. There are economic and non-economic factors. The prices of securities are typically very sensitive, responsive to all the events both real and imaginary that cast light into murky future. (Cootner, 1964:85)

During the last three decades, a number of studies had been conducted to examine and to test the efficient market hypothesis in its weak and semi strong forms in developed stock market. Efficient market cannot be directly tested. Over the years, professionals and experts have been concerned with development and testing model of price behavior. It would be very hard to find a completely accepted price formation theory. Before describing the efficient market theory, it would be proper to explain the conventional approach that includes technical analysis theory.

##### **2.1.1 Technical Analysis**

Technical theory involves study of the past volume and price data of the stocks to predict future price fluctuations. This approach studies various graphs and charts of the past share prices and deduces from the analysis about future movement. “The chartist seeks to predict future movements by seeking to interpret past patterns on the assumption that history tends to repeat itself.” (Kean, 1983:10) Technical analysis is the study of the internal stock exchange information as such. The word “technical” implies a study of the market itself and not of those external factors, which are reflecting in market. The technician usually attempts to predict short term price movement and thus makes recommendations concerning the timing of purchasing and selling of either specific stock or groups of stocks (such as industrial) or stock in general. It is sometimes said that technical analysis is designed to answer the question ‘when?’ (Sharp, Alexander and Bailey, 2003:223). The underlying philosophy of technical analysis is that the price of the stock depends on supply and demand in the market and has little relationship to intrinsic value, as fundamentalists believe it to be. Thus, technical analysis tools are designed to measure supply and demand of securities in the capital market.

The following assumptions:

- ) Price was determined by the interaction of demand and supply.
- ) Demand and supply had been governed by various factors, both rational and irrational.
- ) Series of prices contain trends that persist for appreciable length of time.
- ) The changes in trends caused by shifts in demand and supply are detachable in the analysis of past price and value.
- ) The pattern tends to repeat itself.

“In statistical terminology the stock market technician relies upon the dependence of successive price changes.” (Levy, 1966:168). They assume that the historical behavior of a security price is rich in information concerning its future behavior.

### **2.1.2 Fundamental Analysis**

In the fundamental analysis approach, the security analyst or prospective investor is primarily interested in analyzing factors such as economic influences, industry factor, and pertinent company information such as products such as product demand, earnings, dividend, and management in order to calculate an intrinsic value of the firm's security. It said sometimes that fundamental analysis was designed to answer the question. (Sharp, Alexander, and Bailey 2003:239)

Fundamental analysis theory claims that at any point of time an individual stock has an intrinsic value of the future cash flows from the security discounted at appropriate risk adjusted discount rate. The value of the common stock is simply the present value of the all future income which the owner of the share will receive the actual price should reflect the intrinsic value of the stock i.e. good anticipation of cash flow and capitalization rates corresponding to future time period. But in practice, first it is not known in advance what a stock income will be in each future period and second, it is not clear what the appropriate discount rate should be for a particular stock. So fundamentalists attempt to reach best estimate of the intrinsic value of share by studying company's sales, profit, dividends, management competency and numerous other economic and industrial factors which determine its future income and prospect of the business opportunities. Fundamental analysis delves into companies, earnings, their management, economic outlook, firm's competition, market conditions, and many other factors.

Fundamental security analysts estimate the intrinsic value of a security. Whenever the stocks values of the stock, the recommendation of sales or purchase is called for “after extensive analysis, the investor derives an estimate of the ‘intrinsic ‘ value of the security, which is then compared to its market price, the security should be acquire and vice versa.

### **2.1.3 Efficient Market**

Efficient market is concerned with the pricing mechanism of security market. It has two dimension of price adjustment: one is to the type of information reaching to and another is the speed and quality of adjustment of security to the information. As any random, infusion of information instantaneously and correctly adjusts in prices. There are no subsequent lags that’s should be profitable. Pricing not only should be instantaneous but also should discount accuracy of information so that the prices fluctuate closely around its intrinsic value.

Market efficiency may be defining in the context of number of areas, for intense organizational efficiency, investment efficiency, allocation efficiency, informational efficiency and so on. The word “efficiency” as applied to securities market has been unfortunately use to represent a variety of logically distinct concept, in particular it mean a) exchange efficient b) production efficient and c) information efficiency. Efficiency market theory contends that in free and perfect competition market, stock price always reflects all the available information and adjust instantaneously every influx of new information. “In an efficient markets security prices “fully reflect” available information.” (Fama, 1977:13)

Most financial economists agree that capital should be channel to the place where it will do the most good. One goal of government policy is to encourage the establishment of allocation all efficient markets in which the firms with the most promising investment opportunities have access to the needed funds. However, in order for markets to be allocation efficient, they need to be both internally and externally efficient. In externally efficient market, information is quickly and widely disseminated, which allows each so that it reflects investment value. An internally efficiently market is one in which brokers and dealers compete fairly, making cost of transacting low and the speed of transaction is high. (Sharp, Alexander, and Bailey, 2003:228)

The efficient market theory being extreme hypothesis, i.e. price was fully reflecting and not all the information can be test in the empirical data in this precise form. However, postulating pricing mechanism with the types of information set was impounding in the stock market can done. Hypothesis of the market is efficient depending upon types of information was impounds into price. There are:

- I. The efficient market hypothesis(EMH)
- II. Theory of weekly efficient market or random walk hypothesis(RWH)

### **I. The Efficient Market Hypothesis (EMH)**

A large segment of financial community does not properly understand the efficient market hypothesis. The development of EMH could be trace into the random walk theory of stock market price behavior. Later, when largely random, endeavors where made to obtain empirical results with economic contents, which may be advancement of efficiency market theory. Market efficiency may be in the context of (a) operation efficiency (b) information efficiency (c) allocation efficiency.

The efficiency market hypothesis says that the market rapidly incorporates all information affecting the value of a security. Test of market efficiency require a model showing the impact of information of upon share prices. The EMH can be broken down into three sub- hypothesis, which differ according to the type of information.

Form of efficiency set of information reflected in security price Weak previous prices of securities Semi-strong all publicly available information Strong all information, both public and private. Three forms of efficient market hypothesis depending upon types of information set impound into the prices. If the pricing in the stock market has absorbed all the information available in the stock market, it was consider as weakly efficient and participant of the technical analysis approach in the market becomes futile. If current prices of the stock reflect all the publicly available information i.e. past prices volume data and all the published accounting information have no value because it would have been discounted by participants accurately and instantaneously when they are disclosed

The weak from efficient market hypothesis assumes that all past information has reflected in security prices. This means that is no relation between the past add the future price fluctuations. Consequently, investors are unable to make profit from studying trend or pattern of past of prices of the securities.

The semi- strong efficient market hypothesis holds that security prices adjust rapidly to all publicly available information, e.g. the announcement of annual earning, stock splits etc. this implies that using publicly available information investor will not be able to earn above average return.

The strong form efficient market hypothesis assumes that all information affects stock prices both public and private securities prices. Thus, in such a condition even those who have access to private information cannot consistently excess return.

The main job of fundamentalist is to find out overvalue securities. Furthermore, in a dynamic economy intrinsic value can change them because of new information. The intrinsic value of a give securities depends on the earning prospect of the company, which is related to economic, political, and company's specific factor. In some cases, the market participants do not rapidly know new information, security price change with display dependence. However, if the adjustment to new information is "instantaneous" successive price changes will be independent (Lorie 1973:4).

The semi strong efficient market hypothesis (SSEMH) and strong efficient market hypothesis (SEMH) cannot be test directly; one can do so indirectly by accumulating evidence, which contradicts these hypotheses. Thus the SSEMH is tested by examine whether share price react accurately to new available fundamental information. If the SSEMH is true, then accounting information has no value and only a few insiders trading on valuable information can earn a high profit. "In SSEMH, the degree of variance between price and value security is relatively low. SSEMH can be tested by determining whether any investor appears to have gained and use superior information." It is difficult to test the SSEMH because private information could not examine directly in SEMH variance between price and value is zero.

## **II. Theory of Weakly Efficient Market or Random Walk Hypothesis: (WEM)**

The weak form of efficient market hypothesis (EMS) states that current prices fully reflect the information contained in the historical price movements. The market is efficient in the weak sense if share price fully reflect the information implied by all prior price movements. Price movements in effects are very independent of pervious movements, implying the absence of any price patterns with prophetic significance. Therefore, the past price had no meaningful information to predict future course of price fluctuation, which can used to earn above average return. The movements of

future price are independent to the previous price or the series of price change are random phenomenon. Actually, the weak form of EMH was referring to as random walk theory of share price behavior. Weak form of efficient market hypotheses has popularly known as the random walk theory. Random walk theories describe whether past prices can predict future prices. The fundamental believed at the back of RWH are that successive price changes of an individual stock are independent over time and that its actual price fluctuates freely over time about its intrinsic value. Fama called this model an intrinsic value random walk market (Fama 1965).

In contrast to this model, random walk theory denies the existence of any kind of “trends” or “patterns.” Hence, past price contains no useful information to predict future price behaviors. As Fama advocates, random walk theory implies the future path or the price level of the security is no more predictable than the path of a series of accumulated random number. The random walk model in share price actually involves two main hypotheses, which state as:

1. Successive price changes are independent, and
2. Price changes conform to some probability distribution. “Statically, independences means the probability distribution for the price change during time period  $t$  is dependent from the sequences of price changes during previous periods.” (Fama, 1965:18) More precisely, it was express in the following algebraic term.

$$P_t(x_t = x / x_{t-1}, x_{t-2}, \dots) = P_r(x_t = x)$$

Where the term on the left side of equation is the conditional probability that is the price change during time  $t$  will take the value  $x$ , conditional on the knowledge. the previous price changes took the values  $x_{t-1}$ ,  $x_{t-2}$  etc. but the term on the right of the equality is the unconditional probability that the price change during  $t$  will take the value  $x$  the expression means the conditional and the marginal probability distribution of an independent random variable are identical.

Out of two hypothesis of the random walk theory, independences of successive price change are strong and most important one to make theory valid. The second one is price changes conforms to some probability distribution but its shape or form of distribution need not to be specified i.e. any distribution is consistent with the theory as long as it correctly characterizes the process generating the price changes. However, the parameter of the distribution should be stationary but not so strongly

imposed. Moreover, still the form of distribution of price changes is important from investment decision, academic and research point of view. (Fama, 1965:19)

Actually, market mechanism establishes the existence of random walk theory that the successive price changes to be independent. The stock markets possess steady inflow of information that influences the set anticipation's of the individuals. Independence is an important property of random walk hypothesis. Proponents of random walk recognize that, in general, strictly an independence assumption does not exist in real world.

## **2.2 Review of Related Studies**

This sub- section is concern with the previous research work done by the different scholars. More especially the chapter includes the review of foreign research and review of Nepalese research.

### **2.2.1 Review of Foreign Research**

Research on the security prices did not begin with the development of a theory of price formation, which had subjected to empirical test. The imputes for the development of the theory came from the accumulation of evidence in the middle 1950 that the behavior of common stock and other speculator of prices could be well approximated by a random walk. Much of the theory on the random walk can traced on French mathematician Louis Bachelier whose PhD dissertation was title “the theory of speculation” researcher tested the model in commodity speculation in France was a “fair game.” researcher concluded that the current price of a commodity walk was unbiased estimate of its future price. After the first discovery of the random ealk model by Louis Bachelier, empirical testing of the model in the stock prices almost remained stagnate until 1960;s. there were large number of studies most of which were briefly review below.

Kendall (1953), Roberts (1959) and Osbern (1959) also tested the model that gave support to the theory. Then after in 1960's and onwards numerous studies were carried out in this area validated the hypotheses while some other studies refuted this theory as a true description of the market. This research applies various analyzing tools and mechanical rules, details of that have been present in the following paragraphs.

Kendall made significant contribution to advance in the study of the random walk model. Researcher tested the model on the weekly price changes of the 19 indices of British industrial shares and in the spot price series of cotton (New York) and wheat (Chicago). Researcher was analyzes the data by serial correlation coefficient and concluded that the subsequent stock price movement follows random walk. Researcher showed that the successive price changes are statically independent to its past price changes.

Roberts conducted simulation tests by comparing the cumulating of random numbers and the Dow- Jones Industrial Average Index (DJIAI) for about one year. Researcher observables the first difference of two series produce the same pattern. Researcher gives a number of methodological suggestions for testing what he calls the change model. Researcher suggested run analysis for testing independence of price change s. similarly, Osbern (1959) analyzed stock price from New York stock exchange (NYSE) using daily log price changes, which called Borwain Motion. Research found the consistency between the Borwain Motion and share prices movements rise to support on random walk hypothesis.

Counter had analyzed weekly and 14-week interval data on 14 stocks from New York Stock Exchange (NYSE). Research found that one-week interval stock price moves as a random walk and some dependencies in the data at 14 weeks interval. The average serial correlation coefficient for one week as -0.047 and for 14 was 0.131. Researcher focused the importance of “differencing interval” while testing for randomness in stock price behavior.

Fama study (1965) on the random walk model, he observed the daily proportionate prices of 30 individual stock the Dow Jones Industrial Average. Researcher employed the statistical tools such as serial correlation and run test to draw inference about dependence of the price series. Researcher calculated auto correlation coefficient for daily changes in log price from 1 to 30 and found that the coefficient were almost close to zero in overall.

Dryden studied daily London all- market indices for four year, and found the serial correlation coefficient 0.30 to 0.16, which is significantly different from zero. Researcher suggests “sufficient divergence from the random walk hypothesis to justify a more extensive analysis of the behavior of individual share quote on the London stock exchange.”

Solnik investigated the daily price of 234 common stocks of eight European countries namely, France, Italy, United Kingdom, Netherlands, Belgium Switzerland, and Sweden for the time from March 1966 to April 1971. Researcher calculated the return for various interval of the each stock and studied the distribution of serial correlation coefficient. Researcher pointed out that random walk is more apparent in the European stock price behavior than in the American price behavior.

Sharma and Kennedy tested the random walk model by run test and spectral analysis against representative stock market indices of Bombay, New York and London stock exchange during 1963-73. Research found that the stocks on Bombay stock exchange obey random walk and are equivalent in sense to the behavior of share price in the market of developed countries.

Gupta found out comprehensive test of the random walk hypothesis by employing serial correlation and run analysis in two sets of time series data. The two sets of time series data are the first was the economic time index, number of daily share prices and financial express index number of equity prices on a daily and other weekly series and another was a weekend closing price behavior suggesting in the Indian stock exchange were efficient in the weak sense in pricing share.

Mahapatra tested the weakly efficient market hypotheses using rank correlation analysis based on relative strength. The sample was end of month closing price of 26 stocks from Bombay stock exchange during the period January 1989 to December 1992. Researcher argued that the Indian stock market is less efficient in the short run more efficient in the long run.

Mojnoni and Massa's studied the measurement of market efficiency of the Italian stock market. The data used two different data sets on prices and returns, first on daily data then on intraday data. The analysis based on daily data shows the strong positive correlation between price changes and trading volume. That is due to significant causal relationship between price changes and trading volume is due to increasing concentration of trading should not be interpreted as an indication of poor market efficiency since the component of price volatility due to the market imperfections has decline as a proportion of total volatility even for infrequency traded stocks.

Abraham, Seyyed and Alsakram data consist of weekly index value for the three major gulf stock markets of Kuwait, Saudi Arabia and Bahrain for the period October 1992 to December 1998. Random walk hypotheses and market efficiency

hypothesis were assessed using the variance ratio and the non-parametric (Run Test) consistent with results in the literature for similar emerging markets both RWH and weak form efficiency were rejected for the Gulf markets when the observed index levels were used. The corrected indices show that successive price changes are independent for all three markets implying weak form efficiency random walk hypothesis for the Saudi Arabia and Bahrain markets cannot reject. Kuwait market fails to follow a random walk even after the correction.

Pena and Alana test showed that stock index prices follow random walk in the Spanish stock market by means of variance ratios. By using daily, weekly, and monthly price returns, auto correlation in the Spanish stock market for the two indexes (IGBM and IBEX 35) were calculated and for individual securities, the calculation done means of variance ratio tests. They found that positive string auto correlation for both IGBM and IBEX 35 index daily returns could not reject the random walk hypotheses for the period March 31, 1997 to 2000, significant position of auto correlation especially in daily and weekly period. The positive index auto correlation monthly returns were not significant at 5% level in any period. On the other hand, Spanish stock market security daily positive auto correlation are low, there is no strong evidence of monthly return cross relation at one lag (a month) between portfolios based on size. In particular, large stock portfolios lead to the small stock ones.

Wicremasighe has conducted an empirical test of foreign exchange market efficiency. The tests have been carried out by using a variance ratio test and random walk in foreign exchange rates. The study examined the weak and semi strong form efficiency of the foreign exchange market in Sri Lanka by using monthly data for six currencies. The monthly nominal spot exchange rates for Japan Yen (JPY) the UK Pound (GBP) the United State Dollar (USD) France Franc (FRF), Indian Rupee (INR), and German Mark (DM) for the period January 1986 to November 2000. While unit root test were used to test weak form of the efficient market hypotheses. Semi strong form of the efficient market hypotheses was investigated using cointegration, granger causality and variance decomposition analysis. The result of unit root tests indicates that all six exchange rates were random walk. The efficient market hypotheses was weak from the participants in the foreign exchange market in Sri Lanka and cannot devise some rule or technique that can be used to predict future movement of an exchange rate from its past value. However, the cointegration and

granger causality tests and variance decomposition analysis provide evidence against the semi-strong version of the efficient market hypotheses. They indicate that the movement of one or more exchange rate can predicted from the movement of the other exchange rates. Therefore, the participants in the foreign exchange market can engage in profitable transaction in both the short and long run.

Islam and Khaled carried out a test of weak form efficient of the Dhaka stock exchange used of monthly versus daily data or weak. The study uses daily, weekly, monthly market prices and returns of the stock exchange during the year 1990 to 2001. Starting from the January 1990, the daily market price data cover the period up to 23 November 2001, while the weekly and monthly price data cover the period up to 21 November 2001 and October 2001 respectively. Data for the period 1990 to 1991 was taking from the daily price quotations. Test of weak form efficiency of the Dhaka stock exchange had done by using the auto correlation test. They tested separately for the period before July 1996 and for the period after March 1997. They concluded that weak efficiency had rejected by using auto correlation test but it had based on hypotheses at the 5% significance level in the case of monthly data. However, for weekly data and daily data the market efficiency was reject for the pre boom period (1996) but not for the post crash.

### **2.2.2 Review of Nepalese Research**

Shrestha conducted a study on the role of securities marketing centre in the economic development of Nepal. The study was conduct with the objectives to examine the role played by securities marketing centre in promoting Nepalese security. This study covered the period of 4 years (2034/35 to 2037/38). Researcher has conducted that the securities marketing centre is very poor in term of the primary market and facing the problem in the demand and supply. Investors had influenced by the value of share and dividend policy of the company while buying or selling the securities.

Bharrarai carried out a study impact of securities exchange centre on capital mobilization with special reference to the government securities and share market in Nepal. The objective of the study was to evaluate the significant features of government securities make to fine out the contribution of securities exchange centre. Researcher concluded that securities exchange centre has mobilized long term capital

required to the new companies launch the development activities in the country to provided the investment opportunities to investor through the primary market.

Bhatta carried out a study on assessment of the performance of listed companies on Nepal. The basic objectives of this study were performance of listed companies. He has taken 10 listed companies as sample based on secondary data. By using different statistical tools like ratio analysis, beta coefficient and portfolios to analyses the dividend yield, liquidity, leverage risk and return etc. Researcher concluded that capital market to run efficient required continues flow of information and there was serious deficiency of such information in market. Investors were depressed in the market by rules, regulations, and bureaucratic set up of the companies.

