

CHAPTER - I

INTRODUCTION

1.1 Background Information

The whole area of financial system in the economy is related with financial institutions and financial markets. A financial intermediary is a financial institution that acquires funds from one group of investors and make available to another economic unit. Financial intermediaries play a very relevant role in the economy by challenging funds from surplus units to deficit saving units. Financial institutions are those corporate and government ventures that collect and process information more efficiently thereby lending and borrowing of funds in the market. Banks, financial institutions and non-depository institutions are involved in financial intermediary functions. Financial intermediation is very important for the efficient functioning of whole financial system.

Financial market is also one of the important parts of the financial system. A market is the means by which products and services are brought and sold, directly or through an agent. Sometimes it typically means the exchanges, organizations that facilitate a trade in the financial securities like a stock exchange or a commodity exchange. Moreover, a financial market can be defined as a mechanism bringing together buyers and sellers of financial assets in order to facilitate trading. In other words, the market of money and financial instruments is called financial market. In such market money, shares, debentures, treasury bills, security exchanges, loan giving and taking etc are dealt. Dealing of short term fund is called money market and dealing of long term fund is called capital market. Financial market facilitates a) The raising of capital in the capital markets b) The transfer of risk in the derivatives market c) International trade in the currency markets. (Thapa et al, 2006)

The capital market may be further divided into primary market and secondary market. The primary market is the one where a fresh issue of securities is dealt, whereas the secondary market deals with second hand securities or existing securities.

The stock market where the financial assets are being traded is a financial intermediary as it works as a gateway for the transformation of savings into investment. The security market of Nepal is dominated mainly by banking and financial securities. Nepalese security market not properly mechanized yet. However, from the middle of 2007 the Nepal Stock Exchange tried to adopt automated system for the trading of securities with a great endeavor. Over the period of last three years, the NEPSE index is moving downward direction continuously. But, before that over the period of last five years, the NEPSE index was moving an upward direction. Unrealistic growth and fall of stock market is seen in Nepal. Here in this research work attempt is made to analyze the trend of NEPSE index and its relevancy with regard to the macroeconomic indicators of the country. Similarly, the next aspect of the study is to examine the challenges weaknesses and future prospects of Nepalese Security Market.

1.2 Focus of the Study

The progress of peace and security situation in the country has conducted a positive environment for the establishment of different companies. Due to the establishment of public companies, issue of shares to the public for the collection of capital has started. In Nepal there is the excessive growth of the financial institutions in the recent years. Due to the establishment of large number of banks, finance companies, development banks, insurance companies etc the flow or supply of the shares has also increased in the market. This has finally contributed in the growth of capital market. Moreover, the mandatory requirement of the NRB to increase the capital of different financial institutions also contributed to the growth of the capital market in recent year. This shows a significant growth in primary market and secondary market activities in recent years.

This study focuses on recent trends, challenges and prospects of Nepalese capital market. The capital market of Nepal has experienced an impressive growth and alarming downfall in recent years. Is the price movement in Nepalese stock market realistic in terms of investor's awareness and overall economic growth of the nation? Does the broker influence the stock price? What could be the challenges of stock market? What are the future possibilities for the development of capital market in Nepal? Will the Capital market of Nepal develop? Will it become sustainable? To

find out the answer of all these questions, this study is focused on the cases study of Nepalese Stock Market. The study is primarily based on the recent growth and downfall trend of stock market and challenges it faces.

The solutions for the above mentioned problems has been tried to be found in this research work. Due to the market demand and supply of shares, influence of stock brokers, lack of investor's awareness, income level of investors, offering of right shares or bonus shares by the financial institutions etc the movement of the stock price in the stock market is affected. Hence, assessing with these problems is a major issue in Nepalese stock market.

1.3 Statement of the Problems

In Nepal, NEPSE is one and only authorized stock market where the previously issued securities are traded on an auction basis. Security Board of Nepal (SEBON) is the only regulatory body of securities in Nepal, which prepares the listing guidelines to the company which are needed to be listed. Without listing of securities of any company trading could not be done in NEPSE.

The economic prosperity of nation depends upon the development of industries, commerce and the capital market of the country. Financial institutions are the primary stake of capital market because the stocks of financial institutions are regarded as 'hot cakes' in the stock market. Financial institutions and stock markets both contribute in a major way to the transformation of savings into investment thereby enabling financial development and economic growth. However, it is not clear whether these two types of financial intermediaries are complimentary or substitutes of each other. There is the domination of stock of financial institutions in the capital market. The numbers of listed and traded companies are in the increasing trend in the recent time periods. In 2007/08 the numbers of listed and traded companies were 125 and 102 respectively, but in the year of 2010/11 it increased to 192 and 176. But according to the increment in numbers of listed and traded companies stock market is not in the growth. Since 2007/08 to 2012/13 the NEPSE Index has also shown positive growth and negative growth. If we see from the market capitalization and annual market turnover, the financial institutions are having more than half of the share in the transactions.

The investors are also not satisfied with the development of capital market in Nepal. General people are having the feeling that NEPSE Index and macroeconomic variables like GDP, Economic growth and annual turnover of capital market are having positive relationship, but actually it is having what type of relation it is tried to be analyzed in this research work. Due to lack of investors awareness, lack of modern technology, lack of institutional investing in the market and lack of institutional support and coordination the stock market of Nepal is unable to grow and how such problems hinders the development and such problems could be removed is analyzed in this research work.

Nepalese capital market has gained momentum over the past few years, examining the growth trend of NEPSE and the obstacles it faces is a burning topic for different research works. Hence, this research is primarily concerned with how the transactions take place in NEPSE and how growth of NEPSE is related with the economic growth? To state the positive relationship between financial development and economic growth an attempt needs to be given to establish a cordial relationship between the return from stock market with the real growth in GDP. In this respect, the movement of NEPSE index with the macroeconomic indicators needs to be examined. Furthermore, the comparative study of the stock price movement of financial institutions in the various time periods is also examined through this research work. Moreover, in this research work what type of perception has been shown by the investors with regard to the development of capital market in Nepal is also tried to be analyzed. Similarly, the current or burning issues and challenges of Nepalese market which may result as prospects for the development of capital market NEPSE are the topics for research work. Hence, the present study has analyzed and examined the trends, challenges and prospects of Nepalese stock market. So, all of the above issues are analyzed and examined here in this research work.

RESEARCH QUESTION

The following research questions have been listed below:

-) What is the procedure for security transactions in NEPSE?
-) What is the growth trend of NEPSE index?
-) What the investors say with regard to the development of capital market in Nepal?

-) What are the obstacles of Nepalese capital market?
-) What are the prospects of Nepalese capital market?

1.4 Objectives of the Study

Capital market is the key player in the development of industries in the nation. Capital market of Nepal is mainly dominated by the finance sector. For the economic upliftment of the economy of the country industries belonging to real sector is also needed to be developed. Why the real sectors are very behind in the presentation of NEPSE's listing, reasons should be found. Capital market needs to be developed but for that the causes should be found which hinders the development and then the solutions or possible measures should be also searched out.

The main objectives related with the study/ research work are as follows:

-) To highlight the overview of Nepalese stock market and its security transaction process.
-) To study and analyze the overall trend of Nepalese stock market in terms of NEPSE index.
-) To study and analyze investor's perspective with regard to investment on secondary market.
-) To examine and analyze the obstacles faced by the stock market for stock trading.
-) To examine and analyze the prospects of stock market due to mechanization, modernization and due to entry of new stock brokers in the market in stock trading.

1.5 Significance of the Study

In Nepal, the Nepal Stock Exchange Limited (NEPSE) is one and only organized security market for the trading of second hand securities. In an organized security market, trading of securities are done under a set of rules and regulations. In Nepalese security market investors are influenced by the investment for short term and investment for the long term. Long term securities and short term securities are traded in Nepalese stock market. Here an attempt is made with regard to analyze the trend

and perspective of Nepalese stock market where mostly the long term securities are traded. In this research work an attempt is made to appraise and analyze the growth trend of NEPSE. This research work will be significant to know the recent trend and perspectives of Nepalese stock market. It is also significant to know about the investors perspectives with regard to growth and downfall of Nepalese Stock Market. Moreover, this study is significant to know the answers of following queries:

-) What is the trading mechanism of NEPSE?
-) What is the trend of Nepalese stock market?
-) What are the challenges of NEPSE?
-) What are the prospects of NEPSE?
-) How does an investor reach upon an investment decision?

1.6 Hypothesis Formulation

Hypothesis is merely an assumption relating to the population parameter which may be true or false and can be tested by using sample information. After the identification of research problem, the next crucial step for the research work is expressed in the form of hypothesis. Hypothesis is a statement about the relationship between two or more variables. This study attempted to analyze the relationship between macroeconomic variables like GDP, EG with the growth of NEPSE index in one hand, and some of the variables which are operating within the capital market itself on the other.

The hypothesis set of the study are:

Null hypothesis: $H_0: \dots X_0$ i.e. the variables GDP, EG with the growth of NEPSE index are not correlated in the population.

Alternative hypothesis: $H_1: \dots | 0$ i.e. the variables GDP, EG with the growth of NEPSE index are correlated in the population.

1.7 Limitations of the Study

The greatest limitation of the study is that it is prepared for the academic fulfillment of the requirements for the degree of Master of Business Studies (MBS), academic program launched by Tribhuvan University under the faculty of management. The data and statistics have been extracted from published sources. The common interest

of the general sector may not be fulfilled by the data, statistics, findings and solutions related with the research work.

The main limitations related with this research work are listed below:

-) The report is prepared for the academic fulfillment of university program.
-) The data and statistics have been derived from different published sources --- NRB, SEBON and NEPSE.
-) The data covers for the period of 2007/08 to 2012/13.
-) The accuracy and reliability of statistics is concern of the publisher itself.
-) This study may lack different analytical tools for statistical analysis.
-) Limited time and budget is another constraint for the study.
-) The study does not incorporate wide geographical character of the respondents.
-) The common interest of the general sector may not be fulfilled by the data, statistics, findings and solutions related with the research work.

1.8 Organization of the Study

The whole research is divided into five different chapters namely---- 1) Introduction, 2) Review of literature, 3) Research Methodology, 4) Data Presentation and Analysis and 5) Summary and Conclusions and Recommendations. Moreover, the report is accompanied by bibliographies and annexure in supplementary section of the report.

A brief description of the above mentioned chapters of the report follows:

Chapter 1: Introduction

The introduction or orientation serves the general idea about the research topic. Hence, it deals with the subject matter of the research work. This chapter focuses on the general area of interest and its scope. The nature and type of the problem, purpose and objectives of the study, focus and significance of the study; and limitation of the study is the primary concern for this chapter while writing a research report.

Chapter 2: Review of Literature

This chapter is primarily concerned with the review of previous writings and relevant studies with regard to the chosen problem. The review is done in two ways; first reviewing the general textbooks and supporting literature to collect references, and

particularly quotes and findings. Secondly, the previous research reports and their findings are reviewed to clear out the conceptual framework of the selected problem.

Chapter 3: Research Methodology

Research Methodology describes the research design, sources of data, methods of data presentation and analysis, variables to be used and other statistical tools and procedures to accompany with the research topic.

Chapter 4: Data Presentation and Analysis

This is the main body of the research report in which the data are presented into an organized form to find out the major conclusions of the research work. The different chapter in it generally covers presentation of arguments, documentation, ideas or concepts, interpretations and findings. The required data are presented through textual, tabular and graphic devices and are critically analyzed and interpreted in detail.

Chapter 5: Summary and Conclusions and Recommendations

This is the last part of text of the report which is primarily concerned with the summary, conclusions and further recommendations. The summary relates the major findings in a logical and rational manner. Conclusions are drawn through the interpretation of data for the purpose of solving the research problem. Finally, recommendations are capsules for the research problem which is presented based on the theoretical structure and interpretation of data.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Theoretical Reviews

2.1.1 Concept of Market

A market is the means by which products and services are bought and sold directly or through an agent. Market is a place, where goods or services are offered or sell and transfer of ownership occurs. (Bhattarai, R ., 2008). For a market transaction there must be an agreement, no matter whether it is formal or informal between buyers and sellers to purchase or sell something of value.

Stanton defines market as: *in the general context, market encompasses more than the direct consumers of products. A firm's markets include government, regulatory agencies, environmentalists, and stockholders. Thus, any person or group with whom an individual or organization has an existing or potential exchange relationship can be considered market.*

2.1.2 Concept of Security Market

The market of money and financial instruments is called financial market.(Bhattarai, R .,2008). Financial instruments are related to those intangible assets which do not appear in physical existence but yet to be known as 'paper assets'. A security market or financial market can be defined as a mechanism bringing together buyers and sellers of financial assets in order to facilitate trading. Alternatively, security market is a place where securities are bought and sold, the facilitators and people are engaged in such transactions, the demand for and availability of securities to be traded, and the willingness of buyers and sellers to reach agreement on sales. (Shrestha,M.K.,2003)

In Nepal's context, the Nepal Stock Exchange Limited (NEPSE) is one and only organized security market where securities are traded. Some examples of such major organized security markets are: New York S tock Exchange (NYSE) and American Sock Exchange (AMEX) in USA, Tokyo Stock Exchange in Japan, London Stock Exchange in England, Bombay Stock Exchange in India, and Singapore Stock Exchange in Singapore. A detail of Nepal Stock Exchange is discussed in the next section of this research work. (Thapa, et al 2013)

2.1.3 Types of Security Markets

There are many ways to classify security markets. On the nature of claims, such as debt market and equity market; on the maturity of claim, such as money market and capital market; on the seasoning of claim, such as primary market and secondary market; on the intermediate delivery or future delivery, such as cash market and derivative market; and on the organizational structure, such as auction market, over-the-counter market and intermediated market. (*Cheney, J.M. & Edward, A.M. 1992*).

Different forms of financial markets perform different functions depending upon their type and nature. Here in this research work, market on the nature of seasoning of claim such as primary market and secondary market are discussed. Primary market deals with a fresh or new issue of securities where as secondary market deals with the previously issued or existing securities. Here in this research work, to examine the growth trend, different challenges faced and prospects of secondary market of Nepal, more attention is given. While talking about the secondary market of Nepal, we mean the Nepal Stock Exchange Limited (NEPSE).

2.1.4 Historical Overview of Nepalese Security Market

The history of securities market in Nepal dates back to 1937, when the shares of Biratnagar Jute Mills Ltd (BJM) and Nepal Bank Ltd. (NBL) were floated. Similarly, the introduction of the company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange center Ltd in 1976 were other significant development relating to Nepalese capital markets. (*www.nepalstock.com*). Later, the center was converted into Nepal Stock Exchange. Before conversion of Securities Exchange Center into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for the government bonds and other financial services. Later, the Government of Nepal (GoN) under a program initiated to reform capital markets converted Securities Exchange Center into Nepal Stock Exchange in 1993, and the NEPSE stated its operation on 13th January 1994. (*www.nepalstock.com*)

The basic objective of NEPSE is to impart free marketability and liquidity of government and corporate securities. The previously set objectives can be obtained through the transactions in its floor through members, market intermediaries, such as brokers, market makers etc. According to NEPSE news, (2013), currently 23 brokers are actively participating in the floor. Similarly there are 11 sales and issue managers

and 2 dealers. The brokers act as agents of investors. Any one who wants to buy/sell securities in the secondary market should go through these licensed brokers. Brokers are not allowed to buy and sell securities for themselves. But, they have to trade it on behalf of their customers for a fee or commission. Similarly, dealers in primary market work as issue managers and underwriters, whereas in secondary market they play the role of portfolio manager. Unlike brokers they are allowed to buy or sell securities on behalf of their own account. After the restoration of democracy in 1990, privatization and economic liberalization also started. To systematize security transactions in Nepal the need of regulatory body was felt by the then government. The existing structure of Security Exchange Center was dismantled by establishing Security Board of Nepal (SEBON) and the Nepal Stock Exchange Limited (NEPSE) by the government. (*www.nepalstock.com*)

Securities Board of Nepal was established on June 7, 1993 as an apex regulator of securities market in Nepal. The major objective of SEBON is to regulate the securities market and protect investor's interests. As per the Securities related Act, 2007, the major functions of SEBON are as follows.

- Register securities of public limited companies.
- Approve prospectus for issuing securities.
- Provide license to operate stock exchanges.
- Provide license to operate securities businesses.
- Permit the operation of collective investment schemes and investment fund program.
- Draft regulations, and issue directives and guidelines.
- Supervise and monitor stock exchanges and securities business activities.
- Take legal action against the non-compliance companies as per the legal provisions.
- Conduct research, study and awareness programs regarding securities markets.
- Advise the Government of Nepal to formulate policies and programs relating to securities market as and when required. (*www.sebon.gov.np*)

2.1.5 Trading System of NEPSE

Till the middle of 2008, NEPSE adopted the traditional open-out-cry system of trading in which the buying and selling brokers quotes their bid and offer prices by crying in the floor of exchange. The dealers quote their bid and offer prices on their own board before the floor starts. But in August 2008, NEPSE started trading through Wide Area Network (WAN), and dissemination of information through website. Moreover, the establishment of Over-the-counter (OTC) market is another noted development of NEPSE. (*www.nepalstock.com*)

NEPSE as a non-profit making organization established for the purpose of providing three economic functions; viz, determination of fair price for the securities; providing liquidity through the purchase and sale of securities and minimizing total transaction cost by standardizing trades and providing framework for conflict resolutions. The securities are required to be listed to trade in NEPSE. Listing means, the registration of securities with the stock exchange which make them eligible for trading on the open floor. The NEPSE laid down the following conditions for listing of new securities:

- The minimum paid up capital of the company must be Rs.2.5 million.
- The minimum number of shareholders should be 500.
- Those companies which are listed prior to public subscription need to issue the shares within 2 years of listing.
- The face value of each share should be either Rs.10 or Rs.100.
- As per the capital structure of the company the following proportion of shares should aside for public issue. (*www.nepalstock.com*)

Proportion of public issue out of issued capital

| Issue Capital | Shares for public issue |
|------------------------------|--|
| Up to Rs.10 million | 25% |
| Rs.10 million to 50 million | 20% |
| Rs.50 million to 100 million | 10% |
| Rs.100 million and above | As per the decision by SEBON and NEPSE |

Table no. 2.1.5.1

(*www.nepalstock.com*)

At present, the shares of 176 companies are traded at NEPSE. Amongst the total 94 A rated companies, 15 are commercial banks, 20 are development banks, 43 are finance companies, 11 are insurance companies, one hotel company, one is related to manufacturing and processing company and three other companies. (NEPSE 2013)

The Governing Board of SEBON comprises seven members representing various government and non-government sectors. The seven-member board includes a full-time Chairman appointed by the Government of Nepal for the tenure of four years. Other members of the Board are joint secretary from Ministry of Finance, joint secretary from Ministry of Law, Justice and Constitutional Assembly Affairs, a representative from the Nepal Rastra Bank, a representative from Institute of Chartered Accountants of Nepal, a representative from Federation of Nepalese Chambers of Commerce and Industries, and an expert member appointed by the Government of Nepal. (NEPSE 2013)

The total authorized capital of NEPSE is Rs.50 million, out of which Rs.34.91 million is subscribed. The respective holdings of different institutional shareholders of NEPSE are as follows:

Capital Structure of NEPSE

(Rupees in million)

| S.N. | Shareholders | Amount | Percentage |
|--------------|---------------------|---------------|-------------------|
| 1 | Government of Nepal | 20.48 | 58.67 |
| 2 | Nepal Rastra Bank | 12.08 | 34.60 |
| 3 | NIDC | 2.14 | 6.12 |
| 4 | Members | 0.21 | 0.61 |
| Total | | 34.91 | 100.00 |

Table 2.1.5.2

(Source: NEPSE Annual Report)

2.1.6 Securities Transaction and Settlement Process

Trading system in NEPSE is a broker-dealer market. However, automated screen based trading system called NEPSE Automated Trading System (NATS) is also the

system of trading in NEPSE. Trading through Wide Area Network (WAN) and live dissemination of information from trading floor through World Wide Web (www) is also in practice. New and modern technological development in securities market Central Depository Service (CDS) is going to operate very soon within paper work related with share transaction could be minimized.

