STOCK MARKET BEHAVIOR IN NEPAL: A STUDY OF SELECTED COMPANIES

A

Thesis

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RECOMMENDATION

This is to certify that the thesis

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VIVA-VOICE SHEET

We have conducted the VIVA-VOCE examination of

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DECLARATION

I hereby declare that to the best of my knowledge, this thesis is original; no part of it was earlier submitted for the candidature of research degree to any university.

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LIST OF ABBREVIATIONS

NEPSE = Nepal Stock Exchange

EPS = Earning Per Share

MPS = Market Price Per Share

RWH = Random Walk Hypothesis

SEBON = Securities Exchange Board of Nepal

EMH = Efficient Market Hypothesis

WEMH = Weak Efficient Market Hypothesis

SSEMH = Semi Strong Market Hypothesis

SEMH = Strong Market Hypothesis

SCBNL = Standard Chartered Bank Nepal Ltd.

NABIL = Nabil Bank Ltd.

NUBL = Nirdhan Uthan Bank Ltd.

NDB = Nepal Development Bank Ltd.

NFS = Nepal Finance and Saving Co. Ltd.

NCM = NIDC Capital Markets Ltd.

HGL = Himalayan General Insurance Co. Ltd.

UIC = United Insurance Company Ltd.

BNL = Bottlers Nepal Ltd.

NLOL = Nepal Lube Oil Ltd.

YHL = Yak and Yeti Hotel Ltd.

SHL = Soaltee Hotel Ltd.

NHPC = National Hydropower Company Ltd.

BPCL = Butwal Power Company

STC = Salt Trading Corporation Ltd.

BBC = Bishal Bazar Company Ltd.

CHAPTER- I

INTRODUCTION

1.1 Background of the Study

Development and expansion of capital market are essential for the rapid economic growth of every country. Capital market contributes to economic development by mobilizing long-term capital needed for productive sector. The practice of capital market was initiated in the country with the establishment of the Security Marketing Centre in 1976 in the government sector according to the industrial policy of that time. But there was not any concrete plan or program for the development of the capital market until the Sixth Plan. During the last one and half decade the financial sector in Nepal has grown significantly. It is said that despite a history of almost half a century of developmental efforts under different national plans, conscientious efforts to develop financial sector started quite late in Nepal. Although some efforts were made to develop country's infrastructure during the Rana regime, they were more sporadic and aimed at fulfilling the need and the whims of the then Rana rulers. Efforts to achieve economic growth in the country in a planned way started only in 1956 with the adoption of the First Five – Year Plan by the government. Under different plans the government set targets for economic growth and adopted various policies and programs, which were directed towards developing infrastructure necessary for the creation of national wealth. Unfortunately, these policies and programs failed to take into account the need to develop the financial structure that ought to exist side by side with the development of infrastructure necessary for the growth of real sector. However, these policies were lopsided because they sought to enhance growth in physical assets of the nation by suppressing the development of financial sector of the country. For the first time, the activities and programs of the Security Marketing Centre were set out and only after the Seventh plan capital market became successful in drawing a little attention of the government. However, the planned development of this sector was initiated only after the Eighth Plan.

The policy of the government to maintain control of the financial sector by restricting the entry of private sector into financial activities limited the growth of financial sector in the country. As a result the country had limited financial institutions to support its developmental activities for quite a long time. Till early eighties the country had only two commercial banks, two development banks, one provident fund institution and few insurance companies. As almost all of these financial institutions were under the ownership of government sector they operated more under social welfare concept than under commercial principles. As a result of the restrictive policy of the government, the gaps created in the resources needed for the development of the real sector and the resources available for it were met through foreign grants and loans under different plans. While this increased the country's dependency on the foreign aid, it also made the government less concerned for the need to mobilize resources locally to meet the resource gap. Apparently, this led to tardy development of financial sector of the country where the real sector lagged behind the financial sector.

The relationship between stock market development and economic growth has received renewed attention of academicians and policy makers in the present decade in developed and developing countries as well. As a result of the emerging equity market phenomenon and of the need to provide liquidity– appeared equity issues. The growing importance of stock markets in the developing countries has opened up many avenues for research in the relationship between financial development and economic growth, with focus on developmental role of stock markets.

The equity market activities grow with the development and reform in the financial sector. Over the past 14 years the stock market of Nepal has made recommendable progress. For example, between the fiscal year 1993/94 and at the end of eleven month data of 2007/08, the number of listed companies in NEPSE increased more than two-fold from 62 to 148.Despite these progresses stock market in Nepal is still at a developing stage and has to make visible impacts on the economic growth of the country.

The main objective of the capital market is to create opportunity for maximum number of people to get benefit from the return obtained by directing the economy towards the productive sector by mobilizing the long-term capital. The objective can be fulfilled only

by the rational and accountable behavior relating to the three factors of the capital market such as financial institutions, financial intermediaries and the borrowers and lenders.

Rational and high moral character and accountable behavior of institutions such as the government, central bank, stock exchange board, stock exchange; organized institutions for accumulating capital from the market; mediators in the form of manager for issuing security; creator of market manager for investment security dealers such as brokers and investors in the form of government bond holders, ordinary shareholders, preference shareholders, debenture holders, and ordinary mutual fund unit holders help to develop healthy capital market (The Tenth Plan, 2002, p.30).

Securities markets facilitate the exchange of financial assets by bringing together buyers and sellers of securities. Securities markets provide an effective way of raising money for business enterprises and government and at the same time provide an investment opportunity for individuals and institutions. Securities markets have both theoretical and practical perspectives. Securities markets provide value and significance to the financial assets. Practically, the activities of buying and selling securities on the securities markets are extremely important for the allocation of capital within economies. The securities markets serve as a reliable guide to the performance of companies, and thereby promoting efficiency.

Solving the problem of underdeveloped economic markets and ensuring the economic growth of a nation is widely dependent on corporate success of its economic infrastructure. Manufacturing industries, financial institutions and capital markets are major components of this economic infrastructure. The corporate success or positive financial performance of every industry and every firm is almost necessary for overall development of economic market. This positive financial performance brings satisfaction to the investors, because every corporate organization is made up of public investments, which helps to increase the value of organization. The increment in the value of a corporate firm means, it makes investors to feel safer and the investment less risky. The corporate success and increased value of investment helps to increase the stock price because there is possibility to give sufficient dividend or return on investment. This offers an opportunity for investors to invest in the long-term ventures again.

Strategic development of economic markets requires a steady supply of capital funds for productive investment. For the mobilization of invincible resources, capital market is an important intermediary through which effective bridging of the deficit units and surplus units can be insured. Capital market institutions are engaged in mobilization of saving from surplus units and supply funds into the deficit units for productive investment. In this respect, 'Capital market plays a crucial role in mobilizing a constant flow of saving and channeling these financial resources for expanding productive capacity in the countries.' Capital market can be decomposed into securities market and non securities market. Stock market is the major component of securities market. One of the mechanisms of financing the corporations from the external sources in modern time is the capital market thereby issuing various instruments of capital market.

The common stock certificate makes no mention of ever repaying the principal or purchase price. Therefore, playing on stock is purely estimation like bidding the cards. Even the big players of stock market utter that to win in this game is a matter of chance. Once upon a time, Big Bull of BSE "Harshad Mehta", when asked if there is any particular industry he favors while picking stocks, said "I cannot sure the future. Take for instance software, the happy hunting ground of many of today's market analysts. Half the cake is already baked, what sort of returns can you expect?" He said, "The stock markets are not for the faint hearted, prices will go up and down" (The Journal of Finance, Vol.52, p.18). Thus no one could be sure that what gain he would get on stock game.

A person buying a stock invests on faith, in the hope of receiving dividends. The two most common types of dividends are:

1. Those that reduce the assets of a corporation, such as cash dividend,
2. Those that neither decrease assets nor increase liabilities, such as stock dividends.

In a country like Nepal, where security market is in infancy stage and is handled by few players, including; promoters of company, market makers and VIP shareholders, to pay a days prevailing price for stock investment is sometimes suicidal. It is equally suicidal to make investment decision relying on financial statement of companies.

There are some companies which were earning profits and were paying dividends during initial stage but from the day it raised money from public they continuously been showing operational losses even though increase was noticed in production and sales. This gave rise to the suspicion that some people may simply be trying to raise funds by manipulating performance data or intending to manipulate public funds. This requires immediate attention of Securities Board but no action was noticed so far.

Still, one has to predict something to pay a roughly reasonable price for stock. One such prediction is about the future dividends.

People just tend to grab shares of any company because they are forced to do so by the family, relatives, and friends, other type of people do so just because of the goodwill of the company. If the company is going to open the branches on other districts, then also common people seem to be interested in grabbing the shares. If the management and co-operation of the staff and managers is highly effective, then also people want to invest in that type of company. So these non financial terms force them to buy the shares without knowing the actual financial position of that company. Each and every company that came in the market became successful in tapping the capital from the market and the issue closed within the minimum stipulated time of 7 days with huge over subscribed to the extent of 25 times and became simply overwhelming to the company concerned as well as the issue managers, which lead to delay in allotment of shares, refunding and distribution of share certificates to the allotters. But the public response varies from one business sector to another business sector. And, recently, companies have been facing problems in issuing their shares to the general public. Since the first quarter of 1995, the number of issuers and investing community remained limited in the absence of equity culture due to strong equation in the minds of the average investors that the stock market is showing a downward trend and is only speculative. The company which issues shares to the general public had predicted higher dividend and earning per share but most of them are failed to deliver. The performance of issue manager is also not as expected. The mismanagement while subscription list is open and delay in allotment of shares if oversubscribed tends to undermine investors' confidence and thereby hinders the future growth of primary market. In the same way, other non-financial factors like strike in the

company, lack of coordination, misbehave by the company staff, appointment to the non-experienced and untrained staff etc. can play negative roles on stock pricing of the company.

When people buy common stock, they give up current consumption in the hope of attaining increased future consumptions. They expect to collect dividends and eventually sell the stock at a profit. But the future earnings as well as the life time stock prices are uncertain. Not knowing what lies ahead; investors are unable to plan life time consumption patterns with certainty, because the return from investment and timing of those returns are uncertain, they have to pay for the lack of certainty, by requiring an expected return sufficiently high to offset it.

A rational investor should buy a stock at a price at least not reducing his or her current net worth or value. For this, a desired level of analysis must be made that what maximum price for a stock of the considered company ought to be paid. What value a stock deserves could be paid for it. Value is an amount equivalent to the recent worth of future assets. For example, what could be expected from a stock? Two things:

1. Dividend in future, but only if the company makes profits.
2. Price from stock, which can be sold at some future date.

Then, what relationship can be drawn between the dividends and stock prices? Just see the effects of bonus shares which is also a type of dividend; stock dividend.

There are different opinions as regard to the effect of bonus issue. Some regard bonus issue to lease to increase, the market value of the firm by increasing the equity capital base without affecting the dilution of shares ownership. Others regard issues of bonus shares only conserve the cash consistent with the corporate firms motive to finance its growth and expansion from internal source there by enhancing the future market value. Generally bonus share issue does not change the ownership pattern but it affects the book value per share and the earnings per share of the increased number of share as a result of issue of bonus shares. (Shrestha, 1999, p. 35-38)

The stock market behaviour in smaller and underdeveloped capital market is thus one of the important areas of the study in finance. Information on stock market would help development of realistic theoretical models and formulation of relevant hypotheses for empirical testing in finance. Thus it is felt necessary to study stock market behaviour in the context of smaller and underdeveloped capital market, as in Nepal. This paper therefore attempts to assess some of the cross section behaviour of stock market. It is an attempt to assess the stock market behaviour in Nepal; it specially examines the relationship of market equity, market value to book value, price earnings and dividends with liquidity, profitability leverage, and assets turnover and interest coverage. (Pradhan, 2006, p. 28)

1.2 Capital Market in Nepal

The market where securities are traded is known as capital market. The capital market is broadly categorized into two main markets .They are:

a. Primary Capital Market

The Primary Capital Market denotes the market for the original sale of securities by an underwriter to the public. The use of the words original sale may be somewhat misleading however, for example the issuer may initially have sold common stock to the public several years ago (and initial public offering by a note at public company) and has now decided to issue additional shares will be sold in the primary market and once the sale is completed, the new shares will be indistinguishable from the shares sold in the initial public offering.

The issuer receives cash that may then be invested in productive assets or the net proceed from the sale may be used for the same purpose. The public receive the newly issued securities for the cash invested. Since in the primary market stocks are traded at par, there is no problem of price.

b. Secondary Capital Market

After securities have been purchased from the primary market, they can be traded in the secondary market. The secondary market comprises the organized security exchanges and a specialist facilitates the transaction. The majority of all capital market transaction

occurs in the secondary markets. The proceeds from sales of securities in the secondary markets do not go to the organizational issuer instead that goes to the immediate owners (sellers) of the securities.

1.2.1Trading of Stock

In Nepalese practice, the trading of securities viz. government bonds and listed corporate securities is done through Nepal Stock Exchange Limited (NEPSE), which is a non-profit organization, operating under Securities Exchanges Act, 1983. The basic objective of NEPSE is to impart free marketability and liquidity to the government bonds and corporate securities by facilitating transactions it its trading floor through market intermediaries, such as brokers, market makers, etc.

Members of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present there are twenty three member brokers and one market maker, who operate in the trading floor as per the Securities Ordinance 2005, rules and bylaws of the Exchange. Bedsides this, NEPSE has recently licensed nine primary market dealers and one secondary market dealer.

Primary market dealers operate as a manager and an underwriter regarding the issue. While, the secondary market dealer operates as a portfolio manager.

Corporate firm has to fulfill certain criteria to list its securities in NEPSE for stock trading. At present, 159 different companies have listed their securities to make them eligible for trading of stock. The listing fee and annual fee to be paid by the listed company is based on the paid-up capital of the company, which can be tabulated as follows: (NEPSE Annual Report 1999).

Table No. 1.1

Listing Fee and Annual Fee for Listed Companies

Paid-up Capital	Listing Fee (Rs.)	Annual Fee (Rs.)
Up to Rs.10 millions	0.20 % or minimum Rs.15000.00	Rs. 15000.00
Rs.10 million to Rs.50 millions	0.15% or minimum Rs.45000.00	Rs.25000.00
Rs.50 million to Rs.100 millions	0.10% or minimum Rs.75,000.00	Rs.35000.00
Above Rs.100 millions	0.075% or minimum Rs.100000.00	Rs.50000.00

(Source: NEPSE: Annual Trading Report, 2003-2008)

NEPSE has adopted an Open-Out-Cry system for the trading purpose. It means transactions of securities are conducted on the open auction principle on the trading floor. The buying broker with the highest bid will post the price and his code number on the buying column, while the selling broker with the lowest offer will post the price and code number on the selling column on the quotation board. The market makers quote their bid and offer price on their own board before the floor starts. Once the bid and offer price match, contracts between the buying and selling brokers or between the brokers and market makers are concluded on the floor.

NEPSE has fixed stock trading days and hours during which the members are allowed to enter the floor to make the transaction as tabulated below:

Table No. 1.2

Stock Trading Days and Hours

Types of Trading	Days	Trading Hours
Regular Trading	Sunday toThursday	11:00 a.m. to 1:00 p.m.
Odd Lot Trading	Monday and Friday	2:00 p.m. to 3:00 p.m. 11:00 a.m. to 12:00 p.m.

NEPSE has fixed the board lot of 10 shares if the face value is Rs.100.00 or 100 shares if the face value is Rs.10.00 has been fixed by NEPSE. The transaction on regular trading hours should be of at least one board lot. The transactions of less than 10 shares are permitted only on odd lot trading hours.

The opening price of any day should not be more or less by 5 percent of the previous trading day's closing price. Once the transactions are done within this range, the price can be negotiated within a limit of 2percent in each consecutive transaction thereof.

For settling the transaction, NEPSE has adopted a T+3 systems which mean that settlement of transactions should be done within 3 working days following the day of transaction. Any kind of payments to the seller of the securities should be made via cheque (whatever the amount be) by the broker. Settlement will be carried out on the basis of paper versus payment. Brokerage charge on equity transactions ranges from 1% to 1.5% depending on the traded amount and the relationship between the buyer/seller and the broker. As per the rule the rate of brokerage commission on equity transactions can be tabulated as below:

Table No. 1.3

Rate of Brokerage Commission on Equity Transactions

Amount of Trading (Rs.)	Rate of Commission
Up to Rs 25000	1.50%
Rs. 25001 - 100000	1.40%
Rs. 100001 - 500000	1.30%
Rs. 500001 – 1000000	1.20%
Above Rs. 1000000	1.00%

With the establishment of democratic system in our country, we can see the increasing role and importance of security market. Our security market has just shown some changes of facilities in the real sense. May be it is also because of the already passed recession period that people have become much more optimistic that they want to save some of their income to invest in the security market. Knowingly or unknowingly, what we perceive is, it is also due to the lack of other investment opportunities that people and their money flock into the Great Walls of NIDC Capital Market. Here the role of the media that is to say the newspapers, the different new management related magazine and the advent of the Satellite Television have played a very important role to make this small security market efficient. But, the underlying reason for the activeness and energy of our security market has to be repeated: it's the increased competition between the various types of firm striving for survival.

