

# **CHAPTER -I**

## **INTRODUCTION**

### **1.1 Background of the Study**

The world's economy is changing rapidly. Economic sector plays a vital role for developing the nation. Nepal is one of the least developed countries in the World. The paucity of the required capital resources is one of the main causes of underdevelopment. Nepal launched planned economic policy five decade ago. Now, it is actively trying to achieve the rapid pace of development through liberalization.

To attain the rapid pace of economic development of the country, there should be good environment for the establishment of corporations in the different sectors of the economy. The favorable environment to establish a corporation depends upon many factors. The ability of an organization to acquire the needed capital is one of the main factors for its success.

Economic growth of any nation highly influenced and characterized by development and expansion of capital market. The growth of economy of the USA had been largely due to strength and efficiency of its capital market. Further, East Asian economic boom and crises are largely the effect of capital market fluctuation. The capital market has more significant role in developing economies like Nepal. The stock market plays important role encouraging and canalizing the saving to provide the entrepreneurs for investment in profitable projects.

Corporations acquire their -needed long-term fund by selling the securities in the capital market. "The term security will be used to refer a legal representation of the right to receive prospective future under related conditions. (Francis, 1998: p. 26). Capital markets typically involve financial

assets that have life spans of greater than one year. Capital market can be decomposed into securities market and non-securities market.

There are mainly two sources of financing in the profitable venture. These are: a) Internal Financing and b) External Financing. The internal financing has the limited scope; because of its limited scope; the risk associated with it is also limited. External financing becomes more important and popular for fostering the productive activities in the economy. The external financing may be segregated into mainly into three categories I) Equity financing, ii) Preferred stock financing, and iii) Debt financing. Among which the equity/common stock financing is the compulsion and important financing source for the corporations.

The trading of the common stocks takes place in the stock market. Stock market is a major component of the security market. Through the medium of security market corporate sectors can mobilize funds to finance the productive projects by issuing shares. Stock market may be further classified into primary market and secondary market. Primary market is that market whereby the corporations acquire the needed capital by Initial Public Offering (IPO) and through right issue. The secondary market is that market where the securities once issued by the corporations in the primary market are traded. So, secondary market plays vital role in liquidating the shares.

The history of secondary market in Nepal is not very long. Biratnagar Jute Mills and Nepal Bank Limited floated their share in 1937 A.D. Until the establishment of securities marketing center under the Company Act 1976, there was no secondary market to provide liquidity for those bonds. So the establishment of securities marketing center can be considered as the foundation stone for the institutional development of the securities market in Nepal. But it mainly confined its activities to provide liquidity for only government bonds in the secondary market.

NEPSE started its organized Automated Trading System (ATS) an internationally compatible system on August 24, 2007. There were 216 companies' securities listed on NEPSE till the last fiscal year 2011/12. There were 31 commercial banks, 71 finance companies, 21 insurance companies, 4 hotels, 68 development banks, 18 manufacturing & processing companies, 4 trading companies, and 6 on other category.

Stock market provides the best investment opportunities to the investor. It also provides liquidity to the securities. The liquidity affects the economic activities and thereby affecting the development of the country. The level of liquidity is influenced by the price formation of the stocks in the stock market. So, in order to maintain the high liquidity in the stock, the stock market has to be efficient in pricing the shares.

The prices of the share fully reflect the available information and rationality of the investors in the efficient stock market. The role of information is decisive in security pricing. If a market instantaneously incorporates all the previous price data of securities and publicly or privately available price sensitive information, that market is known as perfectly efficient market. Therefore, it is impossible to make abnormal profit by using this set of information because everywhere the security price equals and its investment value same at all times. There are two types of investors from the viewpoint of their trading characteristics. One is liquidity trader and the other is information trader.