2.1.6.1 Trading Days and Hours

Trading on equities takes place on all working days except Saturdays and government holidays as declared by the authorities of the NEPSE in advance. However, the exchange may close the market on days other than schedule holidays in one hand and on the other may open the market on those days originally declared as holidays in special circumstances. And the NEPSE deserves all the rights to extend, advance or reduce the trading hours whenever it seems necessary. (*www.nepalstock.com*)

Trading Days and Hours

| Types of Trading | Days | Trading time |
|-------------------------|--------------------|---------------------|
| Regular trading | Sunday to Thursday | 11A.M. to 1 P.M. |
| Odd lot trading | Friday | 12P.M.to 1 P.M. |

Table 2.1.6.1

(*www.nepalstock.com*)

2.1.6.2 Board Lot

NEPSE has fixed the board lot of 10 shares if the face value is Rs.100 or 100 shares if the face value is Rs.10. The transactions on regular trading should be done on at least one board lot. The transactions of less than 10 shares are permitted on odd lot trading hours.

2.1.6.3 Price Regulation

The opening price of any day shall not be more or less than 5% of the previous trading day's closing price. Once the transactions are done within this range, the price can be changed within the limit of 2 percent in each consecutive transaction. In case of bond or debentures or government bond, opening price shall not be more than or less than 0.20 percent of the previous trading day's closing price and a 0.10 percent for the each consecutive transaction.

2.1.6.4 Settlement

NEPSE has adopted a T+3 systems which mean that settlement of transactions should be done within 3 working day's following the transactions day. Settlement will be carried out on the basis of paper versus payment. Settlement for bond or debenture or government bond has been T+0. If the buyers of shares want to record it as blank transfer, this must be completed within T+5. Under blank transfer mechanism an opportunities to derive the market benefit is provided. The transactions that are executed can be recorded in different way and NEPSE has considered all possible retention. It is related only with buy of the securities.

2.1.7 Brokerage Commission

The rate of brokerage on equity transactions depends on the traded amount. The commission charged by the brokers differs as per the type of security and the volume of securities being traded. The rate of commission charged by brokers is as follows:

Brokerage for Government Bond

| S.No. | Trading Amount in Rs. | Brokerage % |
|-------|------------------------|-------------|
| 1 | Up to 500,000 | 0.20 |
| 2 | >500,000 & < 5,000,000 | 0.10 |
| 3 | >5,000,000 | 0.05 |

Table 2.1.7.1

(www.nepalstock.com)

Brokerage for Equity

| S.No. | Trading Amount in Rs. | Brokerage% |
|-------|------------------------|------------|
| 1 | Up to 50,000 | 1 |
| 2 | >50,000 & < 500,000 | 0.9 |
| 3 | >500,000 & < 1,000,000 | 0.8 |
| 4 | >1,000,000 | 0.7 |

Table 2.1.7.2

(www.nepalstock.com)

Brokerage for Other Stocks

| S.No. | Trading Amount in Rs. | Brokerage % |
|-------|-----------------------|-------------|
| 1 | Up to 50,000 | 0.75 |
| 2 | >50,000 & < 5,000,000 | 0.60 |
| 3 | >5,000,000 | 0.40 |

Table 2.1.7.3

(www.nepalstock.com)

2.1.8 Market Indexes

An index is an indicator that indicates or represents the changes in the values between two distinct time periods; a base time period and another particular time period. (*Gupta, S. C. 1987*). Each index is designed to give a meaningful indication of the level of change of a set of value. A security market index is also a number that indicates the movement of the overall securities prices in the secondary market. Market index thus reveals what is the security market doing? The securities market indexes are published in financial newspapers and business periodicals and used in various studies, and employed as basis for investment strategies. Moreover, market indexes furnish a handy summary of historical price levels in their specific markets, especially when they are presented in graphical form. (*Sthapit, et al, 2013*)

Methods of Calculating Indexes

There are different methods of market index computation. Each method has its own weighing technique. Among these methods four popular methods of computing market indexes are as follows:

1. Price Weighted Index

Price weighing index is calculated summing the prices of stock that included in the index and dividing by divisor. The world's popular index Dow Jones Industrial Average & Amex Major Market Index is calculated on the basis of price weighing. Price weighed index is given by the following formula;

$$I_t = \frac{\sum_{i=1}^n P_{i,t}}{Divisor (d)}$$

Where,

I_t = Index at time t

$P_{i,t}$ = Price of i^{th} stock at time t

n = no. of stock at time t

2. Value Weighted Index

Value weighted method is also known as capitalization method because the total capitalization is considered in this approach. Under this method, the prices of the stocks in the index are multiplied by their respective number of shares outstanding and then added to arrive at a figure equal to the aggregate market value for that day. Then this figure is divided by the total value of the base period and the resulting value is multiplied by an arbitrarily determined index value that is often assumed as 100. Price weighted index is given by the following formula;

$$I_t = \frac{\sum_{i=1}^n P_{i,t} \mid N_{i,t}}{\sum_{i=1}^n P_{i,0} \mid N_{i,0}} \mid \text{Base year index}$$

Or,

$$I_t = \frac{MV_t}{MV_0} \mid I_0$$

Where,

I_t = Market index at time t

$P_{i,t}$ = market price per shares outstanding for i^{th} stock at time t

$N_{i,t}$ = number of shares outstanding for i^{th} stock at time t

$P_{i,B}$ = market price per share of i^{th} on stock base period b

$N_{i,B}$ = number of shares outstanding for i^{th} stock base period

n = number of stocks included in an index

I_B = index on base period b

$MV_{,t}$ = market value at time t

MV_0 = market value at time 0 or base period

I_0 = index at time 0 or base period

3. Equally Weighted Index

As the name suggests this index is computed daily by multiplying the level of the index on the previous day by the arithmetic mean of the daily price relative of the relevant stocks in the index. Equally weighted index calculation follows a long process of calculation because everyday the price relative must be calculated. For this

reason this method is not economic. Equally weighted index is given by the following formula:

$$\text{Index at time } t, (I_t) = \prod_{i=1}^n \frac{PR_{i,t}}{n} \mid \text{Previous day's index}$$

Where,

$PR_{i,t}$ = Price relative of i^{th} stock at time t

N = number of stock included in the index calculation

And, Price relative (PRt) = Today's price/ Previous day's price

4. Geometric Mean Index

Geometric index is computed daily by multiplying the previous day's index by the geometric mean of the daily price relative of the stocks included in the index computation. Like equally weighted index geometric mean index is also complicated and costly. Geometric mean index is given by the following formula:

$$\text{Geometric mean index } (I_t) = [\text{Product of price relatives}]^{1/n} \times \text{Previous day's index}$$

$$\text{Or, } (I_t) = \left[\prod (1 + R_{it}) \right]^{1/n} \times \text{Previous day's index (Sthapit, et al 2013)}$$

2.1.9 Market Trend

A market trend is a tendency of a financial market that shows a movement in a particular direction over a specified period of time. (www.wikipedia.org). These trends are classified as a secular for long time frames, primary for medium time frames, and secondary lasting short times. Traders identify market trends using technical analysis, a framework which characterizes market trend as a predictable price tendencies within the market when price reaches support and resistance levels, varying over time. The terms bull market and bear market describes upward and downward market trends, respectively, and can be used to describe either the market as a whole or specific sectors and securities. In stock market behavior the concept of a market trend is used in technical analysis and is inconsistent with the efficient hypothesis.

A secular market trend is a long term trend that lasts 5 to 25 years and consists of a series of primary trends. A secular bear market consists of smaller bull markets and large bear markets; a secular bull market consists of large bull markets and smaller bear markets. Secondary trends are short-term changes in price direction within a primary trend. The duration is a few weeks or few months. Primary market trend has

broad support throughout the entire market and lasts for a year or more. Bull market is associated with increasing investor's confidence, and increased investing in anticipation of future price increase (capital gain). A bullish trend in the stock market often begins before the general economy shows clear signs of recovery. A bear market is a general decline in the stock market over a period of time. It is a transition from high investor optimism to widespread investor fear and pessimism. (www.wikipedia.org)

To be more specific about financial market, it is necessary to know the purpose and objective of the financial market. If there were no financial markets, the borrowers would have difficulty finding lenders themselves. Hence, intermediaries such as banks and financial institutions help in the process of transformation of funds. These financial institutions take deposits from those who have more funds and want to save. They can lend the collected funds to those who seek to borrow. Financial institutions lend money in the form of loan and mortgages. A good example of a financial market is a stock exchange. The relationship between lenders and borrowers can be explained through the following table:

| Relationship between lenders and borrowers | | | |
|---|---------------------------------|--------------------------|---------------------|
| Lenders | Financial Intermediaries | Financial markets | Borrowers |
| Individuals Companies | Banks | Inter bank | Individuals |
| | Insurance Companies | Stock Exchange | Companies |
| | Pension Funds | Money Market | Central government |
| | Mutual Funds | Bond Market | Municipalities |
| | | Foreign Exchange | Public Corporations |

Table No. 2.1.9.1

(www.wikipedia.org)

A proper analysis of international market trend is another important aspect of market analysis. In today's global market scenario, it is important to realize the benefits and consequences of a global financial market as a ripple effect would occur globally when incident happens in the global market. For example, when bank failures in the

United States or Japan, the rumors will spread everywhere in the world and the world market would be affected by it.

While analyzing the market trend of security market, first of all we need to know what the market trend is all about. Here, market trend is related with the tendency or a prevailing course of movement of prices of financial securities being traded in a particular financial market. The concept of market trend is used in technical analysis and is inconsistent with the efficient-market hypothesis. According to that standard view, which is the foundation of financial economics, the performance of the market over any time period is not correlated with that over any previous time period- in statistical terms, it is random.

Here, in this research work the primary concern is to analyze the trend and challenges of the Nepalese stock market. Stock market deals with various kinds of security instruments. In our context, both the long term debt and equities are dealt under the only one security market popularly known as NEPSE.

2.2 Review of Journals and Articles

A review of relevant literature is crucial for the assessment of research problem. This helps to eliminate the duplication of what has already been done with regard to the similar topic. Here in this research work attempt is to analyze the influence of macroeconomic indicators on the growth and performance of stock market. Different newspapers, articles and journals have been consulted to state the research problem. It has helped to derive appropriate findings and solutions. The findings of some of those research works are as follows:

Rajan and Zingles (1998) examined whether financial development facilitates economic growth by scrutinizing one rationale for such a relationship: that financial development reduces the costs of external finance of firms. They have developed a new methodology in their paper to investigate whether financial sector development has influence on industrial growth. Apart from the methodological contribution, they had the following findings. First, their research suggests that financial development has a substantial supportive influence on the rate of economic growth and this works,

at least partially, by reducing the cost of external finance to financially dependent firms. (Reviewed by *Neupane: 2013*)

Mahat (2000) in his book "Capital Market, Financial Flows and Industrial Finance in Nepal" (1981) said, "There is absence of secondary market to ensure liquidity to the securities on demand. Any attempt to stimulate investment in industrial sources would naturally depend on the extent to which the securities are salable in the market. Only the existence of a Stock Exchange can enable the security holders to sell their securities for cash and purchase alternate securities if they wish. In Nepal, in the absence of such a stock market, an industrial security is an illiquid form of asset, even more illiquid than the real estate for all practical purpose". (Cited by *Poudel: 2008*)

Wagle (2002) studies the development of stock markets in terms of its size (market capitalization) annual turnover and also studies about the ratio of Market Capitalization to GDP and annual turnover to GDP. But the study has been fairly descriptive regarding the factual information. (*Neupane: 2008*)

Gurung, (2004) conducted a research work on '*Growth and Performance of Securities Market in Nepal.*' In his research work he studied and analyzed the growth trends and performance of Nepalese securities. This finding showed an unstable and poor performance of securities market.

Poudel, (2008) indicated that the downfall of share market is mainly due to the unfair share market practices that went indicated for a long period in Nepal's share market. There has been a growing tendency to sell worthless securities since promoters are not questioned regarding their moral standing and honesty integrity of professionalism. In practice, a handful of canny people began to dominate the share market as they are very little exposed to the managerial and institutional culture of managing share market activities by honest and fair dealings.

Mahat (2006) has written an article about "Should NRB encourage establishment of more banks: which was published in the Kathmandu Post on 22 July 2004. This article gives short glimpse of the banking performance in Nepal.

Nepal Rastra Bank as a central bank of Nepal, has the ultimate authority of granting approval for the establishment of a bank or financial institution. NRB has, therefore the power of increasing or limiting the number of players in the banking and financial service industry through licensing. NRB also has a role in creating a conducive atmosphere for efficient functioning of the banking and financial institutions. Allowing the entry of sufficient number of players in the banking and financial services industry creates the environment of healthy competition and promotes efficiency in the banking system.

Mahat thinks that, establishment of new banks not only introduced advanced technology in banking industry but also offered a host of innovative products and superior services to the customers at affordable cost. Therefore, NRB should encourage more new private sector banks which will make modern banking available to a larger section of the economy. But on the other hand, he is afraid that Nepal could be over banked on the basis of the number of players in the industry but it is still under-serviced in reality.

Establishment of new banks will increase the intensity of competition in the banking industry. This will force the poorly managed and poorly capitalized banks to upgrade their efficiency. Otherwise, customers will shift their business with the better capitalized and more professionally managed banks. The principle of 'survival of the fittest' will hold well under such scenario. Therefore there is still a room for more banks so far as it paves the way towards sound and strong banking system (Mahat, 2013).

An article written by Paudel (2013) on 'Banking Challenges ahead' focuses in the potential areas where banks should invest to fight the prevailing economic recession. Currently growth in the profitability of JVBs has been mainly due to external factors such as the foreign exchange rate but not to the growth in the real sector of the economy. Therefore, to sustain the current financial position in the long run, banks should enter new areas by marketing their credit in important sub sectors such as hydro electricity, tourism, irrigation etc.

Poudel further analyze that. “Saving collection is another factor which is necessary for banks to balance their operations and generate sufficient surplus in their cash-flows. In recent years growth rate of bank deposits has declined to about 16 percent compared against 23 percent of the past. Mobilization of internal resources in the country demands that banks attract more financial resources from the public.” Another useful contribution made by Poudel (2012 in his article called ‘Financial statement analysis’ published in Nepal Rastra Bank Samachar on 2013 is reviewed (Poudel, 2013).

According to Poudel (2013) Balance sheet, profit and Loss a/c and the accompanying notes are the most useful aspects of the bank. We need to understand the major characteristics of bank’s balance sheet and profit and loss a/c. The banks balance sheet is composed of financial claims as liabilities in the form of deposits and as assets in the form of loans. Fixed assets account forms a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off-balance sheet items. Interest received on loans and advances and investment and paid on deposit liabilities are the major components of profit and loss account. The other sources of income are fee, commission, discount and services charges.

The users of the financial statement of a bank need relevant, reliable and comparable information which assists them in evaluating the financial position and performance of the bank and which is useful to them in making economic decisions. The disclosure requirement of bank’s financial statement has been expressly laid down in the concerned act. Commercial banking act 1974 requires the audited balance sheet and profit and loss account to be published in the leading newspaper for the information of general public.

According to Poudel, the principle objectives of analyzing financial statements are to identify:

-) Financial adaptability (Liquidity)
-) Financial Performance (Profitability) and
-) Financial Position of Bank (Solvency)

Most of the users of the financial statements are interested in assessing the bank’s overall performance i.e. profitability which is affected by the following factors:

- The structure of Balance sheet and profit and loss account.
- Operating efficiency and internal management system.
 - a) Managerial decisions taken by top management regarding interest rate, exchange rate, lending policies etc.
 - b) Environment changes (technology. Government, competition, economy.)

According to Poudel, the other factors, to be considered in analyzing the financial statements of bank is to assess the capital adequacy ratio and liquidity position. In the line of the norms set by banks for international settlement (BIS), capital adequacy of a bank is assessed on the basis of risk-weighted assets. It indicates a bank's financial strength and solvency. Presently the capital fund of a bank should not be less than 8% (at least 4% should be in the form of tier-1 capital or core capital) of its risk-weighted assets as capital fund. Banks facing with capital adequacy problem may increase capital or reduce assets or reallocate the existing assets structure in order to maintain the desired level of capital base.

Liquidity is measures by the speed with which a bank's assets can be converted into cash to meet deposit withdrawals and other current obligations. It is also important in view of survival and growth of a bank.

2.3 Review of Previous Thesis

Numerous researches have been made in the areas of stock market in Nepalese context in the fulfillment of Masters Degree of Business Studies. Mostly, the study has conducted to analyze the recent trends and performance of Nepalese stock Market. An attempt has been made to review journals and some dissertation submitted in the topics on Nepalese Stock Market. Some of which are reviewed in this chapter:

Khanal (2012) has prepared a thesis on "*Growth, Problems and Prospects of Nepalese Stock Market*" for the analysis of growth and performance of Nepalese stock market. He further, clarified the objectives of the research as the examination of investor's awareness, the examination of the performance of stock broker's and other related institutions.