As usual, we have two markets under the capital market, the primary market and the secondary market. Primary market is a market where the public buys shares directly from the company through the initial offer. Yes sometimes brokerage firms, agents underwrite the company's shares. Therefore, in the primary market the public apply for shares that are issued for the first time. Therefore in the primary market the public apply for shares

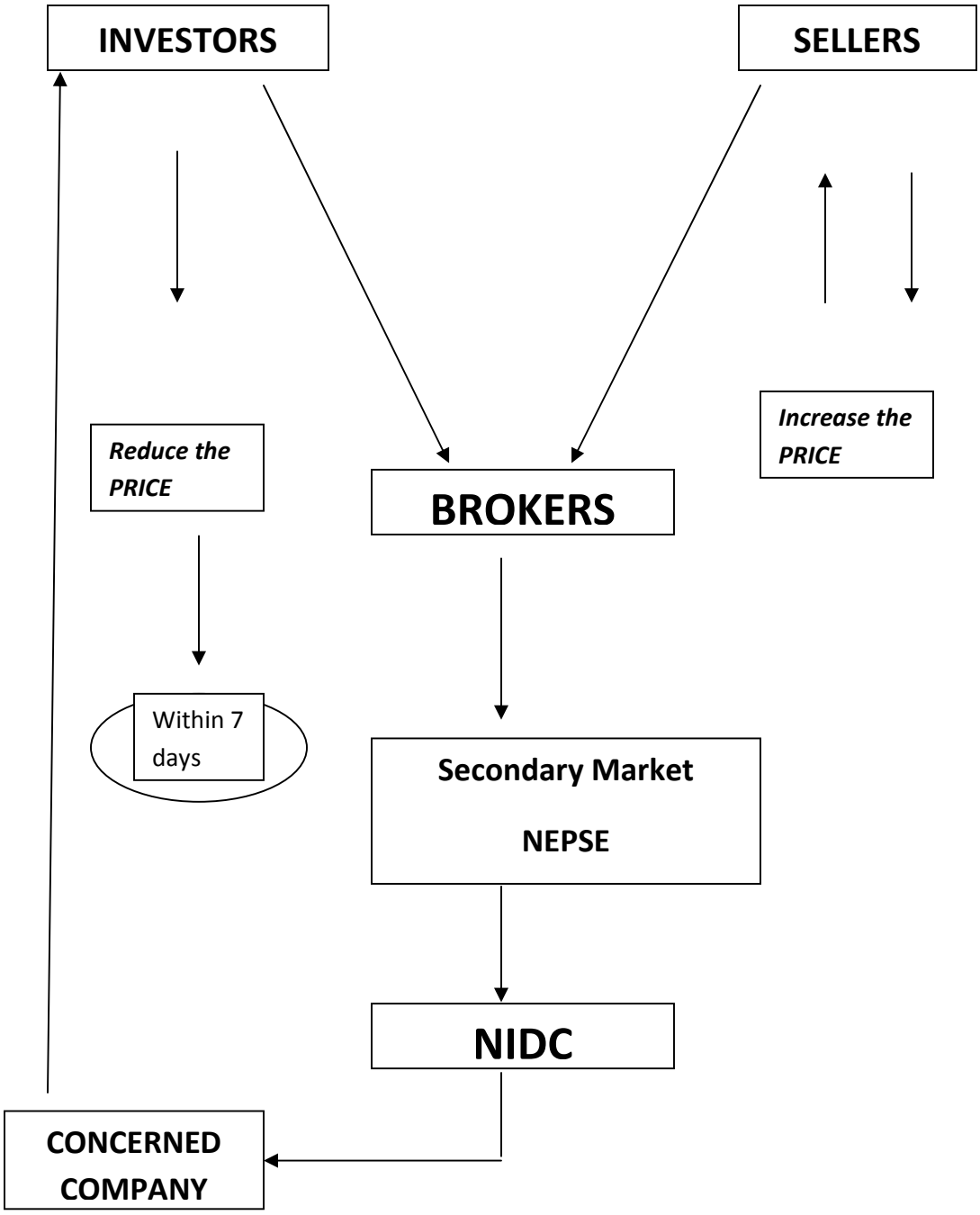
and the company does the allocation. Normally, NSEB and NIDC Capital Market control the value per share of the equity.

After being listed in the Secondary Market, trading of shares begin. So, in the secondary market, already bought shares are traded especially for capital gain purposes. Therefore the basic difference is, in the primary market, ownership of the company is shared; ownership is transferred among the public. The price in the primary market is said to be the par value and that in the secondary market is the market value.

After the IPO is done, shares are traded in the secondary market. For this purpose, the Nepal Stock Exchange (NEPSE) has appointed and listed brokers who are legally entitled to trade shares in the floor. As in practice everywhere, there are probable investors and seller of shares in the market. Both the parties contact brokers (authorized) through brokerage firm, negotiate the price as per one's ability and market conditions. Here, normally the seller wants to get as much as possible and the buyer wants to reduce as much as possible. When both the parties agree at a particular price, the broker makes the toss by taking the responsibility of transferring the ownership of the equity. For this broker charges 0.5% to 1.5% of the total transaction amount from both the sides depending upon the amount. Normally, the higher the transaction amount the less is the percentage of commission. It normally takes 7 days for one to complete cycle of the transaction. It normally happens in a process as shown in the figure below.

Figure No. 1.1

Process of Trading of Stocks in Nepal



1.3 Focus of the Study

The behavior of the series of stock prices has been always regarded a subject of controversial debate among the academics of finance and economics. The behavior of past price variation in general market for securities will or will not leave meaningful information for forecasting future behavior of price variation.

The main focus of the study is to test whether the successive price changes of the securities are dependent or independent (whether there is significant different between NEPSE index before and after the various event or not). There are various approaches to predict the successive price movement of stocks. Efficient market theory is one of the best approaches. However, fundamental and technical approaches are also equally important. In one hand, the implication of efficient market is much more important but in the other there has not been any detailed study in Nepalese context regarding the same. Thus this study focuses on the stock market efficiency and the behavior of the stock market prices in Nepalese security market. And, of course the study also focuses on whether EPS and MPS affect the share price or not.

1.4 Statement of the Problem

A number of studies have been carried out about the stock market behaviour in developed and big capital markets but their relevance is yet to be seen in the context of smaller and underdeveloped capital markets.

Various measures of stock market development indicate that stock market in Nepal is underdeveloped and has failed to show impact on the overall national economy. Small market size has made it vulnerable to manipulation and price rigging, low turnover ratio and value traded-ratio to volatility and high concentration ratio indicate that the stock market in Nepal is highly illiquid and risky. Investors tend to avoid stock market because they do not have options to invest in securities according to their risk-return preference. Similarly, firms shun it because stock market is less reliable source of raising funds for

them. Due to this financial system in Nepal, Nepalese stock market has remained basically bank-dominated.

Stock exchanges in many countries have a long history of more than one century. These stock exchanges have faced so many ups and downs during this period including sacking of brokers. We must note that just ten years period is not sufficient to make a history of a stock exchange but the Nepal Sock Exchange Ltd. (NEPSE) has created a history. All the features of a stock exchange have been applied and the possible happenings in a secondary market have already taken place during this short span of time. The big bullish period, the long bearish period, the unprecedented market capitalization, the quite fair market driven by innocent and honest market intermediaries, the quite unfair market driven by unfair practices, the rumour driven market, the big changes in ownership of joint venture banks, the addition and subtraction in the listed companies etc. are some of the key events in the history of the Nepalese stock market.

A condition for a market to be efficient is that it must have certain features, in the sense that the size of the market must be fairly large and the individual agents in the market must have homogeneous expectations and similar attitude towards the trade-off between risk and return (Samuels, 1981). In small markets, such as the ASE, supply limitations, coupled with the small number of investment funds in existence, preclude investors from constructing well balanced portfolios. Consequently, in these markets small changes in investors' demand can cause any of two things: large price swings and significant deviation of share prices *from* their intrinsic values. In this regard, Jennergan and Korsvold (1974) observed that smaller markets are likely to be less efficient due to their occasional and low volume trading. While Cohen (1983) points out that infrequent and non-synchronous trading is principally the main cause of spurious correlation found in stock returns. Solnik (1973), for his part, attribute the lack of weak-form efficiency in small European capital markets to market thinness and infrequent trading. Infrequent trading, low volume, as well as less informed agents with limited access to reliable information, are prevalent features of the Greek stock market. In addition, most companies listed on the ASE are small, either in terms of the total number of shares outstanding or the percentage of the outstanding shares actually traded.

The notion of market efficiency assumes that individual agents are rational where rationality implies risk aversion, unbiased forecasts and timely responses to information. Thus if markets are inefficient, equity prices cannot be expected to be fully sensitive to the available information. However, market inefficiencies are observed because investors themselves may not have instantaneous access to reliable information or the information they generate is not entirely reliable. Other known factors which may be singled out as contributing to market inefficiency pertains to the lack of liquidity in the market which leads to infrequent trading, restrictions on trading and poor regulatory standards. With regard to these, Samuels (1981) also notes that inadequate market regulation, as well as inadequate disclosure standards and the lack of effective communication infrastructure, are more often than not major impediments in accessing relevant economic information which may contribute as obstacles to market efficiency.

The focus of this paper then is to investigate the dynamic behavior of individual shares quoted on the NEPSE. In doing so, we assess the possibility that the process generating their dynamics lacks meaningful dependence and more specifically, is a random walk. We also shed some light on the nature of the departures from the random walk hypothesis (RWH) by looking at long-range mean dependence (or fractional integration)1. In these respects, it is hoped our analysis will go some way in explaining whether the institutional changes can be associated with an efficient ASE, in the sense of random walk. The theory tells us that if stock prices follow a random walk, the market can be deemed efficient in the sense that it discounts all available information (Fama, 1965). This hypothesis has been widely tested in both developed and emerging capital markets; see for examples D'Ambrosio (1980), Shiller and Perron (1985), Liu and He (1991), Harvey (1993), Claessens et al. (1993), Poon (1995), and Urrutia (1995). Overall, however, the evidence has been somewhat mixed. For example, Fama (1970) finds no evidence of patterns in stock prices, while studies by Hong (1978), Cooper (1983), and Lawrence (1986) lend support to the RWH.

In the primary market, the price of common stock is par value but in secondary market the price may be equal to par value, more than or less than par value. Various factors affect the price of share in the secondary market. Thus, the focus of this paper is to

investigate the dynamic behavior of individual shares quoted on the NEPSE. The following are some question regarding market price behavior of common stocks of selected companies in Nepal:

i. How do the market prices of common stocks of selected companies in Nepal behave?

ii. What are the reasons behind the stock price fluctuations?

iii. What are the impacts of price trend and volume of stock traded?

iv. What are the factors that affect the stock price?

v. Do the investors see the price trend and volume of the stock traded while making investment decision?

These are the key issues regarding stock price determination on which this research study has dealt with.

1.5 Objectives of the Study

The main objective of the study is to study, examine and analyze the behavior of stock price in the stock market. The specific objectives of this study are as follows.

1. To analyze the behavior of stock price of selected Nepalese companies.
2. To study the stock price trend and volume of stock traded on the secondary market.
3. To assess the factors affecting stock price.
4. To study the investors' view regarding the decision on stock investment.
5. To conduct study the stock price behavior in small capital market among executives of financial and non financial institutions.

1.6 Significance of the Study

Most of the people in our Nepalese society live under the poverty line. They have low earning capacity. Thus, they cannot think of investing money due risk and they have no blond and precise information about the financial strengths and limitations of the companies which they are going to invest. The investors cannot interpret the financial position of the company based on available data and information to take the correct decisions. Hence, this study is very beneficial to all the parties involved in the stock market. It provide the guidance to the investors of stock market

Firstly, the study will provide some indicators based on facts to the potential investors of corporate securities. The analysis and findings will be very useful to the students of finance to know the capital market practice in Nepal that they study in their course of study. This study is very useful to potential investors who are interested to know the effect of price trend, volume of the stock traded, and impact of signaling factors on NEPSE index. The study is helpful to the issue manager stock brokers, security dealers and the market maker of the stock market in Nepal. With respect to change in financial position of the firms, the study is helpful to know about the movement of share price of the corporate firms. This study will contribute literature to further researches in this area. Last but most importantly, the study will provide a literature to further researchers of this area.

1.7 Limitations of the Study

The study suffers from the following limitations:

1. Most of the data and information used in the study are secondary and the findings and conclusions are strictly dependent on the reliability and accurateness of those data.
2. Due to the lack of timely and easily available data, reporting errors might occur.
3. Only the common stocks have been taken into account for the purpose of the study.
4. The study covers the past and present state of stock market in Nepal hence does not make any projection about the future.

1.8 Organization of the Study

This study has to be completed within the five chapters, which are as follows:

Chapter One: It includes the introduction, problem of the study, focus of the study, objectives of the study, importance of the study and limitations of the study.

Chapter Two: This Chapter includes review of literature. The researcher has divided this chapter in two portions, the first one is theoretical framework and the second is review of previous studies.

Chapter Three: The third chapter deals with the research methodology adapted in the research study for data collection, interpretation and analysis. It consists of research design, sources of data, data collection procedure, population and sampling, research variables, and data processing procedure.

Chapter Four: The fourth chapter deals with presentation, analysis, and interpretation of data. The main body of presentation includes the financial performances of selected 12 firms collected from the SEBON, and NEPSE Records. The Primary data is collected through questionnaires, and interview method. In addition to this, it consists of testing of hypotheses, analysis of questionnaires, and analysis of open-end opinions and major findings of the research.

Chapter Five: This is the last chapter of study and it covers summary, conclusion, and recommendations.

CHAPTER- II

REVIEW OF LITERATURE

2.1 Introduction

The objective of this chapter is to review some of the basic literature on share price behavior concerning theories including review of empirical evidences of previous studies. The growth of stock market and its regulation is not so old in the context of Nepal. The investment sector is getting flourished in recent years as other economic sector. Most of the developed countries these days are boosting their economic activities by the help of their investment sectors. One incident in one corner of the world brings the change globally. As for example, economic crisis in USA in recent times has shown that the worldwide security markets have been affected accordingly. Although its impact is global, Nepal's stock market has been affected less. This because of the provision that the foreign investment is not allowed in Nepal Stock Exchange.

During the three and half decades, a number of studies have been conducted to examine and test the Efficient Market Hypothesis (EMH) in its weak form and semi-strong form in developed stock markets and a few in India too EMH could not be directly tested. However, by postulating some security price behavior that is implied by market efficiency one can do so. Over the years, professionals and experts have been concerned with development and testing model of price behavior. The past price variation in general market of shares will or will not be meaningful information in forecasting the future behavior of price variation. Various theories were developed in the past to handle the above mentioned problem.

This chapter has been divided three sections. The first section includes a brief description of theoretical framework. It contains the Technical Analysis, Fundamental or Intrinsic Value Analysis and Random Walk –Efficient Market Theory. Second section briefly reviews the empirical evidence of the studies conducted in the context of the countries other than Nepal. Section third is about the reviews of studies in Nepalese context.

2.2 Theoretical Review

There are numerous reasons that cause the share price fluctuation. They are economic, non-economic and other factors. The price of securities is typically very sensitive responsive to all events both real and imagined that light into the murky future (Cootner, 1964:79).

2.2.1 Technical Analysis

Technical Analysis Theory includes the study of past price and volume data of stocks to forecast future price movements. A highly specialized form of market analysis is practiced by technical analysts. They try to predict future stock prices just as we might predict that the pattern of wallpaper behind the mirror is the same as the pattern above the mirror (Malkiel 1981: 43) The underlying philosophy of technical analysis is that the price of a stock depends on supply and demand in the market and has little relationship to intrinsic value as fundamentalists believe it to be. Technical analysis tools are thus designed to measure demand and supply. The basic assumption of technicians is that history tends to repeat itself. In statistical terminology, the stock market technician relies upon the dependence of successive price changes (Levy, 1966:123).That is they assume that the historical behavior of a security price is rich in information concerning its future behavior.

The most important part of technical analysis is based on charts and graphs. These are bar point and figure charts, moving average and other trend lines, relative strength measures odd lot data and various other measurements (Donald, 1977, 93). Typically, technical analysts record historical financial data on charts, study these charts in an effort to find meaningful patterns and use these patterns to predict future prices. Some charting techniques are used to predict the movements of market index and some are used to predict both the action of individual securities and the market action. The basic assumption underlying technical analysis is listed below.

- Market value is determined solely by the interaction of supply and demand.
- Supply and demand are governed by numerous factors both rational and irrational.

- Aside from the effects of minor fluctuations in the market, stock prices tend to move in trends that persist for appreciable lengths of time.
- Changes in trends are caused by shifts in demand and supply.
- Shifts in demand and supply no matter why they occur, can be detected sooner or later in chart of market action.
- Some chart patterns tend to recur and these recurring patterns can be used to forecast price movements.

2.2.2 Fundamental Analysis

One very important theory in investment management appraisal is fundamental analysis. It claims that at any point of time, an individual security has an intrinsic value which should be equal to the present value of the future cash flow from that security, discounted at appropriate risk related rate.

This value is as much as inherent part of the company as is a person's intelligence or an engine's horse power. It is further believed that intrinsic value is below the market price , the security should be sold before its price drops , under priced stocks are purchased till their price is bid up to equal their value. On the other hand, overpriced stocks are sold, which drives their price down until it equals their value. The fundamentalists attempt to estimate the real worth of a security by considering economic and financial variables and then decide as to what investment action is called for in a given situation depending upon whether the actual price is above or below its intrinsic value.

More specifically, the analyst must attempt not only to estimate this discount rate but also to forecast the stream of dividends that a particular stock will provide in the future, this process is equivalent to forecasting the firms earning per share and payout ratios. Furthermore, the discount rate must be estimated. Once the true value of the common stock of a particular firm has been determined, it is compared with the current market price of the common stock, fairly priced. Stock that have a true value less than their current market price are known as overvalued or overpriced whereas those that have a true value greater than their current market price are known as undervalued stocks. Fundamental analysts believe that any notable cases of mispricing will be corrected by the market in the near future; meaning that prices of undervalued stocks will show

unusual appreciation and prices of overvalued stocks will show unusual depreciation (Sharpe, Alexander and Bailey, 2003: 211)

Fundamental analysis use public information to calculate a fundamental value for a share and then offer investment advice by comparing the fundamental value with the current market price. Fundamental analysis is not possible if capital markets are semi strong form efficient, since security prices will already fully and fairly reflect all publicly available information. (Watson and Head, 1998:31-32)

For fundamental analysis to work successfully requires a number of assumptions those are as follows:

- Business has an intrinsic value.
- Intrinsic value can be determined by analysis of company generated information.
- This value may go unrecognized by the market in the short term.
- It will eventually be recognized by the market in the long term.