## **1.2 Statement of the Problem**

The investors could not identify the good and bad stock due to lack of proper information. It was identified by several university researchers that because of the lack of sufficient information, rumors and whims could play significant role in share price movements and that investment on common stock is based more on intuition, imagination, guesswork than the conscious judgment based on statistical probabilities in Nepalese stock market. Brokers are also supposed to assist in the maintenance of a fair and orderly market but they may not be able

to do this job in their full capacity successfully because of the various obstacles presented in the economic environment. So the necessity to analyze the practical situation of brokering services in secondary market is a must in present situation.

Now a days the investors are not interested to invest in security due to lack of reliable and adequate information. The market is not competitive. Price formation process of the stock is on the hand of few brokers who are also investors. So the market is loyal to these few investors only. There are other serious problems that play vital role in NEPSE.

In this connection, the strong curiosity relating this study work could be addressed as follows:

- What is the status of capital market in Nepal?
- What is the performance of the brokerage company in Nepal?
- What is the status of brokerage service in secondary market?
- Are the investors satisfied with the broker's service?

### **1.3 Objectives of the Study**

The basic objective of this study is to analyze and identify the service of securities broker in Nepalese stock Market. The specific objectives of this study are presented as follows:

- To study about the status of capital market in Nepal
- To analyze the performance of the brokerage company in Nepal.
- To examine the brokerage service in secondary market.
- To examine the investor's satisfaction toward the brokerage services.

### **1.4 Significance of the Study**

Economic development is the urge of the present day world. Successes of the business organizations ensure the prosperity of the country. Today, the

developing countries are organizing to ensure the prosperity of the country and confronting a great deal of uncertainty brought by the global economic environment. In the modern age economy, the world has seen various inventions. These inventions and technologies are very fruit fill to the developing countries. But Nepal is unable to apply these inventions for the development of the economy in many fronts.

While investing in shares, the investors forgo opportunity income that s/he could receive investing elsewhere. Given the lack of adequate knowledge, inability in using modem technologies and insufficient use of communication technologies to spread the information about the price-earning relationship of the stock, people are in a position to invest the amount by analyzing the trend of the market. It indicates that there is an extreme necessity to establish a clear concept about' the price earning relationship to secure the invested amount.

The NEPSE has already been gone into automation. However, according to broker and investors, some trading related practical problems are seen in this system Brokers participate directly in the trading activities in the floor of NEPSE but the dealer cannot take part in trading activities of the floor.

The services of broker related to the share trading aspects also influence the tendency of investors in share trading activities. In Nepal, the brokers are mainly providing the share trading services with some information. So the possibility of other services should also be looked for and initiated in Nepal to increase the participants in the share trading activities.

Hence, this study targets to explore and increase stock investment by imparting the knowledge about the different aspects related to the growth of securities market and brokering services in Nepalese stock market. This study will also be helpful for other researches in the similar field as it provides suggestions on the related field to some extent.

## **1.5 Limitations of the Study**

This study has certain limitations, which are as follows:

- The study has only focused on “Service of Securities Brokers in Nepalese Stock Market”
- The study concerns only the data for last five years period primary data are also collected for the analysis purpose.
- The study covers only the past and present state of brokerage firm in Nepalese stock market it does not make any prediction about the future.

## **1.9 Organization of the Study**

This study consists with five main chapters: Introduction, Review of Literature, Research Methodology, Presentation and Analysis of Data, Summary, Conclusions and Recommendations.

The first chapter introduction mainly contains the background of the development of security market in Nepal, the statement of the problem, significance, objectives and limitations of the study and organization of the thesis itself. The second chapter review of literature consist the analysis of related studies which include different books, articles, periodicals, and pervious thesis reports, various published and unpublished documents of the related organizations. This chapter is mainly related to theoretical analysis and brief review of related and pertinent available literatures. The third chapter deals with the research methodology. It deals with the nature of the data and method of analysis. In this chapter different statistical and financial tools are described regarding the analysis and presentation of data received from primary and secondary sources. The fourth chapter contains presentation and analysis of data to indicate quantitative fact and actual state of brokerage service and the role of the Nepalese secondary stock market.