In this study, he concluded that the development of stock market in Nepal so far can not be considered satisfactory. This is evident from the facts and figure available in the stock market performance. But there is enough long term liquidity in the market. Again he added that the stock market and economic activity move in similar direction. They influence each other. Nepal Stock Exchange is the only one institution in the country to regulate and control the financial system of a country. The official stock market in Nepal, NEPSE is ten years old. It means it is in infant stage thus equity market and related institutions are still in their infancy stage.

Mainali (2012) has conducted research on "A study of share Price Behavior of Listed Companies" for the analysis of stock price behavior through the examination of stock price trend and volume of stock traded on the secondary market.

In her study, she concluded the share trading system in share market is still uncivilized even in this age of science and technology. Though the volume of trading has increased substantially, the number of brokers has not increased. Therefore, for the systematic operation of the share market, the number of brokers should be increased according to the volume of trading. Similarly, the automation system has to put into practice to make the share market effective and competitive.

The public investors not direct their savings in share haphazardly. They should at least analyze or get suggestion from experts about financial position and the level of risk prior to taking and investment decision. Because of the persistence in the stock price movements traders either institutional or individual can be beat the market. Thus it is suggestion that the investors should be alert to exploit the opportunities. (Reviewed by Rimal: 2013)

Rimal (2013) conducted a research on "*Problems of Stock Market in Nepalese Perspective*" to identify and analyze the problems of Nepalese stock market with respect to the overall development of the economic system.

While studying the aforementioned objectives he found that the stock market in Nepal is in developing stage although the growth trend of the stock market was not satisfactory. As the major portions of Nepalese investors do not have sufficient knowledge about investment, they have little knowledge about the capital market. Marketability and profitability were the major motivating factors of investment for

investors as the majority of the investors make purchase decision without analyzing the financial performance of the company.

Even though the volume of trading has been increased during the study period, the trading pattern was infrequent thereby dominating the market floor by the securities of commercial banks and other financial institutions. He concluded that the reason behind this might be traditionally guided investors return principle where most earnings of investors have been in the form of dividend rather than capital gains. As the regular and high dividend was provided by banks and financial institutions, it became the only potential investment destination comparing to the stocks of other trading and manufacturing companies.

Karki (2013) has conducted research on "*Trends, challenges and growth on Nepalese stock market*" to analyze the trend and perspective of Nepalese stock market where mostly the long term securities are traded. This research work will be significant to know the recent trend and perspectives of Nepalese stock market. It is also significant to know about the investors perspectives with regard to growth and downfall of Nepalese Stock Market.

Based on the findings of the study, it can be concluded that the security transaction took place after the establishment of Security Exchange Center in 1976 in Nepal. The opinion of general people regarding the Nepalese stock market is appreciable. Similarly, the existing numbers of brokers are not sufficient to cope with the existing securities in Nepal. Due to liquid and instable political situation of the nation, the real sector of the economy is lagging far behind. Despite the large volumes traded on stock exchanges many listed stocks trade infrequently; or their balance of trading is not sound. Despite the history of about more than 15 years planned economic activities to develop real sector of the country, little attention was paid to the development of financial sector. It also indicates that the growth of the NEPSE index is not realistic with reference to the overall economic growth of the nation.

He further concludes, moreover it can be said that the growth of NEPSE is speculative to some extent and the performance of NEPSE is not really stable and appreciable. He also said that the growth of NEPSE index is not realistic with respect to the indicators of overall growth of the economy. Besides, the Nepalese stock market is suffering from a number of obstacles, out of which some are lack of proper coordination

between the authorities, lack of sufficient modern technology, dominance of individual investors, lack of public awareness and so forth.

Gurung (2013) has conducted research on "*Brokers Performance and Services in Secondary Market*" to study and analyze the service offered to the general investors by the brokers in the secondary market.

The major findings of his studies are summarized as:

Nepalese investors' habit on stock market is very short. Investors prefer ownership transfer of securities to hold for long time and capital gain will reduce the dynamism of securities market. Investors follow the fundamental and technical analysis of the security while investing to some extent. According to him brokers are providing trading services with little informational services. Information dissemination and awareness campaign activities should be increased. Major of the investor are not satisfied with the brokers services except few, listed companies will not provide realistic information to the general public. Mutual trading, pool, churning, cornering, matching have the greater role for stock market disorder. Most of the brokers have below performance. Only few brokers are participating in brokering activities actively. The system followed by the NEPSE is not time and technology friendly.

Khatri (2013) has conducted a research work on "*A Study on Trend of stock Price Movement of Commercial Bank in Secondary Market of Nepal*" for the analysis of price movement of the shares of commercial banks in the secondary market of Nepal. The some of the specific objectives of the research were as to study the trend of stock price movement, to examine the relationship of MPS with other financial indicators, with various financial indicators and to evaluate the risk proportion of stocks of various commercial banks.

The major findings of this research were that the quantitative factors also played a great role for the determination of prices of the stocks. The demand of the shares of commercial banks in the secondary market remained higher all the time through out the examination period than that of the shares of other sectors. Moreover, the rate of returns of all commercial banks was too higher than the required or equilibrium rates of returns being calculated for the research purpose. This indicates that the prices of

the stocks of commercial banks are not correctly priced; they are under priced and hence, rewarding for investment to the individual investors.

Subedi (2012) has conducted a research work on "*Current Position of Nepal Stock Exchange in Nepalese Capital Market*" for the analysis of roles of NEPSE and SEBON in the development of capital market in Nepal. Besides, the study focused on the study of roles of NEPSE and SEBON, analysis of market trend with regard to the annual turnover and NEPSE Index and finally to examine the quantity and number of total traded shares of different listed companies in the NEPSE.

The major findings of his research work were the large block of shares being traded in the stock exchange was captured by the shares of commercial banks. Trading, manufacturing and processing as well as other real sector's participation was nominal. Even though the total number of transaction has been increased during the study period, the large portion of it was covered by the stocks of commercial banks. The NEPSE index reflected the total volatility of the share price of the companies being listed and traded in the NEPSE. Overall, the previous studies in stock market support the idea that Nepalese stock market is not efficient even in the weak form hypothesis. Nepalese investors are not efficient enough to recognize potential for excess return.

Atreya (2012), in her thesis entitled "Analysis of Financial Performance of Himalayan Bank Ltd. and Standard Chartered Bank Nepal Ltd." has concluded that personal expenses and office operating expenses have increased in SCBNL in comparison to HBL, whereas total income and operating income have been increased similarly. SCBNL seems much better in terms of offering dividend to its shareholders in compared to HBL. In terms of return on capital employed SCBNL has better position than HBL. SCBNL has utilized capital fund efficiently. HBL has been successfully utilized their total deposits in the form of extending loan and advances for profit generating purpose as compared to SCBNL. Short term solvency positions of both the banks are found below the normal standard. Both the banks have been efficient in utilizing most part of their total assets in profit generating purpose but in comparison HBL has better performance than SCBNL for utilizing assets.

Pandey (2012), in his thesis entitled, “A Comparative Financial Performance Analysis of Commercial Banks (with special reference to Nabil Bank Ltd., Nepal Investment Bank Ltd. and Standard Chartered Bank Nepal Ltd.)”, had concluded that the current ratio of NABIL, NIBL and SCBNL is greater than 1 out of which NABIL bank has the highest current ratio. It means Nabil Bank’s solvency position is better than NIBL and SCBNL, SCBNL has mobilized highest percentage of its total deposit into total investment. From income analysis, NIBL has highest net interest income than other banks. Similarly exchange income of SCBNL is greater than other sampled banks. From correlation & regression analysis NIBL & SCBNL have positive coefficient of correlation between net profit & total deposit but Nabil bank has negative coefficient of correlation.

2.4 Research Gap

All the research studies material above mentioned are about related with the capital markets studies either about trends, challenges, problems, prospects etc. The findings of all these studies are related only with the growth and challenges faced by the capital market of Nepal.

This study is a bit different from all the research studies mentioned above because this study research is able to recommend about the present current scenario related with the trends, challenges and prospects of the capital market of Nepal i.e. NEPSE. This thesis gives knowledge of all the aspects of trends, challenges and future possibilities for the development of capital market of Nepal. Finally the research concludes with various findings and recommendations for immediate and long- term improvements and corrections.

CHAPTER - III

RESEARCH METHODOLOGY

This chapter deals with various tools and techniques that have been adopted while studying and analyzing the problem with certain objective in view. Research Methodology is a chapter in which the methods and process applied in the entire research work are examined. The main objective of this research is to analyze, examine and interpret the trends, challenges and prospects of Nepalese stock market: NEPSE.

In accordance with the basic objectives other sub-objectives are also formulated and the research methodology is following to achieve the objectives of this research paper. The major contents of research methodology followed in the course of this study are as follows:

3.1 Research Design

The research design of this study is descriptive and survey design in nature. It is a fact- finding operational research work. In this research work my aim is not to make prediction and implication of the study rather it is to describe the trend of Nepalese capital market by collecting relevant facts and figures. This study is an examination and evaluation of growth and downfall of NEPSE index. These information and data are presented in a descriptive method. This research work provides information regarding the trend and challenges of Nepalese stock market which ultimately may predict what will happen in future.

3.2 Population and Sample

The population for this study comprised of 176 listed companies whose shares were traded in the Nepal Stock Exchange (NEPSE). The required data and information have been collected from the annual reports of NEPSE, SEBON, websites like www.nepalstock.com, www.sebon.org.np, www.sharesansar.com, www.nepseguide.com etc, magazines and newspapers of different time period covering a period of

2007/08 to 2012/2013. In this study the data of at least 5 years of period has been taken. And to know the investor's perception regarding the growth and performance of Nepalese stock market; 40 respondents are taken as sample from different areas out of the total unknown population.

3.3 Nature and Sources of Data

The collection of data is considered as an integral part of the research activity. Primary as well as secondary data have been used in this study paper. Primary data are based on questionnaire as well as unstructured dialogues with the executives and other staffs of Nepal Stock Exchange Limited, SEBON, brokers, investors etc. The study has covered the period of 5 years from 2008/09 to 2012/2013. Secondary data have been taken from published statements of NEPSE, SEBON in the website, book, booklets and magazines etc. The official websites of NEPSE, www.nepalstock.com, SEBON www.sebon.gov.np and NRB, www.nrb.org.np are the major sources of secondary data.

3.4 Data Collection Technique

The primary data are collected through scheduled questionnaire. (*Annex 1*) For the collection of the secondary data, published materials have been viewed in various spots such as books by different authors, unpublished thesis reports, journals, world wide websites online library, AGM reports of different listed companies, NEPSE, SEBON, NRB and so forth. To collect these secondary data, the researcher visited campus library of Lumbini Banijaya Campus, Butwal; TU central library; official library of SEBON and other public libraries too.

3.5 Data Processing and Analysis

Data processing technique is one of the most important parts of the research study. The researcher should adopt that data processing technique to process the information and data which is suitable and feasible according to nature and objects of the research

study. In this regard, the obtained data and information should be presented in such a way that it should be easily understood.

The data presentation and analysis is one of the main parts of research work. Essential data should be completed and processed as per the laid objective of the study. Hence, in this report my attempt was to arrange the avail data in tabular and graphic form so that the possible conclusion can be drawn easily. The data and statistics covered the period of at least five years for the purpose of study.

Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic. Trend analysis, Percentage, Tabulation and Diagrammatic presentation etc are the main statistical tools used to analyze the secondary data used in this research work. Correlation coefficient and hypothesis test have been conducted for the empirical examination of the secondary data. The empirical results have been extracted in this study by using annual data of listed companies from 2008/09 to 2012/13.

3.6 Statistical Tools and Tests

This section of the research report contains the different statistical tools and techniques of analyzing and interpreting the collected data and information. To analyze the presented data in an effective manner, the primary and secondary data collected from various sources, are needed to be presented in a systematic manner through the use of statistical tools.

The primary task of this study is concerned with testing the relationship of stock market with economic growth. Different types of related tools have been used for this purpose. Various related tools and techniques like Arithmetic mean, multiple bar diagram, trend analysis, percentage etc are used and tabulation is made to understand the comparative results and to draw the conclusion earlier mentioned simple statistical tools are also used in the study.

3.6.1 Karl Pearson's Coefficient of Correlation

Correlation is the measure of relationship between two or more characteristics of a population or a sample. This simply measures the relationship between the two variables with respect to the changes between the phenomenon. For instance, it helps to study the manner between which two quantities vary in a related path accompanied by the movement-an increase or decrease in one trend or the opposite direction. The limits of correlation vary from -1 to +1.

The Karl Pearson's coefficient correlation is denoted by "r" and computed by using following formula, where the variable "x" and "y" represents two different variables.

$$\text{Correlation } (r_{xy}) = \frac{n \sum xy - \sum x \sum y}{n \sqrt{(\sum x^2 - \frac{(\sum x)^2}{n})(\sum y^2 - \frac{(\sum y)^2}{n})}}$$

3.6.2 Testing of Hypothesis

Hypothesis is merely an assumption relating to the population parameter and can be tested by using sample information. According to Webster "Hypothesis is a tentative theory or supposition provisionally adopted to explain certain facts and guide in the investigation of others". So hypothesis means the presumption or quantitative statement of the population parameter which may be true or false. In this research report, hypothesis (t-Test) for the significance of sample correlation coefficient has been conducted to test the whether the variables in the population are correlated. The test follows the given formula of test statistic.

$$\text{Test statistic } (t) = \frac{r}{\sqrt{1-r^2}} \sqrt{n-2}$$

Where,

"t" denotes the test statistic

"r" denotes the coefficient correlation between two variables

"n" denotes sample size (pairs)

The hypothesis has been formulated in two ways:

Null hypothesis: $H_0: r = 0$ i.e. the variables like NEPSE index, Economic Growth and are not correlated in the population.

Alternative hypothesis: $H_1: r \neq 0$ i.e. the variables are correlated in the population.

$H_0: r > 0$ i.e. there is positive correlation in the population or the variables are positively correlated.

$H_1: r < 0$ there is negative correlation in the population or the variables are negatively correlated.

Level of significance: The level of significance has been set at $\alpha = 5\%$

Critical value: Tabulated or critical value has been extracted as "t" at α % level of significance for $(n-2)$ degrees of freedom from "t"-tables.

3.6.3 Multiple Bar Diagrams and Graphs

Diagrams and graphs are visual aids which give a bird's eye view of a set of numerical data which show the information in a way that enables us to make comparison between two or more than two sets of data. Diagrams are in different types. Out of these various types of diagram one of the most important form of diagrammatic presentation of data is multiple bar diagram which is used in cases where multiple characteristics of the same set of data have to be presented and compared.

3.6.4 Percentages

Percentage is one of the most useful tools for the comparison of two quantities or variables. Simply, the word percentage means per hundred. In other words, the fraction with 100 as its denominator is known as a percentage and the numerator of this fraction is known as rate of percent.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This is an important chapter of research which is primarily concerned with the analysis and presentation of data in an understandable form. The analysis of data consists of organizing, tabulating, performing statistical analysis and drawing inferences. (Pant: 2013) Moreover, this chapter puts forward the analysis of secondary and primary data along with their results and interpretations. The general purpose of this chapter is to examine the process through which the collected data are presented and analyzed. This chapter starts with the tabulation of data and placing them in a presentable form by the use of figures and tables. The process begins with the analysis of secondary data concerned with the Nepalese Stock Market and the growth, followed by the analysis of primary data collected through questionnaire survey to know the general perception of ordinary people.

4.1 Overview of Nepalese Stock Market

4.1.1 Overview of Nepalese Economy

Global economic growth forecast for 2012 and 2013 is estimated to increase by 4.2 percent and 4.6 percent respectively which remained negative by 0.6 percent in the year 2009 as against 3.0 percent growth in the year 2008. The effect of global financial crisis started from the early 2007 is slowing down signaling further improvements in the coming years. The economic crisis is predicted to be lower in all advanced economies, emerging and developing economies, developing Asia, Middle-East and North African countries, Middle and East European countries and newly industrialized Asian economies. The economic growth rates of advanced economies, Middle and East European Countries and newly emerging Asian industrial economies was witnessed to be negative in 2009.

In the fiscal year 2009/10, GDP at current price was estimated to increase by 21.53 percent to Rs.11,82,680.10 million, which was increased by 14.75 percent in the fiscal year 2008/09. In the fiscal year 2009/10, Gross National Income at current price was estimated to increase by 19.15 percent to Rs.11,95,118.0 million, which was increased by 21.78 percent to Rs.10,03,066.0 million in the fiscal year 2008/09. In the fiscal

year 2009/10, Gross National Saving at current price was estimated to increase by 13.88 percent to Rs.4, 07,172.0 million, which was increased by 31.95 percent to Rs.3, 57,534.0 million during the fiscal year 2008/09. In the fiscal year 2009/10, gross domestic saving at current price was estimated to increase by 15.01 percent to Rs.1, 10,751.0 million, which was increased by 20.08 percent to Rs.96, 298.0 million in the fiscal year 2008/09. In the fiscal year 2009/10, total consumption at constant price was estimated to increase by 19.76 percent to Rs.10, 71,929.0 million, which was increased by 21.69 percent to Rs.8, 95,018.0 million in the fiscal year 2008/09. Of the foreign trade, it was estimated to diminish by a high rate of 16.47 percent to Rs.2, 94,145.90 million during the first eight months of the fiscal year 2009/10, which was increased by 25.23 percent to Rs.3, 52,167.10 million in the fiscal year 2008/09. Of the total foreign trade, the trade to India was estimated to decrease by a high rate of 19.70 percent to Rs.1, 63,372.30 million during the first eight months of the fiscal year 2009/10, which was increased by 12.44 percent to Rs.2,03,443.50 million in the fiscal year 2008/09. The trade to other countries during the first eight months of the fiscal year 2009/10 was estimated to recede by a high rate of 12.07 percent to Rs.1, 30,773.60 million which was increased by 48.32 percent to Rs.1, 48,723.60 million in the fiscal year 2010/11. In the fiscal year 2011/12, the total capital formation was estimated to increase by 42.93 percent which was increased by 27.83 percent in the fiscal year 2010/11. In the fiscal year 2011/12, total fixed capital formation was estimated to increase by 5.27 percent which was increased by 0.50 percent in the fiscal year 2011/12. In the fiscal year 2011/12, the growth rate of total fixed capital formation of the public sector was estimated to be 13.58 percent, which was increased by 10.0 percent in the fiscal year 2011/12. Likewise, the growth rate of total fixed capital formation of the private sector was estimated to increase by 3.17 percent in the fiscal year 2012/2013, which was decreased by 1.66 percent in the preceding year.