Fundamental security analysts estimate the intrinsic value of a security. In contrast, Technical analysts seek to predict security prices rather than values. But in an efficient stock market, prices always equal their values. Both the conventional theories to security valuation and price behavior assumed that the pricing of shares in the market is not efficient. Therefore, while making investment decision technical analysis theory suggests for proper time of buying and selling whereas fundamental analysis theory advices for the choice of suitable securities. Fundamentalists or prospective investors in Nepal however use some of the analytical tools either directly or indirectly but Earning per Share (EPS) and Price Earnings Ratio (PE) seems to be much popular.

2.2.3 Technical Analysis or Fundamental Analysis

A trader makes the decision about what to trade, when to trade and how to trade using either fundamental or technical analysis. Both forms of analysis involve looking at the available information and making a decision about the future price of the market being traded but the information that is used is completely different. It is possible to use both fundamental and technical analysis together, but it is more common for a trader to choose one or other. Both Technical and Fundamental Analysis are inefficient theories based on

conventional approach. As mentioned above, technical analysis is based on right time of purchasing and selling whereas fundamental analysis suggests purchasing and selling of appropriate stocks.

Fundamental analysts who test various tools are essentially testing security prices to see if they equal intrinsic values. The problem is, it's difficult to tell exactly what the intrinsic value of a stock. Different fundamental analysts develop different estimates of intrinsic value of a stock. Thus, there is no generally accepted observable value to compare to the stock's market price. They use information about the global and national economies such as current political and weather information. Fundamental analysts believe that the markets will react to events in certain ways and that they can predict future market prices based on these events.

2.2.4 Random Walk Efficient-Market Theory

The third theory involves study of random walk or efficient market hypothesis. In 1900 a French Mathematician, Louis Bachelier wrote a scientific paper suggesting that day-to day security fluctuations were random. His idea is known as random walk theory. A number of empirical researches have been done on varied set of data for different time periods to test the random walk-efficient market model for describing share price behavior.

The random walk hypothesis

Random walk is a stock market theory that states the past movement or direction of the price of a stock or overall market cannot be used to predict its future movement. Originally examined by Maurice Kendall in 1953, the theory states that stock price fluctuations are independent of each other and have the same probability distribution, but that over a period of time, the prices maintain an upward trend. In short, random walk says that stocks take a random and unpredictable path. The chance of a stock's future price going up is the same as it going down. A follower of random walk believes it is impossible to outperform the market without assuming additional risk (www.investopedea.com/rniversity/comcepts/concepts5.asp-27k).

If the price changes could be used to predict future price changes, investors could make easy profits. But in competitive market easy profits don't last. As investors try to take advantage of the information in past prices, prices adjust immediately until the superior profits from studying past price will be reflected in today's stock price, not tomorrows. Patterns in prices will no longer exist and price changes in one period will be independent of changes in the next. In other words, the share price will follow a random walk (Brealy and Myres, 2000, 357-58).

Random walk theory describes whether past prices can predict future." Random walk theory implies the future path of price level of a security is no more predictable than the path of series of cumulated random numbers. The series of price changes has no memory; that is, the past cannot be used to predict the future in any meaningful way." It means that the current size and direction of price changes is independent and unbiased outcome of previous price changes. The random walk model in share prices actually involves two main hypothesis 1) Successive price changes are independent and 2) the price changes confirm to some probability distribution Fama, (1965)

More precisely, in algebraic term,

$$Pr\ (Xt=X/Xt-1,Xt-2) = pr(Xt=X)$$

Where the term on the left side of equation is the conditional probability that the price change during time t will take the value X, conditional on the knowledge, the previous price changes the value Xt-1,Xt-2 etc. But the term on the right of the equation is the unconditional probability that the price change during will take the value X. The expression means the conditional and marginal probability distribution of an independent random variable are identical (Gupta, 1989, p. 31).

Out of two hypothesis of random walk theory, independence of successive price changes is strong and most important one to make theory valid. The second one is price changes conforms to some probability distribution but its shape or form of the distribution need not be specified i.e. any distribution is consistent with the theory as long as it correctly characterizes the process generating the price changes. However shape or form of the distribution of price change knowledge is important to both investors and researchers for

determining riskiness of investment in common stocks (Fama, 1965, p.40-41). But the model when stated in terms of predictability of price changes form earlier changes need not be specific about this distribution (Clive, Granger & Morgenstern, 1970, p.72).

The random walk theory says nothing more than the successive price change is independent. This independence implies that prices at any time will on the average reflect the intrinsic value of the security. If a stocks price deviates form its intrinsic value because, among other things, different investors evaluate the available information differently or have different insights into future prospects of the firm, professional investors and smart non professional will seize upon the short term or random deviations from the intrinsic value, and though their active buying and selling of the stock in question will force the price back to its equilibrium position (Fisher and Jordan, 1995, p. 53).

The fundamental ideas behind the efficient market theory are that in a stock market, the prices of financial assets should reflect all publicly available information and that these prices should adjust very rapidly to new information. In the uncertain world, however, one world expects differences of opinion among market participants as to the value of each share (Fama, 1965, p.56).

As a result, the actual prices move randomly around the intrinsic value. If enough buyers and sellers have received and accurately measured all information on a stock and have acted rationally, prices always in line with intrinsic value (Dreman, 1977, p. 37).

If the random walk hypothesis holds. The weak form of efficient market hypothesis must hold(though not vice versa).Thus evidence supporting the random walk model is evidence supporting weak form of efficiency(Elton and Gruber, (1991, p. 127).

2.2.5 The Efficient Market Hypothesis (EMH)

The efficient market hypothesis is not properly understood by a large segment of financial community. The development of EMH could be traced into the random walk theory of stock market price behavior. Later, when empirical phenomenon showed that changes in stock prices were largely random. Endeavors were made to clothe the

empirical results with economic contents which lead to the advancement of efficient market theory. Market efficiency may be used in the context of,

- Operational efficiency
- Informational efficiency, and
- Allocation efficiency.

However, in this study, it is concerned only with the informational efficiency in pricing shares. A stock market is said to be efficient if all currently available information are truly reflected in stock prices. The EMH says that the market rapidly incorporates all information affection the value of a security. Tests of market efficiency require a model showing the impact of information upon share prices. The EMH can be broken down into three sub-hypothesis, which differ according to the type of information. The weak form efficient market hypothesis (WEMH) assumes that all past information is reflected in security prices. This means that there is no relationship between the past and future price fluctuations. Consequently, investors are unable to make profit from studying trend or pattern of past prices. The semi strong market hypothesis (SSEMH) holds that security prices adjust rapidly to all publicly available information .For example, the announcement of annual earnings, right shares, bonus shares, stock splits, mergers etc, This implies that using publicly available information, investors will not be able to earn above average return. The strong form market hypothesis (SEMH) assumes that all information affection stock prices, both public and private is reflected in security prices. Thus in such a condition, even those have access to private information can't consistently earn excess return.

The fundamental ideas behind the efficient market theory are that in a stock market, the prices of financial assets should reflect all publicly available information and that these price should adjust very rapidly to new information. In an uncertain world, however, the intrinsic value of a security cannot be exactly determined .Hence; one would expect differences of opinion among market participants as to the value of each share. As a result, the actual prices move randomly around the intrinsic value. If enough buyers and sellers have received and accurately measured all information and a stock and have acted rationally, prices will be in line with intrinsic value.

The main job of fundamentalist is to find out aver valued or undervalued securities. Furthermore, in a dynamic economy, intrinsic value of a given security depends on the earning prospects of the company which in turn are related to economic, political and company specific factors. In case, new is not rapidly known, to the market participants. Securities prices change will display dependence. However, if the adjustment to new information is "instantaneous", successive price changes will be independent.

The RWH is directly inconsistent with the technical analysis theory. While the technical analysis theory says that security price changes are dependent, the RWH states that they ate independent. Actually, the WEMH is referred to as RWT of share price behaviors. WEMH is popularly known as random walk theory. This form has been designated as WEMH or RWH, since the major tests o its validity were statistical tests for randomness in price changes. In WEMH, the degree of variance between price and value of security is larger.

The SSEMH and SEMH cannot be tested directly; one can do so indirectly by accumulating evidence which contradicts these hypotheses. Thus the SSEMH tested by examining whether share prices react accurately to new available fundamental information. If the SSEMH is true, then accounting information has no value and only a few insiders trading on valuable information can earn a higher profit. In SSEMH, the degree of variance between price and value of security is relatively low. Likewise, the SEMH can be tested by determining whether any investor appears to have gained and used superior information .It is difficult to test the SEMH because, private information cannot be examined directly .In SEMH, variance between price and value is zero.

2.3 Review of Related Literature

The objective of this section is to review the major previous studies concerning share price behavior and market participants' perception and attitude in the understanding of EMH. The development of EMH could be traced back from the RWH.

2.3.1 Review of Major Empirical Studies

The pioneer work in this field is due to French mathematician Louis Bachelier, (1900)who used the data of commodity price during the period of 1894-1889.He tested the model in the commodity priced and found that those prices followed a random walk. He concluded that commodity speculation in France was" air game" that has no expected profit for buyers and sellers. He also concluded that the current price of the commodity was an unbiased estimate of its future price. Unfortunately, his insights were so far ahead time that was largely unnoticed for a long period until his paper was rediscovered and in the long run translated into English and was printed in 1964.

King (1966) made a conclusion that there exists low degree of co efficient estimates of serial correlation, i.e.0.018 which is close to zero. The study had tested the behavior of 63 securities from six industries of New York Exchange from 1927 to 1960.Therefore, the study also made the conclusion that stock market price follows the random walk model King, (1966)

Praetz (1969) made a study of the three sets of price data of Australian shares. The study adopted the serial correlation and run tests and thus made the conclusion that random walk hypothesis is a useful first approximation as a description of series of price changes (Praetz, 1969, p. 123-139).

Dryden (1970) made a study of three London indices for about 4 years in Great Britain. He found that the first order serial correlation coefficients were statistically significant. He, thus, drew the conclusion that the share price movements were not random (Dryden, 1970, p. 369-389).

Brealy (1970) made a study of various stocks by applying similar methodology to that used by Fama in 1965 had also supported the random walk model. He, thus, drew the conclusion that the successive prices changes in the stock market are in stock market are independent.

Niarchos (1971) made a study of price series of 15 individual stocks from Athens Stock Exchange from 1957-1968 and reported that the serial correlation coefficients for individual stock as 0.036, close to zero .He , therefore, drew the conclusion that the price fluctuations were random walk and past price had no meaningful information to show the price of future.

Kemp and Remp (1971) studied the British stock market and reported that the share price movements were conspicuously non-random over the period considered. Thus their study was also against the random walk theory.

Gupta (1985) analyzed the equity share behavior in India during the period January 1971 to March 1976 and extensively tested the random walk hypothesis using daily and weekly price of 39 individual shares and two indices. (The economic time index and financial Express index) He employed the serial correlation analysis and run test and found proof in support of random walk hypothesis. He also concluded that the random walk model appeared to be a suitable model even for the less developed country like India to explain share price behavior.

Sweeny (1988) made a filter rule which was able to earn modest profits. He found that the long position were often profitable. He also found that filter rule trading tended to be fairly and consistently profitable in some stocks while being fairly consistently unprofitable year after year in another stocks. These rules mechanically trade some stocks and earn a statistically significant rate of product after reducing small trading costs incurred. However the filter rule seems to be unprofitable if the higher commission rates that most investors pay were deducted.

Samuelson (1995) concluded that the market will efficient and prices will fluctuate randomly if the market has zero transaction costs, if all available information are free to all interested parties and if all market participants either potential and existing have the same time horizons and expectations about the prices. His findings support the independence hypothesis of random walk theory in stock prices.

Fama analyzed the movement of stock market price changes of all the stock that make up the Dow Jones industrial index for the period end 1952-1962 and investigated the daily comparative price changes of those 30 industrial stocks and auto correlation were estimated for a variety of lags ranges from 1 to 10 days. In his study, he found that the auto correlation coefficients for daily average being 0.03, near to 0.Out of thirty, eleven auto correlation coefficient was significantly different from zero and lagged price changes show some degree of dependence . He further analyzed the data by run tests by total number of runs by sing and distribution of runs by length. He found slight tendency for this to occur, but again the result were sufficient to accept the random walk hypothesis.

A.B Moore (1999) studied weekly priced changes of 29 randomly selected US stock for 1951-58 and found an average serial correlation coefficient -0.06.The value was extremely low and indicated that the weekly changes data were of an value in predicting future price changes . The explanation of his test is that a low co-efficient estimate suggests that previous price changes do not provide any reliable information in estimating future price changes.

Cootner (1964) examined the randomness of the series of 45 companies' stock form New York exchange by using serial correlation on the logarithms of daily price changes. In his study he found low correlation coefficient of -0.046, which are inadequate to forecasts the future price changes.

Granger and Morgenstern (2002) had adopted typical method of analysis to the weekly, monthly and volume series form the New York Stock Market which involved of Dow-Hibes, standard and poor and various indices as will as price series of individual stocks. Particularly there exists no linear relationship of dependence between lagged price changes. They found that short urn movement in stock prices followed a simple random walk model. However, they reported that this model does not adequately explain the long run movements.

Again; Godfrey, Granger and Morgenstern (1964) tested the some method widely and recommended that the random walk hypothesis appears to give a logical model for the logarithmic series from both New York and London.

Alexander (1961) reported empirical result of the filter technique for filter ranging in size from 5 to 50 percent. He tests the filter rule technique on the closing prices of two indices, the Dow Jones Industrials Average from 1897-1959 and standard& Poor's Industrial Average from 1929-1959 and reported that in general, filters of all different size and all different periods yield substantial profits, significantly grater than that of simple buy and hold policy. Finally he concluded that the independence assumption is not validated as a description of reality by his data. But later in 1964, he corrected the short comings on his previous study were the failure to realize that dividends were cot rather than benefit. Alexander found that his filter rules produced very large rates of return, particularly for small filters. However when transaction costs are considered, the abnormal returns disappear for all filter rules.

Kendall (2005) made important progress in the study of random walk model. He examined the behavior of weekly changes in 19 indices of British industrial share prices and spot price series of cotton (New York) and wheat (Chicago).He found no relationship between share price changes in the current week and previous week. He widely analyzed data by autocorrelation and found that successive price changes are statistically independent or stock price movement follows random walk. In summary, the review of literature suggests that share price; actually, follow a random walk.

Osborne (2005) conducted that, one of the distinguished physicists, ignorant about the stock market at that time watched the numbers representing stock prices to see whether they conformed to certain law governing the motion of physical objects. He found the movement of stock prices similar to that of the movement of small particles suspended in a chemical solution so called 'Brownian Motion'. Although, Osborne attempted to give the empirical reason for his theory, most of data were cross sectional and could not be provide a satisfactory test.

Alfred Cowles and Herbert E.Jones (2006) found that stock prices moved with predictable trends. They provided a controversy to the random walk model as a valid share prices behaviors model in USA In facts, their finding remained a challenge against the random walk hypothesis more than two decades.

Halbrook Working (2006) found the more evidence that security prices followed a random walk. He analyzed the commodity prices in detail and found that speculative price patterns might be shown to be random comparing with artificially generated series of prices." It has been noted that time series commodity posses in many respect the characteristics of series of cumulated random numbers. The separate items in such time series are by no means random in character but the changes between successive items tend to be largely random.

Hence, the reviews of above mentioned studies held in foreign countries depict money interesting findings on the price behavior. According to the review of above research works, it can be concluded that the stock market prices depict a random movement and the security prices appear to be serially independent. Therefore the investors cannot develop any profitable trading strategy by using the information of the past series. However, the question arises as to what extent these are finding relevant in Nepal. They all may not be applicable in Nepalese context where the stock market is small and underdeveloped. Therefore studies conducted in India would be more relevant because Nepalese and Indian companies are running under similar condition.

3.3.2 Review of Major Indian Studies

There are some empirical studies conducted to test the IMH in India. In one of the earlier studies, Rao, and Mukharjee(1971) applied spectral analysis to weekly price of an aluminum company's share and found no evidence contrary to random walk model. Sharma and Kennedy (1977) tested the Random Walk model, by runs tests and spectral analysis, against representative stock market indices of Bombay (BVDISI), New York(S&P425) and London (FT-500) Stock exchanges, during 1963-73. Their study found that stock In the Bombay stock exchange obeyed a random walk and are equivalent in this sense to the behavior of share prices in the markets of developed countries.

Gupta (1985) analyzed the equity share prices behavior in India during the period January 1971to March 1976 and tested the RWH using daily prices of 39 individual shares and to indices. He employed the serial correlation analysis and runs test and found evidence in support of RWH. He also concluded that the random walk model appeared to be an appropriate model even for the less developed country like India to describe share price behavior.

Pandey and Bhat (1988) surveyed market participants' attitude and perceptions attitude and apperceptions in the understanding and acceptance of EMH. They sent the questionnaire to 600 persons who were divided into four groups: I) cross section investors and brokers. Only 160 questionnaires were returned duly filled in by three forms.

Rao (1988) employed the autocorrelation analysis, runs test and filter rule to the week-end closing price of 10 blue chip stocks over the period 1983 to 1987. His study supported the RWH.

Mahapatra (2005) tested the WEMH using rank correlation analysis based on relative strength. His sample consisted of month-end closing prices of 26 stocks from Bombay stock exchange during the period January 1989 to December 1992. He argued that the Indian stock market is less efficient in the short run, but more efficient in the ling run.

3.3.3 Review of Major Nepalese Studies

The securities market plays an important role in mobilizing savings and channeling them into productive investment for the development of commerce and industry in the country. It assists the capital formation and economic growth in the country. But the Nepalese securities market still is in growing stage. Its further development is crucial. In Nepal, the major constituent of the securities market is the shares of commercial banks and behavior of prices of commercial banks influence the Nepal Stock Exchange (NEPSE) index. The stock market has been subjected to investment research than their counterparts elsewhere. Most of the researches that are concerned with the investigation of effect of certain financial variables on the equity share prices. For instance, Pradhan Radheshyam(1994)

stock market behavior in Nepal which concluded that the positive relationship between the ratio of dividend per share to market price per share and interest coverage.