Finally, the fifth chapter states the summary, conclusions and recommendations of the study. This chapter offers several avenues for future research in this field. The exhibits and bibliography are incorporated at the end of the study.

## **CHAPTER-II**

### **REVIEW OF LITERATURE**

#### **2.1 Conceptual Framework**

This chapter deals with the review relating to the topic "Service of Securities Broker in Nepalese Stock Market" in more detail and descriptive manner. For this study various books, journals, articles, and previous thesis reports related with this topic have been reviewed. Since the research topic was absolutely new, the thesis paper and the articles- directly related to the topic were not easily found, hence many topics related indirectly to the subject have been studied. These studies are presented below.

##### **2.1.1 Financial Market**

Financial market is the place or existence that provides a forum to its participants to transact business directly. Financial market is divided into two Parts, are - money market and capital market. Short-term securities are trade in money market whereas long-term securities (Bond and Stocks) are traded in the Capital market.

##### **2.1.2 Capital Market**

Capital market is the relationship created by a number of financial institutions its intermediaries and the kind of an arrangement that allows the Suppliers and demander of long-term funds to make transaction. Capital market can be divided into securities market and non-Securities market. The different types of securities are traded in the securities market. The term securities include long term and mid- term financial tools that are used by the companies to raise its capital.

Capital market includes:

- Activities relating to the organization, distribution and trading of securities.
- Facilitating institutions.
- Buyers and sellers of securities.
- Rules and regulations, customs, practice and value system that control and conduct the business in the market.

Securities are marketable financial 'instruments that validate their owners to make specific claims on particular assets. An individual security provides evidence of either creditorship or ownership. It depends upon it is a debt securities or equity securities respectively. A debt can be practice in the form of bond and debenture- that is paid off with interest with in the specified period of time. The investor lends money to the borrowing company that issued debt instrument. In contrasts, stockownership represents a cash investment in the future of a corporation; the investor owns a part of the corporation and shares in its profits (Francis, 1998: 26)

A firm either may have debt and equity in its capital structure or only equity. Corporation can't operate without equity capital. So, equity is the compulsion of every corporation. The main characteristic of equity investment is that investor is liable only up to the amount they have invested.

Common Stock has two important characteristics. One is an investment and another is its speculative nature. Their investment value and average market price tended to increase irregularly but persistently over the decades as their net worth builds up through the reinvestment of undistributed earnings. However, most of the time common stocks are subject to irrational and excessive price fluctuations in both the decisions; as the consequence of the ingrained tendency of most people to speculate or gamble, i.e. to give Way to hope, fear and greed (chandra1995: 47).

Capital Market is a robust medium for mobilization of nonproductive small savings spread across the country to the productive sector. Capital Market consolidates small savings and investments of the people engaged in different sectors of the economy, savers, saving mobilizers, and investors on one hand, while it helps enhancing availability of capital required for expeditious economic growth on the other. The capital fund necessary for the growth of productivity of various economic development sectors can be availed from the primary and secondary securities market.

Activities in primary market during first eight months of the FY 2012/13, ten organized companies issued ordinary shares, two issued rights shares, the other two issued debentures, and one participated in mutual investment plan totaling mobilization of over Rs. 4.18 billion. The amount mobilized against issuance of shares in the review period rose up by 47.7 percent higher than in corresponding period of the previous fiscal year. In first eight months of FY 2011/12, three organized companies issued ordinary shares, three companies issued rights shares, and one company issued debenture mobilizing the total capital equivalent to Rs. 724.3 million.