Bhatta carried out a study on dynamic of stock in Nepal. The primary objective of the study was to analyze trend research study and to analyze the market share price of secondary market. By using differential statistical tools like mean, standard deviation and other essential tools for the study purpose of 14 companies listed in stock market could regarded as the heart of the capital market. There is a high volatility of share price.

Gurung conducted a study based on share price behavior of listed companies in Nepal. The study was conduct with the objectives to test the monthly movement of share price behavior of listed companies in Nepal. The sample for the study comprised of 15 companies representing form commercial bank, insurance, manufacturing & processing and trading. Using different statistical tools like mean, coefficient correlation, and financial parameters. Researcher mentioned that the number of listed companies had been increase during the supply period. The study was to analyze the relation between traded and listed companies, to evaluate the trading turnover, to analyze the share price behavior of listed companies whose market was list in stock market. The performance of commercial banks was better than that of trading concerns and the investment in this group was more attractive so, banking group was higher than compare to the other group. Market was bullish during the initial period of the study. The higher fluctuation in prices in decreasing trend and higher variations in prices showed the performances of listed companies had been deteriorating. More over this implies the uncertainty and instability in stock market.

Timilsena conducted a study on capital market development and stock price behavior in Nepal. The main objectives of the study was to find out the fair market

price of equities and observe the variation of actual prices from the computed fair prices to test whether the present behavior of prices will remain stable. The study covered a period of 8 months (1999/2000). Thirty-four listed companies were taken as a sample for the study. By using different statistical, mathematical, and financial tools, including the formation of hypotheses had done in the study. Researcher concluded that the market price of share depends on earning per share (EPS) as well as dividend per share (DPS) direct and immediate response in the market.

Pradhan conducted a study on stock market behavior in a small capital market. Different financial tools were used in the study period of 1986 to 1990. The sample for study was taken from seven listed companies. The main objective of the study was the stock market behavior in a small capital market in the context of Nepal. Researcher concluded that the larger stock have larger price earnings ratio, larger ratio of market value to book value of equity, lower liquidity, lower profitability and smaller dividend. Larger stock also had higher leverage, lower assets turnover and lower interest coverage but these were more variable for smaller stock than for leverage, lower turnover, lower profitability and lower interest coverage's.

Pradhan and Upadhaya conducted a study on the efficient market hypotheses and the behavior of the share prices in Nepal. The objective of the study was to make comprehensive investigation of weak and other form of efficient market hypotheses. Different statistical tools were used in the study serial correlation, the run test, weighted mean, median, chi-square test, and Spear's rank correlation. Twenty-three equity shares listed and activity traded in the Nepal stock exchange Ltd. The researcher concluded that Nepalese stock market might not be termed historical information was reflecting in security price. The main factors affecting share prices perceived by the respondents were dividends, retained earnings, bond share, and right issue. The study also found more volatile than expected dividends. The study also found that the shareholders in high bracket did not prefer retained earning instead of dividend.

Poudel conducted study on share price behavior of listed companies in Nepal. The study was conducted with the objective to test the daily share price behavior of listed companies in Nepal. The sample for the study comprised of 21 companies representing from each sector listed in Nepal stock exchange. This study was based on the secondary data. Different statistical tools like serial correlation and run test were used. Researcher concluded that NEPSE index showed a steady increase in the later month of the study period, which also shows the better performance of NEPSE. Stock

market performance was more or less market performance was steadily increasing with the increase in the number of listed companies. The badly affected sectors were hotels, trading, manufacturing, & processing sector due to different reasons. The NEPSE index showed a better performance during the study period. NEPSE index of commercial banks was in increasing trend as compared to the other sectors.

Bhattarai carried out a study on share market in Nepal. The sample for the study comprised of 12 companies this study was base on secondary data. Different statistical tools and financial tools were applies. Researcher conducted that the investors in capital market through broker's network raised the transaction volume of share and investors had facilitated by providing alternatives to make diversified portfolio.

Manandhar (2002) carried out a study on impact of bonus share issue on stock price behavior. The study included the observation of 21-bonus share issue of 11 companies covering the period from 1993/94 to 1997/98. The analysis show that the immediate affect of bonus announcement on the share price had found fluctuating, ranging from approximately -502 to +41.04% with standard deviation of approximate 70%. The study concluded that bonus ratio is limited to 100 percent, if more than that, then it may cause share price decline. The important implication of this result corporate firm was that firm's share price could maximize if it announces the bonus ratio to the maximum of 1:1.

Kharel (2002) has used filter rule to test whether sophisticated mechanical trading rule can beat the average market return. The finding indicated annual rates of return obtained from all filter trading strategy were greater than buy and hold strategy. In overall the result of these studies concluded that present stock price changes are biased outcome of past price change which, demonstrated that the random walk model was not appropriate to define the security price movement of equity shares in Nepal. Thus the conclusion draw was drawn that Nepalese market was not even weakly efficient in pricing share.

Sangita rai conducted to study of stock market behavior of listed companies in Nepal. Researcher had study on NEPSE index and different sub indexes of various months. The listed companies are increasing every year. Finance companies and development banks are rapid growing in banking sector. The major finding was how the different index had not similar indexes. The banking and development banks indexes had been front of other sector indexes. Trading and manufacturing indexes

were backward in trading, market capitalization and annual turnover was increasing g day by day. The banking sectors were good performance than other sector.

Rajan ghimire carried out a study on stock price behavior in Nepal. The study included that is major aspect of EMH and reasons on non- random price change phenomenon. The non-random share prices changes phenomenon is because stock market is in early stage of development and excessively speculative behavior of the investors. With respect to causes of deficiency in the development of stock, market in Nepal the broker gave the first priority to government policy. The major cause of deficiency in stock market was government policy regarding investment and the company information. Bonus and right share issue had been regarded as the most significant observation in the list of observation of researcher.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Research methodology is a useful bridge to solve the research problems in a systematic way. It describes the methods and process applied the entire aspect of the study. In this study, this chapter deals about various aspects regarding research methodology. It has been presented in following different heading.

- 3.1 Introduction
- 3.2 Research Design
- 3.3 Population and Sample
- 3.4 Sample Procedure
- 3.5 Source of Data
- 3.6 Data Collection Procedure
- 3.7 Tools for Analysis

#### **3.2 Research Design**

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance (kerlinger, 1983). Research design is the conceptual structure within which a research is conducted; it constitutes the blue print for the collection, measurement, and analysis of data (Kothari, 1990) this study attempts to analyze the primary data as well as secondary data. This study is carried out to get the empirical result of the behavior of Nepal Stock Exchange index, to conduct the study, descriptive analytical research has been adopted. Descriptive is utilizing for conceptualization, problem identification, conclusion, and suggestion for the research. In this research, design is based on technical analysis approach.

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

In case of primary data, all existing investors of listed companies, potential investors, and brokers as total population who were in Kathmandu valley during data collection period were taken as sample. For secondary data, Nepal Stock Exchange has classified the companies into eight sectors 1) commercial banks 2) development banks 3) finance companies 4) insurance 5) hotels 6) manufacturing and processing

companies 7) trading companies 8) others. The overall sectors listed above have been taken for the study period from 2005 to 2008 and all sectors are taken as population so there is no sample in this study.

### **3.4 Sampling Procedure**

Stratified sampling technique has been adopted to select companies out of 142 listed companies. As per stratified sampling total listed companies have been categorized in eight groups. Simple random sampling procedure has been used to draw samples from each group. Similarly based on the same stratified sampling technique only those people who were in Kathmandu during the data collection period have been selected as sample out of existing investor group and broker.

### **3.5 Sources of Data**

The study is based on both primary as well as secondary data. Primary data schedules of questionnaires were developed and distributed to the sample investors, students and other related parties in the stock markets. The questionnaires were collected and analyzed from investors and brokers.

The required data for study are collected from the secondary sources also. Most of the required data are provided by the NEPSE Ltd. For study the website of NEPSE and its trading reports are sources of secondary data. The other sources of secondary data are following websites:

- I. Nepal Rastra bank ([www.nrb.org.np](http://www.nrb.org.np))
- II. Nepal Stock Exchange ([www.nepalstock.com](http://www.nepalstock.com))
- III. Securities Board of Nepal ([www.sebon.com](http://www.sebon.com))
- IV. Business Magazine ([www.bm.com.np](http://www.bm.com.np))
- V. ([www.nepalsharemarket.com](http://www.nepalsharemarket.com))
- VI. Previous research studies, articles, thesis, journals and other.

### **3.6 Data Collection Procedure**

The data is mainly based on primary as well as secondary data obtained from earlier stated sources. For the purpose of the collection of data, required for this study, first necessary study of data and the relevant documents were identified. Then a visit was paid to Nepal Exchange Ltd. (Kathmandu) to collect the required data. They were kind enough to provide the required trading reports. Data are also collected from the

website and other websites stated earlier. On the completion of data collection, data were processed using the Microsoft excel application software.

Regarding primary data, schedule of questionnaire were developed and distributed to the sample investor, students and other related persons in the stock markets. The questionnaires were collected and analyzed. Thus, the study is both descriptive and analytical.

### **3.7 Data Analysis Tools**

It is fact that collected data should properly be analyzed to overcome the solution of research problems. For this purpose, both financial and statistical tools have been used in this study. The used various financial and statistical tools are briefly described in below.

#### **3.7.1 Financial tools**

- a. Stock market turnover ratio
- b. This ratio measures the liquidity position of stock market. A high stock market turnover ratio indicates low transaction cost and relative ease in buying selling of shares. It can be calculated as below:

$$\text{Stock market turnover ratio} = \frac{\text{stockmarket tunover}}{\text{Marketcapitalizaion}}$$

##### **3.7.1.1 Dividend Payout Ratio**

Dividend payout ratio indicates the portion of earning per share given to stockholder as dividend. Size of dividend payout ratio deepens on the respective company's policy. Higher payout ratio is assumed investor friendly dividend ratio. It can be calculated as follows.

$$\text{D/P ratio} = \frac{\text{DPS}}{\text{EPS}} \times 100$$

Where,

DPS= dividend per share

EPS= earnings per share

D/P ratio= dividend payout ratio

### 3.7.1.2 Price Earning Ratio

Price Earning ratio is the most important measure of value used by investors in the market place. Many investors consider no other factor prior to making purchase as a going concerned method of valuating stock. As long as the firm is a viable business entity, its real (or going concerned value is reflected in its profits. It is consider after tax profits and market price, and links earning per share to activity in the market. It may be used to determine expected market value of a stock, to determine future market value of a stock, to determine capitalization rate of a stock.

$$P/E \text{ ratio} = \frac{\text{Market per share(MPS)}}{\text{Earning per share(EPS)}}$$

### 3.7.2 Statistical Tools for Analysis

Simple percentages were used as an arithmetic tool to interpret data. Paired t-test was used to statistical tool to test null hypothesis. For the test of hypothesis 7 NEPSE index before and after four major events were considered.

#### 3.7.2.1 Mean

Mean of a set of observations is the sum of all the observations divided by the number of observations.

$$\bar{X} = \frac{\sum X}{N} \text{ or,}$$

$$\bar{X} = \frac{x_1 + x_2 + \dots + x_n}{n}$$

Where,

$\bar{X}$  Arithmetic Mean

$\sum X$  Sum of all the values of the variables

$x_1$  = First Observation (i.e. variable)

$x_2$  = Second Observation

$x_n$  = Last Observation

$N$  = Number of Observation

#### 3.7.2.2 Standard Deviation

It is quantitative measure of the risk. It is define as the positive square root of the arithmetic mean of the squares of the deviation of the given observations from

their arithmetic mean. The standard deviation of a distribution is the square root of the variance of the returns around the mean.

$$|\exists = \frac{\sqrt{\phi(X Z \bar{X})^2}}{\sqrt{n}}$$

Where,

$\exists$  = Standard Deviation

$\bar{X}$  = Arithmetic Mean of Observation

X = Observation

n = Total no. of Observation

### 3.7.2.3 Correlation

The degree of relationship between the variable under consideration is measured through the correlation. The measure of correlation called correlation coefficient or correlation index summarizes in one figure the direction and degree of correlation. The correlation analysis refers to the technique used in measuring the closeness of the relationship between variables. Karl Pearson's coefficient of correlation is widely used in practiced to measure the degree of relationship between two variables. Therefore Pearson's technique is used under

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

Where,

$\sum XY$  = Sum of all the values of the variables

$\sum Y^2$  = Total sum of the square of variable in Y series.

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

$\sum X$  = Total sum of x variables

$\sum Y$  = Total sum of Y variables

N = Number of variables paired.

r = Correlation Coefficient.

The value of correlation coefficient always lies between +1 to -1. If r = +1, it means there is perfect positive relationship between two variables. If r = -1, it means there is perfect negative relationship between two variables. If r = 0, it means there is no any relationship between two variables.

### 3.7.2.4 Probable Error

Probable error is an old measure of ascertaining the reliability of the value Personian coefficient of correlation. It may be used to test if calculated value of sample correlation coefficient is significant or insignificant. If  $r < P.E. (r)$ , then the value of  $r$  is not at all significant and if  $r < 6PE (r)$ , then  $r$  is deficiently significant.  $.PE (r)$  can be calculated as follows:

$$PE (r) = 0.6745 \left| \frac{(1Zr^2)}{\sqrt{n}} \right|$$

Where,

PE = Probable Error

$r$  = Correlation Coefficient

$N$  = No. of Variables

### 3.7.2.5 Coefficient of Variation

Coefficient of Variation is the most commonly used measure of relative variation. It is specially used in such a problem where we want to compare the variability of two or more than two series. The series for which CV is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogeneous and vice versa. It can be obtained as follows:

$$CV = \frac{\exists}{\bar{X}} \left| 100\% \right.$$

Where,

CV = Coefficient of Variation

$\exists$  = Standard of Deviation

$\bar{X}$  = Arithmetic Mean

### 3.7.2.6 Chi-square ( $\chi^2$ ) test

Chi-square ( $\chi^2$ ) test is known as non-parametric test or distribution free test. IT depends only on the set of observation and expected frequencies and on degrees of freedom (d.f.). It does not make any assumption regarding the parent population from which the observations are taken. It can be calculated as below:

$$\chi^2 = \phi \frac{(OZE)^2}{E}$$

Where,

O = Observation Frequencies

E = Expected Frequencies

$\chi^2$  = Chi-square

### 3.7.3 Hypothesis Formation

Following are the hypothesis formation for the signaling effects:

Ho: null hypothesis

- a. Null hypothesis ( $H_0$ ): securities investment is independent on income level of people or there is no significant relationship between income level of people and securities investment.
- b. Null hypothesis ( $H_0$ ): the experiment does not exist any relationship between academic background and awareness about securities investment.
- c. Null hypothesis ( $H_0$ ): there is no significant relationship between academic background and securities investment.
- d. Null hypothesis ( $H_0$ ): there is no significant difference in the perception of NEPSE staff, companies' staffs, and investors towards government efforts for stock market development.

H1: alternative hypothesis

- a. Alternative hypothesis ( $H_1$ ): securities investment is dependent on income level of people or there is significant relationship between income level of people and securities.
- b. Alternative hypothesis ( $H_1$ ): the experiment does exist any relationship between academic background and awareness about securities investment or the people with academic background of management and economics are more awareness about securities investment than others.
- c. Alternative hypothesis ( $H_1$ ): there is significant relationship between academic background and securities investment
- d. Alternative hypothesis ( $H_1$ ): there is significant difference in the perception of NEPSE staff, company's staffs, and investors towards government efforts for stock market development.

### **3.7.4 The Run Test Analysis**

Statistical tests based on the theory of runs ignore absolute values in a time series and observe only their signs. That is, they are essentially concerned with the direction of changes in a given time series. Thus, for the present purposes, a run can be defined as a sequence of price changes of the same sign preceded and followed by price changes of different sign. In a given share price series, there are three types of price changes in a series i.e. positive, negative and no change, thus implying three types of runs. Therefore, a plus run of length  $L$  may be defined as a sequence of positive price changes preceded and succeeded by either negative or positive price changes preceded and succeeded by either negative or zero price change (Fama, 1965:74). Likewise, a run of length  $L$  of minus and no-change sign can be defined as a sequence of  $L$  consecutive price changes of the same sign followed and preceded by negative and no change sign of price changes. Runs test is a non-parametric test that ignores the magnitude of price changes and observes only direction of changes in a given time series. The difference between expected and actual number of runs will be analyzed by the total number of runs. The randomness hypothesis is tested at given level of significance in favor of or against depending on observed values.

#### **3.7.4.1 Layouts**

Consider a sample  $x_1, x_2, x_3 \dots x_N$  of size  $N$ .

#### **3.7.4.2 Assumptions**

The given sample if is of dichotomous feature.

The measurement scale is either nominal or ordinal.

#### **3.7.4.3 Problems**

To test,

$H_0$ : The observations are in random order.

$H_1$ : They are not in random order.

#### **3.7.4.4 Mechanism:**

I) Compute the median of  $x_i$  and call it  $M_e$ .

II) Attach an algebraic sign + or - to each of the observations according to the following rules:

If  $x_i > M_e$ , then assign '+' sign to  $x_i$ .

If  $x_i < M_e$ , then assign '-' sign to  $x_i$ .

If  $x_i = M_e$ , then a tie is said to have occurred. In this case, assign 'o' to  $x_i$  and delete the observation.

Then clearly,

$$N = \text{Sample size} = \# (+) + \# (-) + \# (0)$$

$$\text{Thus the effective sample size } n = \# (+) + \# (-)$$

So that the effective sample becomes

$$X_1, X_2, X_3, X_4, X_5, \dots, X_N$$

$$\pm \pm = \pm \pm \dots \pm$$

$$1 \quad 2 \quad 3 \dots r$$

Definition of run

A run is a sequence of similar symbols.

III) Count the number of runs and denote it by  $r$ . Then clearly,  $2 \leq r \leq n$ .

### 3.7.4.5 Test Statistic

For large sample case, the sample distribution of  $r$  is approximately normal with mean  $\mu_r$  and variance  $\Xi r^2$ .

Symbolically,

$$r \sim N(\mu_r, \Xi r^2)$$

Where,

$$\mu_r = \text{Mean} = \frac{2n_1n_2}{n_1+n_2} + 1$$

$$n_1+n_2$$

$$\Xi r^2 = \text{variance} = \frac{2n_1n_2(2n_1n_2 - n_1 - n_2)}{(n_1+n_2)^2 (n_1+n_2 - 1)}$$

$$(n_1+n_2)^2 (n_1+n_2 - 1)$$

Next to test  $H_0$ , we define a test statistic given by,

$$Z = \frac{r - \frac{2n_1n_2}{n_1\Gamma n_2}}{\sqrt{\frac{2n_1n_2(2n_1n_2 - Z_{n_1}Z_{n_2})}{(n_1\Gamma n_2)^2(n_1\Gamma n_2 - Z_1)}}} \sim N(0, 1) \dots (3.4.1)$$

For large sample, Z will be approximately normal with mean 0 variance 1. Therefore, for testing significance of the difference between actual and expected number of runs, the test statistic employed would be standardized normal variable Z. the null hypothesis ( i.e. randomness hypothesis) will be rejected or accepted at 5 percent and 1 percent level of significance in favor of (or against) the alternative hypothesis (non-randomness hypothesis) depending on observed values of Z.

#### 3.7.4.6 Critical Value

For a pre-assigned level of significance  $\alpha$  and under  $H_0$ , we obtain from the normal table A, the probability  $p_0$  associated with values as extreme as Z.

#### 3.7.4.7 Decision Rule

Reject  $H_0$  Vs  $H_1$  at  $\alpha \times 100\%$  level of significance, if  $p_0 < \alpha/2$  accept otherwise.

Remarks:

For two tail test double the probability  $p_0$

The confidence limits of r for level of significant is given by,

$$C.L. \text{ for mean} = \mu_r \pm Z_{\alpha/2} \sigma_r$$

### 3.8 Limitation of the Methodology

The analysis of the study is fully based on secondary data. Therefore, the secondary data play a vital role on the study and the reliability of collected data affect the result of the study. The financial statement of the company is not listed companies and information of some listed companies is not available.