4.1.2 Overview of Nepalese Security Market and its Trading Process

The history of securities market in Nepal dates back to 1937, when the shares of Biratnagar Jute Mills Ltd (BJM) and Nepal Bank Ltd. (NBL) were floated. Similarly, the introduction of the company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange center Ltd in 1976 were other significant development relating to Nepalese capital markets. (NEPSE website). Later, the center was converted into Nepal Stock Exchange. The basic objective of NEPSE

is to impart free marketability and liquidity of government and corporate securities. The previously set objectives can be obtained through the transactions in its floor through members, market intermediaries, such as brokers, market makers etc. According to NEPSE news, (2013), currently 23 brokers are actively participating in the floor. Similarly there are 11 sales and issue managers and 2 dealers.

Securities Board of Nepal was established on June 7, 2008 as an apex regulator of securities markets in Nepal. The major objective of SEBON is to regulate the securities market and protect investor's interests. Draft regulations, and issue directives and guidelines. It supervises and monitors stock exchanges and securities business activities. It advises the Government of Nepal to formulate policies and programmers relating to securities market as and when required.

As a non-profit making organization NEPSE is established for the purpose of determining fair price of securities. Any security will be liable for the trading when it is listed or registered in the stock market. It means, the securities are required to be listed in NEPSE for the purpose of trading in the open floor. Listing means, the registration of securities with the stock exchange. Till the middle of 2011, NEPSE adopted the traditional open-out-cry system of trading in which the buying and selling brokers quotes their bid and offer prices by crying in the floor of exchange. The dealers quote their bid and offer prices on their own board before the floor starts. But in August 2012, NEPSE started trading through Wide Area Network (WAN), and dissemination of information through website. Moreover, the establishment of Over-the-counter (OTC) market is another noted development of NEPSE. (www.nepalstock.com)

Trading on equities takes place on all working days except Saturdays and government holidays as declared by the authorities of the NEPSE in advance. However, the exchange may close the market on days other than schedule holidays in one hand and on the other may open the market on those days originally declared as holidays in special circumstances. And the NEPSE deserves all the rights to extend, advance or reduce the trading hours whenever it seems necessary. The trading takes place when the sell order matches with the purchase order. However, an order may match partially with another order. The best match of an order takes place with the highest price for buy order and with the lowest price for a sell order. Then the transaction

takes place and the settlement process follows. The trading is done at "T" and at T+1; the buying brokers submit bank vouchers for settlement with covering letter. At T+2; the selling brokers must submit share certificate with covering letter. At T+3; NEPSE prepares billing for payment and this will be forwarded to the bank. Once the settlement is done the buying brokers with the consultation of the clients must decide and present the purchased shares if they want to record it as blank transfer. This must be completed within T+5.

4.2 Analysis of Overall Trend of Nepal Stock Exchange through NEPSE Index

This part of the chapter shows the development and performance of Nepalese Stock Market in terms of number of companies listed, number of companies traded, NEPSE Index, sector wise index etc through the analysis of five years statistical data.

4.2.1 Comparison between Listed and Traded Companies in NEPSE

The statistical data related to the number of listed companies and number of traded companies in NEPSE throughout fiscal year 2007/08 to 2012/13 has been presented in the given schedule:

Comparison between Listed and Traded Companies in NEPSE

| Year | No. of Listed Companies | No. of Traded companies |
|---------|-------------------------|-------------------------|
| 2007/08 | 125 | 102 |
| 2008/09 | 135 | 110 |
| 2009/10 | 135 | 116 |
| 2010/11 | 142 | 136 |
| 2011/12 | 159 | 149 |
| 2012/13 | 192 | 176 |

Table 4.2.1.1

(Source: Annual reports of SEBON, 2013)

The above schedule shows that, the total number of listed companies in the year 2007/08 was 125. One year later the number increased to 135 thereby increasing by 8%. However, the number remained the same for the year 2008/09. This was mainly due to the historical mass movement II for the political change in the country. Then the number of listed companies increased to 142 in 2009/10, in the year 2010/11 the

number of listed companies was increased to 159 and finally the number reached to 192 in the fiscal year 2011/12. There has been a considerable increase in the number of listed companies, due to the establishment of numbers of banks and financial institutions in the country after the peace progress began in the country in 2006.

Similarly, the above schedule also shows that, the total number of traded companies in the year 2008/09 was 102. One year later the number increased to 110 thereby increasing by 7.8%. But, the number of listed companies remained the same for the year 2008/09. However, the number of traded companies reached to 116 in the particular year. Then the number of traded companies increased to 136 & 149 in 2009/10 & 2010/11 respectively, and finally the number reached to 176 in the fiscal year 2012/13. There has been a considerable increase in the number of traded companies, due to the establishment of numbers of banks, financial institutions in the country and peace progress in the nation etc.

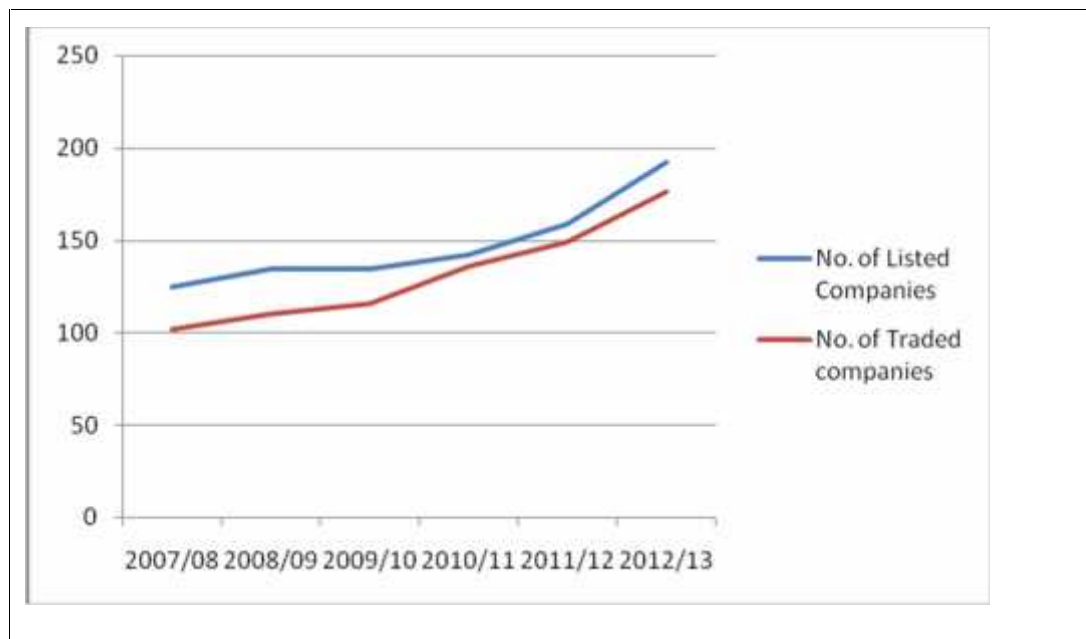


Figure no. 4.2.1.1: Comparative presentation between listed and traded companies

The above diagram shows that both the lines representing the number of listed and traded companies go almost parallel. The upward sloping line indicates the total number of traded companies whereas the below line indicates the total number of listed companies. This indicates that every year the number of traded companies is lower than the number of listed companies. But the movement of both the lines is in

same direction, it indicates that the movement between number of listed companies and number of traded companies is in the same direction.

4.2.2 Analysis of Overall NEPSE Index

An index is an indicator which indicates the changes in the values between two distinct time periods, a base time period and another particular point of time. A security market index is a number which indicates the movement of the overall securities prices throughout a certain point of time with respect to the base period. NEPSE Index is calculated by considering all listed securities of all listed companies in Nepal Stock Exchange. Market index thus reveals what is the security market doing? The securities market indexes are published in financial newspapers and business periodicals and used in various studies, and employed as basis for investment strategies. Moreover, market indexes furnish a handy summary of historical price levels in their specific markets, especially when they are presented in graphical form. The highest suggests the increase in market price of the stocks and implies the better performance of companies and vice-versa. Thus the NEPSE Index shows the behavior of stock prices of Nepalese capital market.

The index can be computed by different methods, one of which is stock price based index. The stock price based index can be computed by using following formulae:

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

$$P_{01} = \frac{P_1 | Q_1}{P_0 | Q_0} | 100$$

Where,

P_{01} = NEPSE Price Index

P_1 = Today's Price Index

P_0 = Base Year Price

Q_1 = Listed Shares (i.e. no. of shares outstanding)

Q_0 = Base Listed Shares.

In this section we analyze the overall growth trend of NEPSE Index throughout the year 2007/08 to 2012/13.

Analysis of growth of NEPSE Index

| Year | NEPSE Index * | % Growth |
|---------|---------------|----------|
| 2007/08 | 286.67 | 29.10 |
| 2008/09 | 386.83 | 34.90 |
| 2009/10 | 683.95 | 76.80 |
| 2010/11 | 963.36 | 40.90 |
| 2011/12 | 749.10 | -22.20 |
| 2012/13 | 477.73 | -36.23 |

Table no. 4.2.2.1 *(Source: Various annual reports of SEBON)*

* Index presented in above table is taken from last date of each fiscal year.

The above table shows the growth of NEPSE Index from 2007/08 to 2012/13. Starting from 2007/08 to 2009/10, the NEPSE Index grows in consistent way. But, in the year 2010/11 & 2011/12, the growth declined to 749.10 & 477.73 respectively. It shows decline of NEPSE index by 22.20% and 36.23%. The NEPSE Index was highest in 2009/10.

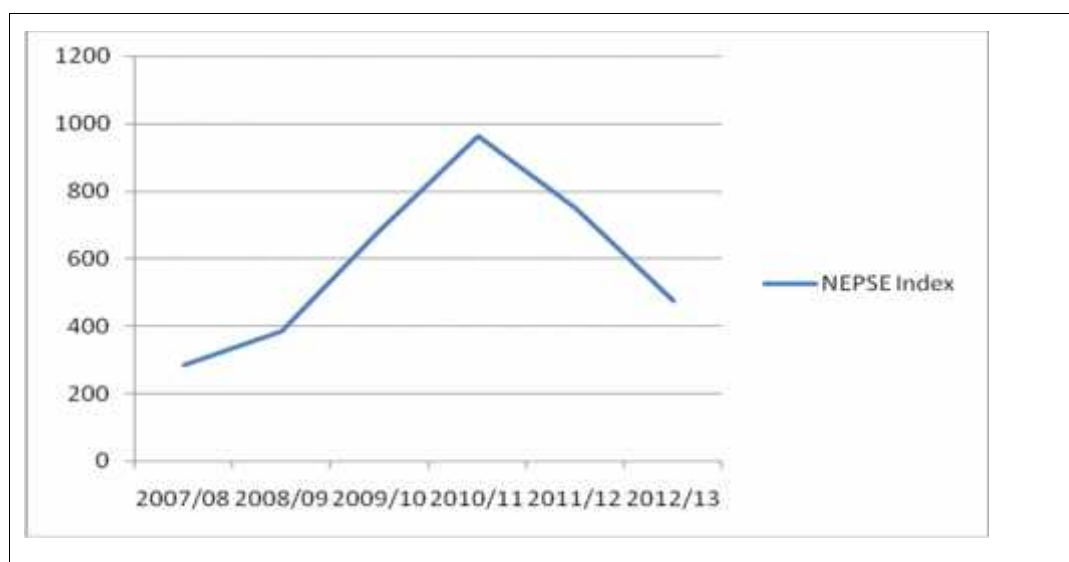


Figure no. 4.2.2.1: **Analysis of Growth of NEPSE Index**

The above figure shows that, the NEPSE index was 286.67 points in the year 2007/08. The index was increasing up to the year 2009/10 in the consistent rate. In the year

2009/10, NEPSE Index was highest at 963.36. Finally, the growth trend declined during the year 2010/11 & 2012/13.

4.2.3 Analysis of NEPSE Index Trend during a Fiscal Year

The NEPSE index is calculated based on the values of listed securities of all listed companies in Nepal Stock Exchange for trading. During the year 2012/13, the NEPSE index was decreasing trend as other secondary market indicators. By the end of the fiscal year 2012/13, the NEPSE index of the listed securities (Price Index) stood to be 477.73 points, which is 271.37 points less than that of the last fiscal year end index of 749.10 points. The highest index during the fiscal year 2012/13 was recorded at 739.02 points on July 20, 2009 and the lowest index was 405.45 points on April 28, 2010. The detail of NEPSE Index on the basis of last trading day of each month throughout the fiscal year 2012/13(2069/70) is presented below in the table.

NEPSE Index Trend during a Fiscal Year

| Month/ Year | NEPSE Index |
|-------------|-------------|
| Aug 12 | 721.95 |
| Sept 12 | 628.34 |
| Oct 12 | 609.55 |
| Nov 12 | 566.94 |
| Dec 12 | 548.61 |
| Jan 13 | 530.96 |
| Feb 13 | 528.90 |
| Mar 13 | 486.25 |
| Apr 13 | 481.19 |
| May 13 | 457.81 |
| Jun 13 | 476.69 |
| Jul 13 | 477.73 |

Table no. 4.2.3.1

(Source: NEPSE Annual Trading Report 2012/13)

The above table shows that the index started with 721.95 in the first closing month of the fiscal year 2012/13. After that it consistently decreases up to the month of May 2012. In the last two months of the fiscal year there was the very nominal growth in the NEPSE Index. The diagrammatic presentation of the data of the above table is as follows:

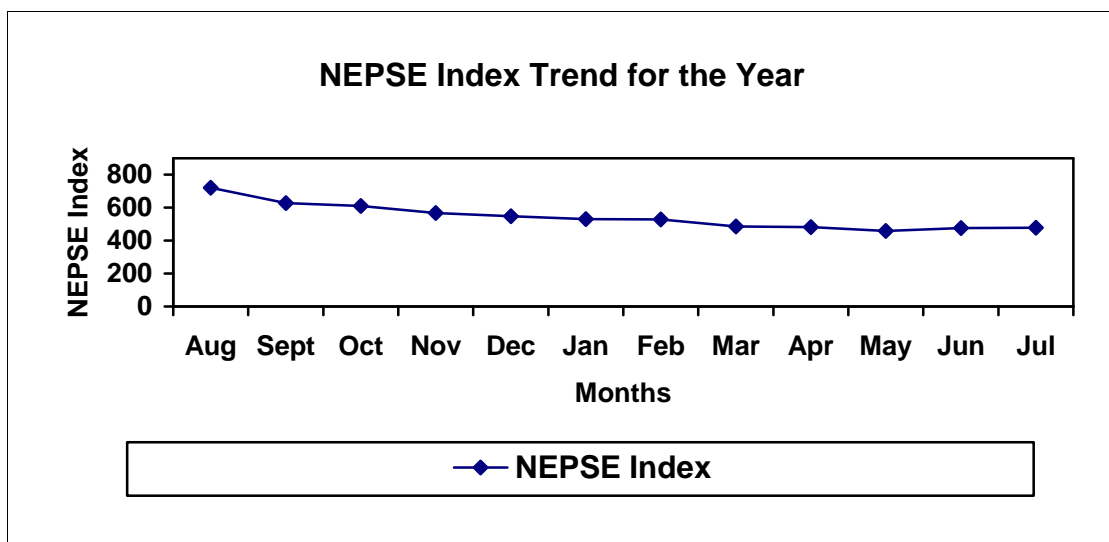


Figure no. 4.2.3.1 NEPSE Index Trend during the Year 2012/13

In the above figure, the NEPSE Index was in decreasing trend for most of the time during the fiscal year 2012/13. However, it increased slightly in Jun and Jul 12, after reaching to the lowest point up to the 457.81 in the month of May 2013.

4.2.4 Analysis of Sector-Wise Index

The Nepal Stock Exchange has categorized the listed companies/securities into different sectors depending upon their specific nature of the business. The companies are divided into different groups as commercial banks, development banks, finance companies, insurance companies, hotels, manufacturing and processing companies, trading companies etc. In this section, an attempt is made to analyze the sector-wise index for at least five years period of time.

Sector-Wise Index

| Year Sector | 2008/09) | 2009/10) | (2010/11) | (2011/12) | (2012/13) |
|-----------------------------|----------|----------|-----------|-----------|-----------|
| Commercial Banks | 304.64 | 437.49 | 789.21 | 985.65 | 780.87 |
| Development Banks | 237.86 | 294.40 | 539.66 | 1171.86 | 772.56 |
| Finance Companies | 228.39 | 261.37 | 471.82 | 1074.60 | 697.61 |
| Insurance Companies | 320.24 | 381.25 | 612.46 | 862.78 | 656.41 |
| Mfg. & Processing Companies | 276.50 | 301.11 | 348.63 | 423.66 | 434.32 |
| Hotels | 178.00 | 180.77 | 251.47 | 370.88 | 367.42 |
| Trading | 123.20 | 148.11 | 155.37 | 204.08 | 295.83 |
| Other | 347.65 | 410.00 | 818.12 | 768.26 | 738.99 |
| Hydropower | - | - | 847.93 | 1223.99 | 1044.81 |

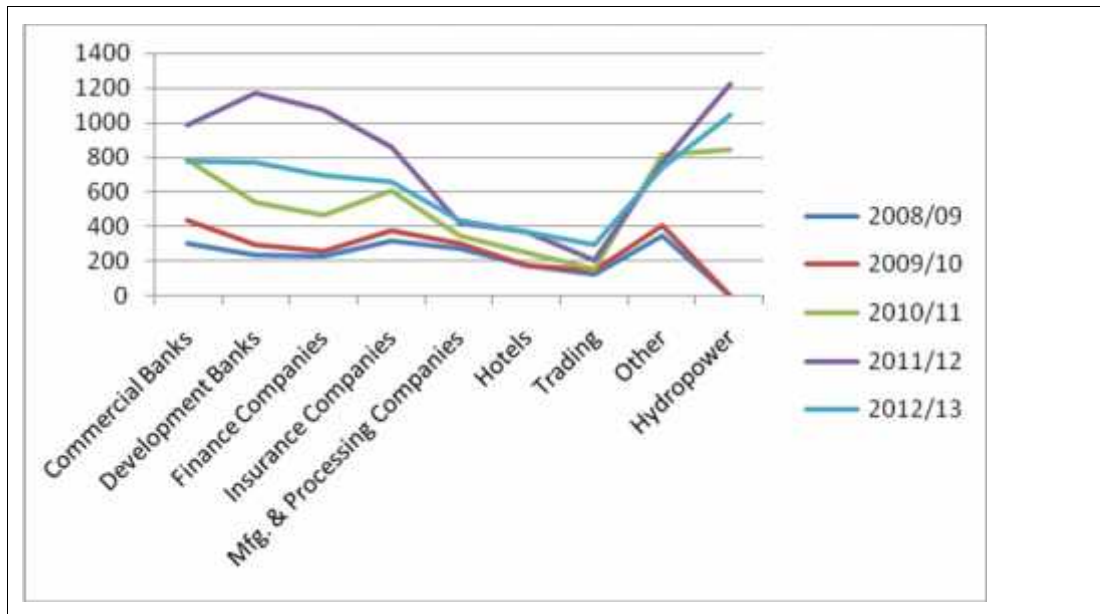
Table no. 4.2.4.1

(Source: Various Annual Reports of NEPSE)

Here, the sector-wise or group-wise index consists of various indices which are calculated on the basis of market capitalization. While considering for the commercial banks, we found that indexes were in increasing trend up to 2009/10; when the index was 985.65; but during the year 2010/11 it declined. For the group of development banks, finance companies and insurance companies also same was the condition.