An activity in the secondary market by the end of the Fiscal Year 2011/12, the number of companies enlisted in Nepal Stock Exchange Limited was 216. Additional 15 companies have been listed while two have merged making the total number of listed companies 229 by the end of the first eight months of fiscal year 2012/13. Likewise, the number of corporate bonds in the same period has reached 19 with listing of a bond of 98 an organized institution worth Rs. 400 million. There has been no addition to 20 development bonds in this year than those were issued by the end of fiscal year 2011/12. In addition to this, the market capitalization value has soared up by 80.5 percent totaling Rs. 529.72 billion in the first eight months of the fiscal year 2012/13 from Rs. 293.56 billion in the same period of the previous fiscal year. The market capitalization value that had reached Rs. 368.26 billion at the end of the FY 2011/12 has continuously been growing to arrive at this point. Altogether,

48.35 million units of shares worth Rs.14.15 billion were traded in the first eight months of FY 2012/13, with an increase of 168.2 percent in the corresponding period of the previous fiscal year as compared to 24.32 million units of shares worth Rs 5.27 billion traded in first eight months of FY 2011/12 indicating that FY 2012/13 will be encouraging for the capital market.

The paid-up value of listed shares rose by 9.8 percent reaching Rs. 119.10 billion in the first 8 months of the current fiscal year 2012/13 as compared to Rs. 108.47 billion in the corresponding period of the previous fiscal year. The paid-up value and the transaction value of listed shares were unceasingly rising until fiscal year 2007/08. Paid up value of shares, however stated 99 falling since fiscal year 2008/09. Reason for such drop in paid up value of shares is attributable to non-listing of new institutions in recent years resulting in the decline of transactions of listed companies.

The number of share transactions conducted in the first eight months of FY 2012/13 increased by 3.4 percent totaling 201,890 shares as compared to the 195,273 shares transacted in the same period of the previous year 2011/2012.

### **2.1.3 Securities Market**

Securities market can be divided into two parts - primary market and secondary market. In primary market companies will offer its securities to the general public first time then after those stocks are traded in secondary market. The market can be viewed as a 'used' securities market. The existence of securities market enables to transfer the savings from the hands to surplus depending units to those of deficit spending ones who can use them more productively with lesser risk manner.

The stock exchange is the secondary market. Stock market indicates the economic health of the nations. It is generally thought that a stock exchange serves to the both parties have money to invest and securities to sell. The stock exchange produces the benefits to the whole community in a variety of ways -

gambling procedures to increase their capacity; create the employment opportunities to the public and provides goods and services to the consumers.

#### **2.1.4 Securities Board of Nepal (SEBON)**

As per the provision of Securities Exchange Act, 1983, Securities Board of Nepal (SEBON) was established in 26th May 1993. Under the present Act, the SEBON is responsible for the regulation and supervision of NEPSE. The board comprises of seven board members representing several governmental and private bodies for the operating management of the board.

SEBON has been concentrating its efforts to improve the legal and statutory frameworks, which are the bases for healthy development of the stock market. SEBON has been concentrating its efforts to improve the legal and statutory frameworks for the healthy development of stock market and to enhance the degree of investors' protection. After the second amendment of Securities Exchange Act on Jan. 1993, SEBON is acting as an apex regulatory body by bringing market intermediaries directly under its jurisdiction and made it mandatory for the corporate bodies to report annually as well as semi-annually regarding their performance. It also established direct relationship with market intermediaries and listed companies. SEBON's regulatory interventions were targeted to discipline the market and to consolidate its position as principal securities market regulator.

As per the provision of present act, SEBON is responsible for the supervision and regulation of NEPSE, its members disclosure requirements for listed companies and the licensing of:

- a. Issue managers
- b. Underwriters
- c. Portfolio Manager
- d. Market Makers and
- e. Stock Brokers

Under the Securities Investment Trust Act 1997 it is also responsible for the registration and supervision of investment funds.