Timilsina (1995) focused in his thesis entitled "Dividends and stock prices: An empirical study" used the data of 16 firms for the period of 1990 to 1994. To explain the behavior, he used multiple regression models of three independent variables as developed by friend and Puckett. Further he tried to highlight the relationship between stock price and other independent variables setting separate simple linear regression equations. The findings of the study are as follows:

- The relationship between dividend per share and stock price is positive in the sample companies.
- Dividend per share affects the share price variedly in different sectors.
- Changing the dividend policy might help to increase the market price of stock.
- The relationship between stock prices and retained earnings per share is not prominent.
- The relationship between stock price and lagged earnings price ratio is negative.

In another study, Shrestha (1999), who examined daily closing prices of 30 stocks during the period from January 1994 to mid July 1998 by means of serial correlation and runs tests and found that the successive price changes are dependent. The study concluded that the Nepalese stock market is not efficient in pricing shares even in its weak form. However since their studies didn't adjust necessary information in the price series, their findings should be used with caution.

Regmi (2005) conducted his study on "Share price behavior in Nepal". His major objective was to assess equity share price behavior in Nepal. The other specific objectives were to test random walk or weak from efficient market hypothesis, examine whether successive price changes are independent or not, conduct the opinion survey financial executives regarding the various aspects of the share price behavior in Nepal. He found that both the tests serial correlation and run test analysis do not support the independence assumption of random walk model. Share price movements are caused by flow several

kinds of information in the market. The existence of work from efficient market hypothesis is slightly accepted by the financial executives in Nepal.

Giri (2005) performed her study on "Behavior of share prices of listed commercial Bank" by taking 10 sample commercial banks. She used statistical tools, financial tools and financial parameters. The objectives of her study were to provide glimpse of Nepalese stock market, analyze the share price behavior of listed commercial banks, to examine the risk involved in the common stock investment of those commercial banks. She found that weakly efficient market hypothesis does not offer a satisfactory explanation to these speculative prices series. The information of the past price changes is helping in prediction future change. So, sufficient opportunities are available to institution and individual investors to make higher expected profit in future. Most of the stocks seemed to be risky than the average stock. She found that mot of the banks are offering cash dividends every year. According to her it is not applicable in the type of non banking industries.

Baral and Shrestha (2006) The Journal of Nepalese Business Studies) studied On "Daily Stock Price Behavior of commercial Banks in Nepal". In the study, they set on daily stock prices during the fiscal year 2005/06(July 16, 2005 through July 16, 2006), the study was attempted to analyze the stock price behavior of commercial banks in Nepalese markets. For that purpose, sample of seven banks share prices were taken. Observations of daily stock prices of sampled banks indicate that there is large variation in their stock prices in the fiscal year 2005/06. They are not doing well in Nepalese stock market. Most of the serial coefficients were significantly deviate from zero and statistically insignificant. It signifies that the successive price changes are dependent. Therefore, the Nepalese stock market is inefficient in pricing the shares. Runs tests results also shows that percentage of deviation between the observed and actual number of runs in the series of price changes is significant. It is obviously that the successive price changes are not random. Thus, RWH doesn't hold true in the context of Nepalese stock market.

3.4 Research Gap Analysis

Although some very valuable researches in the field of stock market have been done so far, there is still a great deal of opportunity remained for the researchers in this area to explore and identify new facts and figures about the contemporary stock market of Nepal. Till the date, the following things in the area are explored and identified by the researchers on the basis of easily available research reports:

- The stock market behavior immediately after dividend declaration.
- The bonus share issues and stock market responses.
- The pros and cons of stock market in Nepal.
- Legal requirements and their effectiveness in developing stock market of Nepal.
- Earnings and dividend correlations in Nepalese firms.
- Impact of signaling effects on stock prices of Nepalese listed firms.
- Stock price behavior in relation to 16 listed firms with 5 years data up to 2007/08.
- Many other related and unrelated research reports in this regard.

But consulting the literatures available in the TU library, Shanker Dev Campus library, SEBON library, NEPSE library, Nepal Commerce Campus library, Apex College library, British library, American library and many Internet sites, it was found that there were still many subjects to be dealt in the field of investors' interest. Researchers are still unaware about the type of stock market prevailing in Nepal, the correlation between the stock market behavior and the stock prices and returns thereof and the basis of decision making based on the stock market indicators and etc. It was found that one research work very close to the present research, but the number of sample size was very less (10 listed firms with 5 years figures up to 2001/02), which covered only profitability aspect of the correlation study. Because of that the present research work is in the same field and relates to the topic but with an intensive coverage both in terms of number of firms and time.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology describes the methods and process applied in the entire aspect of the study. In other words, research methodology is a systematize way to solve the research problem. Research methodology refers to the various sequential steps (along with a rational, of each step) to be adopted by a researcher in studying a problem with certain object in view (Kothari, 1994 167). A focus is given to research design, sample selection and size, data collection procedure, data processing, definition of variables, meaning and definition of statistical tools used. This chapter highlights the research methodology used for the study.

3.1 Research Design

A research design is plan for the collection and analysis of data. It presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the objectives. A plan of study or blue print for study that presents a series of guides' posts to enable the researcher to progress in the right direction in order to achieve the goal is called research design or strategy.

This study has been conducted to obtain the stock price movements. Analytical and descriptive research approach has been followed to carry out the study of available historical data; Primary data has been collected from the distribution of questionnaires and the interviews with financial experts.

3.2 Nature and Sources of Data

Data has been obtained from various sources like NEPSE, SEBON and selected companies. Similarly, the text book, official publication such as trading and annual reports of NEPSE, publications of Securities Board of Nepal, annual reports of finance companies, journals, magazines, reports, bulletins, documents and relevant information available in various web-sites, previous thesis has been taken as the sources of the data.

To collect the primary data, questionnaires has been distributed to the authorized persons

of NEPSE, investors and other concerned persons.

3.3 Selection of Enterprises

There are 148 financial and non financial institutions are listed till the end of eleven month data of 2009 in NEPSE. All the companies listed in NEPSE are the population of the study. Among them, 25 companies will be taken as sample for the study. The followings are the name of selected companies:

Table No. 3.1

Name of the sampled companies

SN	**Commercial Banks**
1	Nabil Bank
2	Standard Chartered Bank (Nepal) Ltd
	Development Banks
3	Nepal Development Bank Ltd
4	Nirdhan Uthan Bank Ltd
	Manufacturing Companies
5	Bottlers Nepal Limited(Balaju)
6	Nepal Lube Oil Limited
	Hotels
7	Yak and Yeti Hotel
8	Soaltee Hotel Limited
	Hydropower
9	Butwal Power Company
10	National Hydropower Company
	Finance Companies
11	NIDC Capital Markets Ltd.
12	Nepal Finance and Saving Co. Ltd.
	Insurance Companies
13	Himalayan General Insurance
14	United Insurance Company Limited
	Trading Companies
15	Salt Trading Corporation Ltd.
16	Bishal Bazar Company Ltd.

3.4 Research Variables

Major market behavior tools such as NEPSE index, impact of signaling factors on stock price, volume of stock traded, market prices stocks and Earning per share are taken as the research variable.

3.5 Tools of Analysis

3.5.1 Statistical Tools

3.5.1.1 Correlation Coefficient:

Correlation analysis is a statistical tool. It is used to find the relationship between variables. If two quantities vary in such a way that movement in one are accompanied by movements in the other these quantities are correlated. It shows the effect on other variable due to the change in one variable. The degree of relationship between the variables under consideration is measured through the correlation analysis. Thus correlation is statistical device, which helps us in analysis the co-variation of tow or more variables. Karl Pearson's Coefficient of correlation is widely used in practice. The Pearson's coefficient of correlation is widely used in practice. The Person's Coefficient of correlation is denoted by the symbol "r". The formula for computing Person's "r" is:

$$r \text{ X} \frac{xy}{\sqrt{x^2}\sqrt{y^2}}$$

Where,

r= the correlation coefficient

x= $X \text{ Z} \overline{X}$

y= $Y \text{ Z} \overline{Y}$

X= Independent variable

Y= Dependent variable

Following general rules are applied to interpret the coefficient of correlation:

When r = +1, it means there is a perfect positive relationship between the variables.

When r = -1, it means there is a perfect negative relationship between the variables.

When r = 0, it means that there is no relationship between the variables i.e. the variable are uncorrelated.

3.5.1.2 Probable Error (P.E) of correlation coefficient:

Probable error of the correlation coefficient denoted by P.E is the measure of testing the reliability of the computed value of the correlation coefficient 'r'. The probable error is denoted by:

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

Where,

r = correlation coefficient.

n= no of pairs of observations.

If r < P.E. (r) the value of 'r' is not significant no matter how high r value is, i.e. there is no evidence of correlation between the variables.

If r > 6 P.E. the value of 'r' is significant i. e. correlation is significant.

3.5.2 Financial tools

3.5.2.1 Earnings per share: It is an earning made by a single unit of share. It measures the profit available to equity holders on a per share basis, i.e. the amount that they can get on every share held. It is calculated by dividing he profit available to the share holders by number of outstanding share. The profit available to share holders is by net profit after taxes and preferences dividend. Thus,

$$EPS = \frac{Profit\ after\ Tax}{No.\ of\ outstanding\ shares}$$

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter presents the analysis and interpretation of data related to stock prices' of sampled companies, NEPSE index, volume of share traded and paid up value and amount of market capitalization in the part of secondary data. On the other hand, questionnaires, interviews with financial experts and investors are analyzed in the part of primary data.

4.2 Presentation and Analysis of Data

This section provides interpretation and analysis of secondary data. Thus, this section is specifically devoted for the analysis of common stocks of different sampled companies through price trends, signaling factors' impact on NEPSE index with the help of annual report provided by NEPSE, volume of stock traded. For this purpose, twelve organizations from various sectors were taken as sample on the basis of the year of establishment. For conducting study, statistical tools such as regression analysis and correlation analysis, bar diagrams and pie charts are presented.

4.2.1 Behavior of NEPSE Index

Market index has always been of great importance in the world of security analysis and portfolio management. This index is used as a benchmark by the individual and institutional investors to evaluate the performance of their own or institutional portfolios. Market indices are used to determine the relationship between historical price movements and economic variables and to determine the systematic risk for individual securities and portfolios. The index can also be used as measuring tool whether the performance of stock market is good or not. This clearly focuses on the price of stocks that is increasing or decreasing in the market. In the current days, how the global share markets are affected due to the global economic crisis can be seen with the help of the indexes of respective market. Hence, the monthly price index of NEPSE from fiscal year 2002/03 to 2007/08 has been presented in the table and chart below.

Table No. 4.1

Monthly closing NEPSE Index during the period 2003-2008

Month/ Year	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Jul/Aug	226.59	207.92	241.51	386.83	389.23	706
Aug/Sept	222.98	208.46	234.58	300.05	382.56	817.1
Sept/Oct	219.26	207.54	231.31	293.35	398.44	861.4
Oct/Nov	220.73	206.21	235.08	297.34	447.43	915.4
Nov /Dec	214.57	201.94	236.38	302.39	508.58	1,025.90
Dec/Jan	200.8	201.95	239.61	303.12	537.09	958.9
Jan/Feb	213.31	211.31	257.29	305.5	523.94	814.4
Feb/Mar	209.69	207.8	280.65	317.69	494.06	714.8
Mar/Apr	214.08	201.22	293.26	339.79	494.59	746.7
Apr/May	207.45	204.35	285.42	334.77	513.45	806.3
May/June	207.65	213.12	277.79	385.89	575.04	930.7
June/July	204.86	222.04	286.67	372.01	683.95	963.4
Average	213.50	207.82	258.30	328.23	495.70	855.08

(Source: NEPSE: Annual Trading Report, 2003-2008)

Table 4.1 shows the monthly closing index from the fiscal year 2002/03 to the year 2007/08. The average index in the year 2002/03 is at the point 213.50 and in the year 2007/08 it is at the point 855.08. The highest average index is in the year 2007/08 whereas the lowest is in the year 2003/04 which is at the point 207.82.The table has been illustrated with the help of respective figures .

Figure 4.1

Monthly Closing Index during the period 2002/03

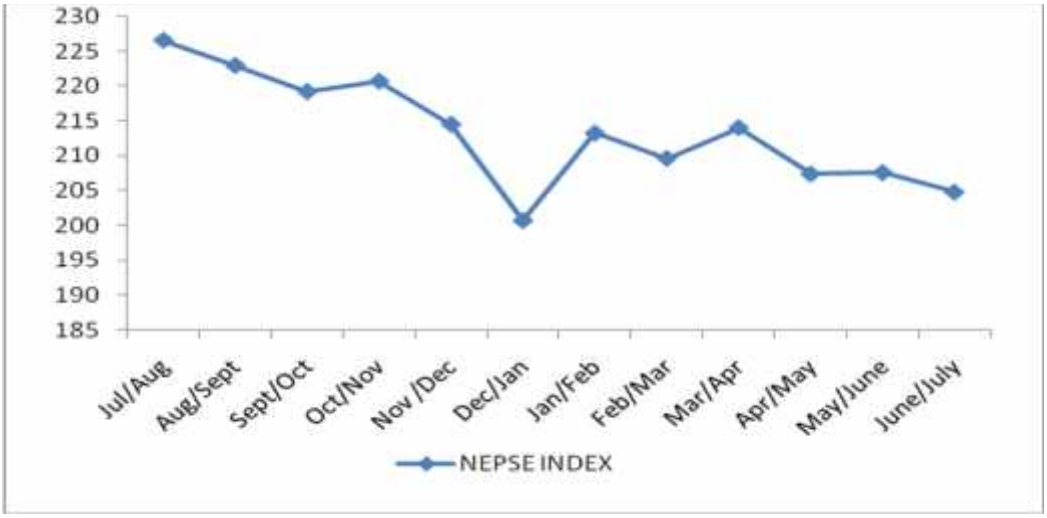


Figure 4.1 shows monthly closing index of NEPSE during the year 2002/03. The average index for this year is 213.5.The highest point is recorded in the month Jul/Aug which is 226.59 whereas the lowest is in the month Dec/Jan at the point 200.8. The index is in decreasing trend during the year.

Figure 4.2

Monthly Closing Index during the period 2003/04

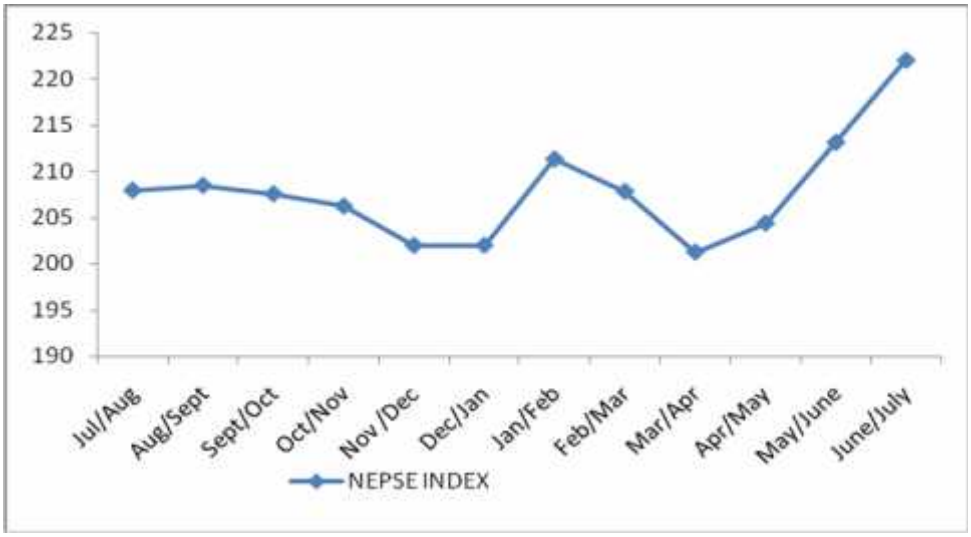


Figure 4.2 shows the monthly closing index during the year 2003/04.The average closing

index for this year is 207.82. The highest index recorded in the month Jun/Jul which is 222.04 whereas the lowest is in the month Nov/Dec at 201.94.

Figure 4.3

Monthly Closing Index during the period 2004/05

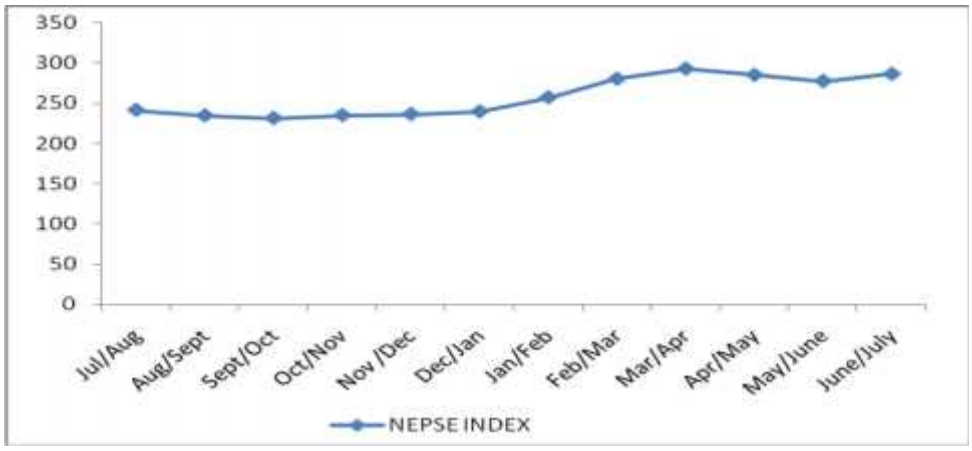


Figure 4.3 shows the monthly closing index during the year 2004/05.The average closing index for this year is 258.30. The highest index is recorded in the month Mar/Apr which is 293.26 whereas the lowest is in the month Nov/Dec at 236.38.The index is in increasing trend in this year.