On the other hand, the group index for manufacturing and processing industries increased throughout the whole period of five years. The starting index of 2006/07; 276.50 increased to 434.32 points in the end of fiscal year 2010/11. Hotels industries sector also increases in the slow and steady rate up to 2009/10. But in the year 2010/11, there was the slight reduction in the index of hotels sector. The index was consistent through out the whole five years study. It increased in the small ratio in this

time period. Other sector index was increasing up to 2008/09, but after that it has declined to 768.26 in 2009/10 and 738.99 in 2010/11. Hydropower sector was also facing the same condition like the index of commercial banks, development banks and finance companies for the last three years. The data of the above table has been shown in the following diagram:



Sector Wise Index

Figure no. 4.2.4.1:

Sector Wise Index for Various Years

In the above figure, various fiscal years have been presented in the x-axis, whereas in the y-axis the value of group-wise index has been presented. Various lines shows the group-wise indexes of different category i.e. commercial banks, development banks, finance companies, insurance companies, manufacturing and processing companies, trading companies, other and hydropower sector. Almost all the lines are upward sloping for the certain time period but after that they are having downward sloping nature during last fiscal year. The lines of manufacturing and processing companies and trading sector have the upward sloping line in the last fiscal year.

4.2.5 Market Capitalization

By the end of the fiscal year 2012/13, the market capitalization of the listed securities reached to Rs.376871.37 million. The capitalization was Rs.512939.07 million in the

fiscal year 2011/12. The highest market capitalization recorded in the fiscal year 2012/13 was Rs.506036.7 million on July 20, 2010 and the lowest was Rs.314721.0 million on April 28, 2013. By the end of the fiscal year 2009/10, the percentage contribution of market capitalization on nominal GDP is estimated to be 31.86. The sector wise market capitalization in the fiscal year 2010/11 is presented in table and figure below:

Market Capitalization

(Rs. in Millions)

| S.N. | Sector | Market Capitalization | Percent |
|--------------|------------------------------------|-----------------------|--------------|
| 1 | Commercial Bank | 206282.52 | 54.74 |
| 2 | Development Bank | 27488.87 | 7.29 |
| 3 | Finance Company | 29869.59 | 7.92 |
| 4 | Insurance Company | 9756.61 | 2.59 |
| 5 | Hotel | 5285.58 | 1.40 |
| 6 | Manufacturing & Processing Company | 7592.03 | 2.01 |
| 7 | Trading Company | 1617.51 | 0.43 |
| 8 | Other Company | 88978.67 | 23.61 |
| Total | | 376871.37 | 100.0 |

Table No. 4.2.5.1

(Source: NEPSE Annual Trading Report 2012/13)

Market Capitalization

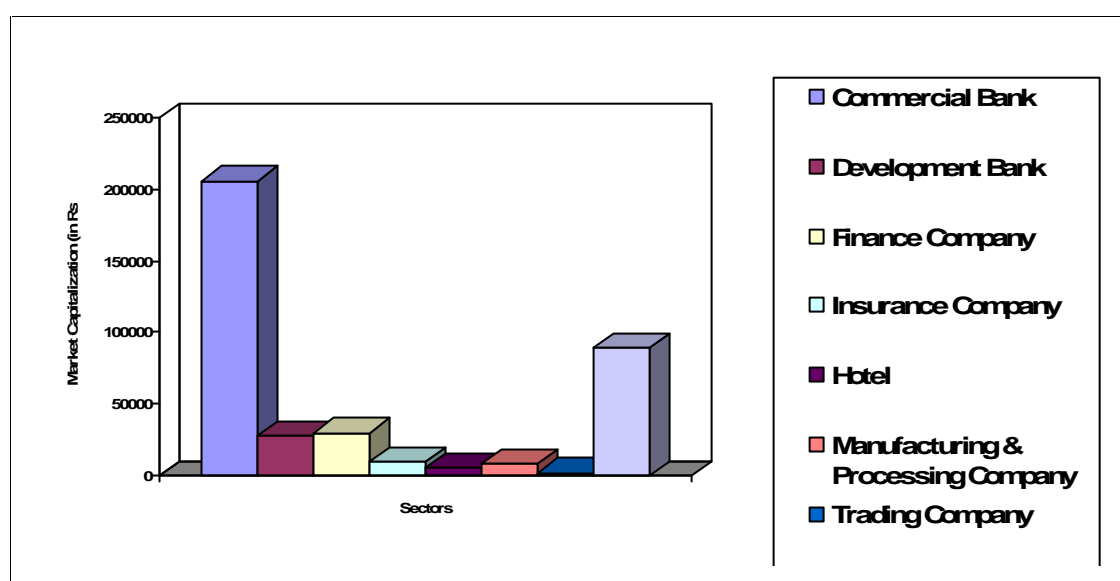


Figure no. 4.2.5.1:

Sector Wise Market Capitalization for 2012/13

4.2.6 Annual Market Turnover

The total amount of securities traded in the year 2012/13 was Rs.11851.11 millions which was Rs.21681.14 million in the fiscal year 2011/12. The detail of sector wise turnover is presented in the following table.

Annual Market Turnover

(Rs in Millions)

| S.N. | Sector | Market Turnover | Percent |
|--------------|------------------------------------|-----------------|--------------|
| 1 | Commercial Bank | 7196.24 | 60.72 |
| 2 | Development Bank | 1323.53 | 11.17 |
| 3 | Finance Company | 1263.94 | 10.66 |
| 4 | Insurance Company | 183.47 | 1.55 |
| 5 | Hotel | 10.15 | 0.08 |
| 6 | Manufacturing & Processing Company | 37.74 | 0.32 |
| 7 | Trading Company | 35.43 | 0.30 |
| 8 | Other Company | 1800.61 | 15.19 |
| Total | | 11851.11 | 100.0 |

Table No. 4.2.6.1

(Source: NEPSE Annual Trading Report 2012/13)

The above table shows that in Nepalese stock market an about 60.72% share of annual market turnover is belonging to the commercial banks. Annual market turnover of commercial sector is about Rs.7196.24 millions. Commercial bank is followed by the other company and development bank sector respectively; their market share in percentages is 15.19 and 11.17 respectively.

Sector Wise Annual Turnover

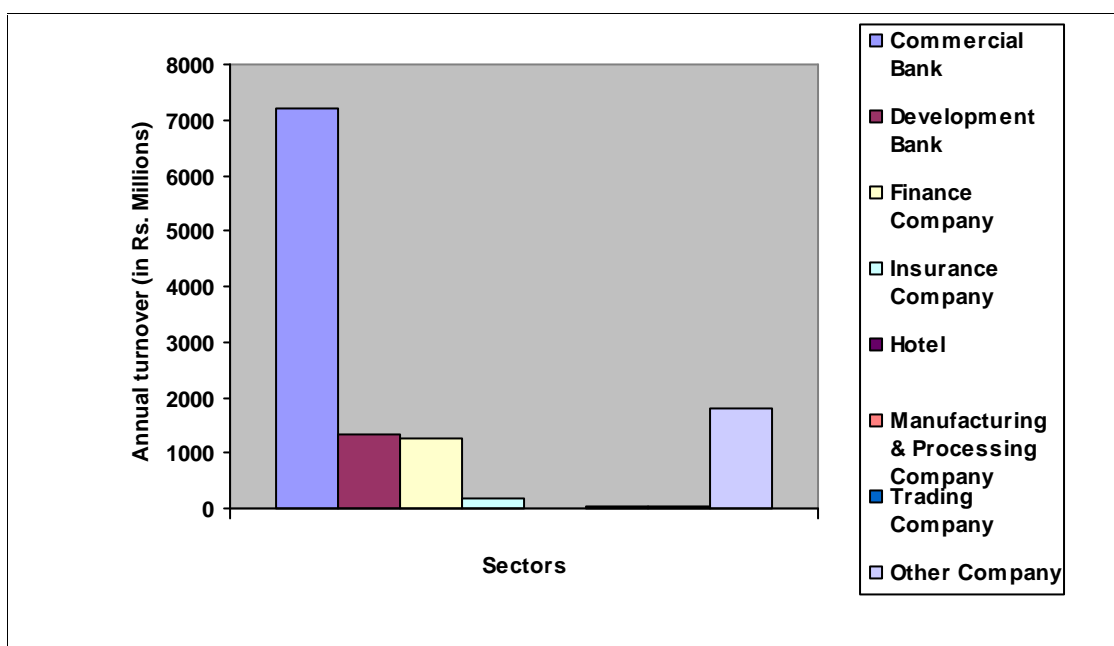


Figure no. 4.2.6.1: Sector Wise Annual Turnover for 2012/13

Presentation and Analysis of Primary Data

4.3 Analysis of Investor's Perspective with Regard to Investment in Secondary Market

For the analysis of investor's perception with regard to the growth and performance of Nepalese Stock Market, the researcher conducted the field survey taking 50 respondents from different areas such as banking, insurance, teaching, trade, industries etc. The results have been shown in the following section:

4.3.1 Knowledge about Stock Market

Knowledge about Stock Market

| S.No. | Alternatives | No. of respondent | % of respondent |
|-------|----------------------|-------------------|-----------------|
| a. | Know it very well | 12 | 30 |
| b. | Know little about it | 24 | 60 |
| c. | Just hear about it | 3 | 7.5 |
| d. | No idea about it | 1 | 2.5 |
| Total | | 40 | 100.0 |

Table no. 4.3.1.1

(Source: Field Survey, 2013)

In the above table, out of total 40 respondents 24 are with a view that they have little idea about the stock market. Only 12 out of 40 have good knowledge about the stock market.

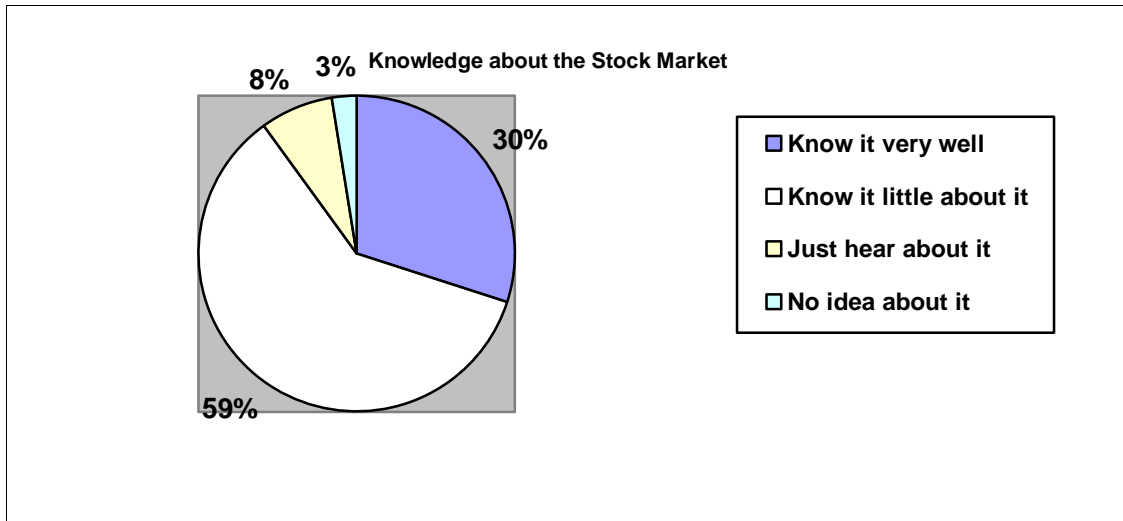


Figure No. 4.3.1.1: Knowledge about the Stock Market

The above figure shows that the 59% respondents know just little about the stock market and only 30% respondents have good knowledge about share market. The respondents having no idea and just hear is 3% and 8% respectively.

4.3.2 Investment in Corporate Stock

Investment in Corporate Stock

| S.No. | Alternatives | No. of respondent | % of respondent |
|-------|--------------|-------------------|-----------------|
| a. | Yes | 25 | 62.5 |
| b. | No | 15 | 37.5 |
| Total | | 40 | 100 |

Table no. 4.3.2.1

(Source: Field Survey, 2013)

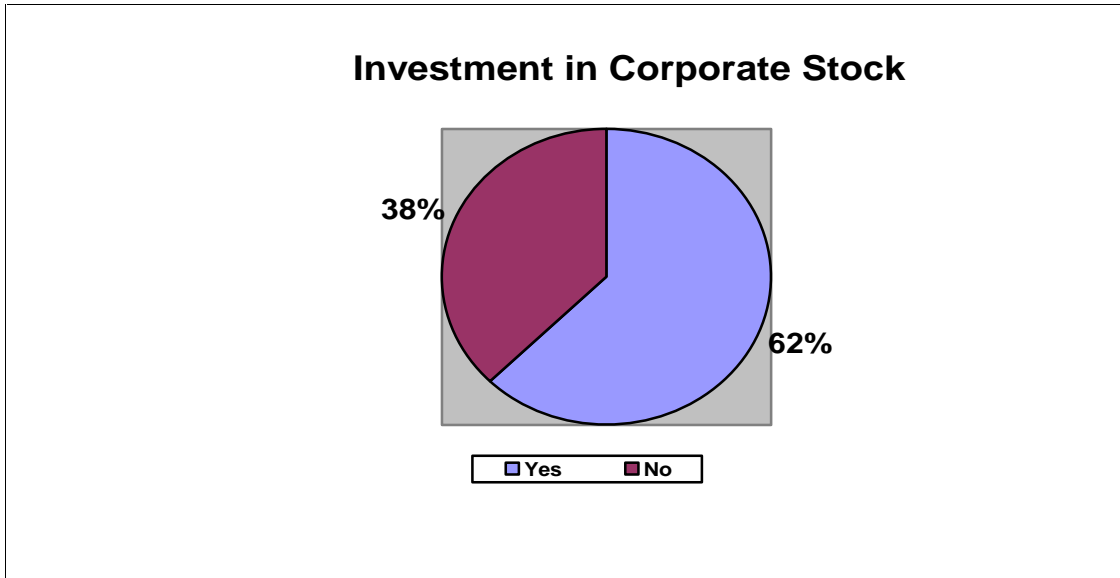


Figure No. 4.3.2.1: Investment in Corporate Stock

As per the question asked to the respondents; 62% respondents have investment in corporate stock whereas, 38% respondents does not have any investment on corporate stock.

4.3.3 Motivating Factors for Investment in Share of a Corporate Stock

Motivating Factors for Investment in Share of a Corporate Stock

| S. No. | Motivating Variables | No. of Respondent | % of Respondent |
|--------------|--------------------------------|-------------------|-----------------|
| a | Appreciation of stock price | 11 | 27.5 |
| b | Profitability of company | 20 | 50.0 |
| c | Whim of investors | 5 | 12.5 |
| d | Broker's advice | 4 | 10.0 |
| e | If other, please specify | - | - |
| Total | | 40 | 100 |

Table no. 4.3.3.1 (Source: Field Survey, 2013)

The motivating factor which influences the investor's perception has been revealed in the above table, by analyzing the question that; what factor motivates you to purchase a share of a particular company? It has been depicted that investor's wants to purchase corporate shares for appreciation of stock price and earning the profit. Due to the concentration over profit, large number of investor's used to purchase the shares of

banks and finance companies. Some of the investor's also used to purchase shares due to whim of investors and broker's advice also.

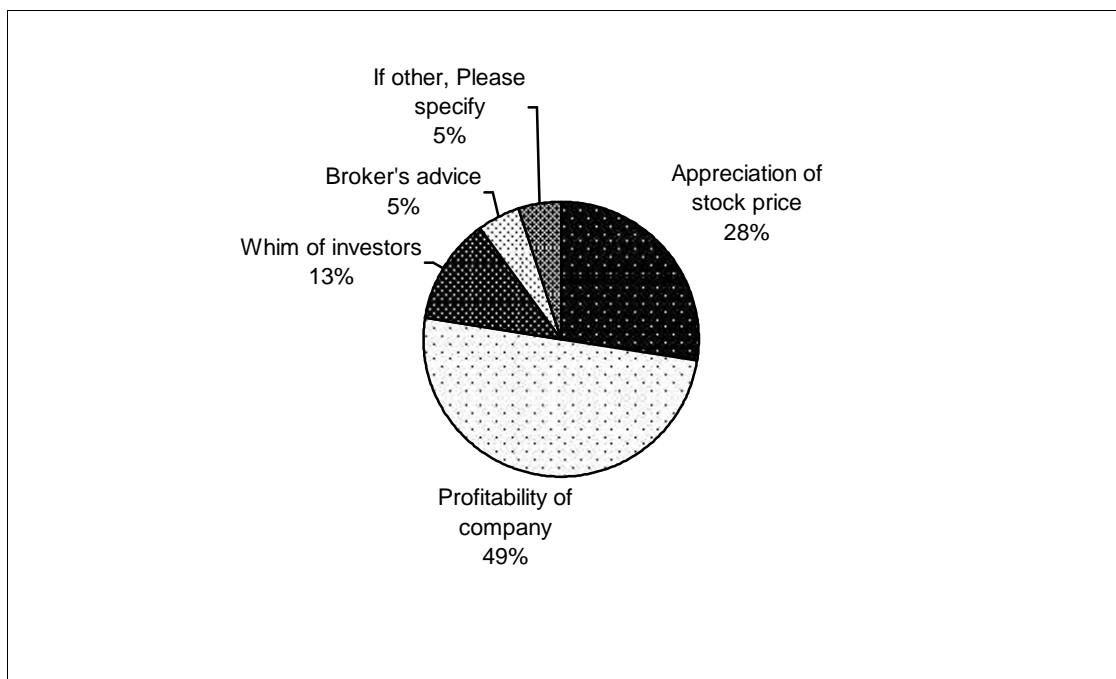


Figure No. 4.3.3.1: Motivating Factors for Purchasing Share of a Company

The above figure shows that about half of the investor's are motivated to invest on stock of corporate company because of profitability of the company. 27.5% investor's have invested in stock due to the motivating factor of appreciation of stock price. 12.5% of the respondent has said that they used to invest on shares because of whim too. Rest of the 10 percent used to purchase due to broker's advice and other reasons.