In order to develop the Securities Board as an effective regulatory body and forge ahead effectively, the board had put into implementation a medium term 4-year comprehensive managerial strategic plan, which had been implemented during the ninth plan period. The strategic plan took into consideration to attain the major policy development issues on:

- Improvement in the statutory and regulatory framework of the capital market.
- Development of market standard and information system.
- Development of widely participated capital market.
- Improvement in the securities Board institutional capacity

The draft of the strategic plan was circulated among the policy makers, experts, Government official, market operators, securities business persons, business community, investors and has been improved based on available suggestion and comments. This plan had already been approved by National Planning Commission and was implemented the ninth plan period.

SEBON has seven members including a chairman. NEPSE is not the member of SEBON and on the other hand, SEBON is not representing on the Board of Directors of NEPSE. It is also highly desirable that the government regulation over right function be kept separate from the operation and governance of stock exchange. This is essential to maintain public confidence. If the main government regulatory body is too closely 'identified with day -to – day functioning of the stock exchange, this could erode public confidence in the event of market failure.

‘The Securities Board of Nepal (SEBON) has been conducting information oriented/awareness raising program, investment education training programs in various districts for general investors with the objective of increasing the

majority of investors by making them aware of the risks involved in their investments, enhancing the ownership of people of all levels in the shares transactions by extending share market throughout the country that were limited only in Kathmandu. Besides, it is focusing on increasing the participation of industrial entrepreneurs of all regions, promoting participatory development through the increased participation of general investors in country's industrialization, trading and extension and development of various infrastructures. Likewise, increasing the use and practices of security share, debenture, development bonds, Mutual Investment Plan and other developed financial instruments and determining appropriate price of such instruments, informing about the basic aspects of security markets by cooperating its stakeholders are the other objectives of SEBON.

Continuity has been given to implementation of works as mentioned in Five Year Capital Market Master Plan by including them in the annual programs of the Board for capital market 102 reform, effective monitoring provision, stability of capital market and sustainable development.

SEBON has issued a Manual on measures that licensed company or institution should take on money laundering, towards mitigating potential risks, and for longer term development of capital market in Nepal.

IKRA Nepal Ltd. has been granted license on 2 October 2012 for the running credit rating service in line with Credit Rating Regulation 2012. As this institution is already in operation, SEBON has made it mandatory for institution submitting application after 22 Feb 2013 to secure credit rating before issuance of public shares.

With the rising trend of mergers and acquisitions among organized institutions, preparation is underway for developing guidelines along with the provision for ensuring shareholders' rights over shares.

Web portals of the Board have been updated regularly and made it user-friendly by upgrading the website in order to update web portals, organize both the internal and external information system, mechanize internal activities of the Board and further improve the on-line reporting system in the capital market.

A total of four Funds including Siddhartha Mutual Fund, Nabil Mutual Fund, Laxmi Mutual Fund and NMB mutual Fund have been registered in the security market so as to establish and manage Mutual Investment Fund. By mid-March 2013, Siddhartha Mutual Fund has introduced its Units valued at Rs. 10 each equivalent to Rs. 500 million.

In consideration of the interest of investors, an arrangement has been made to facilitate them with credit facility from banks and financial institutions through Security Broker Company towards making such financing arrangement more organized.

A report on commodities derivative market has been prepared after research from experts, and a Draft By-Laws has also been prepared for regulating such market.

### **2.1.5 Nepal Stock Exchange (NEPSE)**

In 1970 AD, Security Market Center was established. It was the first step taken by the Nepalese government for the development of securities market in Nepal. After that, Securities Exchange Act was enacted and Securities Market Center was changed into Securities Exchange Center (SEC)

The history of securities market began with the issuance of shares by Biratnagar Jute Mills Ltd. and Nepal bank Ltd. in 1937 AD. Introduction of the Company Act 1964, the issue of government bond in 1964 and the establishment of securities Exchange Center ltd. in 1967 were among other significant developments resulting to capital markets.

The main objective Securities Exchange Center is facilitating and promoting the growth of capital markets. Before conversion into stock exchange, it was the only one capital market institution undertaking the job of capital market (i.e. brokering, underwriting managing public issues, market making for government bonds and other financial services).