Nepal stock exchange ltd publishes financial statement and other information of some listed companies it is still unsuccessful to keep data of listed companies on its web site.

## **CHAPTER -IV**

### **DATA PRESENTATION AND ANALYSIS**

This chapter deals with the main body of the study the presentation and analysis of the collected data. The first chapter deals with the historical development of capital market. The second and third part deals with the sector wise listed companies, annual turnover, market capitalization, traded share quantity, number of transaction. The rest of part deals with behavior of NEPSE index of the other sectors listed in NEPSE and findings of the study.

#### **4.1 Historical Development of Capital Market**

This history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. And Nepal bank ltd. In 1937 a. d. with the introduction of company act in 1964, firstly government bond was issued. But, there were no secondary market to provide liquidity for those bonds until the establishment of securities marketing centre in 1976 were other significant development resulting to capital markets.

In 1983 his majesty's government Nepal under a program initiated to reform capital market, converted securities exchange centre (SEC) in 1984. Securities Exchange Centre was established with an objective of facilitating and promoting the growth capital securities. Thus, the actual development of the stock market began since 1984. The remarkable changes came only after the initiation to reform the market in 1993, when the SEC was converted into Nepal Stock Exchange. Nepal Stock Exchange Centre (NEPSE) is a nonprofit organization and new market mechanism was introduced. NEPSE is the only stock exchange in the country, it is owned by the government, Nepal Rastra bank (the central bank) and Nepal industrial development Corporation. It has an ownership holding of its member also. Securities dealer, register by securities exchange board (SEBON) have to get membership form the stock exchange for conducting securities business. The securities exchange board (SEBON) is operating since 1993.

Securities market is a place where buying and selling of securities takes place in an organized way. The parties involved in securities market are investors, intermediaries, and specialists. Securities markets provide option to all categories of investors and make the financial market comparative in the developing countries.

Securities exchange act has empowered NEPSE with the capacity of promulgating various buy laws in order to ensure orderly and fair transaction of securities. Accordingly, the NEPSE has made and adopted the securities listing byelaws 1996 and membership stock exchange and transaction bye – laws 1998.

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

Member broker are the licensed holder who are empowered to accept the buy and sale order form their individual and institutional clients and make transactions in trading floor organized, managed and operated by stock exchange. The intermediaries are not allowed to buy and sale in and from their own account.

Member of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities.

NEPSE has also licensed to dealer primary market and dealer secondary market. Dealer (primary market) operates as a manager to the issue and underwrite. Whereas dealer (secondary market) operates as a portfolios manager. Presently, NEPSE licensed to 11 dealer (primary market) and 2 dealers (secondary market).

#### **4.2 Sector Wise Listed Companies**

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

wise listing of company is increasing. The number of listed companies in finance group has increased in higher rate, than that of other sectors. The higher number listed companies in finance group imply the well management, facilities provided to investors, effective securities to the investor.

**Table 4.1**  
**Distribution of Listed Companies**

| Sectors          | 2005/06 | 2006/07 | 2007/08 |
|------------------|---------|---------|---------|
| Commercial bank  | 15      | 15      | 17      |
| Finance          | 50      | 53      | 55      |
| Insurance        | 15      | 16      | 17      |
| Hotels           | 4       | 4       | 4       |
| Mfg & processing | 29      | 21      | 18      |
| Trading          | 8       | 5       | 4       |
| Development bank | 8       | 16      | 23      |
| Others           | 6       | 5       | 4       |
| Total            | 135     | 135     | 142     |

The total number of listed companies was 142 in the year of 2007/08. In 2005/06 the number of listed companies went up to 135 and then started to increase in each year. The trends of group wise listing companies are increasing. At the end of observed period, 142 companies were list in NEPSE. The number of listed companies in development banks increased at higher rate than that of hotel, finance, commercial banks and other groups.

**Figure 4.1**  
**Distribution of Listed Companies**

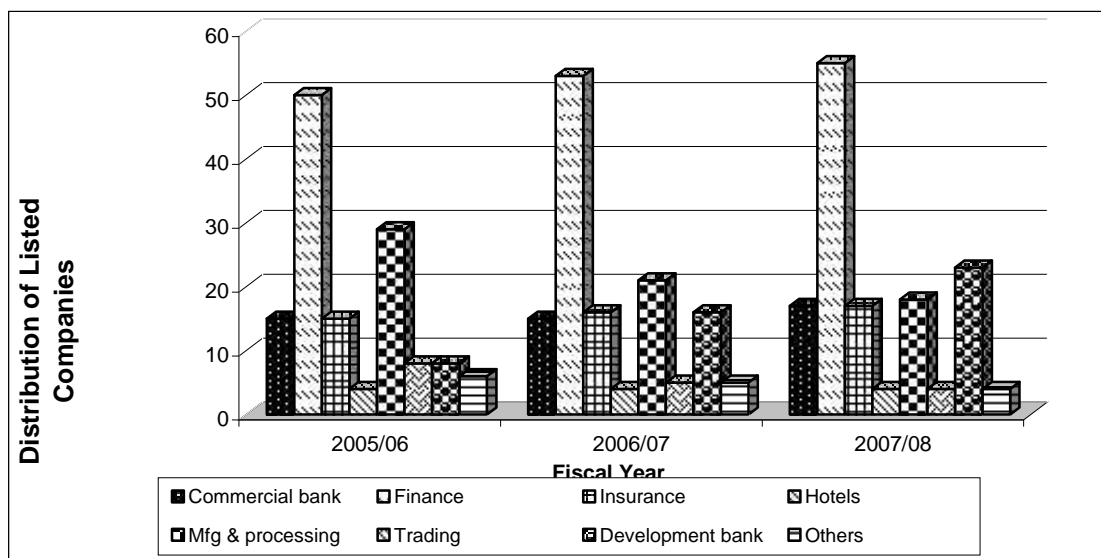


Fig 4.1 the number of listed companies indicates that the stock market in Nepal was a burning issue with rapidly growing and constant companies i.e. 135 in 2005/06, 135 in 2006/07, and 142 in 2007/08.

### 4.3 Annual Turnovers

The most successful year so far for Nepal Stock Exchange was 2007/08 year whose annual turnover of the market was Rs. 21987.27 million compared to other year. The annual turnover was increasing continuously from three years. In 2005/06 annual turnover was Rs. 3451.43 and in 2006/07 annual turnover was Rs.8360.07. in 2007/08 the annual turnover was growing twice than previous years which was great achievement in history of Nepal stock market.

In the total turnover, the banking sector dominates others. In the year 2007/08, total turnover of the banking sector was 13822.15, which are 62.86 percent of total turnover. Other sector (mainly hydropower companies) comes in second place based on annual turnover. This sector's turnover is Rs. 3206.32 million that accounted to 14.58 percent of the total transaction. In the same way, financial sector occupied Rs.2307.53 (10.49 percent). Development banks sector Rs. 1981.65(9.54percent), manufacturing g and processing sector Rs. 343.44(1.56 percent), trading sector Rs.33.65million (0.1 percent) and hotel sector Rs.27.67million (0.18 percent).

**Table 4.2**  
**Annual Turnover**

| Year             | 2005/06 |            | 2006/07 |            | 2007/08  |            |
|------------------|---------|------------|---------|------------|----------|------------|
|                  | Value   | Percentage | Value   | percentage | Value    | percentage |
| Commercial Bank  | 2696.28 | 78.12      | 5563.49 | 66.55      | 13822.15 | 62.86      |
| Finance          | 305.85  | 8.86       | 713.57  | 8.54       | 2307.53  | 10.49      |
| Insurance        | 129.9   | 3.76       | 204.97  | 2.45       | 264.86   | 1.2        |
| Hotel            | 19.77   | 0.57       | 7.04    | 0.08       | 27.67    | 0.12       |
| Mfg & processing | 17.19   | 0.5        | 24.27   | 0.29       | 343.44   | 1.56       |
| Trading          | 15.8    | 0.46       | 10.42   | 0.12       | 33.65    | 0.15       |
| Development bank | 82.76   | 2.4        | 577.55  | 6.19       | 1981.65  | 9.54       |
| Other            | 183.88  | 5.33       | 1258.76 | 15.05      | 3206.32  | 14.49      |
| Total            | 3451.43 |            | 8360.07 |            | 21987.27 |            |

Table 4.2 shows that the annual volume was continuously increasing. The annual turnover was Rs. 3451.43 million in 2005/06. In 2006/07, sharp increase was record with the turnover reaching Rs.8360.07 million in a total volume. It was twice as much as previous year and in 2007/08, annual turnover was too much higher that is Rs. 21987.27million, which was highest record on stock exchange.

Further, the banking sectors annual turnover was continuously increasing. In 2005/06 Rs. 2696.28million, in 2006/07 Rs. 5568.49million and in 2007/08 Rs. 13822.15million was trade. In total annual turnover of percentage the banking sector had been decline as in 2005/06 it had 78.12 percentages but in 2006/07 and in 2007/08 it had been 66.55percentage and 62.86 percentages respectively. For finance sector the annual turnover was in Rs. 305.85 million in 2005/06, in 2006/07the annual turnover was Rs. 713.57 million and in 2007/08 annual turnover was in Rs.2307.53 million. Its shows that, the annual turnover was growing rapidly in each years but in percentage of annual turnover in 2005/06 was 8.86 percentage, in 2006/07 was 8.54 percentage which was little lower than previous year and in 2007/08 was10.49 which was highest percentage in last five years record. For insurance sector, annual turnover was increasing in every year but on percentage, wise turnover was declining. In 2005/06 its turnover was Rs. 129.9million, in 2006/07 was Rs. 204.87 million and in 2007/08 was 264.86 million. But in percentage basis in 2005/06, 2006/07 and 2007/08 was 3.76, 2.45 and1.2 percentage respectively. For hotel sector, in 2002005/06 its annual turnover was Rs. 19.77 million but in 2006/07 it was declining to Rs. 7.04 million as well as in 2007/08 it had been vast increment in turnover it was Rs.27.64 million. However, in basis of percentage 2005/06 had higher than 206/07 and 2007/08's turnover that 0.57, 0.08, and 0.12 percentage respectively. For mfg and processing sector annual turnover was increase in every year as in 2005/06, 2006/07 and 2007/08 was Rs. 17.19, 24.27 and 343.44 million respectively. In percentage, wise 2005/06 had .05 percentages, In 2006/07 had decline to 0.29 percentages and in 2007/08 it rise to 1.56 percentages. For trading sector annual turnover in 2005/06, 2006/07 and 2007/08 was 15.8 million, 10.42 million, and 33.65 million in three years. By percentage wise in 2005/06had 0.46%, in 2006/07 it was 0.1% which was declining and in 2007/08 it was 0.15% that little improvement than previous year. For development bank sector it had number of companies, annual turnover and percentage wise had been increasing every year. In 2005/06, 2006/07 and 2007/08its turnover was Rs. 82.76, Rs577.55 and Rs.1981.85 million respectively. In annual turnover

percentage wise had been 2.4%, 6.91% and 9.45% at last three years. For other sector (including hydro power) annual turnover was Rs.183.88 million in 2005/06, Rs. 1258.76 million in 2006/07 and Rs. 3206.32 million in 2007/08. On the percentage base 5.33%, 15.05% and 14.49% respectively. As a whole development bank are performing best as in percentage basis, number of companies and annual turnover.

**Figure 4.2**  
**Annual Turnover**

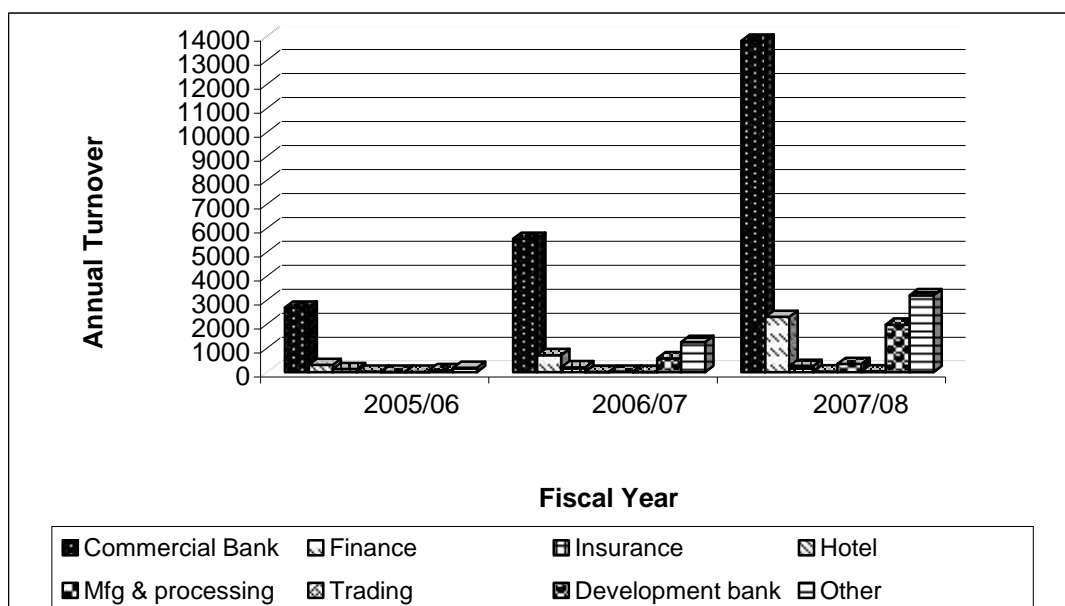


Fig 4.2 shows the highest annual turnover in the term volume was Rs.21987.27 million in 2007/08 and lowest annual turnover was Rs. 3451.43 million in 2005/06. Fig 4.2 shows that in 2007/08 other and commercial banks were dominating to other sector in term of annual turnover.

#### 4.4 Market Capitalization

Market capitalization is the measurement of a company's total value. It is estimated by determining the cost of buying and entire business in its current state. Market capitalization is derived by multiplying the number of shares outstanding by the current market price of the share. The increased market value suggests the good performance of the therefore, the investors are highly interested to such companies. The market capitalization value of the listed securities the higher value of market capitalization is Rs. 30877.29 million and lowest is Rs. 95614 million.

The percentage of the market capitalization of commercial bank has highest share as 71.99%, 74.04% and 70.68% among other eight sectors of the listed

companies. The commercial banks are dominating the other sectors in term of market capitalization. Commercial bank alone has a market capitalization of Rs. 68841.2 million (67.25%) in 2005/06 followed by the other sector Rs 8012.2 million (8.38%). Second place was covered by other sector (including hydropower) up 2007/08. In 2007/08 commercial banks, finance, others, development banks, insurance, manufacturing & processing, hotels and trading capitalization was Rs. 218264.19 million (70.68%) 27113.59 million (8.78%) 26128.93 (8.46%) 15619.36 (5.06%) 10897.16 (3.53%) 6576.17 (2.13) 3484.13 (1.12%) and 686.73 (0.22%). In period 2007/08 commercial banks, finance, development banks, and other (including hydropower) were attractive sector to encourage the investors to invest in these stock.

**Table 4.3**  
**Market Capitalization**

| Year             | 2005/06  |            | 2006/07   |            | 2007/08   |            |
|------------------|----------|------------|-----------|------------|-----------|------------|
| Sector           | Value    | Percentage | Value     | Percentage | Value     | Percentage |
| Commercial Bank  | 68841.24 | 71.99      | 138086.43 | 74.04      | 218264.19 | 70.68      |
| Finance          | 4930.93  | 5.16       | 11491.4   | 6.16       | 27113.59  | 8.78       |
| Insurance        | 4852.19  | 5.07       | 7959.78   | 4.27       | 10897.16  | 3.53       |
| Hotel            | 2393.61  | 2.5        | 1935.59   | 1.04       | 3484.13   | 1.12       |
| Mfg & Processing | 4619.2   | 4.83       | 3760.28   | 2.02       | 6576.18   | 2.13       |
| Trading          | 737.39   | 0.77       | 787.4     | 0.42       | 686.73    | 0.22       |
| Development Bank | 1227349  | 1.28       | 5980.8    | 3.21       | 15619.36  | 5.06       |
| Other            | 8012.2   | 8.38       | 16503.02  | 8.85       | 26128.93  | 8.46       |
| Total            | 95614    |            | 186504.7  |            | 308770.27 |            |

**Figure 4.3**  
**Market Capitalization**

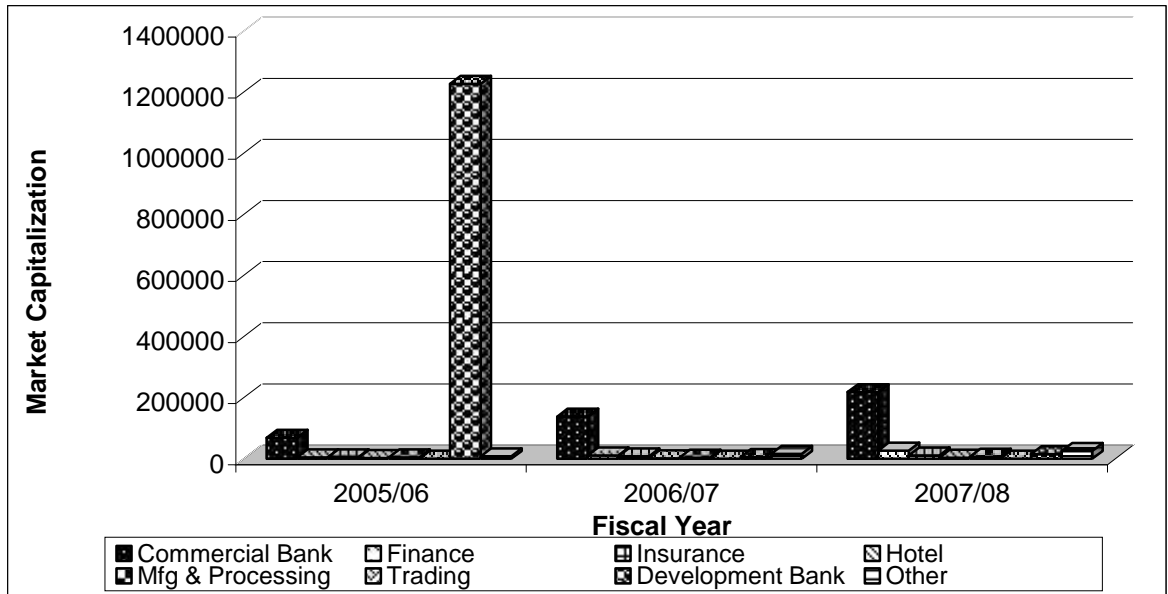


Fig 4.3 of market capitalization shows that the commercial bank dominated the trading floor. The other sector (including hydropower) occupied the second position 2005/06 and 2006/07. but in 2007/08 finance companies replace to other sector. All over, the eight listed companies, likewise, other, finance and development banks better performance than that of trading and hotel groups.