4.3.4 Performance of Nepalese Stock Market

Performance of Nepalese Stock Market

| S. No. | Alternatives | No. of Respondent | % of Respondent |
|--------|--------------|-------------------|-----------------|
| a | Good | 5 | 12.5 |
| b | Satisfactory | 27 | 67.5 |
| c | Bad | 6 | 15 |
| d | Don't know | 2 | 5 |
| Total | | 40 | 100 |

Table no. 4.3.4.1

(Source: Field Survey, 2013)

In the above table, 27 out of 40 respondents are satisfied with the performance of the Nepalese stock market. Similarly, 6 respondents feels that performance is not good, whereas only 5 respondents are having the feelings that performance of stock market is good and 2 people are unaware about the performance of it.

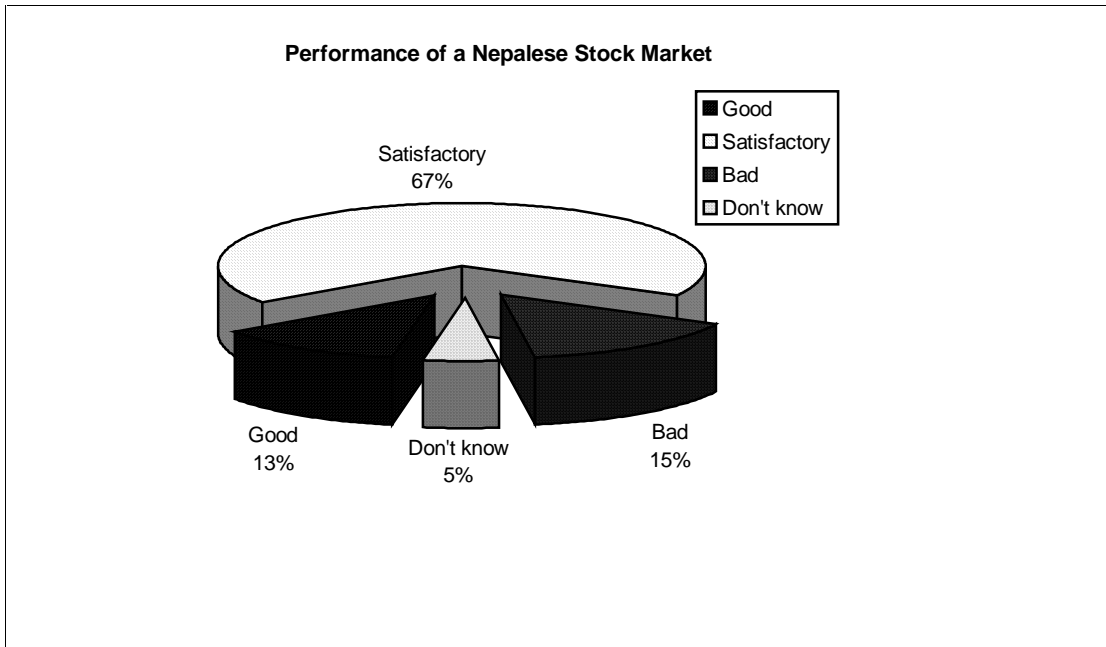


Figure No. 4.3.4.1: Performance of Nepalese Stock Market

The above diagram shows that the 67% respondents are satisfied with the performance of NEPSE. About 15% respondents are not satisfied with the performance of NEPSE, whereas 13% respondents are satisfied and 5% respondents are not having any feeling about the performance of NEPSE.

4.3.5 Growth of Nepalese Stock Market

Growth of Nepalese Stock Market

| S.No. | Alternatives | No. of Respondent | % of Respondent |
|--------------|-----------------------------|-------------------|-----------------|
| a | The growth is realistic | 3 | 7.50 |
| b | The growth is speculative | 13 | 32.50 |
| c | The growth is not realistic | 21 | 52.50 |
| d | Don't know | 3 | 7.50 |
| Total | | 40 | 100 |

Table 4.3.5.1

(Source: Field Survey, 2013)

Out of the 40 respondents majority of the respondents believes that the growth of Nepalese stock market is not realistic. 13, 3 & 3 respondents believes that growth is speculative, realistic and ignorance about the growth respectively.

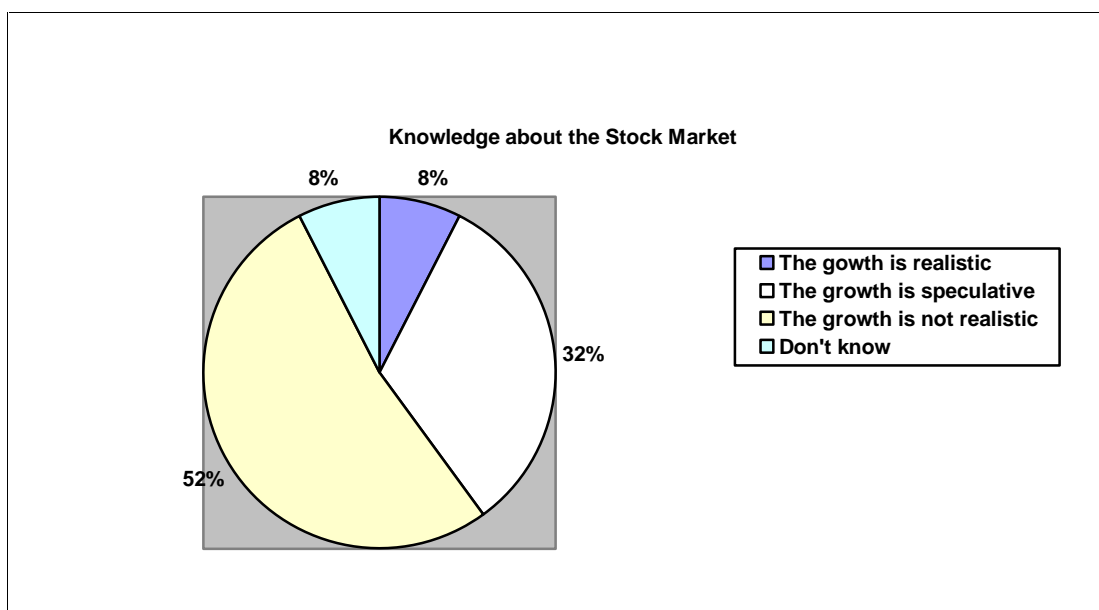


Figure 4.3.5.1: Growth of Nepalese Stock Market

As shown in the above table 52% respondents are not satisfied with the growth of NEPSE, they are with the view that the growth is unrealistic. Likewise, about 32% respondents say that the growth is speculative. Overall, the growth trend is not realistic, it means, the growth of NEPSE is not well-matched with the growth of real sector economy.

4.3.6 Correlation with Economic Growth

Correlation with Economic Growth

| S.No. | Alternatives | No. of Respondent | % of Respondent |
|--------------|----------------------------|-------------------|-----------------|
| a | High degree of correlation | 6 | 15.00 |
| b | Moderate | 14 | 35.00 |
| c | Low degree of correlation | 18 | 45.00 |
| d | No correlation at all | 2 | 5.00 |
| Total | | 40 | 100 |

Table 4.3.6.1

(Source: Field Survey, 2013)

The above table indicates that the growth of Nepalese stock market and economic growth are having correlation. Most of the respondents believe that there is moderate and low degree of correlation between economic growths and the growth of Nepalese stock market. Out of 40 respondents 14 & 18 have the belief of moderate and low degree of correlation respectively.

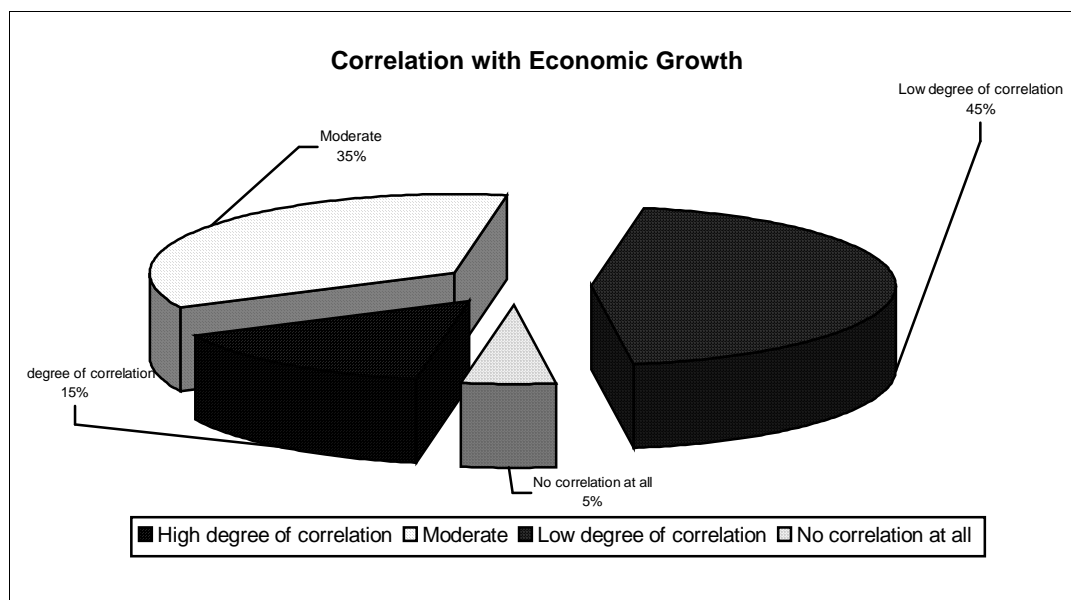


Fig 4.3.6.1: Correlation with Economic Growth

In the above diagram the portion of low degree of correlation and moderate is larger than the portion of others. About 80% of the respondents fall in the same category. Only 15% respondents are with the view that there is high degree of correlation between the growth of NEPSE and economy. About 5% respondents believe that there is no correlation in between the growth of economy in the nation and NEPSE growth.

4.3.7 Sufficiency of Existing Stock Market for Security Trading

Sufficiency of Existing Stock Market for Security Trading

| S. No. | Alternatives | No. of Respondent | % of Respondent |
|--------------|--------------|-------------------|-----------------|
| a | Yes | 7 | 17.50 |
| b | No | 33 | 82.50 |
| Total | | 40 | 100 |

Table 4.3.7.1

(Source: Field Survey, 2013)

While analyzing the sufficiency of existing stock market for the trading of securities almost about 82.50% respondents feel the need of another security market in Nepal. Only 7 respondents are in the favor of sufficiency of existing stock market for security trading.

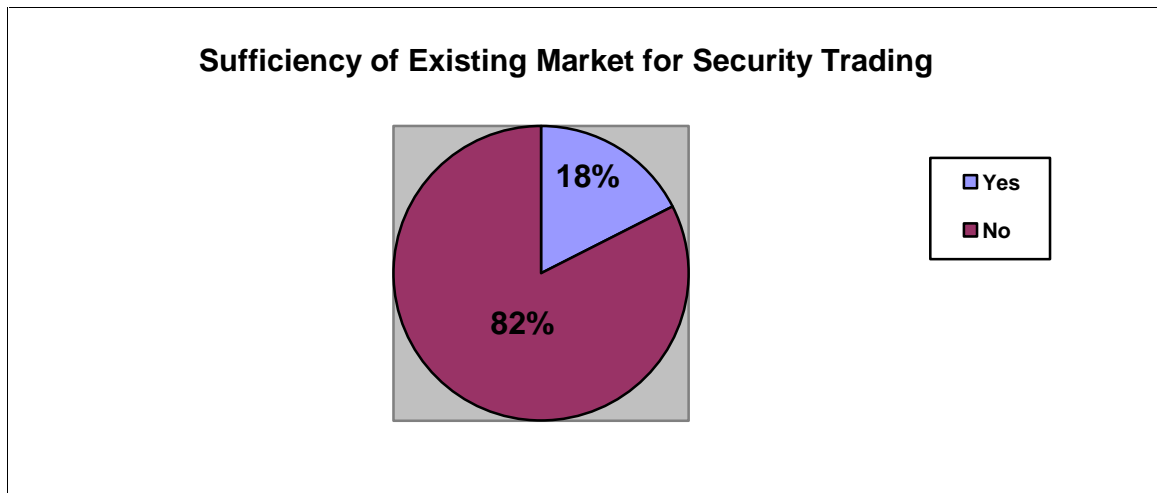


Figure 4.3.7.1: Sufficiency of Existing Stock Market for Security Trading

As shown in the above figure 82% respondents feel the need of another stock exchange in Nepal, whereas, the rest 18% are with the view that the present stock market is sufficient for stock trading.

4.3.8 Problems of Nepalese Security Market

Problems of Nepalese Security Market

| S.No. | Reasons | No. of Respondent | % of Respondent |
|--------------|---|-------------------|-----------------|
| a | Lack of modern technology | 4 | 10.0 |
| b | Lack of awareness among investors | 10 | 25.0 |
| c | Lack of professionals skills among financial intermediaries | 2 | 5.0 |
| d | Shortcomings of rules and regulations | 9 | 22.5 |
| e | Lack of proper coordination between authorities | 3 | 7.5 |
| f | Lack of collective investors | 5 | 12.5 |
| g | Lack of sufficient stock brokers | 3 | 7.5 |
| h | Lack of political stability | 4 | 10.0 |
| Total | | 40 | 100 |

Table 4.3.8.1

(Source: Field Survey, 2013)

When the survey has been done to find out the problems of Nepalese Security Market, most of the respondents have mentioned above drawbacks. However, lack of awareness among investors' was the main problem as indicated by the respondents followed by shortcomings of rules and regulations. Some respondents also focused on the problem of liquidity in the market & malfunctioning of financial companies and more investment in real state as the problem for less transaction of stock in NEPSE. The diagrammatic representation of the above schedule is as follows:

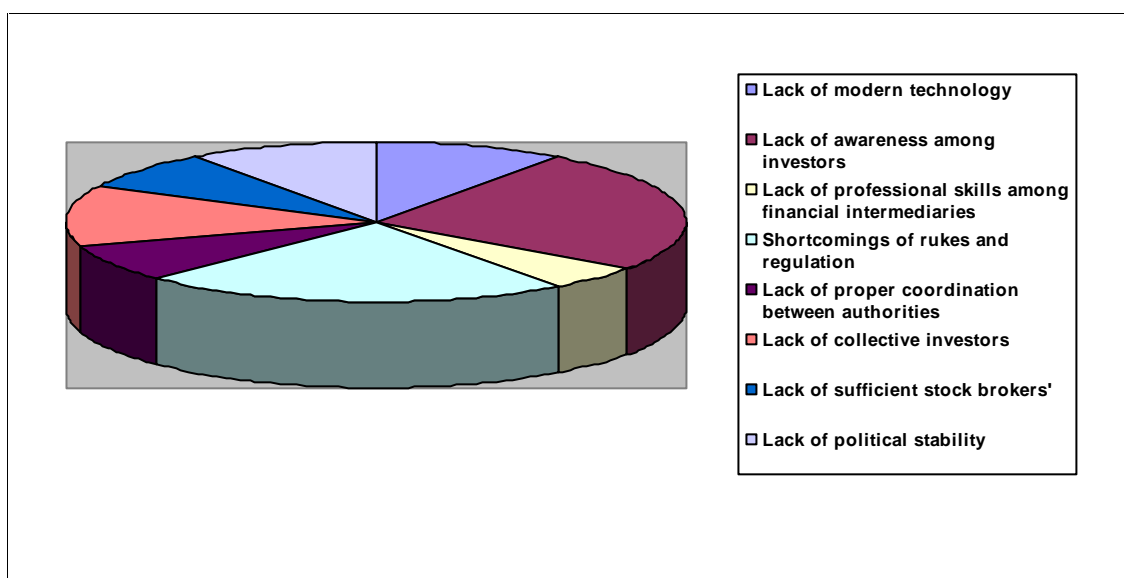


Figure 4.3.8.1 Problems of Nepalese Security Market

Most of the respondents agree that lack of awareness among investors and shortcomings of rules and regulation are the main problems faced by the Nepalese Security Market. Collectively these two problems cover almost half of the views presented by the respondents. Change in the government frequently is also the main reason for less development of Nepalese Security Market.

4.3.9 Remedial Measures for the Development of Nepalese Security Market

Remedial measures for the Development of Nepalese Security Market

| S.No. | Variables | No. of Respondent | % of Respondent |
|--------------|---|-------------------|-----------------|
| a | Mechanizing the stock market through new technology | 9 | 22.50 |
| b | Creating public awareness | 13 | 32.50 |
| c | Increasing the number of brokers | 6 | 15.00 |
| d | Stable policy formulation | 3 | 7.50 |
| e | Introduction of collective investors' | 4 | 10.00 |
| f | Operation of mutual fund | 4 | 10.00 |
| g | Attracting the NRN to invest | 1 | 2.50 |
| Total | | 40 | 100 |

Table 4.3.9.1

(Source: Field Survey, 2013)

The diagrammatic representation of the above schedule follows:

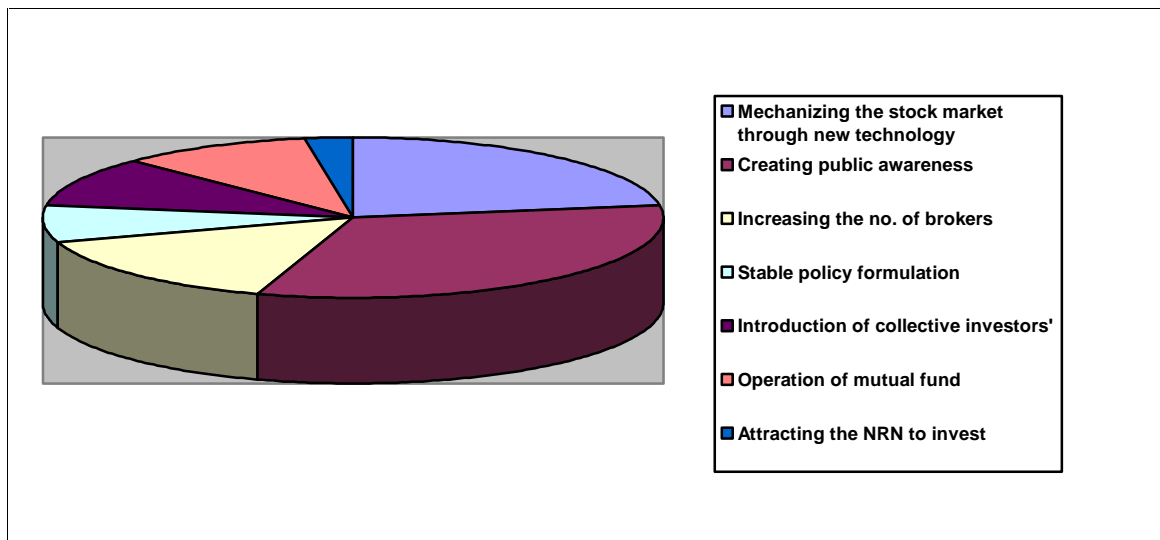


Figure 4.3.9.1 Remedial Measures to Develop Nepalese Stock Market

While analyzing the remedial measures for the growth and expansion of Nepalese stock market, large numbers of the respondents agree on creating public awareness. Next important remedial measure is mechanizing the stock market through new technology. About 58% portion belongs to creating public awareness and mechanizing the stock market through new technology. Some of the respondents also believes that through the incensement in numbers of brokers, entry of collective investors', operation of mutual fund and attracting the NRN to invest also could bring the security trading in the forefront of the economy.