Figure 4.4

Monthly Closing Index during the period 2005/06

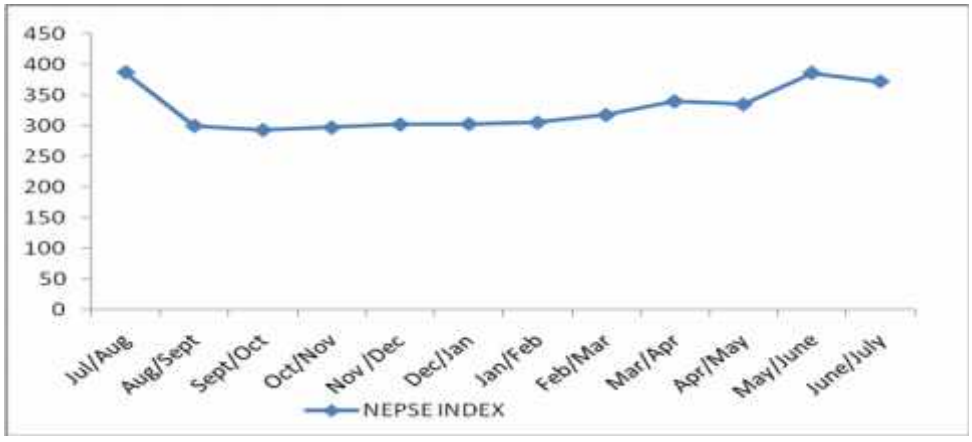


Figure 4.5

Monthly Closing Index during the period 2006/07

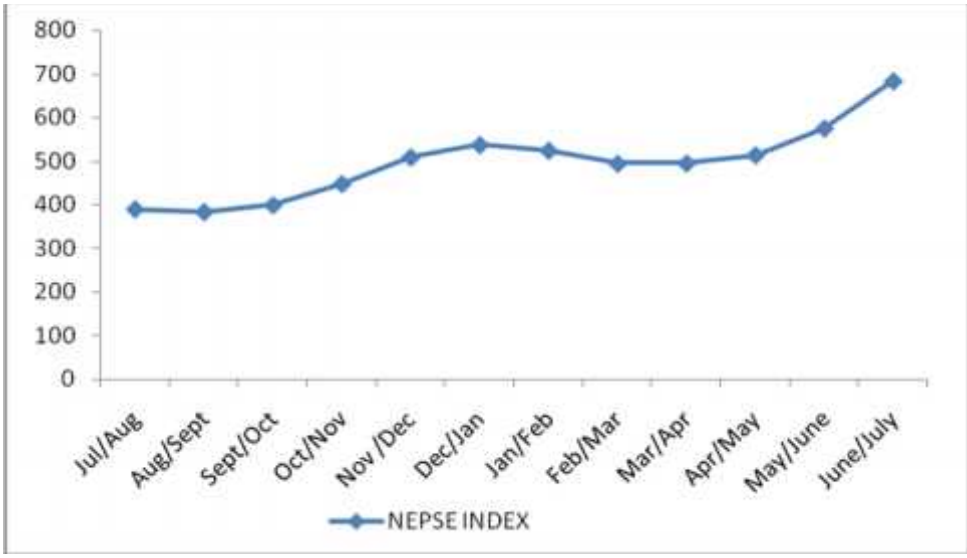


Figure 4.5 shows the monthly closing index during the year 2006/07.The average closing index for this year is 495.70. The highest index is recorded in the month Jun/Jul which is 683.95 whereas the lowest is in the month Aug/Sep at 382.56.

Figure 4.6

Monthly Closing Index during the period 2007/08

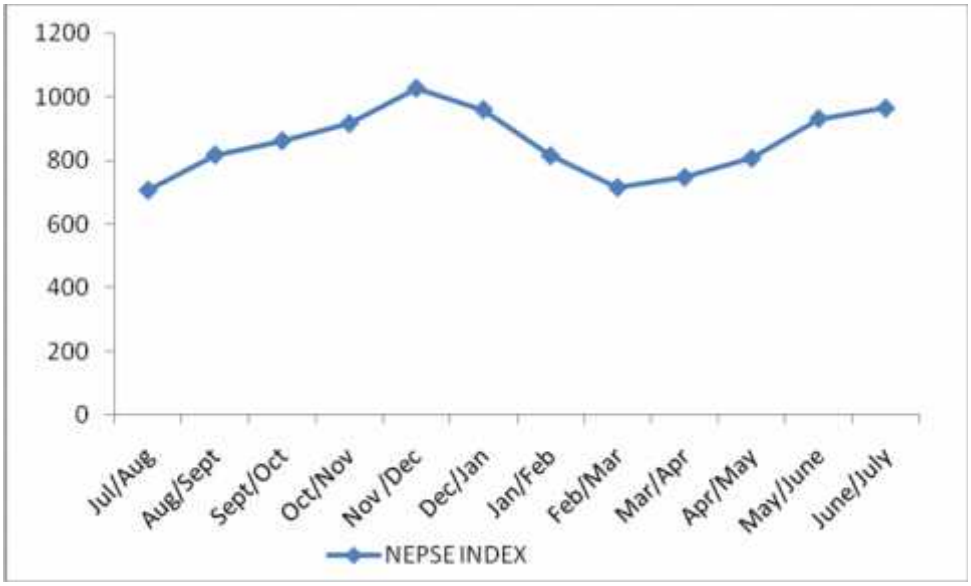


Figure 4.6 shows the monthly closing index during the year 2007/08.The average closing index for this year is 855.08. The highest index is recorded in the month Nov/Dec which is 1,025.90 whereas the lowest is in the month Jul/Aug at 706.

4.2.2 Stock Turnover

The volume of stock trading is another aspect in order to study the overall stock market behavior. In this study, turnover in terms of units and in terms of amount has been analyzed for the fiscal year 2007/08.

4.2.2.1 GroupWise Turnover

Table 4.2 shows the group wise turnover. Among the various group of industries, commercial banks dominated other industries both in the case of volume of share units and traded amount. The total amount of traded shares was 21980.57(in million), which was nearly 63 percentage. Hydropower industry was in second position in terms of amount of share traded as it was of nearly 3200 million which was 15 percentage of total. The major proportion was covered by finance companies whose trading was of 2307.53 million that is 10 percentage of total amount. Insurance, Manufacturing and processing sectors covered only a nominal proportion which is about 1.20%and 1.56% respectively. The table 4.2 has been plotted in the figure 4.7.

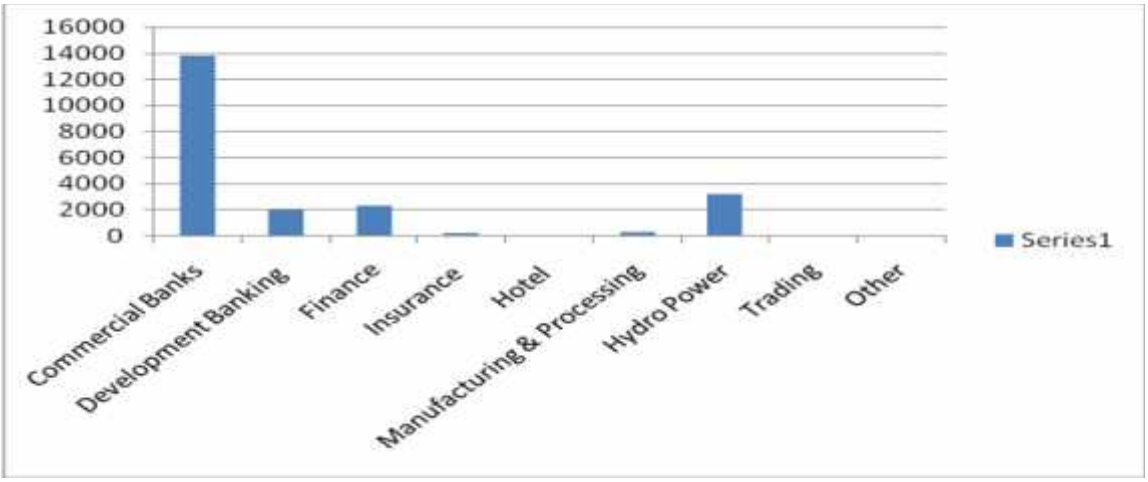
Table No: 4.2

Group wise turnover for the fiscal year 2007/08

Sectors	**Amount**	**Percent**
Commercial Banks	13,822.14	62.88
Development Banking	1,981.05	9.02
Finance	2,307.53	10.5
Insurance	264.86	1.21
Hotel	27.67	0.13
Manufacturing & Processing	343.44	1.56
Hydro Power	3,199.94	14.56
Trading	33.65	0.15
Other	0.29	0.0013
Total	**21,980.57**	**100**

Figure No: 4.7

Group wise turnover 2007/08



4.2.2.2 Unit Wise Turnover

Table 4.3exhibits stock market performance from the view point of turnover in terms of share units and traded amount of all the sectors whose shares were traded on the floor of NEPSE during the fiscal year 2007/08.

Table No: 4.3

Unit wise turnover

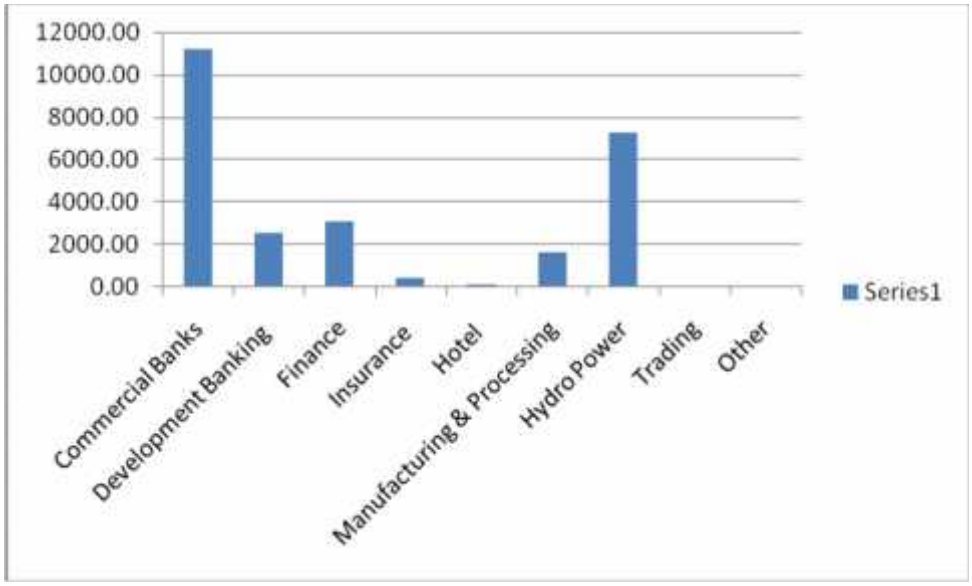
Sectors	**Share Units (000)**	**Percentage**
Commercial Banks	11241.41	42.6
Development Banking	2534.88	9.61
Finance	3094.26	11.72
Insurance	433.26	1.64
Hotel	158.07	0.6
Manufacturing & Processing	1655.08	6.27
Hydro Power	7251.21	27.48
Trading	14.97	0.06
Other	7.7	0.03
Total	**26390.84**	**100**

The volume of share transactions in units has been presented in the table above in the

fiscal year 2007/2008.Like in the case of share transaction in terms of amount, the major proportion was covered by commercial banking sector.Quantitatively,11241.41(in '000) shares were covered which equals 43% of total number of shares traded throughout the fiscal year. Hydropower was the major sector to follow commercial bank whose share transaction was 7251.21.Hence, covered 27% of total. Finance companies share volume was increased as compared with previous year and reached 3094 in this fiscal year. Development banks followed finance companies and covered nearly 10 percentage of total number of share transaction.whereas, insurance sector had 1.64 percentage cover. The Trading and other sectors had only a very few percentage coverage. To figure out, number of traded shares of Trading sector was nearly 15 and 8 was of other secor.It has been shown in the figure below.

Figure No: 4.8

Unit wise turnover for the fiscal year2007/08



4.2.3 Paid-up Value and Market Capitalization

Paid up value indicates the actual amount of the investment in assets whereas market capitalization indicates the present value of the investment. It means that the value of market capitalization is related differ from the value of paid-up capital because the value of market price capitalization is related with market price of the share. The value of the

market capitalization changes due to the changing sentiments of the capital market. If the market condition is favorable, the market value of assets increase substantially so that the value of the company is increased and vice-versa. The increased market value further suggests the good performance of the concerned companies. So the investors are highly interested to such companies

Market capitalization represents the aggregate value of a company or stock. It is obtained by multiplying the number of shares outstanding by their current price per share.

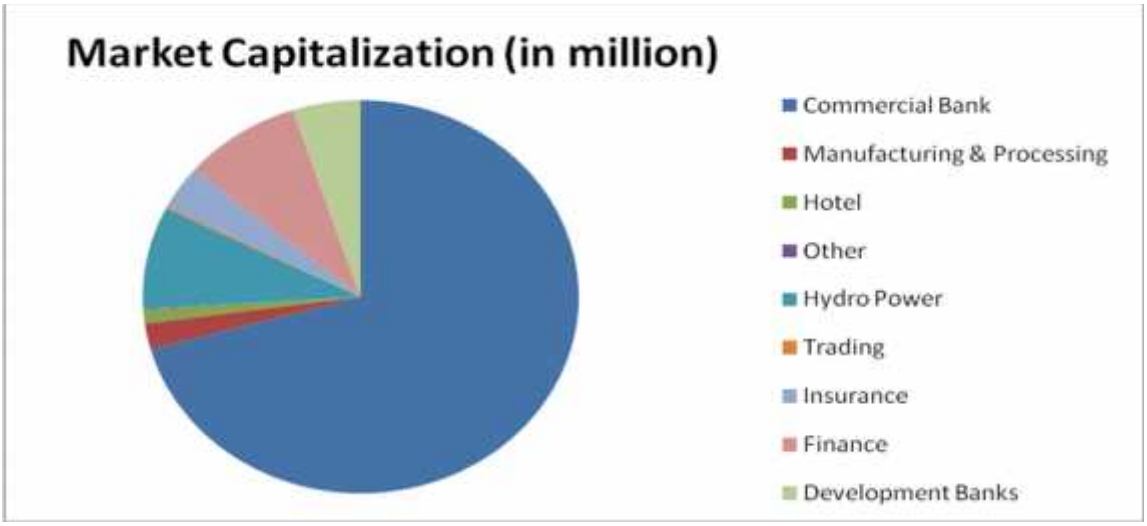
The table 4.4(a) shows market capitalization of different sector in the fiscal year 2007/08.the total paid up value in this fiscal year was Rs. 15,619.40 million. The commercial banks have highest (Rs 218,264.20 million) market capitalization whereas other companies have lowest (Rs 274.70 million). It showed that performance of commercial banks were better than other sectors. This is also shown in the figure 4.9(a)

Table No: 4. 4(a)
Market capitalization in fiscal year 2007/08

Sectors	Market Capitalization (in million)	Percentage
Commercial Bank	218,264.20	70.69
Manufacturing & Processing	6,576.20	2.13
Hotel	3,484.10	1.13
Other	274.70	0.089
Hydro Power	25,863.30	8.38
Trading	686.70	0.22
Insurance	10,897.20	3.53
Finance	27,113.60	8.78
Development Banks	15,619.40	5.06
Total	**308,779.40**	**100**

Figure No: 4.9(a)

Market capitalization



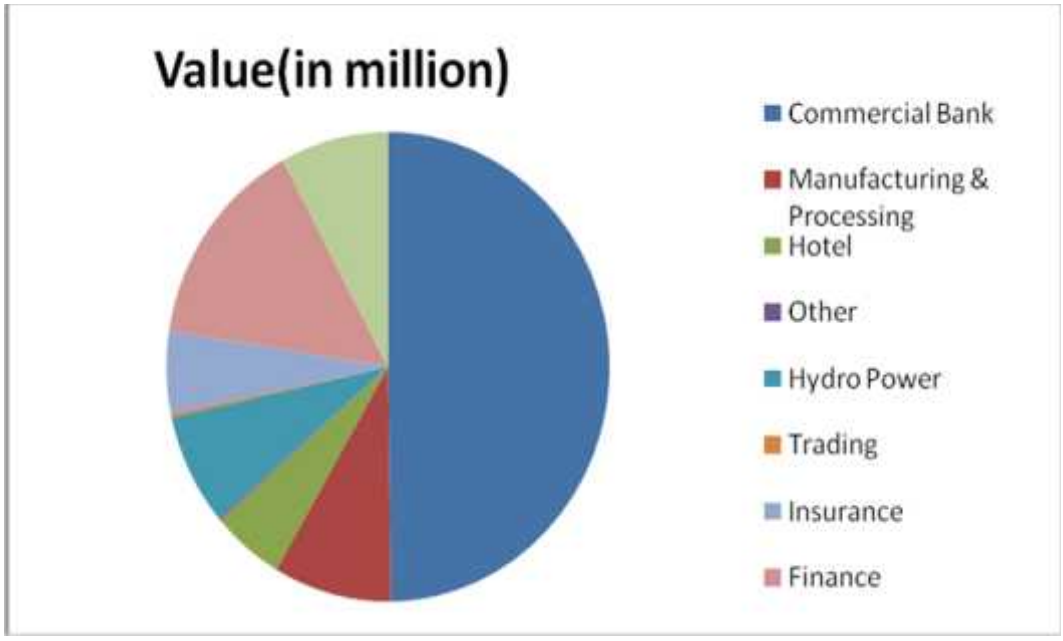
The table 4.4(b) shows paid up value of different sector in the fiscal year 2007/08. The total paid up value in this fiscal year was Rs. 29,465.83 million. The commercial banks have highest (Rs 14,667.28 million) paid up value whereas other companies have lowest (Rs 49.13 million). It showed that performance of commercial banks were better than other sectors. This is also shown in the figure 4.9 (b)

Table No: 4. 4(b)
Paid up value 2007/2008

Sectors	Value(in million)	Percentage
Commercial Bank	14,667.28	49.78
Manufacturing & Processing	2,539.74	8.62
Hotel	1,552.89	5.27
Other	49.13	0.17
Hydro Power	2,268.66	7.7
Trading	78.47	0.27
Insurance	1,669.70	5.67
Finance	4,317.28	14.66
Development Bank	2,322.68	7.88
Total	**29,465.83**	**100**

Figure No: 4.9(b)

Paid up value 2007/2008



4.2.4 Closing Market Prices of Selected Companies

Table 4.5 shows the market price per share and average MPS during the period 2003-2008 of the selected companies.