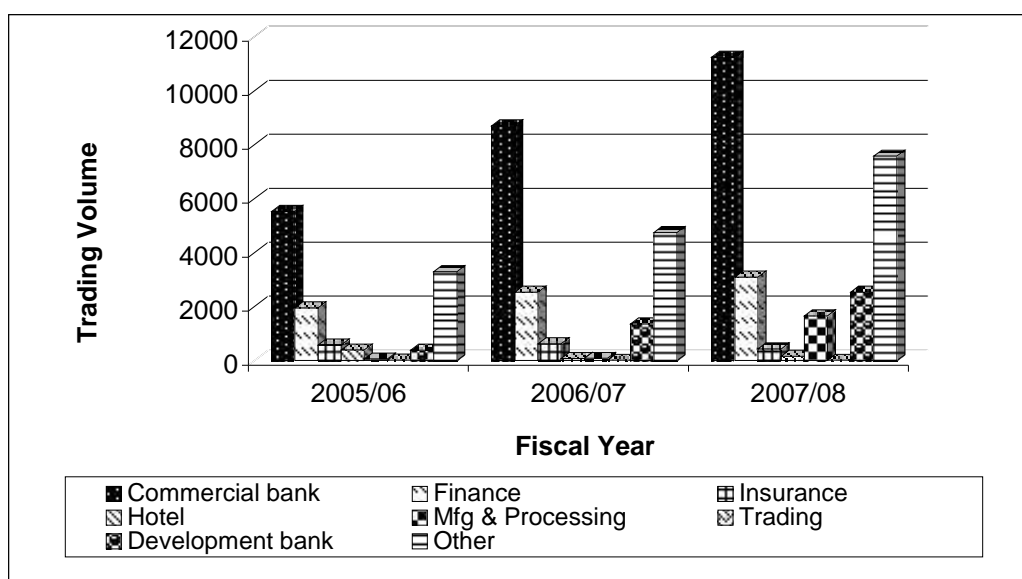
#### 4.5 Trading Volume

Commercial bank dominated the trading floor as it captured the largest chunk of the total share trading. It accounted 45.25% in 2005/06, 47.94% in 2006/07 and 42.08 in 2007/08. Commercial bank traded the maximum share i.e. 11241.42 shares of the total share in 2007/08 and lowest share traded of 5534.9 share in 2005/06. Second position is occupied by the other sectors whose percentage of share traded are 27.01% in 2005/06, 26.17% in 2006/07 and 26.37% in 2007/08. The highest share traded quantity was 7578.62 in 2007/08 and lowest share traded quantity of others was 3301.54 in 2005/06. The trading sector has lowest traded quantity comparing other sectors. Over the entire sector, the highest share quantity share was in 2007/08 as 26710.64 and the lowest share traded was in 2005/06 as 12222.71.

**Table 4.4**  
**Trading Volume**

| Year             | 2005/06  |            | 2006/07  |            | 2007/08  |            |
|------------------|----------|------------|----------|------------|----------|------------|
| Sector           | Value    | Percentage | Value    | Percentage | Value    | Percentage |
| Commercial bank  | 5534.9   | 45.28      | 8700     | 47.94      | 11241.42 | 42.08      |
| Finance          | 1957.68  | 16.02      | 2534.19  | 13.96      | 3094.30  | 11.58      |
| Insurance        | 575      | 4.7        | 627.64   | 3.46       | 433.27   | 1.62       |
| Hotel            | 392.18   | 3.32       | 81.7     | 0.45       | 158.07   | 0.59       |
| Mfg & Processing | 59.8     | 0.49       | 82.9     | 0.46       | 1655.09  | 6.06       |
| Trading          | 15.22    | 0.12       | 11.47    | 0.06       | 14.97    | 0.05       |
| Development bank | 386.39   | 3.16       | 1360.48  | 7.5        | 2534.90  | 9.42       |
| Other            | 3301.54  | 27.01      | 4748.65  | 26.17      | 7578.62  | 28.37      |
| Total            | 12222.71 |            | 18147.03 |            | 26710.64 |            |

**Figure 4.4**  
**Trading Volume**



The figure 4.4 of traded share quantity shows that from 2005/06 to 2007/08 other, commercial bank and finance companies dominating other sectors. The highest traded value was in 2007/08 and the lowest traded quantity share was in 2005/06, which was shown in figure 4.4. commercial bank was cover more than 40% of total trading volume which shows investor were more interest to invest in this sector.

#### 4.6 Number of Transactions

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

**Table 4.5**  
**Number of Transaction**

| Year             | 2005/06 |            | 2006/07 |            | 2007/08 |            |
|------------------|---------|------------|---------|------------|---------|------------|
| Sector           | Value   | Percentage | Value   | Percentage | Value   | Percentage |
| Commercial bank  | 45886   | 52.74      | 42848   | 35.18      | 54314   | 36.44      |
| Finance          | 28875   | 33.18      | 18879   | 15.5       | 30462   | 20.44      |
| Insurance        | 6187    | 7.11       | 16203   | 13.3       | 3332    | 2.23       |
| Hotel            | 510     | 0.59       | 393     | 0.32       | 911     | 0.61       |
| Mfg & Processing | 233     | 0.27       | 135     | 0.11       | 96      | 0.06       |
| Trading          | 66      | 0.07       | 42      | 0.03       | 108     | 0.07       |
| Development bank | 4740    | 5.45       | 39413   | 32.36      | 53317   | 35.77      |
| Other            | 513     | 0.59       | 3898    | 3.2        | 6519    | 4.37       |
| Total            | 87010   |            | 121811  |            | 149059  |            |

The table 4.5 shows that the over all banking sector has a highest transaction in the term of number. The number of transaction of commercial bank was 45886(52.74%), 42848(35.18%) and 54314(36.44) in 2005/06, 2006/07 and 2007/08 respectively. Bank gets first position in number of transaction in every year. Finance company got second position in 2005/06 but third position in 2006/07 and 2007/08. Development bank can over take to finance companies and got second position in 2006/07 and 2007/08 to getting 32.36% and 35.77%. Mainly in commercial banks, development banks and finance companies have encouraged to invest in these sectors. Number of transaction of trading group was lowest than other sectors. Development banks had no transaction in 2000/01. After 2001, it had been grow rapidly in Nepalese stock exchange.

**Figure 4.5**  
**Number of Transaction**

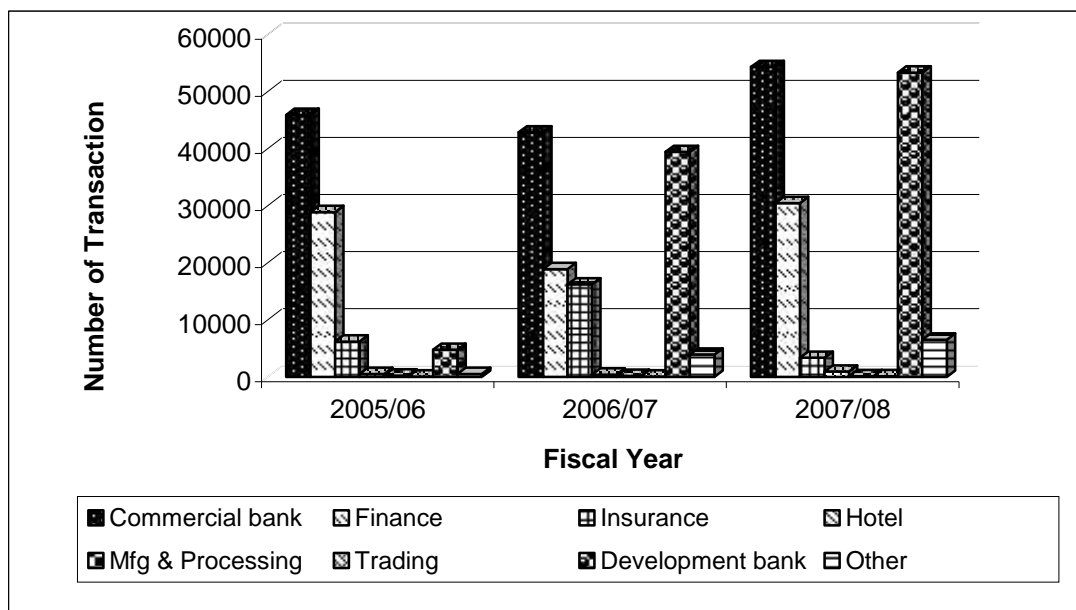


Figure 4.5 shows that in the initial year the commercial bank had highest no. of transaction i.e.45886 in 2005/2006 but decrease in 2006/07, which were 42846. In 2007/08, it increases to 54814 number of transaction. For development banks in 2005/06, its total number of transaction was 4740 but in 2006/07, it was rapid growth and reach to 39413. In 2007/08, its number of transaction was 53317 that are most nearer to commercial bank. For finance companies in 2005/06, its number of transaction was 28875. In 2006/07, it was decline by nearly50 percentage, which was 18879, but in 2007/08, it was cover by 30462 number of transaction. Manufacturing & processing and trading sector had lowest number of trading in three year continuously. In 2007/08its number of transaction was 96 and 108 only, which show very poor performance in stock exchange.

#### **4.7 Behavior of NEPSE Index**

Index is a device designed to measure the change in a group of related variables over a period. Indexes were use to determine the relationship between historical prices movements and economic variables to determine the systematic risk for individual securities and portfolios.

**Table 4.6**  
**NEPSE Index during the Last 3 years**

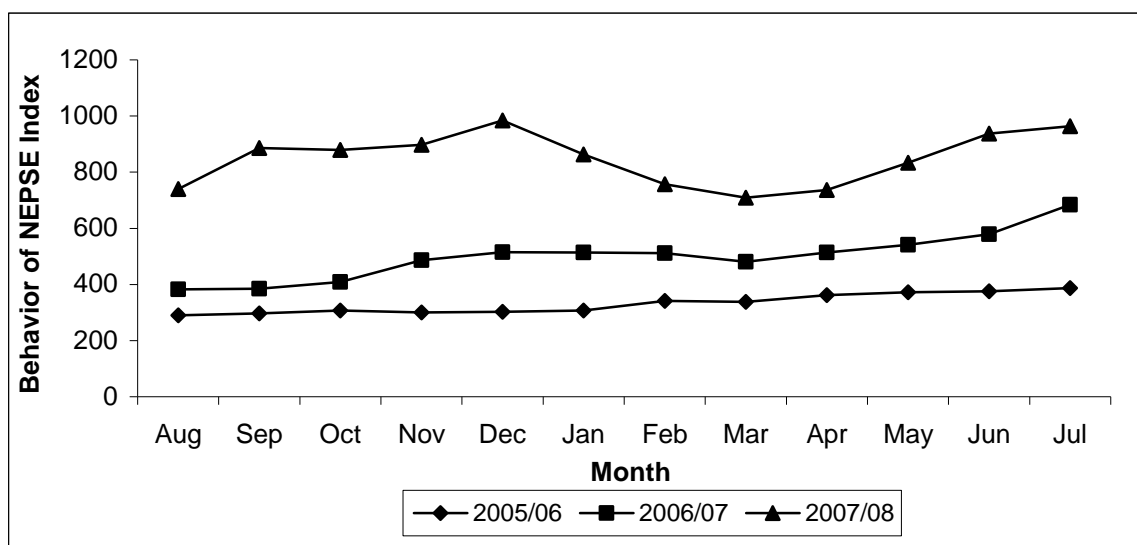
| Month | 2005/06 | 2006/07 | 2007/08 |
|-------|---------|---------|---------|
| Aug   | 290.56  | 382.24  | 739.53  |
| Sep   | 296.96  | 384.25  | 885.5   |
| Oct   | 307.22  | 408.38  | 878.86  |
| Nov   | 300.54  | 486.19  | 897.29  |
| Dec   | 302.78  | 514.42  | 984.53  |
| Jan   | 307.04  | 513.34  | 863.6   |
| Feb   | 341.05  | 511.81  | 756.76  |
| Mar   | 337.52  | 480.99  | 709.4   |
| Apr   | 361.55  | 513.69  | 736.46  |
| May   | 371.74  | 541.38  | 833.18  |
| Jun   | 375.14  | 578.81  | 937.46  |
| Jul   | 386.83  | 683.95  | 963.36  |

*NEPSE no trading due to curfew and political crisis on 9<sup>th</sup> April to 13<sup>th</sup> April and 18<sup>th</sup> April to 24<sup>th</sup> April 2006*

*The market had remain closed (Sunday 12<sup>th</sup> august 2007) due to untimely demise of Mr. Tanka Nath Adhikari (broker no. 18)*

The NEPSE index hit the pick of price in July by 98453 in end of 2007. In 2005/06 the NEPSE point was 290.56 which was lowest point of above table and maximum point at 984.53 on December 2007/08. the difference between highest and lowest point had been very vast, It almost 700 points. In 2005 /06 NEPSE, point gone up continuously on 386.83 at end of year. Index was growing by 100 point in 2005/06. In 2005/06 it continuously increasing three months but I come down to 300.54 point in November after that it goes to 386.83. In 2006/07 there was different in 300 points on opening and closing of the year. Its starts from 382.24 to 683.95 so NEPSE sector points was increasing but in march it decline to 480 and again rising up to 683.95 in 2007/08. Index had to increase by 300 points in 2007/08. sector indexes opening at 739.53 and closing at 963.36 point. In one year it increases up to 963.36.

**Figure 4.6**  
**NEPSE Index during the Last 3 years**



#### 4.7.1 NEPSE Index of Commercial Bank

Trading of commercial bank group was the largest group at the NEPSE floor register and value of index i. e. 311.05 to 380.63 in December, 2005/06 but it went down to 374 in march. The value of NEPSE index of commercial bank in 2005/06 had reach up to 424.28 and continuously rising but slightly decrease and went down to 566.88in January. It again slumped down to 501 point in March which is shown in table.

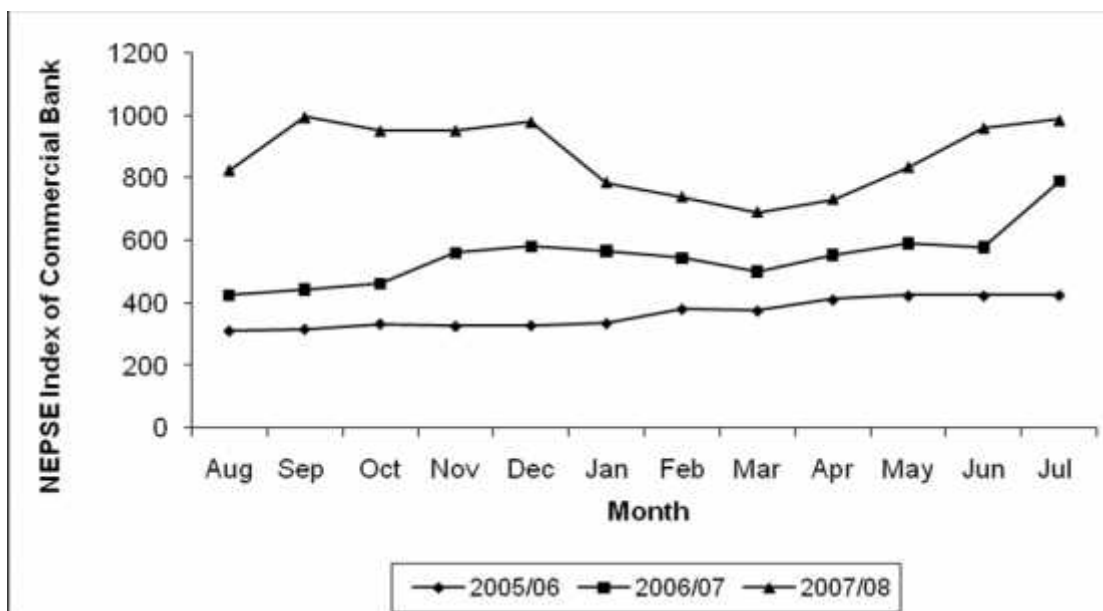
**Table 4.7**  
**NEPSE Index of Commercial Banks during the Last 3 Years**

| Month | 2005/06 | 2006/07 | 2007/08 |
|-------|---------|---------|---------|
| Aug   | 311.05  | 426.39  | 824.91  |
| Sep   | 316.67  | 443.78  | 995.52  |
| Oct   | 333.16  | 463.22  | 951.46  |
| Nov   | 325.48  | 562     | 952.23  |
| Dec   | 328.31  | 582.02  | 979.7   |
| Jan   | 334.9   | 566.88  | 785.9   |
| Feb   | 380.62  | 544.01  | 739.29  |
| Mar   | 374.9   | 501     | 690.48  |
| Apr   | 410.17  | 555.2   | 732.07  |
| May   | 423.04  | 591.03  | 834.76  |
| Jun   | 422.81  | 578.81  | 960.78  |
| Jul   | 424.28  | 789.21  | 985.65  |

The 4.7, NEPSE index of commercial bank shows the in 2006/07 commercial bank index after April 555.2 it increase to 979.7 on December. In 2007/08, improvement in NEPSE of commercial bank was noticed. In 2007/08, the index of commercial bank increased and went up to 985.65 in the month of July. The NEPSE index of commercial bank in order of risk was fluctuating.

**Figure 4.7**

**NEPSE Index of Commercial Banks during the Last 3 Years**



#### 4.7.2 NEPSE Index of Finance Companies

Establishment of Nepal stock exchange ltd, finance, and insurance sector were written in the same transaction in the initial years but it separated in 2001/02 from December. So separate transactions took place in the NEPSE from December 2001/02. This shown in table 4.8

**Table 4.8**

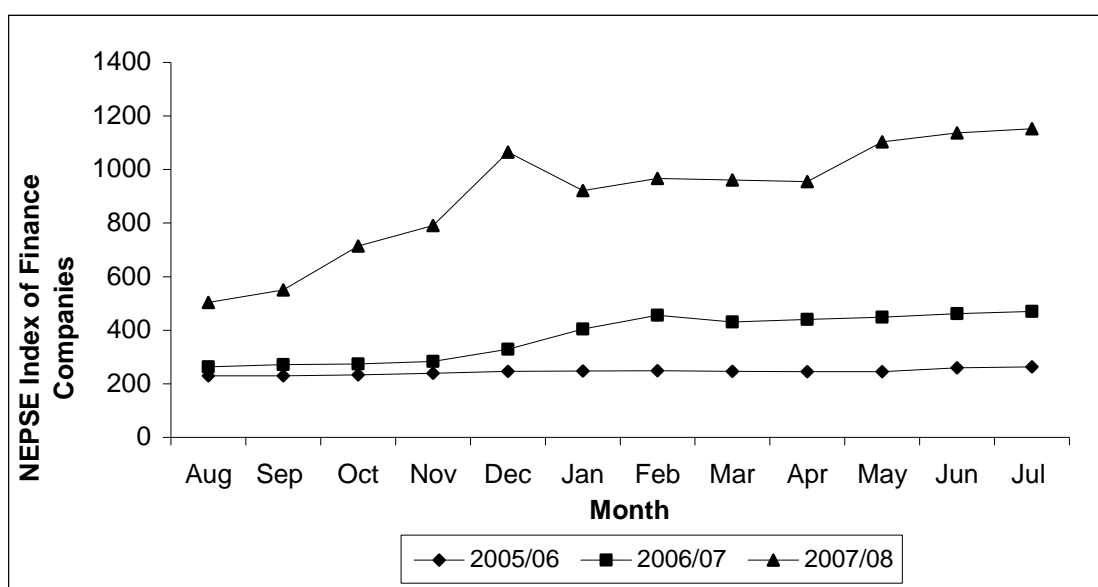
**NEPSE Index of Finance Companies during the Last 3 Years**

| Month | 2005/06 | 2006/07 | 2007/08 |
|-------|---------|---------|---------|
| Aug   | 229.52  | 263.75  | 503.88  |
| Sep   | 229.3   | 271.62  | 550.06  |
| Oct   | 232.76  | 274.45  | 714.01  |
| Nov   | 238.94  | 283.82  | 791.44  |
| Dec   | 246.54  | 329.65  | 1064.87 |
| Jan   | 247.47  | 404.18  | 921.39  |
| Feb   | 249.13  | 456.44  | 966.44  |
| Mar   | 246.71  | 430.68  | 960.67  |
| Apr   | 245.7   | 440.44  | 954.93  |
| May   | 245.7   | 448.91  | 1103.4  |
| Jun   | 259.27  | 461.86  | 1136.76 |
| Jul   | 263.8   | 470.16  | 1152.74 |

NEPSE index for finance separately took place in the month of December in the year 2001/02. The index shows increasing trend from August 2005/06 but 3 point had been decline in March, April and May after that it reach to 263.8 point. In 2005/06, finance companies increase by 32 point. In 2006/07 index starts from 263.75 and close at 470.16, which was increase by at least 200 point. In 2006/07 index shows very fast growing but decline in March then after it increase up to point 1064.87 in December, but in Feb. and April index was decline. At end of 2007/08 it index was 1152.74, which was highest, point on history from above table. It starts from 229.52 and reach up to 1152.74, which had increase more than 900 point in finance index.