4.3.10 Respondents Opinion Concerning Nepalese Stock Market

While collecting the above information some of the respondents share their views with regard to the problems of the existing security market in Nepal. Some of their views and suggestions are listed out below:

1. The operation of NEPSE is not transparent and ethical.
2. Basically big investors and stock brokers influence stock market for their own sake.
3. Brokers' do not provide proper advice and suggestions to the client rather they influence investors'.
4. There is not efficient information system and much delay in providing company's financial status.

5. Investors should be provided with the investors' guidelines.
6. Decentralization of stock market must be carried on.
7. Stock brokers' of outside the Kathmandu valley used to delay in payment & documentation of stock to be sold and purchased.
8. New automated and computerized system of paper less stock trading is needed to increase the volume of trade.
9. The securities board should monitor and regulate the stock market through its controlling mechanism and appropriate penalty system.
10. Investment board should be established.
11. NRN and organizational investors should be attracted in the stock market to purchase and sell the securities.
12. Mutual fund companies should work as early as possible.
13. No. of brokers should be increased to trade in the market.
14. More number of stock brokers' should function outside the Kathmandu valley.
15. Share trading is manipulated by few big individual investors and even the share brokers.
16. Liquidity problem should be solved as early as possible.
17. Rate of interest in saving should be minimized due to which the lending interest rate can be minimized, which also results in the growth of capital market too.
18. Financial institutions and banks activities should be monitored effectively.

4.4 Analysis of the growth of NEPSE index with other variables

4.4.1 Relationship between Growth of NEPSE Index and Other Relevant Macroeconomic Variables

The economic dimensions of an economy are: Gross Domestic Product (GDP), Economic Growth (EG), annual turnover of securities, inflation rates (I), per capita income (PCI), personal consumption and expenditure, and so on. Here, in this chapter

my attempt would be to analyze the relationship between the growth structure of NEPSE Index with some of the macroeconomic variables like GDP and EG.

4.4.1.1 Gross Domestic Product (GDP)

Domestic production is the production within a country. Therefore, gross domestic product (GDP) is the total aggregate of all the final goods and services produced in a country during a year. This GDP does not include income derived from abroad but it includes income earned by the foreigners in a country. On the other hand, it does not include income earned by nationals in a foreign country. Hence, GDP is the total value of all the products and services produced within the domestic territory of the country within an accounting year.

4.4.1.2 Annual Turnover

Secondary market is created by the trading of second-hand securities after the primary issuance of such securities. Normally, the transactions take place either in organized market or over the counter market. Here in our context, the transactions take place in NEPSE. Turnover of securities is related with the total volume of securities in amount being traded in the security exchange. After, 2007, the trading volume as well as the number of transactions has increased significantly during the last few couple of fiscal year. It had happened due to the implementation of Automated Trading System (ATS) in 2007 AD, it is hoped that after the implementation of Central Depository Services (CDS) the annual turnover will increased drastically. Annual turnover is related with the total volume of securities traded in amount in one fiscal year.

4.4.1.3 Economic Growth

EG is also the important macroeconomic indicator which measures the overall growth of the economy. The total growth related with the different sectors of the nation is measured by the help of Economic Growth.

4.4.1.4 NEPSE Index

As explained earlier, an index is an indicator which indicates the changes in the values between two distinct time periods, a base time period and another particular

point of time. A security market index is a number which indicates the movement of the overall securities prices throughout a certain point of time with respect to the base period. NEPSE Index is calculated by considering all listed securities of all listed companies in Nepal Stock Exchange.

4.4.1.5 Comparison and Analysis of NEPSE index with Reference to Annual Turnover, GDP and EG.

The growth of NEPSE Index is analyzed with the overall growth of the GDP and EG. It has been able to give clear vision about the relationship between the growth of NEPSE Index and overall growth in the economy as measured by GDP and EG by the help of following table and analytical part.

Analysis of NEPSE Index with Annual Turnover, GDP and EG

| Year | (2008/09) | (2009/10) | (2010/11) | (2011/12) | (2012/13) |
|---------------------------------|-----------|-----------|-----------|-----------|-----------|
| NEPSE Index | 386.83 | 683.95 | 963.36 | 749.10 | 477.73 |
| Annual Turnover (in million) | 3451 | 8360 | 22821 | 21681 | 11851 |
| GDP(in million) | 486435 | 493604 | 519574 | 539319 | 568982 |
| Economic Growth | 2.8% | 2.5% | 3.91% | 3.5% | 3.5% |

Table No. 4.4.1.5 (Source: Economic Review, NRB/ Annual Report, NEPSE, CBS)

In the above schedule, the growth trend of NEPSE Index, annual turnover, GDP and Economic growth for the fiscal year of 2008/09 to 2012/13 has been shown. NEPSE Index was 386.83, annual turnover was Rs.3451 million, GDP was Rs.486435 million and economic growth was 2.8% in the year 2008/09. NEPSE Index has increased in the fiscal year 2008/09 and 2009/10 and it reached highest in the year 2009/10 and reached up to 963.36. However, economic growth has decreased in the 2006/07, but again in the fiscal year 2009/10 it has increased to 3.91%. In the fiscal year 2010/10, NEPSE Index was 749.10, annual turnover in million was Rs.21681, GDP was Rs.539319 in million and economic growth was 3.5%.

Growth Rate of NEPSE, Turnover, GDP and EG

| Year Variable | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|------------------|---------|---------|---------|---------|---------|
| NEPSE Index | 34.94% | 76.81% | 40.85% | -22.24% | -36.23% |
| Annual Turnover | -23.45% | 142.25% | 172.98% | -5.00% | -45.34% |
| GDP | 5.02% | 1.47% | 5.26% | 3.80% | 5.50% |
| Economic Growth | 2.80% | 2.50% | 3.91% | 3.50% | 3.50% |

Table No.4.4.1.6

(Calculated as per Annex)

In the above schedule we can see that the growth trend of GDP and EG are almost equal to each other and they are also almost parallel to each other. In the year 2008/09, the growth rates of GDP and the growth rate of economic growth is 3.80% and 3.50% respectively. In the same year growth rate of NEPSE index and annual turnover is -22.24% and -5% respectively. It shows that these indicators are uncorrelated to each other. In other year growth rate of GDP and economic growth is not so similar.

Statistical Analysis

4.4.2. Karl Pearson's Coefficient of Correlation

Correlation is the measure of relationship between two or more characteristics of population or a sample. This simply measures the changes between the phenomena. Moreover, this simply says by what manner two related quantities vary with each other. If the relationship between these variables is direct, the correlation is said to be positive and vice-versa. Hence, it lies between +1 to - 1, thereby representing perfectly positively correlated to perfectly negatively correlate. If the value comes in zero (0), this is said to be non correlated with each other. Here, in this research work my attempt would be to analyze the simple correlation between the percentage growth between the NEPSE index and other macroeconomic variables (viz. GDP and EG).

4.4.2.1 Correlation between NEPSE index and Annual Turnover

Here, NEPSE index was denoted by (X) and annual turnover is denoted by (Y).

$$\begin{aligned}
\text{Correlation } (r_{xy}) &= \frac{n \sum xy - \sum x \sum y}{n \sqrt{\sum x^2 - \frac{(\sum x)^2}{n}} \sqrt{\sum y^2 - \frac{(\sum y)^2}{n}}} \\
&= \frac{5 | 509404.25 - \frac{3260.97 | 681.64}{5}}{\sqrt{5 | 2334864.30 - \frac{(3260.97)^2}{5}} \sqrt{5 | 121310.94 - \frac{(681.64)^2}{5}}} \\
&= \frac{324213.66}{1019.99 | 376.73} \\
&= 0.84
\end{aligned}$$

The above calculated coefficient of correlation between the NEPSE index and the annual turnover of securities shows the positive correlation between such variables. This means to say that there exist, high degree of positive correlation between index and annual turnover thereby showing a rapidly increasing trend between the variables in the same direction.

4.4.2.2 Correlation between NEPSE Index and GDP

Here, NEPSE index was denoted by (X) and GDP is denoted by (Y).

$$\begin{aligned}
\text{Correlation } (r_{xy}) &= \frac{n \sum xy - \sum x \sum y}{n \sqrt{\sum x^2 - \frac{(\sum x)^2}{n}} \sqrt{\sum y^2 - \frac{(\sum y)^2}{n}}} \\
&= \frac{5 | 1702128.07 - \frac{3260.97 | 2607.914}{5}}{\sqrt{5 | 2334864.3 - \frac{(3260.97)^2}{5}} \sqrt{5 | 1364822.50 - \frac{(2607.914)^2}{5}}} \\
&= \frac{6311.03}{1019.99 | 151.32} \\
&= .041
\end{aligned}$$

The above calculated coefficient of correlation (r) between the NEPSE index and the GDP shows the positive correlation.

4.4.2.3 Correlation between NEPSE Index and Economic Growth (EG)

Here, NEPSE index was denoted by (X) and EG is denoted by (Y).

$$\begin{aligned}
\text{Correlation } (r_{xy}) &= \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}} \\
&= \frac{5 \mid 10853.65 - 3260.97 \mid 16.21}{\sqrt{5 \mid 2334864.3 - (3260.97)^2} \sqrt{5 \mid 53.88 - (16.21)^2}} \\
&= \frac{1407.93}{1019.99 \mid 2.58} \\
&= 0.54
\end{aligned}$$

The above calculated coefficient of correlation (r) between the NEPSE index and the economic growth shows the positive correlation. This means to say that there exist moderate degree of positive correlation between NEPSE index and EG.

4.4.3 Testing of Hypothesis

The above calculated figures of correlation coefficient between NEPSE index and the macroeconomic variables such as: GDP and EG has been tested using t-distribution test to examine how significantly the variables are correlated with each other.

4.4.3.1 t-Test between Correlation Coefficient of NEPSE Index and Annual Turnover

The calculated value of coefficient correlation between NEPSE index and annual turnover i.e. "r" = 0.84, the level of significance is supposed to be 5%; and the degree of freedom (n-2) would be (5-2) =3.

$$\begin{aligned}
\text{Test statistic (t)} &= \frac{r}{\sqrt{1 - r^2}} \mid \sqrt{n - 2} \\
&= \frac{0.84}{\sqrt{1 - (0.84)^2}} \mid \sqrt{5 - 2} \\
&= \frac{0.84}{0.543} \mid 1.732 \\
&= 2.68
\end{aligned}$$

Hypothesis formulation:

Null hypothesis: $H_0: \dots X_0$ i.e. the variables are not correlated in the population.

Alternative hypothesis: $H_1: \dots \neq 0$ i.e. the variables are correlated in the population.

Critical value: Tabulated or critical value of "t" at 5% level of significance for the degrees of freedom 3 is, 3.182.

Decision: Since the critical value of "t"(3.182) is more than the calculated value of "t" 2.68, the null hypothesis (H_0) is accepted. This shows that the population or the variables are not correlated with each other. Moreover, it can be concluded that variables are significantly not correlated with each other.

4.4.3.2 t-Test between Correlation Coefficient of NEPSE Index and GDP

The calculated value of coefficient correlation between NEPSE index and growth of GDP i.e. "r" = 0.041, the level of significance is supposed to be 5%; and the degree of freedom (n-2) would be (5-2) =3.

$$\begin{aligned} \text{Test statistic (t)} &= \frac{r}{\sqrt{1 - r^2}} \sqrt{n - 2} \\ &= \frac{0.041}{\sqrt{1 - (0.041)^2}} \sqrt{5 - 2} \\ &= \frac{0.041}{0.999} \sqrt{3} \\ &= 0.071 \end{aligned}$$

Hypothesis formulation:

Null hypothesis: $H_0: \dots X_0$ i.e. the variables are not correlated in the population.

Alternative hypothesis: $H_1: \dots \neq 0$ i.e. the variables are correlated in the population.

Critical value: Tabulated or critical value of "t" at 5% level of significance for the degrees of freedom 3 is, 3.182.

Decision: Since the critical value of "t"(3.182) is more than the calculated value of "t" (0.071), the null hypothesis (H_0) is accepted. This shows that the population is not correlated with each other. Moreover, it can be concluded that two variables i.e. NEPSE index and GDP are not correlated with each other. It also indicates that the growth of NEPSE index is unrealistic.

4.4.3.2 t-Test between Correlation Coefficient of NEPSE Index and EG

The calculated value of coefficient correlation between NEPSE index and economic growth i.e. "r" = 0.54, the level of significance is supposed to be 5%; and the degree of freedom (n-2) would be (5-2) =3.

$$\begin{aligned}\text{Test statistic (t)} &= \frac{r}{\sqrt{1-Zr^2}} \sqrt{n-2} \\ &= \frac{0.54}{\sqrt{1-Z(0.54)^2}} \sqrt{5-2} \\ &= \frac{0.54}{0.84} \sqrt{3} \\ &= 1.11\end{aligned}$$

Hypothesis formulation:

Null hypothesis: H_0 : ... X_0 i.e. the variables are not correlated in the population.

Alternative hypothesis: H_1 : ... $\neq 0$ i.e. the variables are correlated in the population.

Critical value: Tabulated or critical value of "t" at 5% level of significance for the degrees of freedom 3 is, 3.182.

Decision: Since the critical value of "t"(3.182) is greater than the calculated value of "t" (1.11), the null hypothesis (H_0) is accepted. This shows that the variables in population are not correlated with each other. Moreover, it can be concluded that two variables i.e. NEPSE index and EG not correlated with each other. It also indicates that the growth of NEPSE index and economic growth is unrealistic.

4.5 Barriers for Stock Trading

Different types of obstacles faced by the Nepalese capital market has been attempted to be determined and analyzed in this section. Entrepreneurs used to raise scattered savings by issuing different types of securities for the long-term fund in the Nepalese capital market. Till now, there is NEPSE as the sole stock exchange of Nepal. Some of the main barriers and difficulties of Nepalese capital market is discussed below:

4.5.1 Lack of Awareness among Investors

The public awareness is lacking with regard to the security market and its function. The general people do not know about the stock market. Most of the people are living in rural areas and suburban areas where the general people don't know about the stocks and government securities. The people of urban areas are also not so aware about the stock market. Few numbers of people who are living in the urban areas are investing in the stock market of Nepal. Even the students of management backgrounds are also not so aware about the capital market. Hence, an effort is needed to be enhanced for creating awareness among the general public for the growth of Nepalese capital market.

4.5.2 Lack of Modern Technology

The modern technology is not so widely used in the capital market of Nepal. Development in science and technology sectors have greatly influenced in every sector of day to day life. In Nepal till now fully automated technology could not be applied till now in the capital market. Due to limited automation; transparency and immediate clearing and settlement of securities is not possible in Nepal. Nepal is the only one country in the south- Asia which does not have clearing deposit system (CDS). So, as early as possible CDS should be given the authority to operate their service in Nepal, as it is on the way of operating its activities in the country.

4.5.3 Influence of Big Individual Investors

The trading of securities in NEPSE is dominated by few or nominal big individual investors directly. Few big individual investors and even the brokers are influencing the trading pattern and market price of securities. Such big individual investors use to collaborate with the brokers to sell their securities in the higher price and some time they are creating artificial '*bear trend*' and '*bull run*' to enhance their financial position in the market.

4.5.4 Lack of Institutional Investing in the Market

Institutional buyers are the wholesale buyers who used to purchase large number of stocks at a one time. Institutional investors plays crucial role for the balanced growth of stock market. Investment companies and mutual funds are the main type of institutional investors; but the existence of such sector is negligible in Nepalese stock market. But, there is the ray of hope for the establishment of mutual funds in the Nepal by some of the commercial banks, which may increase the investor's participation and volume of trade.

4.5.5 Lack of Institutional Support and Coordination

The development of entire stock market also depends on the group cooperation by concerned authorities. The major authorities in Nepal are Nepal Stock Exchange, Security Board of Nepal and Nepal Rastra bank. Different directives and guidelines, rules and regulations, act and laws formulated in the nation by these authorities also provide opportunities and threatening to the growth of NEPSE. So, these related authorities must have better coordinating and supportive role for the growth of market which is lacking in our context.

4.5.6 Lack of Sufficient Stock Brokers

Stock brokers used to facilitate in the trading of securities. They are having great role in the development of capital market. In our country only limited numbers of stock brokers are operating their services. Their behavior and service providing system is not so satisfactory. Only within the Kathmandu valley large numbers of stock brokers are operating their services. Out side Kathmandu valley in the limited area such services are provided. Due to the limited numbers of stock brokers and limited area of operation, large numbers of individual investors could not be attracted in the capital market, which also hampers in the growth and development of capital market.

4.5.7 Lack of Investable Securities

The development of capital market also depends upon the variety of investable instruments. The Nepalese capital market is over dumped with common stock. Very few preferred stocks, debentures and government bond are traded in the Nepalese stock market. Ordinary shares are the primary means of security for trading in the secondary market. The trading of government securities is very negligible in Nepal.

Large and bulky size of promoter's common stock is needed to be traded, but only rich investors and institutional investors can purchase such stocks.

4.6 Opportunities for the Prosperous Future Prospects of Nepalese Stock Market

Nepalese stock market is having great possibility to expand in the near future. But for that special types of acts are required to be carried on in the superior manner. If the stock market develops than the economic development is also likely to be carried in the nation. Nepalese stock market is having a lot of chances to extend in the coming days. Some of the main acts which have opened the door of new ray of hope in the stock market of Nepal are as follows:

1. Entry of new brokers' in the fiscal year 2069/70 is likely to occur.
2. Central Depository Service (CDS) going to be in action soon which is helpful in minimizing the time to trade, increasing the volume of trade and minimizing the paper work related to trade.
3. Rate of tax on gain of security trading decreased in the budget presented for the year 2069/70.
4. Mutual fund companies have got the license to operate.
5. Broker has started to provide their service from outside the Kathmandu valley too.
6. Investors becoming more conscious about the stock trading in the nation.
7. Organizational investors like Nepal Telecom Company, Nepal Army's fund, Citizen Investment Fund, Employees Provident Fund and so on are also in the way to do the invest in stocks soon.
8. Non- Resident Nepalese (NRN) are also addressed to in the Nepalese stock market.
9. Merger policy of NRB towards the financial institutions is also helpful in declining the supply of securities in the market, which may create more demand, so chances to flourish the stock market.