His Majesty's Government (presently changed into Nepal Government) under a program initiated to reform capital market, converted Securities Exchange Center into Nepal Stock Exchange (NEPSE) in 1993. NEPSE is a non-profit making organization, operating under Securities Exchange Act, 1983. The basic Objectives of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries, such as brokers, market makers etc. NEPSE first opened its trading floor on 13th February 1994 through licensed members. Nepal Government, Nepal Rastra Bank, Nepal Industrial Development Corporation and the licensed members are the shareholders of the NEPSE as well.

The Board of Directors (BOD), which will govern NEPSE, constitutes of members representing different sectors as per Securities Act 2006. At Present, the BOD constitutes 2 Members including a chairman from Nepal Government, 2 Members from Nepal Rastra Bank, 1 from NIDC. Moreover, one member will be nominated by BOD as an expert in capital market. General Manager of NEPSE will serve as a director on the BOD.

NEPSE performs several types of regulatory services including market surveillance and the ongoing supervision of brokerage firms Some of the functions of NEPSE are:

- Trading
- Listing
- Clearing and settlement
- Market surveillance

NEPSE facilitates trading in the following instruments

- A. Shares
  - Equity Shares
  - Preference Shares
- B. Debentures
- C. Government Bonds
- D. Mutual Funds

#### **2.1.5.1 Brokering Services in NEPSE**

The role of brokers in Nepalese securities market is limited to advising their clients as to whether particular stock will be worth-'investing or not. They should advice their clients by analyzing the company report and other information regarding the company which can affect the market and the companies concerned. Brokers are not obliged to offer advice to their clients, and even if they do, they cannot be held responsible for the. Quality of the information they offer. But the quality of the information works as a main Source of their goodwill and uplift the moral responsibility towards their clients.

Brokers have to get license from SEBON and membership certificate from NEPSE before starting their services. Under the provision of securities legislation brokers have to renew their license before the expiry of each fiscal year.

It is the mandatory for the brokers to submit their annual reports along with their financial statement and trading report to SEBON within four months after the expiry of the fiscal year. SEBON monitors the brokers regarding securities transaction and reporting. ' .

Brokers have to ethically to behave both legally and morally towards client' satisfaction. However, it is not the case in all and every situation. They were often intended to increase the trade volume and therefore are blamed for the stock price crash thereby making profit by ignoring the clients' losses. The amount of commission is directly related to the amount of turnover (i.e. trading) in an investor's account. This provides some temptation to recommend frequent changes in investor's holdings. Such behavior may be advantageous - for them in the short run, however, it is not good practice for the smooth operation of the securities market.

There were some conditions and circumstances seen in the stock market where the brokers have done some activities, which create the market disorders. These activities were performed to protect their sole interest and the mutual interest connected with very little numbers of their 'near and dear' clients.

The number of stock brokers who have been charged with or found guilty of security exchange commission violations is frighteningly large. I believe the reason for brokerage abuse is simple .The commission sales system which pays brokers for what they sell rather than for what they earn for their clients is the root of the evil .The brokerage investment industry is highly regulated yet brokers abuse continues to escalate why? Although the regulations are more than adequate they are seldom enforced. Coupled with this is the fact that brokers are constantly pressured by their house to sell ,sell ,sell and ...it is easy to see why many forget that they are first legally and morally charge with the financial well being of their clients The reality of the industry is that sales come first (Mrkvicka 1991: 131)

The first thing a prospective buyer or sellers have to do is to choose a broker In choosing a broker it is always preferable to select one who is recommended by someone who has dealt with him for some time and is satisfied with his integrity and honesty But almost all the broker's office is not located in the convenient locality in Nepal.

In most brokers, due to the lack of confidence in their own business, they are not maintaining the offices to make it possible for the customers to come and contact. Brokers are undermining their business because of lack of their clear vision to perceive the relationship between brokerage business and their needed dedication and contribution of time, effort and full energy to honor their market matching profession through the rational art, science and techniques of institutionalization (Shrestha, 2057: 12).