**Figure 4.8**

**NEPSE Index of Finance Companies during the Last 3 Years**



### 4.7.3 NEPSE Index of Insurance Companies

The NEPSE index for insurance had a highest in the year of 2007/08 as 1035.06 in December and the lowest recorded as 246.21 in March. The maximum value went up to 387.84 in the month of July and the least value was notice in 2005/06 as decreasing process went down to 246.71 in the month of March. But it slightly increased in the year 2006/07 as 394.7 in the initial year but it slump down to 576.08 in the month of April. The value remained decline in the year 2006/07 until the month of May and increasing process went up to 605.05 in the month of July in 2007/08 it increases until December to 1035.06 but decreases in Jan to 820.26.

Similarly it follows the decreasing trend in 2007/08 and reaches to 725 in March and increasing from April to July which was shown in the table 4.9

**Table 4.9**

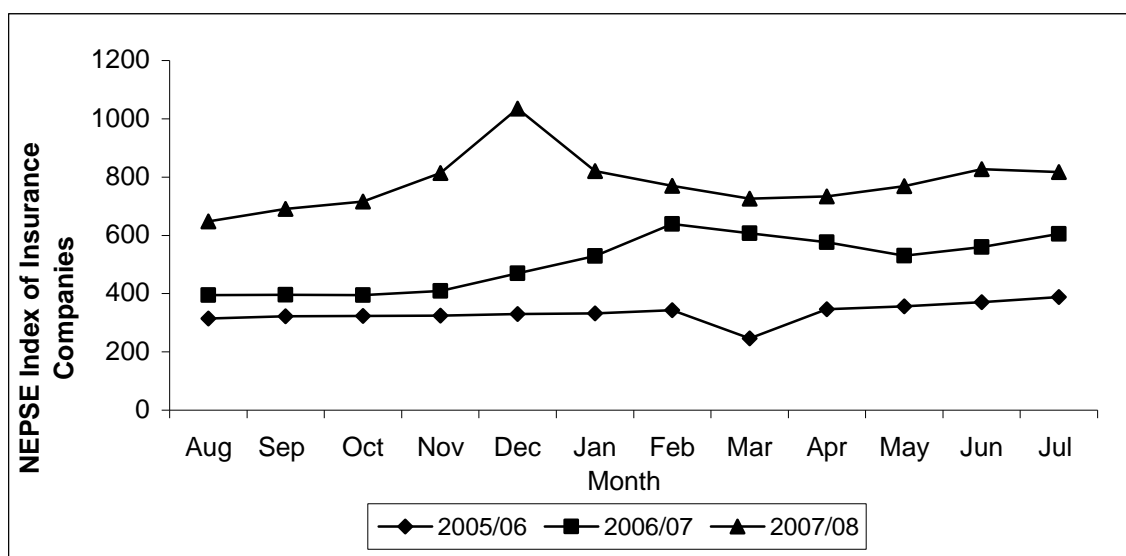
**NEPSE Index of Insurance Companies**

| Month | 2005/06 | 2006/07 | 2007/08 |
|-------|---------|---------|---------|
| Aug   | 314.19  | 394.8   | 648.31  |
| Sep   | 322.72  | 396.1   | 690.65  |
| Oct   | 323.05  | 394.66  | 715.68  |
| Nov   | 324.72  | 408.73  | 813.85  |
| Dec   | 329.97  | 469.93  | 1035.06 |
| Jan   | 331.69  | 529.14  | 820.26  |
| Feb   | 343.59  | 638.83  | 769.8   |
| Mar   | 246.71  | 607.45  | 725.83  |
| Apr   | 346.41  | 576.08  | 733.54  |
| May   | 356.37  | 530.59  | 769.21  |
| Jun   | 370.33  | 559.94  | 827.23  |
| Jul   | 387.84  | 605.05  | 817.25  |

Table shows that the highest value of NEPSE index of insurance sector was 1035.06 in the month of December and the lowest value was in the month of March as 246.71 in 2005/06. The standard deviation of NEPSE index for insurance sector was 33.32% in 2005/06 and 88.59% in 2006/07.

**Figure 4.9**

**NEPSE Index of Insurance Companies**



#### 4.7.4 NEPSE Index of Hotel Sectors

As manufacture & processing sector like total sector was best in previous year (2000/01 and 2001/02). As a record highest point was in 420.79 in December 2007/08 and lowest record point was 177.92 in September 2005/06 as above table as well as other sector.

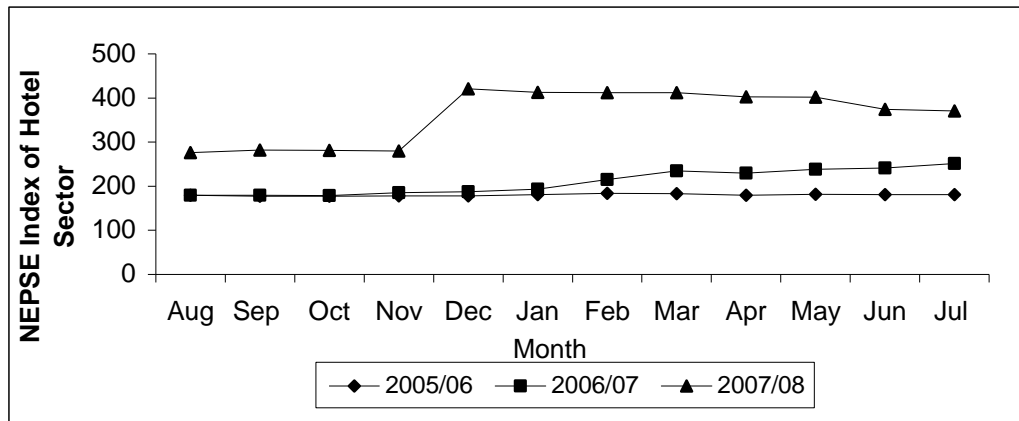
**Table 4.10**  
**NEPSE Index of Hotel Sectors during the Last 3 Years**

| Month | 2005/06 | 2006/07 | 2007/08 |
|-------|---------|---------|---------|
| Aug   | 179.34  | 179.62  | 276.45  |
| Sep   | 177.62  | 179.62  | 281.72  |
| Oct   | 177.62  | 179.03  | 281.14  |
| Nov   | 177.9   | 185.07  | 279.6   |
| Dec   | 177.9   | 187.47  | 420.59  |
| Jan   | 181.26  | 193.42  | 412.79  |
| Feb   | 183.55  | 215.42  | 412.02  |
| Mar   | 182.88  | 235     | 412.01  |
| Apr   | 179.23  | 229.6   | 402.87  |
| May   | 181.77  | 238.71  | 401.93  |
| Jun   | 180.77  | 241.02  | 373.98  |
| Jul   | 180.77  | 251.47  | 370.88  |

Table 4.10 shows that the NEPSE index of hotels sector highest in the year 2005/06 was 183.55 in February and lowest in 177.62 Sep and October in 2005/06 august had 179.35 index and decline in next month to 177.62 in Sep but after it went up to 183.55 on Feb. month. Again after that it decline on March and April. At May index shows positive signal and in June & July it down to 180.77. In 2006/07 it was rising from august 179.62 to march at 235point then after it decline in nest month to 229.6 and again rising to reach 251.47 at end of year 2006/07. In 2007/08 its shows 276.45 on august and increasing up to 2 months sep and October by 281.74 and 281.1, but decline in November month. At December, it was 420.59, which was pick point of hotel sector, and then after it declines up to 370.88 at end of 2007/08 its shows investor was not interested to invest in hotel sector.

**Figure 4.10**

**NEPSE Index of Hotel Sectors during the Last 3 Years**



**4.7.5 NEPSE Index of Mfg and Processing**

NEPSE index for manufacturing and processing sector was the best as compared to other sectors for the study period. It was recorded the highest in the month of September and lowest in the month of November in 2005/06. In 2006/07 value of NEPSE index for manufacturing and processing went up to 344.95 but it slightly decrease in April. Value of manufacturing and processing index went up and down as increasing and decreasing process from 2005/06 to 2007/08. This shown in table in 4.11.

**Table 4.11**

**NEPSE Index of Manufacturing and Processing During Last 3 Years**

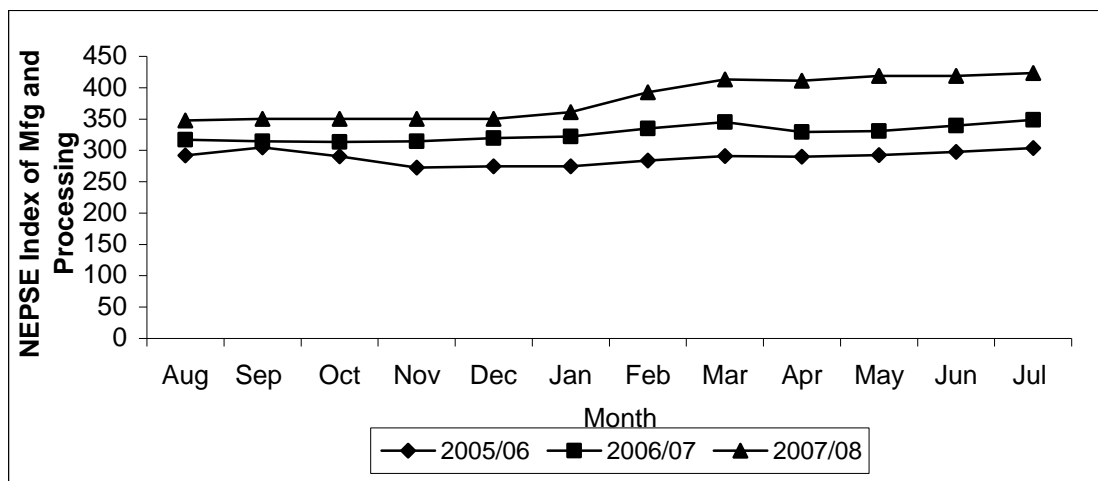
| Month | 2005/06 | 2006/07 | 2007/08 |
|-------|---------|---------|---------|
| Aug   | 291.74  | 316.82  | 347.74  |
| Sep   | 305.01  | 314.69  | 350.19  |
| Oct   | 290.53  | 313.38  | 350.19  |
| Nov   | 272.31  | 314.69  | 350.19  |
| Dec   | 274.42  | 319.82  | 350.19  |
| Jan   | 274.42  | 322.36  | 360.96  |
| Feb   | 283.77  | 335.09  | 392.75  |
| Mar   | 291.08  | 344.95  | 413.23  |
| Apr   | 289.81  | 329.42  | 411.15  |
| May   | 292.34  | 331.06  | 418.82  |
| Jun   | 297.65  | 339.7   | 418.82  |
| Jul   | 303.65  | 348.63  | 423.66  |

Table shows that over in 2007/08 it was the best year for the manufacturing and processing sector. In 2005/06 its movement was randomly, the maximum value

was 305.01 in September and minimum value was 291.74 in August on one month difference.

**Figure 4.11**

**NEPSE Index of Manufacturing and Processing During Last 3 Years**



#### 4.7.6 NEPSE Index of Trading Companies

NEPSE index of trading sector recorded highest was 148.11 in the month of May, June and July 2005/06 and the lowest was 129.55 in the month of September and October. Afterwards, the increasing trend went up to 150.72 in 2006/07 of September was decreasing process went down to 149.71 from 150.72 In 2006/07. After that, it was increasing continues the NEPSE index for trading sector in 2007/08 at point 204.08

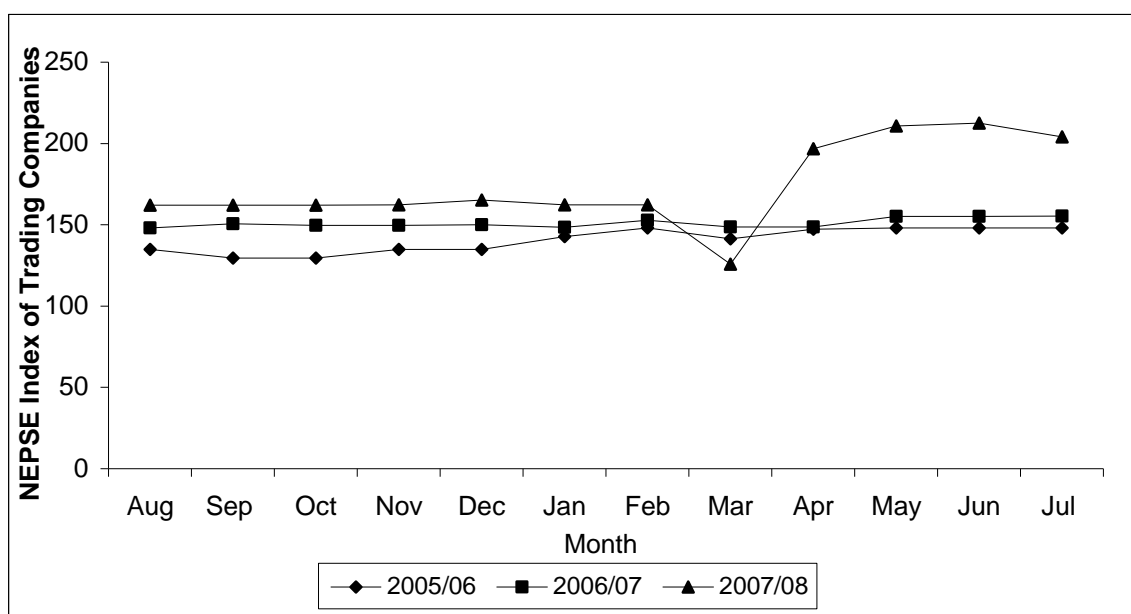
**Table 4.12**

**NEPSE Index of Trading Companies**

| Month | 2005/06 | 2006/07 | 2007/08 |
|-------|---------|---------|---------|
| Aug   | 134.95  | 148.11  | 162.08  |
| Sep   | 129.55  | 150.72  | 162.03  |
| Oct   | 129.55  | 149.71  | 162.03  |
| Nov   | 134.84  | 149.71  | 162.32  |
| Dec   | 134.84  | 150.09  | 165.20  |
| Jan   | 142.78  | 148.51  | 162.32  |
| Feb   | 148.07  | 152.79  | 162.32  |
| Mar   | 141.29  | 148.71  | 125.83  |
| Apr   | 147.27  | 148.71  | 196.71  |
| May   | 148.11  | 155.21  | 210.83  |
| Jun   | 148.11  | 155.21  | 212.55  |
| Jul   | 148.11  | 155.37  | 204.08  |

From the table it is clear 2005/06 was not improving in sectors index there was only difference on 14 points in year and index shows constant form. In 2006/07, there was not good performance than before. It had only increasing 7 points in that year. However, in 2007/08 it had good performance than previous year its starting from 162.08 to 204.08, which had 42 points increment in that year. In March, month index had gone to lowest point at 125.83.

**Figure 4.12**  
**NEPSE Index of Trading Companies**



#### 4.7.7 NEPSE Index of Development Bank

Development bank was listed in Nepal stock exchange in the year 2001/02 in the month of January. So the transaction took place from January, 2001/02 and development bank of NEPSE index took place in the trading floor with listed three companies. This shown in table 4.13.

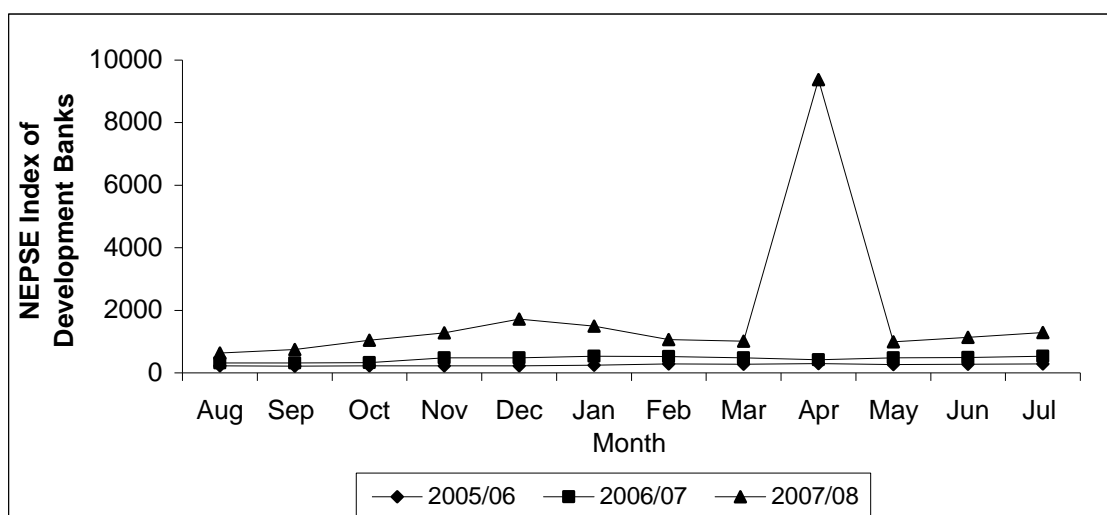
**Table 4.13**  
**NEPSE Index of Development Bank**

| Month | 2005/06 | 2006/07 | 2007/08 |
|-------|---------|---------|---------|
| Aug   | 225.16  | 313.86  | 631.01  |
| Sep   | 216.3   | 317.27  | 752.23  |
| Oct   | 221.55  | 322.69  | 1046.18 |
| Nov   | 226.25  | 479.08  | 1278.63 |
| Dec   | 228.27  | 484.93  | 1720.76 |
| Jan   | 246.39  | 529.79  | 1497.91 |

|     |        |        |         |
|-----|--------|--------|---------|
| Feb | 288.5  | 526.62 | 1062.17 |
| Mar | 272.71 | 477.58 | 1008.19 |
| Apr | 292.53 | 422.95 | 938.15  |
| May | 269.83 | 483.9  | 996.15  |
| Jun | 278.16 | 493.94 | 1136.76 |
| Jul | 287.08 | 533.47 | 1285.89 |

Development bank of NEPSE index took place January 2001/02. The index was starting from 279.5 points as increasing up to 287.08 at end of 2005/06. Highest index on 2008 July which was 1285.89 and lowest point in 2005/06 September which was 216.3. Development bank index was very fast growing than other index. In three year index reach from 225.16 to 1285.89 which was at least 6 times greater than previous years growth.