10. New brokers also entering in the capital market to provide their services & such brokers number increasing very soon to 50 from 23.
11. Investors trust in the share market is in the line of increasing.
12. Maximum companies share price is in the position of price-technical analysis.
13. Timely budget presented in 2010/11 A.D. after three year's gap.
14. Government agencies are making flexible policy to develop capital market.
15. Policy of 'Margin Lending' on loan of shares made flexible by the banks and NRB.

4.7 Major Findings of the Study

The major findings of the study from the analysis of primary as well as secondary data have been listed in the following points:

1. Global economic growth forecast for 2012 and 2013 is estimated to increase by 4.2 percent and 4.6 percent respectively which remained negative by 0.6 percent in the year 2011 as against 3.0 percent growth in the year 2010. The effect of global financial crisis started from the early 2009 is slowing down signaling further improvements in the coming years.
2. The basic objective of NEPSE is to impart free marketability and liquidity of government and corporate securities. Currently 23 brokers are actively participating in the floor. Similarly there are 11 sales and issue managers and 2 dealers.
3. The NEPSE index was highest at the end of Aug 2010 and it was 1175.38 but, at the mid of Jun 2012 it was lowest in the last seven years time duration of NEPSE's operation and it was 292.36.
4. The NEPSE index was 286.67 points in the year 2006/07. The index was increasing up to the year 2009/10 in the consistent rate. In the end of fiscal year 2009/10, NEPSE Index was highest at 963.36. Finally, the growth trend declined during the year 2010/11 & 2011/12 and it declined to 477.73 at the end of 2011/12.
5. As the analysis of sector-wise index shows the highest growth of index was in commercial banks, development banks and finance companies up to the year

2012/13. But, in the year 2012/13, these entire sector-wise indexes have declined in the rapid rate.

6. The growth rate of index for manufacturing and processing sector has been continuously increased from the year 2008/09 to 2012/13 from 276.50 to 434.32. However, the growth rate was steady.
7. By the end of the fiscal year 2012/13, the market capitalization of the listed securities reached to Rs.376871.37 million. The capitalization was Rs.512939.07 million in the fiscal year 2011/12. The highest market capitalization recorded in the fiscal year 2009/10 was Rs.506036.7 million on July 20, 2012 and the lowest was Rs.314721.0 million on April 28, 2010.
8. The total amount of securities traded in the year 2012/13 was Rs.11851.11 millions which was Rs.21681.14 million in the fiscal year 2011/12.
9. It is found that the stock market in Nepal is in developing stage, however, 52.50% of the respondents are not satisfied with the growth trend of the market.
10. 59% respondents know just little about the stock market and only 30% respondents have good knowledge about share market. The respondents having no idea and just hear is 3% and 8% respectively.
11. About 50% of the investor's are motivated to invest on stock of corporate company because of profitability of the company. Most of the investors used to make the investment in the commercial banks, due to profitability motive.
12. 52% respondents are not satisfied with the growth of NEPSE; they are with the view that the growth is unrealistic. Most of the respondents are with the view that the growth trend is not realistic, it means, the growth of NEPSE is not well-matched with the growth of real sector economy.
13. 82% respondents feel the need of another stock exchange in Nepal, whereas, the rest 18% are with the view that the present stock market is sufficient for stock trading.
14. 48% of the respondents agree that lack of awareness among investors and shortcomings of rules and regulation are the main problems faced by the Nepalese Security Market. Collectively these two problems cover almost half of the views presented by the respondents.
15. Mechanizing the stock market through new technology, creating public awareness and creation of suitable policy related with capital market are the

main remedial measures for solving the problem of NEPSE, as suggested by the majority of the respondents.

16. The correlation coefficient between the growth of NEPSE index and other macroeconomic variables is positive. The correlation between NEPSE index and the annual turnover of securities is 0.84; correlation between NEPSE index and GDP is 0.071 and NEPSE index and EG is 0.54 which indicates positive relationship between such variables.
17. Lack of awareness among investors, lack of sufficient number of brokers, lack of institutional support and coordination, lack of modern technology, lack of sufficient investable instruments, influence of big individual investors etc are some of the important barriers of security trading in Nepal.

CHAPTER - V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The history of securities market in Nepal dates back to 1937, when the shares of Biratnagar Jute Mills Ltd (BJM) and Nepal Bank Ltd. (NBL) were floated. Similarly, the introduction of the company Act in 1964 and the establishment of Securities Exchange center Ltd in 1976 were other significant development relating to Nepalese capital markets. Later, the center was converted into Nepal Stock Exchange. According to NEPSE news, (2013), currently 23 brokers are actively participating in the floor. Similarly there are 11 sales and issue managers and 2 dealers. Securities Board of Nepal was established on June 7, 1993 as an apex regulator of securities markets in Nepal. The major objective of SEBON is to regulate the securities market and protect investor's interests. Any security will be liable for the trading when it is listed or registered in the stock market. It means the securities are required to be listed in NEPSE for the purpose of trading in the open floor. Till the middle of 2008, NEPSE adopted the traditional open-out-cry system of trading. But in August 2008, NEPSE started trading through Wide Area Network (WAN), and dissemination of information through website. Moreover, the establishment of Over-the-counter (OTC) market is another noted development of NEPSE. Trading on equities takes place on all working days except Saturdays and government holidays as declared by the authorities of the NEPSE in advance. The stock market growth is one of the important issues in Nepalese capital market. Capital market facilitates the exchange of financial assets by bringing together buyers and sellers of securities. This study mainly aims to examine the trend, challenges and prospects of Nepalese stock market.

The total number of listed companies in the year 2008/09 was 125. In the year 2010/11 the number of listed companies was increased to 159 and finally the number reached to 192 in the fiscal year 2012/13. There has been a considerable increase in the number of listed companies, due to the establishment of numbers of banks and financial institutions in the country after the peace progress began in the country in 2008. . Starting from 2008/09 to 2009/10, the NEPSE Index grows in consistent way.

But, in the year 2010/11 to 2011/12 and to 2012/13, the growth declined to 749.10 & 477.73 respectively. The NEPSE Index was highest in 2009/10. The NEPSE index was highest at the end of Aug 2010 and it was 1175.38 but at the mid of Jun 2011 it was lowest in the last seven years of NEPSE's operation and it was 292.36. Similarly, the sector-wise index was highest for development banks thereby reaching up to 1171.86 points.

The analysis of primary data shows that about 50% of the investor's are motivated to invest on stock of corporate company because of profitability of the company. Regarding the over emphasis of investment in the securities of banking and financial sectors; majority of the respondents marked that; investment in financial sector is more profitable business than others. Similarly, about 59% respondents know just little about the stock market. With regard to the performance of Nepalese stock market majority of the respondents are satisfied with the performance of Nepalese stock market. However, most of the respondents are not satisfied with the growth of NEPSE. They marked that the growth of NEPSE is not realistic, as it is not relevant with the broad macroeconomic indicators. About 52% respondents are not satisfied with the growth of NEPSE; they are with the view that the growth is unrealistic. About 45% respondents agree with the low degree of correlation between these variables. Overall, the growth trend is not realistic, this means, the growth of NEPSE is not suited with the growth of real sector economy. Regarding the sufficiency of existing security market in Nepal, about 82% respondents felt the need of another stock exchange in Nepal. While analyzing the remedial measures for the growth and expansion of Nepalese stock market, large numbers of the respondents agree on creating public awareness. Next important remedial measure is mechanizing the stock market through new technology. About 58% portion belongs to creating public awareness and mechanizing the stock market through new technology.

By the end of the fiscal year 2012/13, the market capitalization of the listed securities reached to Rs.376871.37 million. The capitalization was Rs.512939.07 million in the fiscal year 2010/11. The total amount of securities traded in the year 2012/13 was Rs.11851.11 millions which was Rs.21681.14 million in the fiscal year 2011/12. In Nepalese stock market an about 60.72% market share of annual turnover is belonging to the commercial banks. While analyzing the correlation of the growth of Nepalese

stock market with the other macroeconomic variables like GDP and economic growth, undoubtedly it is found that the correlation between NEPSE index and the annual turnover of securities, NEPSE index and GDP and NEPSE index and EG is positive during the examination period of five years, which indicates positive relationship between such variables. Moreover, the coefficient correlation between variables is insignificant this indicates that the growth of the NEPSE index is not realistic with reference to the overall economic growth of the nation.

5.2 Conclusions

Based on the findings of the study, it can be concluded that the security transaction took place after the establishment of Security exchange Center in 1976 in Nepal. Beforehand, the issuance of shares of Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937 introduced the need of security market in Nepal. The very first security transaction took place in the year 1984/85 when the SEC came into existence under the Securities Act 1983. Later the GON converted the existing SEC into Nepal Stock Exchange in 1993. The primary objective of NEPSE is to facilitate the security transaction thereby creating free marketability and liquidity of securities. The exchange deals with the government and corporate securities. The whole securities transaction process and the functioning of the NEPSE is regulated by the apex regulatory body popularly known as Security Board of Nepal (SEBON) which is established in 1993. The concern of the board is to facilitate and manage the orderly development of capital market in Nepal.

Most of the respondents remark the need of public awareness for the better performance of the Nepalese capital market. They are also with the view that an effort should be made to diversify the centrally located stock market into region- wise basis for smooth trading of the securities nation- wide. Due to the various reasons like: lack of sufficient numbers of stock brokers, requiring long settlement process of stock trading, centralized location of stock brokers, lack of employment opportunities, low income level of the general people, lack of security etc security market is not well developed. Generating of more employment opportunities could increase the income level of people, and finally they can invest even their small scale of investment in securities market. Due to the expectation of high return the large volume traded on stock exchange belongs mostly to the shares of commercial banks, development banks

and finance companies. All those institutions which were good in the past time period are not very strong in these days. Before investment price technical analysis, study of financial reports and profitability of the companies should be carefully conducted by individual investors or by the firms. The reasons behind the low participation of real sector in the stock market are needed to be sought because the capital market is the key to industrialization in the country. Hence, the dominance of financial institutions needs to be reduced and more real sector participation needs to be encouraged through the process of industrialization. It is also found that the correlation of the growth of Nepalese stock market with the other macroeconomic variables like GDP and economic growth have positive relationship between such variables. Over the past one and half decade, financial sector, despite many problems has developed significantly on Nepal. However, real sector was more focused to be developed in the planned economic activities. The growth of the NEPSE index is not realistic with reference to the overall economic growth of the nation. Moreover, it can be said that the growth of NEPSE is speculative to some extent and the performance of NEPSE is not realistic, stable and appreciable. The stock market of Nepal is underdeveloped and it has failed to show its impact on the overall growth of national economy. Due to small market size few number of big individual investors are manipulating in the trading system and price of the securities. Besides that; lack of awareness among investors, lack of sufficient number of brokers, lack of institutional support and coordination, lack of modern technology, lack of sufficient investable instruments, influence of big individual investors etc are some of the important barriers of security trading in Nepal. Survey results show that small investor's participation in secondary market is very thin because they think that secondary market transactions are manipulated by few large investors. Therefore, regulating authorities are recommended to regulate corporate governance practices strictly to promote uninterrupted dissemination to investors. Besides, there is need to conduct investor awareness program extensively to educate the small investors.

5.3 Recommendations

To cope with the above mentioned obstacles and to maintain the smooth growth of capital market, the following recommendations will be helpful if adopted.

- An effort is needed to be enhanced for creating awareness among the general public for the growth of Nepalese capital market and its transaction process by the joint efforts of NEPSE, SEBON and government.
- Survey results indicate that in Nepal, there is a need to establish some competitive stock exchange at private level as well.
- The opinions of the respondents are taken in limited area and with limited number of people. Future studies are suggested to extend the survey in wide area and with large number of people of different categories.
- Better coordination should be made among the concerned authorities to develop Nepalese capital market.
- The regulatory body should regulate NEPSE and other financial institutions adequately, appropriately, effectively in order to ensure the moral business activities.
- The authorities should tighten the regulatory and financial requirements of listed firms in order to make the investors aware about their exact financial position.
- Due to limited automation; transparency and immediate clearing and settlement of securities is not possible in Nepal. So, as early as possible CDS and clearing Ltd should be given the authority to operate their service in Nepal, as it is on the way of operating its activities in the country.
- Investment companies and mutual funds are the main type of institutional investors; the institutional buying should be encouraged by the establishment of investment companies and mutual funds.
- Numbers of brokers which is in the way to get authority for operating their services should be given the permission to operate their service as soon as possible.
- The dominance of financial institutions needed to be reduced and more real sector participation needed to be encouraged through the process of industrialization and listing more numbers of companies representing to the real sector.

- The influence of big investors and stock brokers should be reduced and the investor judgment for investment needs to be implemented.
- Stock market needs to be decentralized and region-wise stock exchange need to be established to facilitate the trading of securities nation-wide.
- Non- Resident Nepalese (NRN) are also needed to be motivated to invest in the Nepalese stock market.
- Policy of 'Margin Lending' on loan of shares should be made flexible by the banks and NRB.
- Problem related with liquidity should be solved and budget should be presented in time every year.
- Investors should be provided with investment guidelines and manuals so that they can be aware about the process and procedures of investment in security market.
- The government should make appropriate policies and programs for the enhancement of the entrepreneurship development in the Nepalese economy.
- Merger policy of NRB towards the financial institutions should be carried out in declining the supply of securities in the market, which may create more demand of stocks which finally flourish the stock market.
- The Nepalese capital market is over dumped with common stock very few preferred stocks, debentures and government bond are traded in the Nepalese stock market. So, more number of alternatives investable instruments should be searched out for trading in the capital market of Nepal.

BIBLIOGRAPHIES

- Bhattarai, P.K. (2008). *Problems, Challenges and Prospects of Nepalese Capital Market*. Arthik Mimamsa. (In Nepali).Kathmandu: NRB.
- Bhattarai, R. (2008). *Share Market of Nepal*, Kathmandu: Buddha Academic Enterprises Pvt Ltd.
- Cheney, J.M. & Edward, A.M. (1992). *Fundamentals of Investment*, San Francisco: West Publishing Company.
- "Commercial Banks' Comparative Performance Evaluation" (2047). Kathmandu: Karmachari Sanchaya Kosh Publication.
- Economic Surveys, Ministry of Finance, 2064/65.*
- Gupta, S. C. (1987). *Fundamentals of Statistics*, New Delhi: Himalaya Publishing House, 5th Edition.
- Gurung, A.B. (2008). *Brokers Performance and Services in Secondary Market*, an Unpublished Master's Degree Thesis, Shankar Dev Campus, TU, Kathmandu.
- Gurung, J.B. (Vol-1, 2004). "*Growth and Performances of Securities Market in Nepal*". The Journal of Nepalese Business Studies.
- Joshi, P.R. (2007). *Research Methodology*, Kathmandu: Buddha Academic Enterprises Pvt Ltd.
- Kantipur National Daily, Feb 15, 2010. Kathamndu .*
- Karki, M.(2008). *Trends, Challenges and Growth on Nepalese Stock Market*, an Unpublished Master's Degree Thesis, Lumbini Banijaya Campus, TU.
- Karki, R.B. (Aug 25-31, 2008). *Improvements and Threats in Share Market* Aarthik Abhiyan.
- Khan, M.Y. & Jain, P.K. (1992). *Financial Management*, New Delhi: TaTa McGraw-Hill Publishing Co. Ltd., 2nd Edition.
- Khanal, R. (2003). *Growth, Problems and Prospects of Nepalese Stock Market*, Unpublished Master's Degree Thesis, TU, Kathmandu.
- Khatri, Y. (2009). *A Study on Trend of Stock Price Movement of Commercial Bank in Secondary Market of Nepal*, an Unpublished Master's Degree Thesis, Lumbini Banijaya Campus, TU.
- Kothari, C. R. (1997). *Research Methodology*, India: Vishwa Prakashan.

- Mainali, S. (2006). *A study of Share Price Behavior of Listed Companies*, an Unpublished Master's Degree Thesis, TU, Kathmandu.
- Nagarik National Daily, Various Volumes, Kathmandu.*
- NEPSE, "Annual Report", Various Volumes, Kathmandu.*
- NRB, "Economic Report", Various Volumes, Kathmandu.*
- NRB (2008) "Aarthik Mimansa" Kathmandu.*
- Pant P.R. (2009). *Social Science Research and Thesis Writing*, Kathmandu: Buddha Academic Enterprises Pvt Ltd, 5th Edition.
- Rana, S. B.(2010). *Firm Characteristics, Macroeconomic Variables and Stock Returns in Nepal*, Unpublished M. Phil. Degree thesis in Management, Office of the Dean, FoM, T.U., Kathmandu.
- Rimal, A.P. (2008). *Problems of Stock Market in Nepalese Perspective*, an Unpublished Master's Degree Thesis, Shankar Dev Campus, T.U., Kathmandu.
- Shrestha, M.K. & other (2003). *Fundamentals of Investments*, Kathmandu: Buddha Academic Enterprises Pvt Ltd.
- SEBON, *"Annual Report", Various Volumes, Kathmandu.*
- Silwal, B. (Apr 16, 2011) *Prospects of Nepalese Stock Market*, Gorkhapatra, Kathmandu.
- Sthapit, A.B.,Gautam H.,Joshi P.R.& Dangol P.M. (2006). *Statistical Methods*, Kathmandu: Buddha Academic Enterprises Pvt Ltd.
- Subedi, T.P.(2009). *Current Position of Nepal Stock Exchange in Nepalese Capital Market*, an Unpublished Master's Degree Thesis, Lumbini Banijaya Campus, T.U.
- Thapa, K.,Bhattarai, R.& Basnet, D. (2006). *Investments*, Kathmandu: Asmita Books Publishing & Distributors
- Van Horne, J.C. (1990). *Financial Management and Policy*, New Delhi: Printice-Hall of India Pvt. Ltd., 8th Edition
- Weston, J. F. & Eugene, F. B. (1980). *Essentials of Managerial Finance*, USA: The Dryden Press, 7th Edition.
- Wolf, H.K. & Pant, P.R. (1993). *Social Science Research and Thesis Writing*, Kirtipur: Research Division, T.U.

WEBSITES

www.cbs.gov.np

www.nepseguide.com

www.nepalsharemarket.com

www.nepalstock.com

www.npc.gov.np

www.nrb.org.np

www.ramsbay.com

www.sebon.gov.np

www.sharesansar.com

www.wikipedia.org