4.2.4.1 Closing Market Prices of Selected Commercial Banks

Table 4.5 shows average mps of selected companies have increasing trend. Comparing average mps with the mps of sampled commercial banks, they have higher mps than selected companies. Both SCBNL and NABIL have increasing trend during the study period. While comparing between the sampled commercial banks, SCBNL has higher mps than NABIL. This indicates commercial banks perform better than other companies. The trend line of commercial banks is shown in figure 4.10.

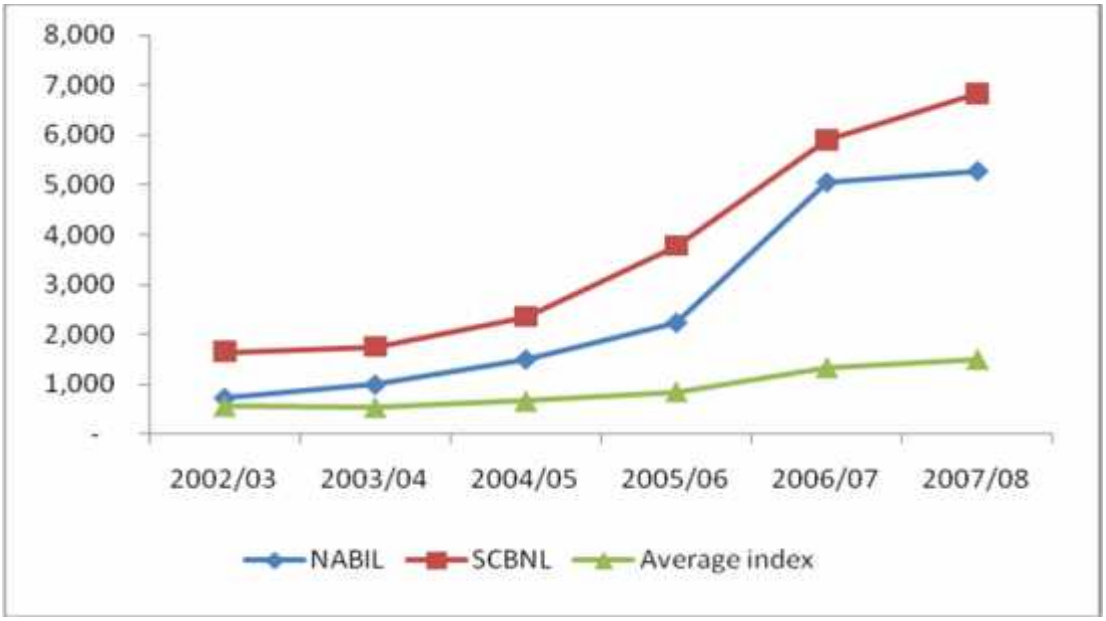
Table No: 4.5

Closing market prices of selected companies

Commercial Banks.	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
NABIL	735	1,000	1,505	2,240	5,050	5,275
SCBNL	1,645	1,745	2,345	3,775	5,900	6,830
NUBL	90	90	100	100	110	134
NDB	145	106	88	390	153	302
NFS	176	165	147	134	265	475
NCM	125	107	145	208	455	901
HGI	125	175	205	189	300	345
UIC	100	105	128	125	219	315
BNL	700	554	635	500	500	700
NLOL	400	350	300	350	350	250
YHL	600	600	600	600	600	600
SHL	75	65	50	57	126	236
NHPC		100	90	75	185	198
BPCL			490	540	1,000	1,559
STC	1,405	1,400	1,930	2,200	2,575	2,201
BBC	300	315	315	316	325	331
Average	473	458	567	737	1,132	1,291

Figure 4.10

MPS of sampled commercial banks during the period 2003-20008



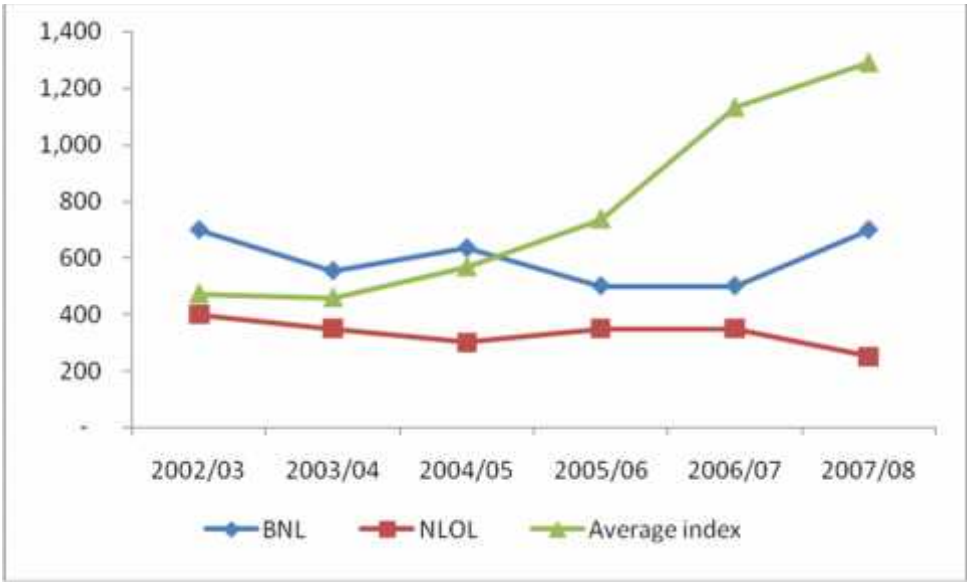
4.2.4.2 Closing Market Prices of Selected Manufacturing Companies

Two manufacturing companies, Bottelers Nepal and Nepal lube Oil Limited are taken as sample. The closing market prices of them are presented in tabular as well as graphical form below.

BNL and NLOL are taken as sample from the manufacturing companies. The mps of BNL is Rs 700 in the fiscal year 2002/03 which is the higher than the average mps of Rs 473 and lowest mps is Rs 500.whereas the mps of NLOL is below the average mps in all the years. The highest mps of NLOL is in the year 2002/03 and it is in decreasing trend onwards. The lowest mps was recorded at Rs 250 in the year 2007/08. The trend has been shown with the help of the figure.

Figure 4.11

MPS of sampled manufacturing companies during the period 2003-20008



4.2.4.3 Closing Market Prices of Selected Hotels

The closing market price of selected Hotels, Yak and Yeti and Soaltee Hotel Ltd were taken as sample. The price movement in their share value of six years has been given below:

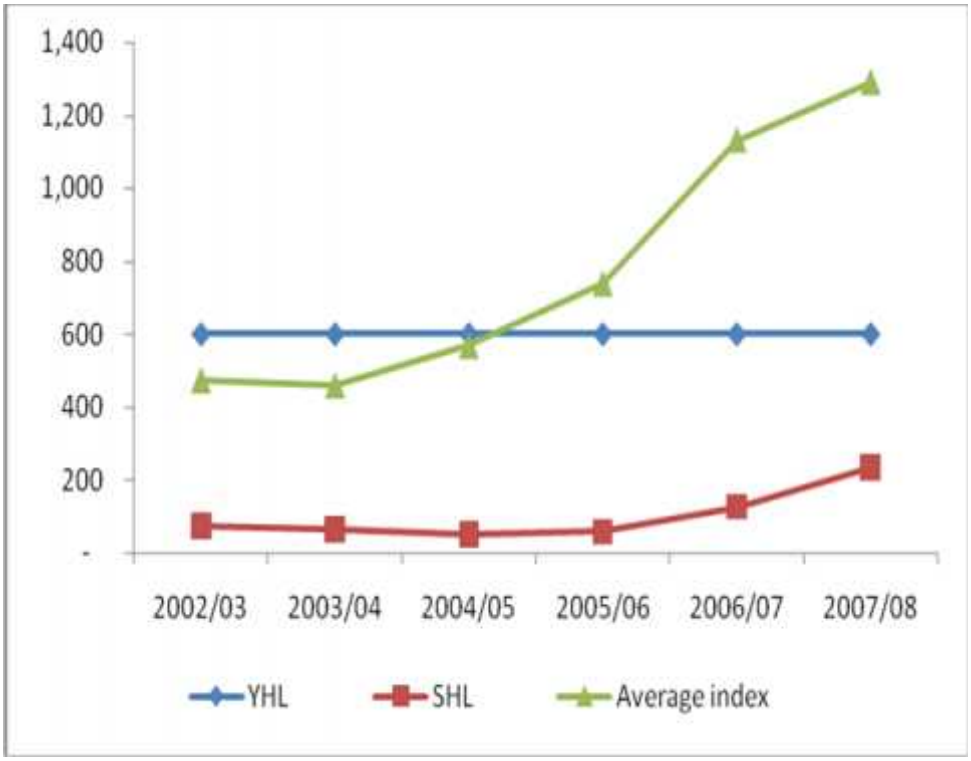
As the table 4.5 depicts , interestingly, there is no change in the share price of Yak and Yeti Hotel as it remained constant at Rs 600 since fiscal year 2002/03 to 2007/08.However, the price of Soaltee Hotel was in decreasing fashion up to fiscal year 2005/06 starting from 2002/03.But in the year 2006/07,it was increased more than doubled compared with previous fiscal year and reached Rs 126.Follwing the same trend, the closing price hit Rs 236 , a rampant increment in the fiscal year 2007/08.The table above has been plotted in the chart under.

YHL and SHL are taken as sample from the hotel sector. Interestingly the mps of YHL was unchanged at Rs 600 for all the sampled years. The mps of YHL was higher than the average mps from the fiscal year 2002/03 to 2004/05 whereas it was lower 2005/06 onwards. The mps of SHL was lower than the average mps in all the sampled years. The

trend has been shown with the help of the figure

Figure 4. 12

MPS of sampled hotel companies during the period 2003-20008



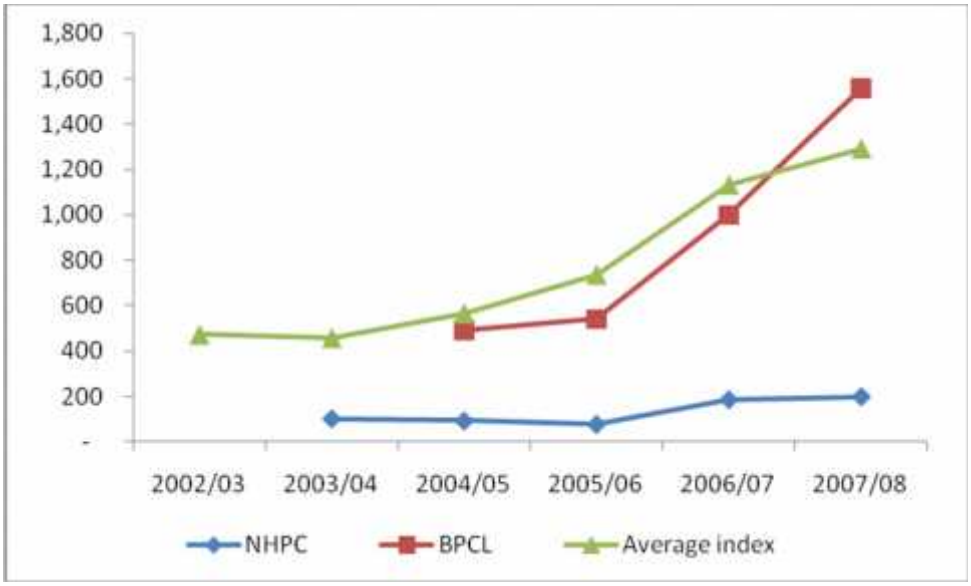
4.2.4.4 Closing Market Prices of Selected Hydropower Companies

National Hydropower and Butwal Power Company were taken as sample and their closing market share prices have been given in the table below.

NHPC and BPCL are taken as sample from the hydropower sector. The mps of NHPC is below the average mps in all the years. On the other hand, the mps of BPCL is higher than average only in the year 2007/08. The highest mps of NHPC is Rs 198 and that of BPCL is Rs 1559 in the fiscal year 2007/08 .The trend has been shown in the figure.

Figure 4. 13

MPS of sampled hydropower sector during the period 2003-20008



4.2.4.5 Closing Market Prices of Sampled Insurance Companies

Two Insurance Himalayan General Insurance Company and United Insurance Company Ltd were taken to represent the Insurance Companies. Their closing market prices have been given in the table.

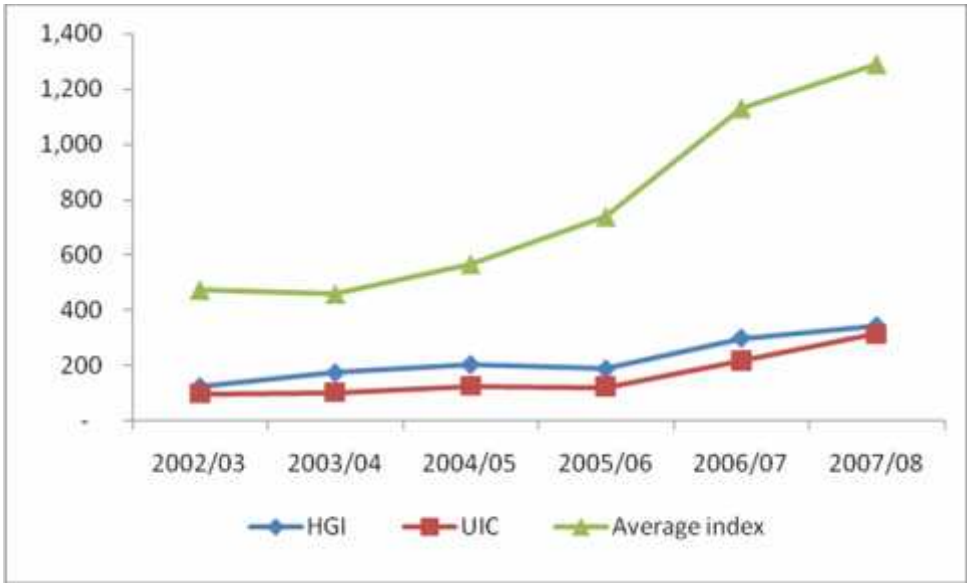
As per the table 4.5, closing market price of HGI was Rs 125 in the fiscal year 2002/03.It kept on increasing till fiscal year 2004/05 but at a slower pace. However, price fell down to Rs 189 in 2005/06.Reverse was the case in the subsequent fiscal years as the price moved up. Closing price of which in the fiscal year 2007/08 was Rs 345.On the other hand, the price of United Insurance Co was in increasing trend starting from 2002/03 to 2004/05.In 2005/06price was moved down but that was of a nominal amount. Further, in both the fiscal years, price climbed up. Rs 315 were the closing market price at the end of fiscal year 2007/08.The entire fluctuation has been shown in the figure below.

HGI and UIC are taken as sample from the Insurance companies. The mps of both of the

companies were lower than the average mps in all the sample years. The highest mps of HGI Rs 345 and that of UIC is Rs 315 in the fiscal year 2007/08 which is below the average mps of Rs 1291 in the same year. The lowest mps of both the companies are in the year 2002/03. The trend has been shown with the help of the figure.

Figure 4.14

MPS of sampled insurance sector during the period 2003-20008



4.2.4.6 Closing Market Prices of Selected Finance Companies

Nepal Finance and Saving Co.and NIDC Capital markets were taken as sample and their closing prices have been given in the table below.

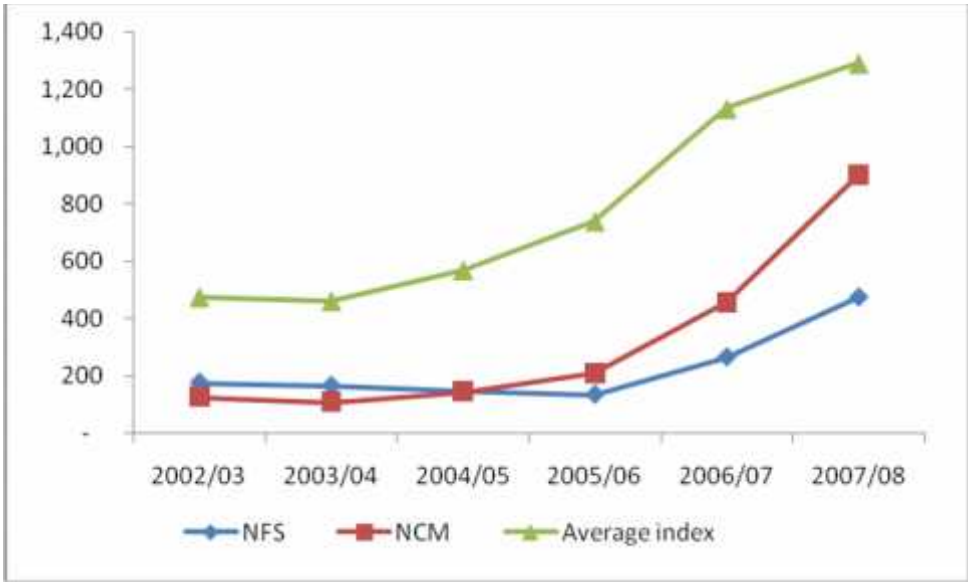
The closing market price of Nepal Finance and Saving Co. in the fiscal year 2002/03 was Rs 176.The price was continued down falling till the fiscal year 2005/06, as it was Rs 134 in this year.After in the coming years, the value was upward slopped and finally reached at Rs 475 in the fiscal year 2007/08.On the other side,NIDC's closing market price was Rs 125 in the fiscal year 2002/03,decreased only in the fiscal year 2003/04 and then continuously moved up .In the fiscal year 2007/08 the value was arrived at Rs 901.However,the dramatic increment was made in the year 2006/07 as the price doubled

and touched Rs 455.It is shown below in the figure.