**Figure 4.13**  
**NEPSE Index of Development Bank**



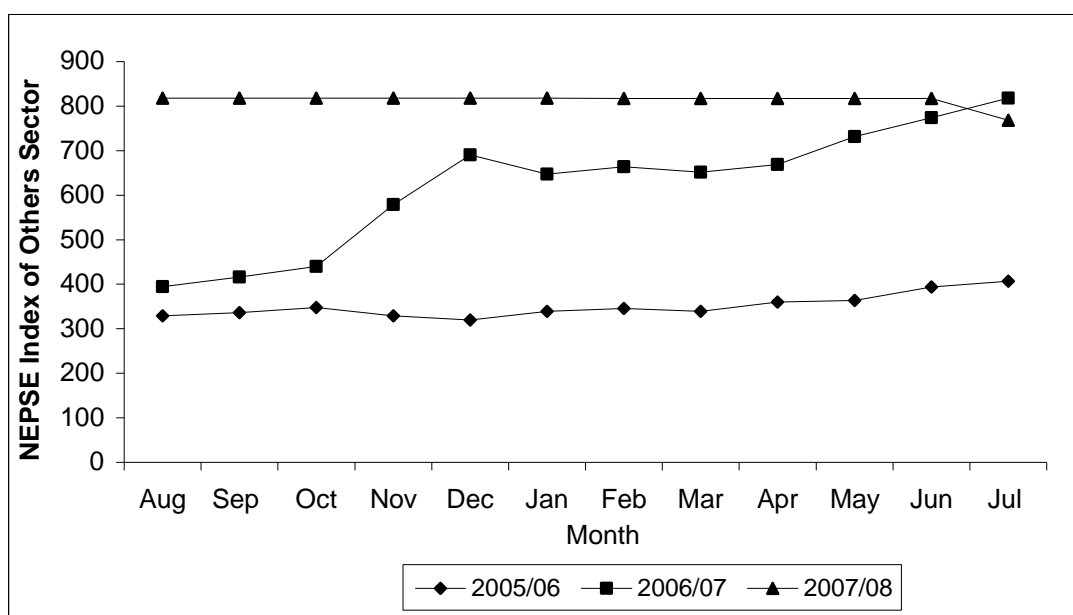
#### 4.7.8 NEPSE Index of Other Sector

NEPSE index of other sector in November went up to 406.47 in 2005/06 and the least value is 319.85 in the month of December. In 2005/06 maximum value recorded was 406.47 in month of December and minimum was in the month of August value was 328.74. In this year trend was almost constant.

**Table 4.14**  
**NEPSE Index of Other Sector**

| Month | 2005/06 | 2006/07 | 2007/08 |
|-------|---------|---------|---------|
| Aug   | 328.74  | 394.8   | 818.12  |
| Sep   | 336.36  | 416.2   | 818.12  |
| Oct   | 347.78  | 440.1   | 818.12  |
| Nov   | 328.74  | 578.56  | 818.12  |
| Dec   | 319.85  | 690.4   | 818.12  |
| Jan   | 339.4   | 647.4   | 818.12  |
| Feb   | 345.39  | 663.8   | 817.47  |
| Mar   | 338.79  | 651.59  | 817.47  |
| Apr   | 359.76  | 668.59  | 817.47  |
| May   | 363.49  | 731.19  | 817.47  |
| Jun   | 393.76  | 773.83  | 817.47  |
| Jul   | 406.47  | 818.12  | 768.26  |

**Figure 4.14**  
**NEPSE Index of Other Sector**



The other sector is better than the other group because the sectors are in decreasing trend which is shown by the trend line compare to other sector. In the month of 2005/06, 2006/07 and 2007/08 the monthly movement process is increasing in trend but at last month of 2007/08 had been decline. In 2007/08 the trend was smoothly straight line on this year.

#### 4.7.9 Stock Market Turnover Ratio

The measure of liquidity of stock market is stock market turnover ratio. It is indicative of the trading relative to size of stock market; a high stock market turnover ratio may indicate low transaction cost and relative ease in buying and selling of securities.

In developed countries this ratio is greater than or very close to 100% whereas in many developing countries this ratio stands in the range of 15% to 30%.

**Table no. 4.15**

#### **Stock market turnover ratio in percentage**

| Fiscal year | Stock market turnover ratio (%) |
|-------------|---------------------------------|
| 2005/06     | 92.53                           |
| 2006/07     | 96.59                           |
| 2007/08     | 92.53                           |

#### 4.9 Dividend Payout Ratio

Dividend payout ratio indicates the portion of EPS given to shareholder as dividend. Cash dividend is a major component of holding period rate of return on share investment and bonus dividend can increase the core capital and number of share. Thus higher dividend payout ratio may influence to invest their more funds in securities.

**Table no. 4.16**

#### **Dividend payout ratios of listed companies**

| Name of company | Mean (%) | S.D. (%) | C.V. |
|-----------------|----------|----------|------|
| Bank            |          |          |      |
| 1. HBL          | 40       | 4.08     | 0.10 |
| 2. NABIL        | 108      | 23.22    | 0.22 |
| 3. NIB          | 48       | 13.82    | 0.29 |
| 4. SCBL         | 133      | 4.73     | 0.04 |
| Finance company |          |          |      |
| 5. AFC          | 23       | 4.73     | 0.21 |
| 6. MFC          | 21       | 1        | 0.05 |
| 7. NIDC         | 37       | 4.73     | 0.13 |
| 8. NFC          | 78       | 31.96    | 0.41 |

|                  |   |      |      |
|------------------|---|------|------|
| Development bank |   |      |      |
| 9. GDBNL         | 0 | 0    | 0    |
| 10. ABBL         | 0 | 0    | 0    |
| 11. SBBL         | 0 | 0    | 0    |
| 12. ACEDBL       | 9 | 8.67 | 0.96 |

In the analysis of banking group, the mean D/P ratio of Himalayan bank ltd, Nabil bank, Nepal investment bank, standard chartered bank are 40, 108, 48 and 133 respectively. Their S.D. of D/P ratio are 4.08, 23.22, 13.82, and 4.73 and their C.V are 0.10, 0.22, 0.29 & 0.04 respectively. The mean of D/P ratio reveals that the standard chartered bank has the highest D/P ratio in average but S.D and C.V indicates that its D/P ratio is more volatile than other banks. However, D/P ratio of Himalayan bank is more consistent than other bank.

From analysis of the financial group, the mean value of D/P ratio of NIDC capital markets ltd, Annapurna finance co. ltd, Mahalaxmi finance co. ltd and Nepal finance and saving co. ltd are found 23, 21, 37, & 78 respectively. Their S.D and C.V are 4.73, 1, 4.73, & 31.96 and 0.21, 0.05, 0.13 & 0.13 respectively. It indicates that Nepal finance and saving co. ltd has the higher and more consistent and attractive D/P ratio than other finance company limited.

The value of mean of D/P ratio of Gurkha development bank, Annapurna development bank, Sanima bikas bank and Ace development bank are 0, 0, 0, & 9 respectively. Their S.D and C.V are 0, 0, 0, & 8.67 and 0, 0, 0, & 0.96 respectively. The analysis clarifies that ace development bank pays more dividend from total earning and its D/P ratio is not instable as other development bank. Therefore, its D/P ratio has more investor friendly than other development bank.

#### **4.9 Price Earning (P/E) Ratio of Listed Companies**

P/E ratio is used to identify the undervalued or overvalued stock as well as to determine the future market value of a stock. If investors think that market value of stock will increase much more in future, they may invest in securities with the hope of getting more holding period return from the capital appreciation. Shares of a company having lower P/E ratio is assumed appropriate to invest because it indicates higher potentiality increasing share value in future.

**Table no. 4.17**  
**Price earning ratio of listed companies**

| Name of company         | Mean | S.D   | C.V  |
|-------------------------|------|-------|------|
| <b>Bank</b>             |      |       |      |
| 1. HBL                  | 26   | 6.16  | 0.24 |
| 2. NABIL                | 42   | 19.07 | 0.45 |
| 3. NIB                  | 38   | 11.79 | 0.31 |
| 4. SCBL                 | 44   | 4.12  | 0.09 |
| <b>Finance company</b>  |      |       |      |
| 5. AFC                  | 31   | 22.31 | 0.72 |
| 6. MFC                  | 31   | 26.18 | 0.84 |
| 7. NIDC                 | 22   | 8.19  | 0.37 |
| 8. NFS                  | 4    | 1.41  | 0.35 |
| <b>Development bank</b> |      |       |      |
| 9. GDBL                 | 101  | 30.41 | 0.30 |
| 10. ABBL                | 16   | 14.97 | 0.94 |
| 11. SBBL                | 100  | 21.55 | 0.22 |
| 12. ACEDBL              | 46   | 21.46 | 0.47 |

From above table, the mean P/e ratio of Himalayan Bank Ltd, Nabil bank Ltd, Nepal Investment Bank Ltd and Standard Chartered Bank Ltd are 26, 42, 38, & 44 respectively and Their C.V are 0.24, 0.45, 0.31 & 0.09 respectively. The P/E ratio of Himalayan Bank is lower and more consistent than others bank. It indicates that the investors can expect more market value in future from the share investment of Himalayan Bank than other banks.

In the analysis of finance group, Annapurna and Mahalaxmi Finance Co. has the highest P/E ratio of all finance companies but also there is no reliability in its P/E ratio due to very high instability of ratio. NIDC capital market .co. and Nepal finance and saving co. have a lower and less variable P/E ratio, which indicates the higher potentiality of getting more value in future in share investment of these companies than NIDC capital market ltd and Nepal finance and saving co.

In the analysis of development bank group, Annapurna Development Bank has low P/E ratio i.e. 16 while Gurkha Development Bank, Sanima Development Bank

and Ace Development Bank have the ratio 101, 100, and 46. The C.V indicates the P/E ratio of .development bank had 0.30, 0.94, 0.22, & 0.47 Annapurna Development Bank have more uniform each year than development banks. However, P/E ratios of the entire development bank reveal better potentiality to achieve good return from share of these companies.

#### 4.10 Correlation Analysis

Correlation coefficient summarizes in one figure, relationship, and degree of relationship between two series. The positive value of correlation coefficient refers to negative (i.e. inverse) relationship and zero value of correlation coefficient refers to no relationship between variables of two series. In this section, three correlation coefficient are analyzed by the use of Karl Pearson's correlation coefficient to find out relationship between the following variables.

1. Correlation coefficient between number of listed shares and annual stock market turnover.
2. Correlation coefficient between market capitalization and NEPSE index
3. Correlation coefficient between market days and number of share traded.

##### 4.10.1 Correlation Coefficient between Number of Listed Shares and Annual Turnover

In Nepalese context, listed share are only allowed to transaction in NEPSE floor according to securities exchange Act 1983. Large volume of listed shares creates greater possibility of number of share traded in the NEPSE floor. As a result, the size of annual turnover may improve continuously.

In this analysis the correlation coefficient between the listed shares and annual stock market turnover has been calculated to find out the relationship between these variables for this purpose number of listed share is taken as independent variable(x)and annual turnover is taken as dependent variable (Y).

**Table no. 4.18**

##### **Correlation between number of listed shares and annual turn over**

| R       | r <sup>2</sup> | PE (r) | CPE(r) | Sig/ insig   |
|---------|----------------|--------|--------|--------------|
| -0.4040 | 0.1632         | 0.3258 | 1.9548 | Significance |

The table no clarifies that the value of correlation coefficient is -0.4040 It means there is negative correlation between number of listed shares and annual turn

over and degree of negative correlation is moderate. The value of coefficient of determinant ( $r^2$ ) is 0.1632 which indicates that 16.32% variation of the dependent variables (i.e. number of listed shares) has been explained of dependent variables (i.e. annual turnover) since the value of correlation (i.e.  $r = -0.4040$ ) is more than 6 times of P/E ratio ( $r$ ) (i.e.  $PE(r) = 1.9548$ ), the correlation is also significant.

#### 4.10.2 Correlation coefficient between market capitalization and NEPSE index

Market capitalization is the total product of number of listed share, market price of these respective shares is determined by the demand, and supply of shares NEPSE index is based on market capitalization.

In this analysis, correlation of coefficient between annual market capitalizations is taken as independent variables ( $x$ ) and NEPSE index is dependent variables ( $y$ ).

**Table no.4.19**

#### **Correlation between market capitalization and NEPSE index**

| R      | $r^2$  | PE ( $r$ ) | CPE ( $r$ ) | Sig/ insig     |
|--------|--------|------------|-------------|----------------|
| 0.9805 | 0.9614 | 0.015      | 0.09        | Insignificant. |

From the above table, correlation coefficient of 0.9805 describes that there is positive correlation between market capitalization and NEPSE index. However, degree of positive relationship is high. The value of coefficient of determinant ( $r^2$ ) i.e. 0.9614 indicates that 96.14% of variation of dependent variable (i.e. NEPSE index) has been explained by independent variable (i.e. market capitalization). Since value of correlation is lower than 6 times of PE ratio ( $r$ ), the correlation insignificant.

#### 4.10.3 Correlation coefficient between Market Days and Number of Shares

##### **Traded**

Market day plays very important role to facilitate the securities transaction in secondary market i.e. NEPSE in Nepal, where once purchased securities are traded. High number of shares traded sin NEPSE floor may increase number of participation in stock market and motivate the investors to invest more amounts in securities.

In this analysis, correlation coefficient between market day and number of shares traded has been computed to find out the relationship between these variables of two series and degree of relationship. For this purposed market day is considered as

independent variable (X) and number shares traded is considered dependent variable (Y).

**Table no. 20**

**Correlation coefficient between Market Days and Number of Shares Traded**

| R       | r <sup>2</sup> | PE (r)  | CPE (r)  | Sig/ insig   |
|---------|----------------|---------|----------|--------------|
| 0.97112 | 0.9432         | 0.02212 | 00.13272 | Significant. |

From the above table, the correlation coefficient between market day and number as shares traded is 0.97112. It implies that there is possible relationship between these two variables but degree of positive correlation is very low. The value of r<sup>2</sup> is 0.9432 which indicates that 94.32% of the variation of the dependent variable (i.e. number of share traded) has explained by the independent variable (i.e. Market day).

Since, The value of correlation (i.e.  $r = 0.1993$ ) is very more than 6 times of PE (r) (i.e.  $6PF(r) = 1.228$ ), the correlation value is significant.

**4.11 Presentation and analysis of primary data**

In this section, the collection data from primary sources has been tabulated and analyzed. For the purpose of primary data collection, 100 questionnaires were sent to investor and non-investor but only 90 respondents returned the questionnaire. Similarly, the question12 was asked to brokers and 60 were to investors and remaining to public. The analysis of primary data was classified into analysis of opinion survey and test of hypothesis.

**Analysis of Opinion Survey**

**4.11.1 Investors of Securities**

Regarding investment in financial securities whether respondents have invested in securities or not i.e. question no. 1 (see appendix -1) was asked to randomly-selected respondents. The whole respondents, for the purpose of analysis, the collected data are classified in to two groups. (I.e. investors and brokers) The analysis is shown in following table.

**Table no. 4.21**  
**Investor's securities**

| S.N | Research variables | Investors |     | Brokers |     | Total |     |
|-----|--------------------|-----------|-----|---------|-----|-------|-----|
|     |                    | No.       | %   | No.     | %   | No.   | %   |
| A   | Yes                | 68        | 87  | 12      | 100 | 80    | 89  |
| B   | No                 | 10        | 13  | 0       | 0   | 10    | 11  |
|     | Total              | 78        | 100 | 12      | 100 | 90    | 100 |

*Source: field survey*

At the time of classification, out of 90 total respondents, 78 were found from public and 12 from brokers. It is clear from the table no. 4.19 87% of public had invested in securities while 100% of broker respondents had invested. In overall 89% of total respondents had invested in securities.

#### **4.11.2 Source of idea about investment at first**

Most of Nepalese people had well known about real investment (i.e. non-securities investment in building, machinery, factories etc.) but financial investment (i.e. securities investment like investment in common stock, preferred stock, bond etc.) is still new phenomena for them. Therefore, it was tried to know their first source of idea about securities investment. For this purpose, question no. 2 (see in appendix 1) was asked to randomly selected respondents. The analysis is as follows.

**Table no. 4.22**  
**Sources of idea about investment at first**

| S.N | Research variable | No. of respondents | %   |
|-----|-------------------|--------------------|-----|
| A   | From friends      | 30                 | 33  |
| B   | From stock broker | 10                 | 11  |
| C   | From relatives    | 14                 | 16  |
| D   | My selves         | 36                 | 40  |
|     | Total             | 90                 | 100 |

It is obvious in the above table, 40% of respondents had known themselves about securities investment at first, and rest 33%, 16%, and 11% of respondents had the idea about securities investment at first from their friends, from relatives and from stockbrokers respectively.

#### 4.11.3 Consideration of Risk and Return before Investing

Consideration of risk and return factors before investing in securities is important to get success from securities investment. In this respect, one question was asked to respondents to measure the awareness of respondents about risk and return. For this purpose the respondents were classified, based on the respondents answer to the question no.3 in following two groups.

**Table no. 4.23**

#### Awareness of investors in risk

| S.N | Research variables | Investors |     | Brokers |     | total |     |
|-----|--------------------|-----------|-----|---------|-----|-------|-----|
|     |                    | No.       | %   | No.     | %   | No.   | %   |
| A   | Return only        | 19        | 24  | 0       | 0   | 19    | 22  |
| B   | Risk only          | 3         | 4   | 0       | 0   | 3     | 3   |
| C   | Risk and return    | 53        | 68  | 12      | 100 | 65    | 72  |
| D   | I don't know       | 3         | 4   | 0       | 0   | 3     | 3   |
|     | Total              | 78        | 100 | 12      | 100 | 90    | 100 |

the table no.4.23 classifies, in investor group, 72% of investor replied the answer to both risk and return to be considered 22% replied return only to be considered, replied of I don't know and risk only had 3% equally.

#### 4.11.4 Diversification of risk by portfolio investment

Some portion of the total risk can be diversified by the portfolio investment. In this regard, respondents were again asked to find the awareness of them. For this analysis, the collected data area analyzed in the table no

**Table no. 4.24**

#### Awareness of investors

*( in term of risk diversified)*

| S.N | Research variables | Investors |     | Brokers |     | total |     |
|-----|--------------------|-----------|-----|---------|-----|-------|-----|
|     |                    | No.       | %   | No.     | %   | No.   | %   |
| A   | Yes                | 50        | 71  | 12      | 100 | 62    | 69  |
| B   | No                 | 28        | 29  | 0       | 0   | 28    | 29  |
|     | Total              | 78        | 100 | 12      | 100 | 90    | 100 |

It is obvious from the table no. In the group of investors, 69% of investors were aware but rests of 29% were not aware, that some risk can be diversified by

portfolio investment. Likewise, 29% of the public were not awareness of portfolio investment.

#### 4.11.5 Valuation and purchase of securities

Regarding the awareness of Nepalese people towards securities investment, next one question. (What type of share should buy form securities market?) was also asked to the respondents. The collected answers to this question were classified again into following two groups to analyze.

**Table no. 4.25**

#### **Awareness of investors in pricing**

| S.N | Research variables | Investors |     | Brokers |     | Total |     |
|-----|--------------------|-----------|-----|---------|-----|-------|-----|
|     |                    | No.       | %   | No.     | %   | No.   | %   |
| A   | Under valued       | 40        | 51  | 12      | 100 | 52    | 58  |
| B   | Over valued        | 17        | 22  | 0       | 0   | 17    | 19  |
| C   | I don't know       | 21        | 27  | 0       | 0   | 21    | 23  |
|     | Total              | 78        | 100 | 12      | 100 | 90    | 100 |

#### 4.11.6 Most Preferred Sector to Invest

In this present situation 142 companies are listed in NEPSE (see appendix-1) Large number of company's shares of different sectors was available for investment. In such of mass alternatives, investors can sacrifices their fund on the best companies' shares. Therefore, the researcher had tried to survey the different eight sectors in which share the investors like to invest most.

**Table no. 2.26**

#### **People's preferred sector to invest**

| S.N | Research variable          | No. of respondent | %   |
|-----|----------------------------|-------------------|-----|
| A   | Banking                    | 42                | 46  |
| B   | insurance                  | 6                 | 7   |
| C   | Development                | 14                | 15  |
| D   | Finance                    | 8                 | 9   |
| E   | Hotels                     | 6                 | 7   |
| F   | Manufacturing & processing | 6                 | 7   |
| G   | Trading                    | 2                 | 2   |
| H   | others                     | 6                 | 7   |
|     | Total                      | 90                | 100 |

It is found from the table no. 465 of the respondents were found most interested in the share of banks. Likewise this 7%, 15%, 9%, 7%, 7%, 2% and 7% of respondents were found most interested to invest in the share of insurance, development bank, finance, hotels, manufacturing & processing, trading and other respectively. It can be summarized that most of the Nepalese people are interested to employ their invest able fund in share of banks.

#### 4.11.7 Satisfaction from securities investment

Regarding the satisfaction with presently return from share investment, 90 randomly selected respondents were asked whether they were satisfied or not from presently getting return on share investment. The collected data in this respect is tabulated in the table no. 2.27

**Table no. 2.27**

#### **Satisfaction from securities investment**

| S.N | Research variables | No. of respondents | %   |
|-----|--------------------|--------------------|-----|
| A   | Yes                | 62                 | 69  |
| B   | No                 | 28                 | 31  |
|     | Total              | 90                 | 100 |

From the table no. 69% of the investors replied that they were satisfied from the return of share investment but remaining 31% replied that they were not satisfied from the return of share investment.

#### 4.11.8 Satisfaction with government efforts

Regarding satisfaction of respondents with government efforts to develop stock market in Nepal, the selected investors and broker were asked to question. for the purpose of analysis, the collected answers from the investors and brokers were considered.

**Table no. 2.28**

#### **Satisfaction with government efforts**

| S.N | Research variables | Investors |     | Brokers |     | Total |     |
|-----|--------------------|-----------|-----|---------|-----|-------|-----|
|     |                    | No.       | %   | No.     | %   | No.   | %   |
| A   | Yes                | 52        | 67  | 1       | 8   | 53    | 59  |
| B   | No                 | 26        | 33  | 11      | 92  | 37    | 41  |
|     | Total              | 78        | 100 | 12      | 100 | 90    | 100 |

The above table shows 66.67% of the NEPSE staffs, 8.33 % of companies staffs and 58.58 % of the investors were satisfied with the government efforts to develop the stock market in Nepal but 33.33 % of the NEPSE staffs, 91.66 % of investors were unsatisfied with the government efforts. In overall, only 34.67 % of the total respondents were satisfied.

#### **4.11.9 Main cause of being reluctant to invest in securities**

Main cause of being reluctant to invest in securities after the avenue of democracy in Nepal, participation of private sector is highly motivated. As a result, Nepalese people are invested in different sectors. Bank and finance are also successful to collect large deposits from domestic depositors but also most of the listed companies are still unable to collect the needed fund through the issue of securities and performance of NEPSE is still in nascent phase. Large number of investor's participation is the catalyst for stock market development. Therefore, it was tired to know the main cause for Nepalese people to be reluctant to invest in securities. The data are analyzed in the table no.29

**Table no. 2.29**

#### **Main cause of being reluctant to invest in securities**

| S.N | Research variables              | No. of respondents | %   |
|-----|---------------------------------|--------------------|-----|
| A   | Lower return                    | 2                  | 2   |
| B   | More risk                       | 20                 | 22  |
| C   | Lack of knowledge               | 54                 | 60  |
| D   | No protection of investor right | 14                 | 16  |
|     | Total                           | 90                 | 100 |

It is from the analysis from the analysis that most of the respondent i.e. 60% pointed the main cause of the reluctant of the securities investment is the lack of knowledge about securities investment while 22% of respondents pointed the main cause is more risk in secondary market. 165 and 25 of respondents pointed the main cause of being reluctant to invest in securities investment were no protection of investor and lower return respectively.

#### **4.11.10 Investor's Purpose in Investment**

Investors have different view to investment in market. Most of investors are confuse about which factors was more benefit. The numbers of investors are

increasing but real investors are very low. The different view of investors is presented below.

**Table no. 2.30**  
**Investor's purpose in investment**

| S.N | Research variables     | No. of respondents | %   |
|-----|------------------------|--------------------|-----|
| A   | Dividend               | 22                 | 24  |
| B   | Management participant | 10                 | 11  |
| C   | Capital gain           | 46                 | 52  |
| D   | Social status          | 12                 | 13  |
|     | Total                  | 90                 | 100 |

In this research 52% of investors are invested for capital gain. And remaining 48% are invested for dividend, management participant and social status. 24% are investing for dividend, 13% of investors are for social status, and 115 of investors are investing for management participant

#### **4.11.11 Responsible for NEPSE Performance**

The investors are influenced by various factors of securities investment. Therefore, it is try to analyze the performance of NEPSE index by investors. For this purpose, the collected data are present and analyzed in following table.

**Table no. 2.31**  
**Responsible for NEPSE performance**

| S.N | Research variables | No. of respondents | %   |
|-----|--------------------|--------------------|-----|
| A   | Government         | 34                 | 37  |
| B   | Investors          | 24                 | 27  |
| C   | Brokers            | 16                 | 18  |
| D   | NEPSE              | 16                 | 18  |
|     | Total              | 90                 | 100 |

By research main responsible for NEPSE performance was government. There are 37% of respondent voices for NEPSE performance. 27% of 90 respondents were responsible to investors, and broker & NEPSE are equal 18% responsible for NEPSE performance.

#### **4.12 Test of hypothesis**

This sections deals with different hypothesis test, which are as follows;

### Hypothesis-1

In this section, the impact of income level of people on securities investment is tested using chi-square test. For this purpose, the whole respondents are classified according to their annual income level in the following table.

**Table no. 4.32**

#### **Test Dependence of Securities Investment on Income Level of People**

| Respondent<br>Response | Below<br>Rs.50000 | Above<br>Rs.50000 | Above<br>Rs.100000 | Above<br>Rs. 200000 | Row<br>Total |
|------------------------|-------------------|-------------------|--------------------|---------------------|--------------|
| Yes                    | 11                | 6                 | 23                 | 16                  | 56           |
| No                     | 3                 | 4                 | 15                 | 12                  | 34           |
| Column Total           | 14                | 10                | 38                 | 28                  | 90           |

#### **Formation of hypothesis**

Null hypothesis ( $H_0$ ): securities investment is independent on income level of people or there is no significant relationship between income level of people and securities investment.

Alternative hypothesis ( $H_1$ ): securities investment is dependent on income level of people or there is significant relationship between income level of people and securities.

The computed value of  $\chi^2$  i.e. 1.9669 is lower than tabulated value of  $\chi^2$  at 55 level of significant with d.f. 3i.e. 7.815. Therefore, null hypothesis is accepted. It implies that securities investment is independent on income level of people in Nepalese context. In order word, there is significant relationship between income level of people and securities investment. Wealthy persons have also not invested but some poor persons have invested in securities.

### Hypothesis-2

In this hypothesis, the whole respondents are classified into the following two groups according to their academic background. The main purpose of this classification is to test the hypothesis, whether persons with the academic background of management and economics are more aware about securities investment or not.

**Table no. 4.33**

**Relation between Awareness of Investment and Academic Background**

| Academic background \ Awareness | Management or Economics | Others | Row Total |
|---------------------------------|-------------------------|--------|-----------|
| More aware                      | 46                      | 12     | 58        |
| Less aware                      | 22                      | 10     | 32        |
| Column Total                    | 8                       | 22     | 90        |

**Formation of hypothesis**

Null hypothesis ( $H_0$ ): the experiment does not exist any relationship between academic background and awareness about securities investment.

Alternative hypothesis ( $H_1$ ): the experiment does exist any relationship between academic background and awareness about securities investment or the people with academic background of management and economics are more awareness about securities investment than others.

Since, the calculated value of  $\chi^2$  i.e. 1.2477 lower than tabulated value of  $\chi^2$  at 5% level of significant with d.f. 1 i.e. 3.841, null hypothesis is accepted and alternative hypothesis is rejected. It can be concluded that people with academic background of management and economics are less aware about securities investment than people with academic background of others. In another word, there is meaningless relationship between academic background of management and economics with less aware about securities investment.

**Hypothesis-3**

In this hypothesis, the whole respondents are classified into the following two groups according to their academic background. The main purpose of this classification is to test the hypothesis, whether relationship between academic background of persons and securities investments or not.

**Table no. 4.34**

**Relation between Securities of Investment and Academic Background**

| Academic background \ Response | Management or Economics | Others | Row Total |
|--------------------------------|-------------------------|--------|-----------|
| Yes                            | 18                      | 36     | 54        |
| No                             | 30                      | 6      | 36        |
| Column Total                   | 48                      | 42     | 90        |

### Formation of hypothesis

Null hypothesis ( $H_0$ ): there is no significant relationship between academic background and securities investment.

Alternative hypothesis ( $H_1$ ): there is significant relationship between academic background and securities investment

Since, value of  $\chi^2$  i.e. 21.6963 more than tabulated value of  $\chi^2$  at 5% level of significant with d.f. 1 i.e. 3.841, null hypothesis is rejected and alternative hypothesis is accepted. It can be concluded that there is associated between the people with academic background of management and economics and securities investment. It prove that people with academic background of management and economic are less aware about securities investment is significantly above than people with academic background of others subjects.

### Hypothesis-4

For this hypothesis, only the existing investors of securities are considered. Moreover, some NEPSE staffs and companies staffs were specially asked to collected their opinions regarding government efforts for development stock market in Nepal. Hence, the respondents are classified into the following three groups.

**Table no. 4.35**

#### Perception towards government efforts

| Respondents<br>Response | NEPSE staffs | Companies<br>staffs | Investors | Row total |
|-------------------------|--------------|---------------------|-----------|-----------|
| Yes                     | 18           | 14                  | 27        | 59        |
| No                      | 14           | 4                   | 13        | 31        |
| Column Total            | 32           | 18                  | 40        | 90        |

### Formation of hypothesis

Null hypothesis ( $H_0$ ): there is no significant difference in the perception of NEPSE staff, companies' staffs, and investors towards government efforts for stock market development.

Alternative hypothesis ( $H_1$ ): there is significant difference in the perception of NEPSE staff, company's staffs, and investors towards government efforts for stock market development

Since, value of  $\mathcal{R}^2$  i.e. 2.4874 lower than tabulated value of  $\mathcal{R}^2$  at 5% level of significant with d.f. 2 i.e. 5.991, null hypothesis is accepted and alternative hypothesis is rejected. It means the perception of NEPSE staffs, companies' staffs, and investors is significant difference towards government efforts for stock market development in Nepal.

#### 4.13 Run Test Analysis

A run is defined as a sequence of price changes in the same sign. For the stock price behavior, there are three types of change pattern namely; positive, negative and zero which are known as three types or runs. This test, which is nonparametric in nature, is used to examine independence assumption of the model.

Empirical Results If it is assumed that the simple proportions of positive, negative and zero price changes are good estimates of the population, then the hypothesis of independence can be tested by using the equation 3.6.4.1. The calculated value of standard normal variant Z for each sample bank is presented in Appendix XII. It is important to test absolute dependence in the price changes than whether the dependence is positive or negative. To test the randomness or independence of the given share prices, the values of the standard normal variant Z as calculated in Appendix IV is tested at the 5% and 1% level of significant.

Table 4.36 Name of the companies having significant value of standard normal variate Z at 5% and 1% level of significance.

| S.No. | Name of the company             | Level of the significance |    |
|-------|---------------------------------|---------------------------|----|
|       |                                 | 5%                        | 1% |
| 1.    | Himalayan Bank Limited          | R                         | R  |
| 2.    | Nepal Investment Bank Limited   | R                         | R  |
| 3.    | Nabil Bank Limited              | R                         | R  |
| 4.    | Standard Chartered Bank Limited | R                         | R  |

Note: R indicates that the hypothesis of randomness or independence is rejected. Viewed from table 4.36 which gives information regarding the composition of standardized variable, it can be seen that the standard normal variate Z is significant 5% and 1% level of significance in respect to all sample banks.

The overall results suggest that the hypothesis of randomness of share prices do not support the monthly closing stock of NEPSE. Hence, it can be concluded that

these companies do not follow random walk model or weakly efficient market hypothesis. It suggests that the Nepalese stock market may not be defined as “weakly efficient” in pricing the shares as the implication of non-random behavior in share prices. In view of above findings, the technical analysis (chartist) theory can be useful to an extent as an investment strategy for buying selling shares in such market situation. The result obtained also suggests that the fundamental or intrinsic value analysis is important to test the efficiency of NEPSE.

#### **4.14 Major findings**

This section contains major findings from the analysis of secondary data and primary data.

##### **4.14.1 Findings from secondary data analysis**

- ) Most of the companies are not following the capital market as an alternative source of fund raising because 142 companies are only listed in NEPSE up to 2007/08. It proves that the size of Nepalese stock market is very small.
- ) The numbers of listed companies are increasing trend. The number of companies in the initial year 2001/02 it was 96 and 2001/02 and in 2007/8, it was 142. A listed company was increasing by 46 companies.
- ) The annual turnover is fluctuating. It is more than double in 2006/07 but marked sharp incline in 2007/08 with reaching the turnover Rs.21987.78 M.
- ) Market capitalization value is in erratic trend in each group in each year. The proportion of market capitalization of commercial bank is the highest among eight sectors. Its proportion is
- ) In the term of traded share quantity commercial bank captured the largest chunk of the total share trading. Trading sector has lowest share traded quantity comparison to other sectors.
- ) The total number of transaction is in increasing trend during study period. In total, the number of transaction in commercial bank is the highest. Second position occupied the development bank in term of number of transactions. Thus, the investors are encouraged to invest in these sectors.
- ) The total number of transaction is in increasing trend during the study period. In total number of transaction in commercial bank is the highest position is occupied by the finance in the term of number of transactions.

- ) NEPSE index reflects the aggregate volatility of the share prices of the companies listed.

#### **4.14.2 Findings from primary data analysis**

- ) During the discussion with both brokers and investors, it has been seen that they blamed each other's regarding their roles and performance.
- ) Most of the populations were interested to invest in stock.
- ) Regarding their preference of investment sectors, major portion were found preferring to invest in banking and finance companies.
- ) Most of the investors were not conscious with Nepalese stock market.
- ) Investor's motive for investment on the shares of company was to receive capital gain.
- ) Most of the investors were satisfied with earning from investment.
- ) On analyzing the priority taken by investors to make investment, it was found that major portion of them take investment decision based on market price.
- ) Most of the investors were not satisfied with the NEPSE performance.
- ) Most of the investors were in view that the government's role is important for smooth functioning of security board.
- ) On analyzing investors view, it seems that the role of different parties such as broker, market makers, and securities exchanges limited is not efficient during the study.
- ) Stock market is confined to equity market only and debt truncation in Nepal stock exchange is negligible.

## CHAPTER-V

### SUMMARY, CONCLUSION, AND RECOMMENDATION

#### 5.1 Summary

Nepal is one of the least developed countries in the world. Nepal launched planned economic development more than four decades ago. Recently it has adopted the path of economic development through liberalization. The capital market institutions are engaged in mobilization of saving into the productive investment activities. Therefore, to develop the country an efficiency and effectiveness capital market plays a vital role. The basic objective of this study are concerned to the concept of capital market, analysis its performance and price behavior of share of listed companies and behavior of NEPSE index

Stock market facilitates the exchange of financial assets by bringing together buyers and sellers the exchange of securities. It provides an effective easy of raising money for commercial enterprises and at the same time, provides an investment opportunity for individual and institutions. Particularly the activates of buying and selling securities on the stock market are extremely important for the allocation of capital with in economics.

Since there is a vital role of stock market for overall economic development in both developing and developed countries, strong development of stock market is essential. The development of stock market determines mainly by the involvement of investors is influenced by size and liquidity position of stock market. Size and liquidity position of stock market again depends on overall development of securities market.

The main objective of the present research was to study and analyzed the stock market behavior in listed companies in Nepal. Besides this, other general objectives were about the awareness of Nepalese people regarding securities investment, size and liquidity position of Nepalese stock market, stock market trend in Nepal and some major investment influencing factors of securities investment.

Regarding the stock market more or less related books, journals and articles acts and unpublished thesis were studied including their theme in the this research.

As per the nature study, secondary data as well as primary data were collect from various sources. The collected data were tabulate & analyze by the help of both financial and statistical tools to meet the defined objectives. Both descriptive and analytical research designs were following. Likewise, the collected data were

analyzed by using bar diagram and trend lines in order to interpret them and to meet the defined objectives of the study.

The second chapter presents the theoretical and research review. In theoretical, there are two approaches technical and fundamental analysis. Technical analysis involves the study of the past volume price fluctuations where as fundamental analysis deals with the securities analyst the economic factor influences industry factor and pertinent company information such as product and management in order to calculate an intrinsic value of the firms securities. In an efficient market, there are three forms a) weak form b) semi-strong form and c) strong form. In weak form of EMH, stock price behavior can be tested by using parametric (serial correlation) and non- parametric (run test).

Research methodology and presentations of data deals with the methods of analysis. This chapter presents the research design of the study. This study covers three-year form 16 July 2005 through 16<sup>th</sup> 2008. In Nepal stock exchange, there are eight sector listed. So all eight sectors 1) commercial bank 2) finance companies 3) insurance 4) hotels 5) manufacturing and processing 6) trading companies 7) development banks 8) others has been taken as a sample for the study. Data used for the study purpose are based on the primary and secondary data. The major sources of data are NEPSE SEBON, investors and non-investors. For analysis of data percentage methods bar diagram line charts have been used. A statistical tool like standard deviation has been used to measure the volatile of behavior of NEPSE index. Calculation of standard deviation is a positive relationship between risk and return. Therefore, from the viewpoint of the investors the attitude towards risk varies from investor to investor. A risk aversion is a approach where the investor doesn't want to bear additional risk and want s secured and safe return. The level of risk is not so easy to measure.

The number of listed companies is in increasing trend. The numbers of listed companies were 134 in 2005/6 and 2006/7 but in 2007/8, it has 142 companies.

The annual turnover is fluctuating and market capitalization value is in increasing trend. The proportion of market capitalization of commercial bank is highest among eight sectors.

Total number of transaction increasing trend during the study period and investors are encouraged to invest in commercial bank and finance companies. Analysis of signaling factors indicates differences between NEPSE indexes.

## **5.2 Conclusions**

The following conclusions have been derived from the major findings of this study.

- ) Capital market is a vital importance to develop in the economy the country, an efficient and effective stock market. The growth of institutional, growth of primary and secondary market and increase in listed companies, i.e. the capital market In Nepal is in developing process.
- ) The number of transactions traded amount and market capitalization suggest that the banks and finance companies as compared to others are in better position. They look less affected than of performance compared to hotels and other companies.
- ) Commercial bank total annual turnover stood at 66.55 by the end of fiscal year 2006/7 with those shares accounting for 74.04 of the total market capitalization during the fiscal year. These indicators reveal that the shares of commercial banks have a dominant role in determining the key indicators of the Nepalese stock exchange. It is thus unsurprising that commercial banks have continued to appear as the most attractive investment alternatives since the opening of the floor.
- ) Market performance of NEPSE index shows the decreasing trend and no any sign of improvement of NEPSE index. NEPSE index of commercial bank is fluctuating. Volatility of the NEPSE index hit the peak 424.28, 789.29 & 995.52 in 2005/06, 2006/7 and 2007/8 respectively. The manufacturing & processing and finance sector is less risky according to standard deviation. Investors are suggested to invest in other sectors too but it depends on the investor's attitude towards the risk. If investors are ready to assume more risk they might obtain a higher expected monetary value .so investors are encourage to invest in manufacturing & processing and finance companies too.

## **5.3 Recommendations**

- ) The performances of commercial banks, finance companies and manufacturing & processing companies are better than the other sectors so it is recommended to the investors to invest their investment in these sectors.