NFS and NCM are taken as sample from the finance companies. The mps of both of the companies are below the average mps in all the years. The highest mps of NFS is Rs 475 and that of NCM is Rs 901 in the fiscal year 2007/08. The lowest mps of NFS is in the year 2005/06 and NCM's is in the year 2003/04. The trend has been shown with the help of the figure 4.15.

Figure 4.15

MPS of sampled finance companies during the period 2003-20008



4.2.4.7 Closing Market Prices of Selected Development Banks

Nepal Industrial Dev Corporation and Nepal Development Bank's closing market prices were taken to represent the Development Bank Sector. Data is presented in the table below concerning the closing market price.

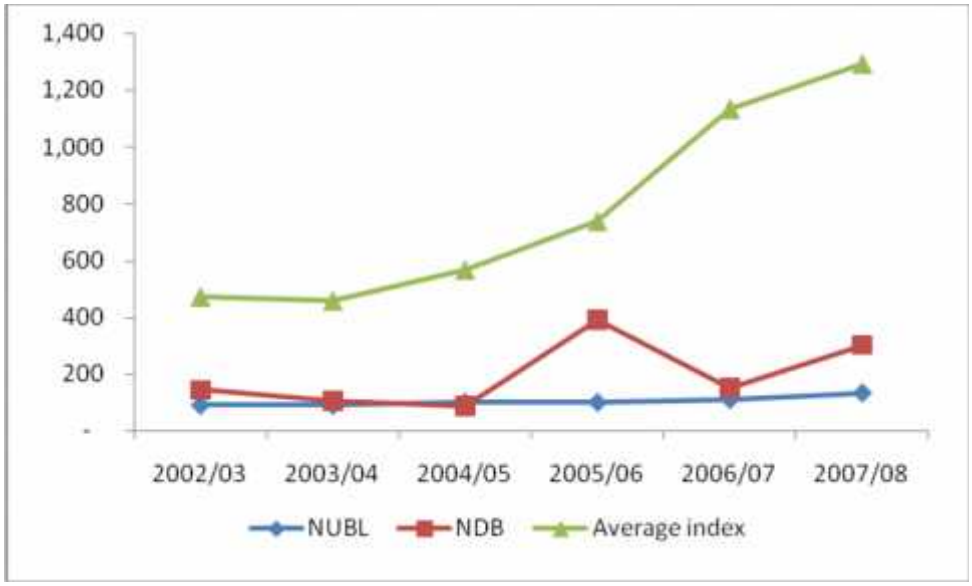
Table 4.5 shows that closing price of NUBL in the fiscal year 2002/03 was Rs 90 and remained unchanged in the following fiscal year. Rs 100 was the closing market price in the Year 2004/05 and following fiscal year.134 was the price reached in 2007/08.Whereas, NDB's closing market price was Rs 145 in the fiscal year 2002/03.It continuously fell down for two fiscal years but picked up to Rs 390 in the fiscal year

2005/06.Nosedived fall lead the price to Rs 153 in the fiscal year 2006/07.In the fiscal year 2007/08 the price moved up and touched Rs 302.The entire trend is shown in the figure below.

Two banks, NUBL and NDB are taken as sample from the development banks. The mps of both of the banks are below the average mps in all the sample years. The highest mps of NUBL is Rs 134 and that of NDB is Rs 390 in the fiscal year 2007/08 and in the year 2005/06 respectively. The trend has been shown with the help of the figure

Figure 4.16

MPS of sampled development banks during the period 2003-20008



4.2.4.8 Closing Market Prices of Selected Trading Companies

Bishal Bazar Company Ltd and Salt Trading Corporation were taken as sample to represent the trading sector's behavior. MPS of both companies have been provided in the table below.

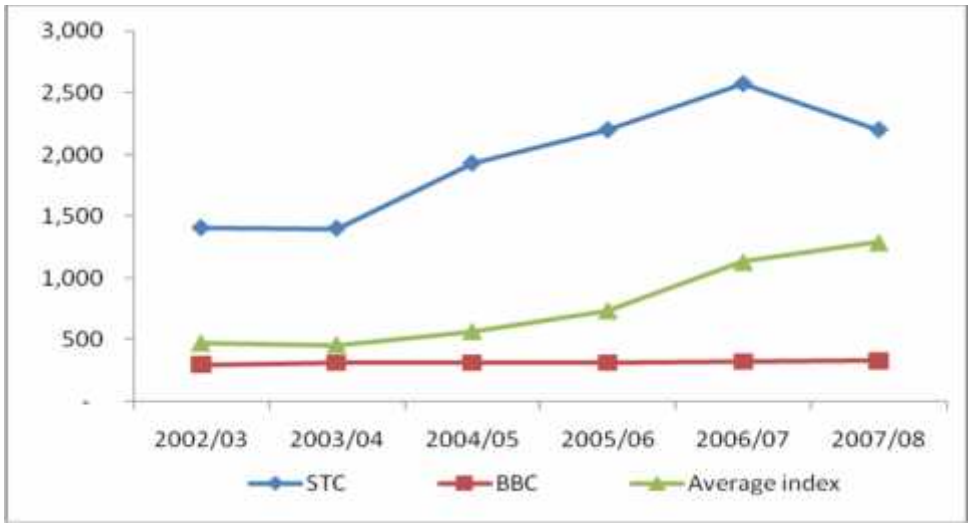
Table 4.5 shows, in the fiscal year 2002/03 closing price of BBC was Rs 1405 and 1400 in 2003/04.A rampant increment in its market price reached its price to Rs 1930 in fiscal year 2004/05.An increment by Rs 270 was seen in 2005/06.However,a moderate decrease in its closing price reached its price at Rs 2201 in fiscal year 2007/08.On the other hand,

Rs 300 was recorded the closing price of STC in the year 2002/03. The price was unchanged in following two fiscal years.2006/07's data shows Rs 325 was the closing price a nominal increment compared to previous year's data. Again, a few move up in its price reached Rs 331 in the year 2007/08.The fashion is shown below.

BBC and STC are taken as sample from the trading sector. The mps of BBC is higher than the average mps in all the years on the contrary; STC's mps is lower than the average mps in all of the sample years. The highest mps of BBC was Rs 2575 and that of SCBNL was Rs 6830 in the fiscal year 2006/07 and 2007/08 respectively .The lowest mps of BBC was in the year 2003/04 and STC's mps was lowest in the year 2002/03 The trend has been shown with the help of the figure4.17.

Figure4.17

MPS of sampled trading companies during the period 2003-20008



4.2.5 Correlation Coefficient Analysis

Correlation Analysis establishes the closeness of relation between the two and more variables. It measures the degree of relationship or association between variables. In this section, the study calculates the correlation between NEPSE index and MPS, between MPS and EPS and between EPS and NEPSE index of the sampled companies.

4.2.5.1 Correlation between Market Price Per Share and Earning Per Share of Selected Companies

Table 4.6 shows the correlation between Market price per share (MPS) and Earning price per share (EPS) of sampled companies during the period 2003-2008. To find out this correlation, Karl Person's coefficient of correlation (r) is calculated. It is assumed that, MPS of sampled companies will increase as EPS of companies increase or decrease, if EPS of finance companies decrease.

Table No: 4.6

Correlation between MPS and EPS of sampled companies

Name Of the Company	Correlation Coefficient	Probable Error(P.E)	Test Of significant
NABIL	0.94	0.03	significant
SCBNL	0.63	0.17	insignificant
NDB	0.51	0.20	insignificant
NUBL	0.22	0.26	insignificant
NFS	0.46	0.22	insignificant
NCM	0.58	0.18	insignificant
BNL	0.54	0.19	insignificant
NLOL	0.80	0.10	significant
HGI	0.87	0.07	significant
UIC	0.83	0.09	significant
SHL	0.95	0.03	significant
YHL	0.23	0.26	insignificant
NHPC	0.95	0.03	significant
BPCL	0.71	0.17	insignificant
STC	0.54	0.24	insignificant
BBC	0.82	0.09	significant

Table 4.6 shows that all the companies have the positive value of correlation coefficient. So, there is positive relationship between MPS and EPS. Among all the sampled companies, the correlation between MPS and EPS of SHL and NHPC have highest value (r=0.95) which are significant. This indicates there is perfect positive correlation between the variables. While NUBL has lowest correlation coefficient (r=0.22) which is

insignificant. This indicates there is low positive correlation between the variables. Hence, the result depicts that increase in EPS of the sampled companies will increase in MPS of companies.

4.2.5.2 Correlation between Market Price per Share and NEPSE Index of Selected Companies

Table 4.7 shows the correlation between NEPSE index and Market price per share (MPS) of sampled companies during the period 2003-2008. To find out this correlation, Karl Person's coefficient of correlation (r) is calculated. It is assumed that, NEPSE index will increase as MPS of sampled companies increase or decrease, if MPS of sampled companies decrease.

Table No: 4.7

Correlation between NEPSE index and MPS of sampled companies

Name Of the Company	Correlation Coefficient	Probable Error(P.E)	Test Of significant
NABIL	0.97	0.02	significant
SCBNL	0.98	0.01	significant
NDB	0.43	0.22	insignificant
NUBL	0.97	0.02	significant
NFS	0.93	0.04	significant
NCM	0.98	0.01	significant
BNL	0.11	0.27	insignificant
NLOL	-0.70	0.14	insignificant
HGI	0.96	0.02	significant
UIC	0.99	0.00	significant
SHL	0.94	0.03	significant
YHL	0.40	0.23	insignificant
NHPC	0.92	0.05	significant
BPCL	0.93	0.04	significant
STC	0.72	0.16	insignificant
BBC	0.88	0.06	significant

Table 4.7 shows that all the companies have the positive value of correlation coefficient except NLOL, which has negative correlation coefficient. So, there is positive relationship between NEPSE index and MPS except NLOL. Among all the sampled

companies, the correlation between NEPSE index and MPS of UIC has highest value (r=0.95) which is significant. This indicates there is perfect positive correlation between the variables. While NLOL has lowest correlation coefficient (r=-0.70) which is insignificant. This indicates there is low negative correlation between the variables. Hence, the result depicts that MPS will increases as increases in NEPSE index except NLOL which have opposite result.

4.2.5.3 Correlation between Earning Per Share and NEPSE Index of Selected Companies

Table 4.8 shows the correlation between NEPSE index and earning price per share (EPS) of sampled companies during the period 2003-2008. To find out this correlation, Karl Person's coefficient of correlation (r) is calculated. It is assumed that, NEPSE index will increase as EPS of sampled companies increase or decrease, if MPS of sampled companies decrease.

Table 4.8

Correlation between NEPSE index and EPS of sampled companies

Name Of the Company	Correlation Coefficient	Probable Error(P.E)	Test Of significant
NABIL	0.91	0.05	significant
SCBNL	0.76	0.12	significant
NDB	0.24	0.26	insignificant
NUBL	-0.26	0.26	insignificant
NFS	0.60	0.18	insignificant
NCM	0.67	0.15	insignificant
BNL	0.86	0.07	significant
NLOL	0.83	0.09	significant
HGI	0.30	0.25	insignificant
UIC	-0.94	0.03	insignificant
SHL	0.84	0.08	significant
YHL	0.21	0.26	insignificant
NHPC	0.93	0.05	significant
BPCL	0.79	0.13	significant
STC	0.51	0.25	insignificant
BBC	0.76	0.12	significant

Table 4.8 shows that most the companies have the positive value of correlation coefficient. So, there is positive relationship between NEPSE index and EPS except some companies. Among all the sampled companies, the correlation between NEPSE index and EPS of NHPC has highest value (r=0.93) which is significant. This indicates there is perfect positive correlation between the variables. While UIC has lowest correlation coefficient (r=-0.94) which is insignificant. This indicates there is low negative correlation between the variables. Hence, the result depicts that NEPSE index of most of the companies' increases as the increase in EPS whereas NUBL and UIC have opposite result.

Having analyzed the secondary data, the next section devoted to analyze the primary data.

4.3 Presentation and Analysis of Primary Data

Primary data are of great importance to conduct research work. In this study, primary data is collected with the distribution of questionnaires to the respondents, interview with the financial experts and investors and brokers.

Interviews were taken with senior officials of NEPSE, within the periphery of investors' awareness about investment decision. It was found that the reason behind frequently swing in the market price of shares was due to lack of institutional investors who could properly analyze and study the market trends before making their investment. As per their views, Nepalese Stock Market is dominated by retail investors come forward to act in bullish trend. They emphasized that stability can't be fully achieved unless rational and institutional investors come to participate in the secondary market. However, they agreed the fact that the investors have become much sensitive and professional with their investment decision in comparison to some two three years back. Most of the experts were using either fundamental or technical analysis to study stock market behavior.

Informal discussion with the investors in stock market concluded the return even after analyzing the stocks were not as per their expectation. They were not satisfied and blamed brokers and NEPSE officials of joining hands for price manipulating. They accused that the direction of the overall stock market was in the hands of few people.

Small investors had the problem that they didn't get relevant and timely and proper information and suggestions from brokers. Unprecedented swings in the NEPSE index caused uproar among investors.

In this way, investors and officials were at loggerheads' over the cases of stock market, blaming each other or the volatility of stock prices. Though, they have different theories which can be used to offer over price fluctuations, the effort to improve the domestic stock market should be done from all quarters.

A number of questions were put by means of questionnaire. The question through this means were o three types , yes no question , multiple choice question and open end question. The questionnaires collected are related to find out the opinion of investors in investment action for trading shares in secondary market. Their responses have been analyzed are as follows:

Preference of Investors

Regarding the sector of investment the investor were asked in which sector they were interested to invest. Majority the investor were interested in banking sector i.e.60%, 20% of the total investor were interested in manufacturing and processing. 16% wanted to invest in trading sector and remaining 2% were interested to invest in other area.

Table no 4.9

Sector wise preferences for investment

SN	Variables	No of respondents	% of respondents
1	Bank/Finance	30	60
2	Manufacturing and processing	10	20
3	Trading	8	16
4	Others	2	4
	Total	**50**	**100**

Investors Awareness

The objective of the question was to know whether investors were aware about the Nepalese stock market in terms of the information. Most of them found unaware i.e. 38%.

Only 32% were aware about the market. Remaining 30% had moderately updated. Table 4.33 shows the data below.

Table no 4.10

Investor's awareness in the stock market:

SN	Variables	No of respondents	% of respondents
1	Yes	16	32
2	No	19	38
3	Moderate	15	30
Total		**50**	**100**

Factors influencing MPS

The objective of this analysis was to know which factor was the major influencing factor to invest in stocks in secondary market. Brokers, individual investors, institutional investors and NEPSE staffs gave different views on their own ideas. 16% of them responded that company's profits as the influencing factor, 26% responded company performance was the influencing factor, 16% as company's board of director, 34% were with dividend, and remaining 8% with signaling factor.

Table no 4.11

Influencing factor in the stock market price

SN	Variables	No of respondents	% of respondents
1	Company's profit	8	16
2	Company's performance	13	26
3	Board of directors	8	16
4	Dividend	17	34
5	Signaling factor	4	8
Total		**50**	**100**

Decision Making Criteria

The objective was to identify how the investors reached the decision to make an investment in stock market. Most of the investors found to analyze stock price i.e. 56%. A significant percentage responded that they did their own analysis in terms of dividend and right shares of the company and reached to make an investment which was 34%. Though it is supposed that Nepalese stock market is influenced by rumor, very few were after such. Table 4.35 shows only 4% followed rumor. Suggestions from brokers and financial analysts and the information in news papers and magazines led 6% investors to decide the investment.

Table no 4.12
Basis of decision making criteria

SN	Variables	No of respondents	% of respondents
1	Market price	28	56
2	Rumor	2	4
3	Own analysis	17	34
4	Suggestions	3	6
Total		**50**	**100**

Investor's satisfaction

Regarding the question whether the investors were satisfied with their investment , 44% of the respondents were not, only 38% of the respondents were satisfied with the return , 18% of the respondents were moderately satisfied.

Table no 4.13
Data regarding investor satisfaction

SN	Variable	No of respondents	% of respondents
1	Yes	19	38
2	No	22	44
3	Moderate	9	18
Total		**50**	**100**

Investor's Difficulty

Question was given to be filled whether the investors were having problem to have transaction such as purchasing and selling stocks. Majority of them had no difficulty of purchasing and selling. 82% of them replied they were not facing any type of problem and remaining 18% with the lack knowledge about stock market, were facing problems.

Table no 4.14
Investor's difficulty

SN	Research Variable	No of respondents	% of respondents
1	Yes	9	18
2	No	41	82
Total		**50**	**100**

Government policy

Government policy, directly affects the behavior of stock market. Increase in the tax rate in capital gain from 10 percent to 15 percent is the example in recent days which has affected the NEPSE index adversely. The policy of government is not clear and perfect in Nepalese stock market. Different respondents were asked whether the policies were clear from them or not the following result were found. 72% of the respondents replied that government policy of stock market is not clear and perfect, 16% of the respondent replied that the policy is clear, however, 12% were unknown.

Table no 4.15
Government policy analyses in stock market

SN	Variables	No of respondents	% of respondents
1	Yes	8	16
2	No	36	72
3	Don't know	6	12
Total		**50**	**100**

Environmental Analysis

Political factor was the major influencing factor in Nepalese context. Obliviously, economic factor is the another important factor that can affect the stock market's trading as the table shows 22% is responsible. Though international investors are not allowed to invest in Nepalese market, in such a global economic environment, Nepal can't be far from international environment. Hence, international environment is 18% responsible for stock market behavior as per the data.

Table no.4.16
Opinion of environmental effects

SN	Variables	No. of respondents	% of respondents
1	Political	21	42
2	Economic	11	22
3	Socio- cultural	2	4
4	Technological	7	14
5	International Environment	9	18
Total		**50**	**100**

Favored Trend

Regarding the suitability trend of stock price movement, different investors, NEPSE staffs, brokers gave different opinion about the trend of which 78% were in favor of bullish trend, 8% with optimum trend and 14% in favor of bearish trend.