- ) It is also recommended to the concerned regulatory body to carry out further research on the specifics of market efficiency to develop an efficient capital market.
- ) Statistical tools are serial correlation run tests and filter rules technique are not carried out study by applying these tools.
- ) Thousands of investors from outside the valley are suffering due to not having an easy access to secondary market. All the investors from outside the valley who want to involve in securities transaction must come to the capital physically. There is no another way for them to participant in the secondary market. It is costly and risky. Therefore, secondary market should be expanded at least one in each development region to expand its services more.
- ) When a company performance was well this performance reflects market besting the price up. However, higher price would be affordable only to high-income group and wealthy investors. Thus, benefits of capital gain as well as handsome dividend paid by companies should follow the concept of stock split to make their stock more affordable to all income level investors by reducing the price of stock. It helps to increase number of share in stock exchange to spread the earnings of society and to motivate them to participate in securities investment.
- ) All listed companies have been published their financial reports quarterly.
- ) Financial investment, in Nepalese context has still been new phenomenon due to the lack of enough knowledge and awareness about it. So effective programs in radio or FM or TV should be conducted small or large types of seminars should be organized frequently various books and journals should be published including rules and regulation, methods, process, and advantages and disadvantages of securities investment and should be distributed freely to increase awareness among the general public.
- ) Equity issuance has covered major portion of total issue in the securities market. The issuance of such securities is viable opportunity for only risk seeker investors who wish to take greater risk foe higher return. However, there is still lack of market for risk adverse investors who want to invest lower risky or risk free securities. So corporate bonds, debentures, and preferred stock should be issued heavily to cater the needs of risk adverse investors.

- ) True, scrutinized, and credible information about the listed companies are not available because of absences of credible rating system. So independent rating agencies should be encouraged to establish here so, that potential investors will have to confident picture of financial health and future prospect of company.
- ) SEBON NEPSE are operating under the government ownership. It has put breaks on the development of securities market. Therefore, the ownership of NEPSE should be hand over to the private sectors and developed as a self-regularity organization. It helps to regulate the activities of NEPSE and market intermediaries.
- ) Member of stock exchange and other associated with the working of capital market should have reasonable background in corporate finance, capital market, and economics.
- ) Central deposit system should be initiated in Nepal stock exchange, which helps to easy transaction.
- ) Number of broker and sub broker has been increase and stock market was not limited on Kathmandu only.

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## APPENDIX-I

### A Survey on Stock Market in Nepal

NAME: Manzil Shrestha

Please Use Tick Mark (  ) in an Alternative.

1. Have you invested in any securities?  
a. Yes (  ) b. No (  )
2. How did you first get the idea about securities investment?  
a. From friends (  )  
b. Form stock brokers (  )  
c. From relatives (  )  
d. Myself (  )
3. What do you consider before investing in securities?  
a. Return only (  )  
b. Risk only (  )  
c. Risk and return (  )  
d. I don't know (  )
4. Do you know some portion of total risk can be diversified by portfolio investment?  
a. Yes (  ) b. No (  )
5. What type of share should buy from securities market?  
a. Undervalued (  )  
b. Overvalued (  )  
c. I don't know (  )
6. In which sector's share do you like to invest most?  
a. Banking (  )  
b. Insurance (  )  
c. Development banks (  )  
d. Finance companies (  )  
e. Hotels (  )  
f. Manufacturing & processing (  )  
g. Trading (  )  
h. Others (  )
7. Are you satisfied with the return that you are presently getting from share investment?  
a. Yes (  ) b. No (  )
8. Are you satisfied with government efforts to develop stock market in Nepal?  
a. Yes (  ) b. No (  )  
If no, please provide three good suggestions in short
  1. Policy should be liberalized
  2. Interest rate should be low

3. Share should be taken as assets

9. In your opinion, which is the main cause for Nepalese people to be reluctant to invest in securities?
- a. Lower return ( )
  - b. More risky ( )
  - c. Lack of knowledge ( )
  - d. No protection of investor's right ( )
10. How is your annual income level?
- a. Below 50000 ( )
  - b. Above 50000 ( )
  - c. Above 100000 ( )
  - d. Above 200000 ( )
11. For what purpose do you want to invest?
- a. Dividend ( )
  - b. Management participant ( )
  - c. Capital gain ( )
  - d. Social status ( )
12. In your opinion which of the following is most responsible for NEPSE performance?
- a. Government ( )
  - b. Investors ( )
  - c. Brokers ( )
  - d. NEPSE ( )

## APPENDIX-II

### Dividend Payout Ratio of Listed Companies (Percentage)

| Name of company                             | 2005/06 | 2006/07 | 2007/08 |
|---|---------|---------|---------|
| <b>Bank</b>                                 |         |         |         |
| 1. Himalayan bank ltd                       | 35      | 40      | 45      |
| 2. Nabil bank ltd                           | 85      | 140     | 100     |
| 3. Nepal investment bank ltd                | 70      | 35      | 40      |
| 4. Standard chartered bank ltd              | 140     | 130     | 130     |
| <b>Finance company</b>                      |         |         |         |
| 5. Annapurna finance co.                    | 20      | 20      | 30      |
| 6. Mahalaxmi finance co.                    | 20      | 22      | 20      |
| 7. Nepal industrial development corporation | 23      | 13      | 30      |
| 8. Nepal saving and finance co.             | 123     | 62      | 50      |
| <b>Development bank</b>                     |         |         |         |
| 9. Gurkha development bank                  | 0       | 0       | 0       |
| 10. Annapurna development bank              | 0       | 0       | 0       |
| 11. Sanima bikash bank                      | 12      | 5       | 10      |
| 12. Ace development bank                    |         |         |         |

### APPENDIX-III

#### Price Earnings Ratio of Listed Companies

| Name of company                             | 2005/06 | 2006/07 | 2007/08 |
|---|---------|---------|---------|
| <b>Bank</b>                                 |         |         |         |
| 1. Himalayan bank ltd                       | 18      | 33      | 27      |
| 2. Nabil bank ltd                           | 17      | 47      | 63      |
| 3. Nepal investment bank ltd                | 21      | 30      | 46      |
| 4. Standard chartered bank ltd              | 40      | 44      | 49      |
| <b>Finance company</b>                      |         |         |         |
| 5. Annapurna finance co.                    | 8       | 23      | 61      |
| 6. Mahalaxmi finance co.                    | 10      | 15      | 68      |
| 7. Nepal industrial development corporation | 14      | 33      | 18      |
| 8. Nepal saving and finance co.             | 2       | 5       | 5       |
| <b>Development bank</b>                     |         |         |         |
| 9. Gurkha development bank                  | 88      | 72      | 143     |
| 10. Annapurna development bank              | 0       | 12      | 36      |
| 11. Sanima bikash bank                      | 113     | 70      | 118     |
| 12. Ace development bank                    | 16      | 65      | 57      |

## APPENDIX-IV

### Correlation Coefficient between Market Days and Number of Shares Traded

| F/Y     | X      | Y        | XY           | X <sup>2</sup>          | Y <sup>2</sup>              |
|---------|--------|----------|--------------|-------------------------|-----------------------------|
| 2005/06 | 228    | 12222    | 2786600      | 51984                   | 149375573                   |
| 2006/07 | 232    | 18147    | 4210167      | 53824                   | 329323409                   |
| 2007/08 | 235    | 28600    | 6720946      | 55225                   | 817946844                   |
|         | ∑X=695 | ∑Y=58969 | ∑XY=13717713 | ∑X <sup>2</sup> =161033 | ∑Y <sup>2</sup> =1296645826 |

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

$$r = \frac{3 \times 13717713 - 695 \times 58969}{\sqrt{(3 \times 161033 - (695)^2)} \sqrt{(3 \times 1296645826 - (58969)^2)}}$$

$$r = \frac{169703.24}{8.6 \times 20312.5}$$

$$r = \frac{169703.74}{174734.73}$$

$$r = 0.9712$$

$$r^2 = (0.9712)^2$$

$$r^2 = 0.9432$$

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

$$PE(r) = 0.6745 \times \frac{1 - 0.9432}{\sqrt{3}}$$

$$PE(r) = 0.6745 \times 0.0328$$

$$PE(r) = 0.02212$$

## APPENDIX-V

### Correlation Coefficient between Market Capitalization and NEPSE Index

| F/Y     | X            | Y          | XY            | X <sup>2</sup>                | Y <sup>2</sup>           |
|---------|--------------|------------|---------------|-------------------------------|--------------------------|
| 2005/06 | 96763.74     | 386.83     | 37431118      | 9363221379                    | 149637                   |
| 2006/07 | 186301.28    | 683.95     | 127402130     | 34708166930                   | 467788                   |
| 2007/08 | 346680       | 947.99     | 328649173     | 120187022400                  | 898685                   |
|         | ∑X=629745.02 | ∑Y=2018.77 | ∑XY=493482421 | ∑X <sup>2</sup> =164258410700 | ∑Y <sup>2</sup> =1516110 |

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

$$r = \frac{3 \times 493482421 - 629745.02 \times 2018.77}{\sqrt{(3 \times 164258410700 - (629745.02)^2)} \sqrt{(3 \times 1516110 - (2018.77)^2)}}$$

$$r = \frac{209136912}{310155.5124 \times 687.675}$$

$$r = 0.9805$$

$$r^2 = (0.9805)^2$$

$$r^2 = 0.9614$$

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

$$PE(r) = 0.6745 \times \frac{1 - 0.9614}{\sqrt{3}}$$

$$PE(r) = 0.6745 \times 0.0222$$

$$PE(r) = 0.015$$

**APPENDIX –VI**

**Correlation Coefficient between no. of Listed Securities and Stock Market Turnover**

| F/Y     | X         | Y        | XY               | X <sup>2</sup>                | Y <sup>2</sup>                |
|---------|-----------|----------|------------------|-------------------------------|-------------------------------|
| 2005/06 | 226540    | 96764    | 21920857660      | 5132037160                    | 9363221379                    |
| 2006/07 | 243504    | 186301   | 45365106890      | 59294198020                   | 34708166930                   |
| 2007/08 | 321131    | 366248   | 117613445200     | 96802499160                   | 134137275200                  |
|         | ∑X=791175 | ∑Y=64913 | ∑XY=184899409750 | ∑X <sup>2</sup> =161228734300 | ∑Y <sup>2</sup> =178208663500 |

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

$$r = \frac{3 \times 161228734300 - 791175 \times 649313}{\sqrt{(3 \times 16122873400 - (791175)^2)}\sqrt{(3 \times 178208663500 - (649313)^2)}}$$

$$r = \frac{5123619470}{37718.91 \times 3361830.23}$$

$$r = -0.4040$$

$$r^2 = (0.4040)^2$$

$$r^2 = 0.1632$$

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

$$PE(r) = 0.6745 \times \frac{1 - 0.1632}{\sqrt{3}}$$

$$PE(r) = 0.6745 \times 0.4830$$

$$PE(r) = 0.3258$$

**APPENDIX-VII**

### Hypothesis-1

### Chi-square Test

| R, C  | $\zeta$ | $E = \frac{RT \times CT}{N}$ | $(\zeta Z\eta)$ | $(\zeta Z\eta)^2$ | $\frac{(O - E)^2}{E}$                              |
|-------|---------|------------------------------|-----------------|-------------------|--|
| 1,1   | 11      | 8.71                         | 2.29            | 5.2441            | 0.6020   |
| 1,2   | 6       | 6.22                         | -0.22           | 0.0484            | 0.0078   |
| 1,3   | 23      | 23.64                        | -0.64           | 0.4096            | 0.0173   |
| 1,4   | 16      | 17.42                        | -1.42           | 2.0164            | 0.1157   |
| 2,1   | 3       | 5.29                         | -2.29           | 5.2441            | 0.9913   |
| 2,2   | 4       | 3.78                         | 0.22            | 0.0484            | 0.0128   |
| 2,3   | 15      | 14.35                        | 0.64            | 0.4096            | 0.0294   |
| 2,4   | 12      | 10.58                        | 1.42            | 2.0164            | 0.1906   |
| Total |         |                              |                 |                   | $\sum \left[ \frac{(O - E)^2}{E} \right] = 1.9669$ |

Formula:  $\chi^2 = \sum \left[ \frac{(O - E)^2}{E} \right] = 1.9669$

Degree of freedom (d.f.) = (R-1) (C-1)

$$= (2-1) (4-1)$$

$$= 1 \times 3$$

$$= 3$$

Where, O= Observation Frequency

E= Expected Frequency

RT= Row Total

CT= Column Total

R= Number of Row

C= Number of Column

N= Total Number of Observations.

### Appendix-VIII

**Hypothesis-2****Chi-square test**

| R, C  | $\zeta$ | $E = \frac{RT \times CT}{N}$ | $(\zeta Z\eta)$ | $(\zeta Z\eta)^2$ | $\frac{(O - E)^2}{E}$                              |
|-------|---------|------------------------------|-----------------|-------------------|--|
| 1,1   | 46      | 43.82                        | 2.18            | 4.7524            | 0.1084   |
| 1,2   | 12      | 14.18                        | -2.18           | 4.7524            | 0.3351   |
| 2,1   | 22      | 24.18                        | -2.18           | 4.7524            | 0.1965   |
| 2,2   | 10      | 7.82                         | 2.18            | 4.7524            | 0.6077   |
| Total |         |                              |                 |                   | $\sum \left[ \frac{(O - E)^2}{E} \right] = 1.2477$ |

Formula:  $\chi^2 = \sum \left[ \frac{(O - E)^2}{E} \right] = 1.2477$

Degree of freedom (d.f.) = (R-1) (C-1)

$$= (2-1) (2-1)$$

$$= 1 \times 1$$

$$= 1$$

Where,

O= Observation Frequency

E= Expected Frequency

RT= Row Total

CT= Column Total

R= Number of Row

C= Number of Column

N= Total Number of Observations.

**APPENDIX-IX**

**Hypothesis-3****Chi-square test**

| R, C  | $\zeta$ | $E = \frac{RT \times CT}{N}$ | $(\zeta Z\eta)$ | $(\zeta Z\eta)^2$ | $\frac{(O - E)^2}{E}$                               |
|-------|---------|------------------------------|-----------------|-------------------|---|
| 1,1   | 18      | 28.8                         | 10.8            | 116.64            | 4.05  |
| 1,2   | 36      | 25.2                         | -10.8           | 116.64            | 4.6285  |
| 2,1   | 30      | 19.2                         | -10.8           | 116.64            | 6.075   |
| 2,2   | 6       | 16.8                         | 10.8            | 116.64            | 6.9428  |
| Total |         |                              |                 |                   | $\sum \left[ \frac{(O - E)^2}{E} \right] = 21.6963$ |

Formula :  $\chi^2 = \sum \left[ \frac{(O - E)^2}{E} \right] = 21.6963$

Degree of freedom (d.f.) = (R-1) (C-1)

$$= (2-1) (2-1)$$

$$= 1 \times 1$$

$$= 1$$

Where,

O= Observation Frequency

E= Expected Frequency

RT= Row Total

CT= Column Total

R= Number of Row

C= Number of Column

N= Total Number of Observations

**APPENDIX-X**

**Hypothesis-1****Chi-square test**

| R, C  | $\zeta$ | $E = \frac{RT \times CT}{N}$ | $(\zeta Z\eta)$ | $(\zeta Z\eta)^2$ | $\frac{(O - E)^2}{E}$                              |
|-------|---------|------------------------------|-----------------|-------------------|--|
| 1,1   | 18      | 20.98                        | -2.98           | 8.8804            | 0.4232   |
| 1,2   | 14      | 11.8                         | 2.2             | 4.84              | 0.4102   |
| 1,3   | 27      | 26.22                        | 0.78            | 0.6084            | 0.0232   |
| 2,1   | 14      | 11.02                        | 2.98            | 8.8804            | 0.8058   |
| 2,2   | 4       | 6.2                          | -2.2            | 4.84              | 0.7806   |
| 2,3   | 13      | 13.78                        | -0.78           | 0.6084            | 0.0441   |
| Total |         |                              |                 |                   | $\sum \left[ \frac{(O - E)^2}{E} \right] = 2.4874$ |

Formula :  $\chi^2 = \sum \left[ \frac{(O - E)^2}{E} \right] = 2.4874$

Degree of freedom (d.f.) = (R-1) (C-1)

$$= (2-1) (3-1)$$

$$= 1 \times 2$$

$$= 2$$

Where,

O= Observation Frequency

E= Expected Frequency

RT= Row Total

CT= Column Total

R= Number of Row

C= Number of Column

N= Total Number of Observations.

### Sector wise Transaction

As on 16<sup>th</sup> July 2005/06

| Name             | Listed co. | Annual turnover | Trading volume | No. of transaction | Market capitalization |
|------------------|------------|-----------------|----------------|--------------------|-----------------------|
| Commercial bank  | 15         | 2696.28         | 5534.9         | 45886              | 68841.24              |
| Finance          | 50         | 305.85          | 1957.68        | 28875              | 4930.63               |
| Insurance        | 15         | 129.9           | 575            | 6187               | 4852.19               |
| Hotel            | 4          | 19.77           | 392.18         | 510                | 2393.61               |
| Mgf & trading    | 29         | 17.19           | 59.8           | 233                | 4619.2                |
| Trading          | 8          | 15.8            | 15.22          | 66                 | 737.39                |
| Development bank | 8          | 82.76           | 386.39         | 4740               | 1227.49               |
| Others           | 6          | 183.88          | 3301.54        | 513                | 8012.2                |
| Total            | 135        | 3451.88         | 12222.71       | 87010              | 95613.95              |

### Sector wise Transaction

As on 16<sup>th</sup> July 2006/07

| Name             | Listed co. | Annual turnover | Trading volume | No. of transaction | Market capitalization |
|------------------|------------|-----------------|----------------|--------------------|-----------------------|
| Commercial bank  | 15         | 5563.49         | 8700           | 42848              | 138086.43             |
| Finance          | 53         | 713.57          | 2534.19        | 18879              | 11491.78              |
| Insurance        | 16         | 204.97          | 627.64         | 16203              | 7959.78               |
| Hotel            | 4          | 7.04            | 81.7           | 393                | 1935.59               |
| Mgf & trading    | 21         | 24.27           | 82.9           | 135                | 3760.28               |
| Trading          | 5          | 10.24           | 11.47          | 42                 | 787.4                 |
| Development bank | 16         | 577.55          | 1360.48        | 39413              | 5980.8                |
| Others           | 5          | 1258.76         | 4748.65        | 3898               | 16503.02              |
| Total            | 135        | 8360.07         | 18147.03       | 121811             | 186504.7              |

### Sector wise Transaction

**As on 16<sup>th</sup> July 2007/08**

| Name             | Listed co. | Annual turnover | Trading volume  | No. of transaction | Market capitalization |
|------------------|------------|-----------------|-----------------|--------------------|-----------------------|
| Commercial bank  | 17         | 13822.15        | 11241.42        | 54314              | 218264.19             |
| Finance          | 55         | 2307.53         | 3094.30         | 30462              | 27113.59              |
| Insurance        | 17         | 264.86          | 433.27          | 3332               | 10897.16              |
| Hotel            | 4          | 27.67           | 158.07          | 911                | 3484.13               |
| Mgf & trading    | 18         | 343.44          | 1655.09         | 96                 | 6576.18               |
| Trading          | 4          | 33.65           | 14.97           | 108                | 686.73                |
| Development bank | 23         | 1981.65         | 2534.90         | 53317              | 15619.36              |
| Others           | 4          | 3206.32         | 7578.62         | 6519               | 26128.93              |
| <b>Total</b>     | <b>142</b> | <b>21987.27</b> | <b>26710.64</b> | <b>149059</b>      | <b>308770.27</b>      |

**APPENDIX -XII**

**Run Test (Monthly Transaction Interval)**

|                                 | HBL    | NIB    | NABIL  | SCBNL  |
|---------------------------------|--------|--------|--------|--------|
| Test value (median share price) | 2000   | 1350   | 3275   | 4580   |
| Cases < test value              | 30     | 30     | 30     | 30     |
| Cases > = test value            | 30     | 30     | 30     | 30     |
| Total cases                     | 60     | 60     | 60     | 60     |
| Number of runs                  | 5      | 15     | 13     | 11     |
| Z                               | -6.771 | -4.167 | -4.687 | -5.208 |
| Asymp. Sig. ( 2-tailed )        | .000   | .000   | .000   | .000   |