Table no 4.17
Favorable Trend of stock price movement

SN	Trend	No of respondents	% of respondents
1	Bullish Trend	39	78
2	Bearish Trend	7	14
3	Optimum Trend	4	8
Total		**50**	**100**

Causes of Holing the Shares

Investors were asked for their motive of holding shares. Majority of them found they were intending to get right shares. 50% of them held stocks in order to get right shares. While 32% of the total were holding to get short term benefit, as it seemed to be of speculative motive. Remaining 18% were holding to get dividend.

Table4.18

Causes of holding the shares

SN	**Variables**	**No of respondents**	**% of respondents**
1	Short term gain	16	32
2	Right shares	25	50
3	Dividend	9	18
Total		50	100

So far as investors experience on investment problem were concerned, it was found quite astonished. Some key experiences, which were considered to be worthy, are cited here. Some investors expressed their views that due to non-transparent operation and delay in and disseminating the information regarding companies financial status and shares they were in dilemma whether to purchase or sell the shares. Similarly, others blame that brokers in the secondary market didn't provide proper advices for the clients. As a result, they had to bear losses while trading the stocks. The brokers purchased the shares for their clients on an "execution – only basis" and do not take responsibility for their quality of advices they offered. Therefore, according to them brokers performed the function in the capital market not for investors shake but only for reaping their commissions from investors. Very few numbers of security analysts or firms involved in forecasting market trends and future prices of shares. They felt difficulty to take right investment decisions at the right time. Likewise, it was acknowledged that some of the investors were reluctant to make further investment in the secondary market since they had bitter experience for making transfer of ownership of shares in the register of share holder was time consuming. According to them, completion of transfer process almost took about three to

four months, so they felt their interest was not protected. That's why, all of the respondents who faced this types of problem led emphasis to think twice whether or not to invest in shares in secondary markets.

In this way, a fraction of investors seemed to be apprehensive to sell the shares of the company which they bought from primary market. The views expressed over the solution of trading problems as well as improvement of the confidence of investors to invest in secondary market were more or less similar to one another. All of them led priority on the access to information so as to know the financial strength of the company as well as the market trend of securities.

Frequently fluctuation of stock market prices, lower quality of professional services and delay in procedures for making transfer of ownership of shares have caused a great loss to the confidence of the investors. Similarly, the settlements of traded shares were not carried out within the given duration. Among other things some suggested to have special provisions in the act to protect the right of security holders. So for the acts, making the provision only from the side of company management has in acted i.e., company act and stock exchange act. Instead the company themselves are violating the provisions laid down in the acts from time to time.

4.4 Major Findings of the Study

On the basis of analysis of data and their interpretation, the major findings of the study are summarized below:

Among all the sampled companies, the correlation between MPS and EPS of SHL and NHPC have highest value (r=0.95) which are significant. This indicates there is perfect positive correlation between the variables. While NUBL has lowest correlation coefficient (r=0.22) which is insignificant. This indicates there is low positive correlation between the variables. Hence, the result depicts that increase in EPS of the sampled companies will increase in MPS of companies.

- All the companies have the positive value of correlation coefficient except NLOL, which has negative correlation coefficient. So, there is positive relationship between

NEPSE index and MPS except NLOL. Among all the sampled companies, the correlation between NEPSE index and MPS of UIC has highest value (r=0.95) which is significant. This indicates there is perfect positive correlation between the variables. While NLOL has lowest correlation coefficient (r=-0.70) which is insignificant. This indicates there is low negative correlation between the variables. Hence, the result depicts that MPS will increases as increases in NEPSE index, except NLOL which has opposite result.

- Most the companies have the positive value of correlation coefficient. So, there is positive relationship between NEPSE index and EPS except some companies. Among all the sampled companies, the correlation between NEPSE index and EPS of NHPC has highest value (r=0.93) which is significant. This indicates there is perfect positive correlation between the variables. While UIC has lowest correlation coefficient (r=-0.94) which is insignificant. This indicates there is low negative correlation between the variables. Hence, the result depicts that NEPSE index of most of the companies' increases as the increase in EPS whereas NUBL and UIC have opposite result.

- Brokers, individual investors, institutional investors and NEPSE staffs gave different views on their own ideas. 16% of them responded that company's profits as the influencing factor, 26% responded company performance was the influencing factor, 16% as company's board of director, 34% were with dividend, and remaining 8% with signaling factor.

- Most of the investors found to analyze stock price i.e. 56%. A significant percentage responded that they did their own analysis in terms of dividend and right shares of the company and reached to make an investment which was 34%. Suggestions from brokers and financial analysts and the information in news papers and magazines led 6% investors to decide the investment.

- Majority of them had no difficulty of purchasing and selling. 82% of them replied they were not facing any type of problem and remaining 18% with the lack knowledge about stock market, were facing problems.

- Majority of respondents found they were intending to get right shares. 50% of them held stocks in order to get right shares. While 32% of the total were holding to get short term benefit, as it seemed to be of speculative motive. Remaining 18% were holding to get dividend.

- Some investors expressed their views that due to non-transparent operation and delay in and disseminating the information regarding companies financial status and shares they were in dilemma whether to purchase or sell the shares.

- Very few numbers of security analysts or firms involved in forecasting market trends and future prices of shares. They felt difficulty to take right investment decisions at the right time.

- The views expressed over the solution of trading problems as well as improvement of the confidence of investors to invest in secondary market were more or less similar to one another. All of them led priority on the access to information so as to know the financial strength of the company as well as the market trend of securities.

CHAPTER- V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The last chapter of thesis presents the summary, conclusion and recommendations .summary refers the short form of whole study, conclusion drawn from the analysis. Recommendation suggests the improving to test the causes of stock price behavior in Nepalese Stock Market. General study is related with the price of secondary stock market behavior. Since primary issues has a very less impact in the economy.

5.1 Summary

Securities market refers the buying and selling of the Stock, Bond and debt. Capital market plays a vital role for the development of the economy. Stock Markets Ups and downs affects the economy accordingly. By promoting the stock market in sizeable economic sector gives raises the economic development by mobilizing swing into productive sectors by making suitable investment for making favorable investment environment. Many factors are responsible for the ups and downs of the stock market. The study of such volatility has been analyzed with the help of NEPSE index, volume of stock traded ,paid up value and market capitalization ,closing prices of sampled companies ,correlation and regression analysis have been done. On the other hand, it is analyzed with the help of questionnaires and some signaling factors are studied. The main objectives of the research work was to examine and study the price trend of selected Nepalese companies, volume of stock traded on the secondary ,and to study investors' view regarding decision on stock investment.

According to the nature and objectives of the study, primary data as well as secondary data has been used to conduct the research work. Secondary data was collected from annual report of NEPSE index, daily newspapers journals and periodicals and library search .On the other hand, primary data was collected with the help of questionnaires .Interviews were taken with financial experts, investors and SEBON employees and questionnaires were gathered to collect primary data .From the analysis it can be concluded that price of stocks are not predictable as all the studied variables are in

fluctuating trend and stock market is greatly influenced by political activities in the country. The Political situation doesn't seem to be stable even nowadays.

NEPSE index in the fiscal year 2003/04 was 222.04 and it was at the point 963.04 in the year 2007/08, which is in increasing trend. Similarly, volume of stock traded is in increasing trend .Rate of listing of new companies are not in satisfactory condition. The volume of transacting companies are satisfactory as it has been continuously increasing as in taken data starting from fiscal year 2003/04 to 2007/08.Annual stock price trend from last two three years are increasing in stock market this might is the cause of end of war in the country and Maoists have entered in the main stream of politics. The paid up value and market capitalization of listed companies are satisfactory as the data shows that it was 29465.83(in million) and (308779.4) in million in the fiscal year 2007/08.There were positive and negative correlation coefficient of the sampled companies tested with EPS and MPS.

5.2 Conclusion

As we all know Nepalese Stock market is in developing phase. The study sums up that there is gap between theory and practice of investment due to lack of proper information about how the stocks can be transacted .How to purchase and sell them and where to sell them, who will assist them to make the transactions. People are confused what is NEPSE index is all about and they are often confused with the term like "NEPSE index increased by this amount or decreased by this point."

We just entered in computer trading system before a year. The transaction is conducted only in the capital city. There is no such provision that the stocks can be transacted out of Kathmandu. NEPSE is doing homework for that. Hopefully this will come true to all Nepalese people who can purchase or sell the stocks of their interest in near future staying in their own home town.

Conclusion drawn from the help of questionnaires depicts that majority of the respondents are not satisfied with the growth trend of the market. They do not have sufficient knowledge about investment as well. Similarly, majority of respondents are not satisfied with the performance of stock market for the development of the economy.

NEPSE and SEBON are not providing information accurately and timely and the provided information is not sufficient as well. Marketability and profitability are the major motivating factors of investment for investors. They make investment decision without analysing the financial performance of the company and without consulting the experts. Most of the respondents feel the company registrar's office should play vital role in providing the financial statement of particular company to SEBON and NEPSE and they also emphasis that the government should play important role to increase investment in stock market. Hence, investors are loosing their confidence. Liquidity for the stock is poor in the market. Professionalism is still lacking in the service of investors and investment management. NEPSE has realised that the number of brokers in the market are not sufficient to provide service for the investors and processing to increase the number of brokers. A system of preponderance of speculative trading has been increasing which will be dangerous for the investors as well for economy. It appears that a very small fraction of transaction represents by genuine investors. The rests are driven mainly by speculative motive. The corporate sector is still reluctant on disseminating information on time.

NEPSE is analysing stock market behaviour in very few areas regarding the stock market. So, experts should be recruited and analysed market behaviour in efficient way so that all parties interested with stock market can get benefit. NEPSE should conduct programs for investors such as general awareness about investment, investment procedures and movement of stock trend in different periods .The causes are well explained how they are fluctuating. Most of the investors blame that market makers, brokers and NEPSE staffs are making coalition for fraudulent activities towards investors. So, NEPSE should monitor clearly in such activities for the development of stock market.

It is observed that Nepalese stock market is greatly influenced by political aspect than any other factors. Even a Speech of a political leader impacts in the volume of stocks traded and their prices. Signalling factor is another factor to bring fluctuation .To sum up, study of stock market behaviour is very useful if properly analysed and implemented for the development of stock market.

5.3 Recommendation

The findings of the study may provide important information for those who are concerned directly or indirectly with the stock market activities. Thus, the following suggestions are outlined based on the study.

- NEPSE and SEBON should establish the system for regular monitoring and analyze the strengths and weaknesses of the public companies, which could disclose valuable information and suggestion to the investors in order to minimize the level of risk. .
- There exists excessive price fluctuation as observed from the stock market while collecting the data. To control such erratic price fluctuations the regulatory body should impose effective provisions to the exchange members.
- Though the volume to trading has increased 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.
- The public investors not direct their savings in shares haphazardly. They should at least analyze or get suggestions from experts about financial position and the level of risk prior to taking and investment decisions. Because of the persistence in the stock price movements professional traders either institutional or individual can beat the market. Thus it is suggested that the investors should be alert to exploit the opportunities through short term speculation. The information and financial statements of the companies should be disseminated properly and timely.
- The government should allow foreign investors to invest in Nepalese Capital Market. Independent rating agencies should be encouraged to establish so that the potential investors will have a confident picture of the financial health and future prospects of organizations/Instruments.
- Encourage active participation of other sectors of the economy besides banks, finance companies and insurance through the enforcement of good corporate governance. Investment in corporate sectors should be encouraged

- NEPSE index plays major role for creating investment prosperity. So for removing stock market difficulties such as transaction facilities should be managed in effective way by formulating investor's protection act. NEPSE can expand its services to the regional levels rather than just concentrating solely in the valley.
- The price fluctuation trend is not predictable by general investors, so technical facilities should be provided by NEPSE so that general investors will be able to invest with the help of some analysis instead of investing in rumor.
- Though the stock is a much liquid financial asset, still investors don't feel as liquid as it should be. Mainly, investors get the amount selling their stocks after a week or even later. NEPSE therefore should bring provision so that the amount after selling the stocks in the hands of seller is in as per the shortest time.

Annex I

Questionnaire

This study is undertaken as the partial fulfillment of the requirements for the degree of Master of Business Studies (M.B.S.)

Your response will be highly appreciated and acknowledged in the study. It will also be treated as confidential and result of analysis will be presented in aggregate or group basis.

Name (optional): **Position/Profession:**

Institution:

1) In which of the following sector do you want invest in the Share?
   a) Banking ( ) b) Manufacturing and Processing ( )
   c) Trading ( ) d) Others (…….)

2) Do you think investors in the Nepalese stock market are aware?
   a) Yes ( ) b) No ( ) c) Don't Know ( )

3) What is the major influencing factor for the stock price?
   a) Company's Profit ( ) b) Company's Performance ( )
   C) Company's Board of Directors ( ) d) Dividend ( ) e) Signaling Factor ( )

4) On which basis do you make decision to invest in shares in the secondary market?
   a)Market price ( ) b) Rumour ( )

c) Own analysis ( ) d) Suggestions ( )

5) Are you satisfied with the profit earned from your investment decision?
a) Yes ( ) b)No ( ) c) Moderate ( )

6) Are government's policies clear and perfect in Nepalese stock market?

a)Yes ( ) b)No ( ) c)Don't Know ( )

7) What are the environmental factors which affect the Nepalese stock market?
a)Political ( ) b)Economic ( ) c)socio cultural environment ( )

d) Technological ( ) e) International ( )

8) In which of the following trend of stock price behavior is suitable for Nepalese stock market?
a)Bullish trend ( ) b)Bearish trend ( ) c)Optimum trend ( )

9) For what purpose do you want to invest in the shares of a company?
a)short term gain ( ) b)Right shrares ( ) c)Dividend ( )

10) In your opinion what are the majors to be taken for developing Nepalese Secondary Market?

a)……

b)……..

c)…….

d)……

ANNEX I

EPS, MPS and INDEX Selected Companies

EPS, MPS and INDEX Selected Commercial Banks (NABIL and SCBNL)

EPS, MPS and INDEX Selected Development Banks (NUBL and NDB)

	NUBL		NDB		
Years/Particulars	MPS	EPS	MPS	EPS	INDEX
2002/03	90.00	8.23	145.00	2.52	204.86
2003/04	90.00	17.34	106.00	0.75	222.04
2004/05	100.00	4.9	88.00	-188.67	286.67
2005/06	100.00	101.63	390.00	49.27	372.01
2006/07	110.00	30.57	153.00	-101.03	683.95
2007/08	134.00	41.84	302.00	-74.38	963.40

EPS, MPS and INDEX Selected Finance Companies (NFS **and** NCM**)**

	NFS		NCM		
Years/Particulars	MPS	EPS	MPS	EPS	INDEX
2002/03	176.00	56.78	125.00	-9.93	204.86
2003/04	165.00	0.38	107.00	35.15	222.04
2004/05	147.00	4	145.00	35.07	286.67
2005/06	134.00	67.27	208.00	14.02	372.01
2006/07	265.00	80.62	455.00	58.88	683.95
2007/08	475.00	66.2	901.00	48.52	963.40

EPS, MPS and INDEX Selected Insurance Companies (HGI **and** UIC**)**

	HGI		UIC		
Years/Particulars	MPS	EPS	MPS	EPS	INDEX
	125.00	25.5	100.00	15.69	204.86
2003/04	175.00	38.4	105.00	5.97	222.04
2004/05	205.00	39.87	128.00	12.38	286.67
2005/06	189.00	36.7	125.00	16.86	372.01
2006/07	300.00	39.9	219.00	15.32	683.95
2007/08	345.00	65.17	315.00	29.92	963.40

EPS, MPS and INDEX Selected Manufacturing Companies (BNL **and** NLOL**)**

	BNL		NLOL		
Years/Particulars	MPS	EPS	MPS	EPS	INDEX
2002/03	700.00	24.96	400.00	30.63	204.86
2003/04	554.00	9.94	350.00	20.89	222.04
2004/05	635.00	19.4	300.00	22.42	286.67
2005/06	500.00	19.4	350.00	20.89	372.01
2006/07	500.00	19.4	350.00	0.86	683.95
2007/08	700.00	22.3	250.00	-58.52	963.40

EPS, MPS and INDEX Selected Hotels (YHL **and** SHL**)**

	YHL		SHL		
Years/Particulars	MPS	EPS	MPS	EPS	INDEX
2002/03	600.00	- 6.23	75.00	-5.85	204.86
2003/04	600.00	-3.29	65.00	-4.35	222.04
2004/05	600.00	-9.91	50.00	-5.11	286.67
2005/06	600.00	4.63	57.00	-10.61	372.01
2006/07	600.00	-1.47	126.00	-2.13	683.95
2007/08	600.00	67.67	236.00	34.29	963.40

EPS, MPS and INDEX Selected Hydropower Companies (NHPC **and** BPCL**)**

	NHPC		BPCL		
Years/Particulars	MPS	EPS	MPS	EPS	INDEX
2002/03					204.86
2003/04	100.00				222.04
2004/05	90.00	-2.43	490.00	16.43	286.67
2005/06	75.00	-6.34	540.00	23.57	372.01
2006/07	185.00	2.53	1,000.00	34.47	683.95
2007/08	198.00	7.67	1,559.00	30.13	963.40

EPS, MPS and INDEX Selected Trading Companies (STC **and** BBC**)**

	STC		BBC		
Years/Particulars	MPS	EPS	BBC	EPS	INDEX
2002/03	1,405.00	91.23	300.00	71.46	204.86
2003/04	1,400.00	123.21	315.00	83.41	222.04
2004/05	1,930.00	88.36	315.00	74.36	286.67
2005/06	2,200.00	69.29	316.00	92.38	372.01
2006/07	2,575.00	153.24	325.00	102.24	683.95
2007/08	2,201.00	88.59	331.00	95.38	963.40

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