Brokers should to provide adequate and real information about the companies to potential investors in the market. But in reality they have also been criticized for the use of imaginary words to persuade them to buy and sell the security as immediately as possible.

Brokers are allowed to act as an agent in buying and selling of government bonds and listed corporate Securities. At present, there are active brokers working on the trading floor as per Securities Exchange ACT 1983, rules by laws of the exchange. There are many intermediaries are involving in the Nepal Stock Exchange for stock trading. Brokers are one of them. Brokers play an intermediary role on behalf of their client and receive certain commission for their service.

Besides, NEPSE has also licensed to dealer for primary market and dealer for secondary market. Dealer for primary market operates as a manager to the issue and underwriter whereas dealer for secondary market operates as a portfolio manager.

The role of broker in Nepalese securities market is limited to advising their clients as to whether particular stock will be worth-investing or not. They should advice their clients' by analyzing the company report and other information regarding the company, which can affect the market and the companies concerned. Brokers have to submit their annual report along with financial statement and trading report to SEBON within months after the expiration of the fiscal year.

Number of brokers in the NEPSE are also few to foster the competition. “A recent study commissioned by NEPSE has concluded that only five new brokers were allowed into the market which already has 27 brokers while there have been more than a dozen aspirants to enter it. It seems that the existing brokers have prevailed over the study team to force it to put entry barriers for new brokers. The report has argued that the size of the market has not expanded and the volume is very low to justify entry of new brokers. But the arguments of the report are hardly acceptable, as the reality is a lot different from what the report has tried to project (Ghirnire, 2003). In his article he has also make some recommendation as the solution to the problem cannot be found by blocking new brokers from Coming to the market. Efforts should be focused' on increasing listing of companies and the transactions in manufacturing sector shares. New brokers should be allowed to do the marketing for this purpose as the existing Ones have clearly failed in this regard (Ghimire, 2003).

He has further clarified that “the reason for non-participation by stock dealers cannot be attributed only to the market conditions. Lack of professional selection of these Companies is equally important reason. And the underlying reason for the problems can be found in the passivity of the broker organizations that were indifferent to market development. IT utilization would enhance transparency and reliability in the transactions, but it is seriously lacking among the existing brokers. Neither their association nor the individual-companies have organized any interaction and or seminar to disseminate information or to formulate strategies market expansion. Their main objective is only to get a larger share of the cake that has grown naturally. They have not been able to generate or create business or expand it systematically (Ghimire, 2003).

NEPSE was adopted an "open -out –cry" system for the trading purpose during Past 20 years during those time period transactions of securities were conducted on the open action principle on the trading floor. In that system he

buying broker with the highest bid has posted the-price and his code number on buying column, while the selling broker with the lowest offers has posted the price and the 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 matches, contract between the buying and selling brokers or between the brokers and market maker are conducted on the floor. However, from 2064 Shrawan, 26 NEPSE has replaced the out dated Open-out-cry system by computerized trading system (automation) Now the NEPSE has already been gone into automation. However, according to broker and investors, some trading related practical problems are seen in this system Brokers participate directly in the trading activities in the floor of NEPSE but the dealer cannot take part in trading activities of the floor. The service of broker is defined under the securities law. Brokers charge agency commission for their services according to the transaction amount. The commission rates are given as follows:

**Table 2.1**  
**Rate of commission to Brokers in NEPSE**

<b>1. Brokerage for Equity</b>		
<b>S.N.</b>	<b>Trading Amount</b>	<b>Brokerage Charge in (%)</b>
A	Up to 50,000	1
B	> 50,000 & < 5,00,000	0.9
C	> 5,00,000 & < 10,00,000	0.8
D	> 10,00,000	0.7
<b>2. Brokerage for Government Bond</b>		
<b>S.N.</b>	<b>Trading Amount</b>	<b>Brokerage Charge in (%)</b>
A	Up to 5,00,000	0.20
B	> 5,00,000 & < 50,00,000	0.10
C	> 50,00,000	0.05
<b>3. Brokerage for all other stocks which is not listed in 1 and 2.</b>		
<b>S.N.</b>	<b>Trading Amount</b>	<b>Brokerage Charge in (%)</b>
A	Up to 50,000	0.75
B	> 50,000 & < 50,00,000	0.60
C	> 50,00,000	0.40

Source: NEPSE

Brokers may also send the representative in the trading floor in case of his being unable to present at the particular day or representative staff may help him on a great trading day. But the representative must appear at an examination. The examination will be taken by NEPSE where he must attend both written, and interview examination. Then if he passed the examination, NEPSE will give him permission to act as the representative of his brokering house on the trading floor.

A proposal has been submitted to the Government of India to secure bilateral cooperation for installation of modern software with Online Trading facility by replacing the existing Trading Software in use in NEPSE. Likewise, in the process of extending security transactions from different cities of Nepal with the installation of recent Online Trading Facility software, most are now equipped and enabled to instantly carryout security transactions. Transactions worth Rs. 10 billion were carried out in FY 2011/12, while transactions worth Rs. 14.15 billion have already been carried out through licensed members by the review period against the target of Rs. 20 billion set for FY 2012/13. In the process of preparing the list of eligible companies for transactions to provide additional opportunities to the investors, a total of 15 such companies have been listed by mid-March 2013, while studies and researches are being conducted in order to make necessary arrangements for well- managed operation of Over the Counter and Right Renounce markets. The number of share trading business companies has reached 50 by the review period of FY 2012/13. There are also 14 merchant bankers in the same period. In the first eight months of previous fiscal year 2011/12, there were 48 share brokers and 12 merchant bankers to carry out institutional security transactions. The trading of Units equivalent to Rs.500 million at Rs. 10 per Unit are being carried out in Mutual Investment Project by the name of Siddhartha Investment Enhancement Project-1, while Nabil Mutual Fund, Laxmi Mutual Fund and NMB Mutual Fund are also registered. In the first eight months of the FY 2012/13, investment of Siddhartha Mutual Fund under Siddhartha Investment

Enhancement Project has been Rs. 500 million and its project period will be of five years. A Central Depository Service Company has been established with the objectives of making security transaction more systematic for the organized development of capital market, and for modernizing clearance and settlement works of security 104 transactions by maintaining their records electronically. The Company which has been established as a fully owned subsidiary company of Nepal Stock Exchange (NEPSE) has been carrying out a number of functions like transactions of shares, debentures, bonds, stocks, and conducting paperless transactions, facilitation, ownership transfer of securities/instruments and maintaining up to date records of such transactions electronically. The Company has developed the Central Depository Accounting Software (CDAS) as its infrastructure. In addition to this, Central Depository System has been initiated by converting the shares of companies into nonphysical assets that are registered with SEBON by awarding them with depository membership. The Citizen Investment Trust (CIT) has been providing capital market related services since the beginning of its establishment. The Trust has already issued ordinary shares and rights shares of more than Rs. 19 billion and provided sales management services. It has been making necessary preparations to play the role of an effective market maker by participating in secondary market share transactions so as to ensure progress in share market as this market is unstable due to fluctuations. Likewise, it has also been preparing to expand the scope of home loans considering the interest and benefits of the participants. In addition to this, policy arrangements are being made to avail other types of loan as well. Likewise, under the social security programs, arrangement of Accidental Insurance of Rs. 100,000 has been made for the participants of the Employees Savings Increment Approved Retirement Fund, which is effective from 18 January 2012 and assured the participants to providing the insured amount. A total of 17 families of the participants have already benefited the program so far.

### **2.1.5.2 Trading System of NEPSE**

Up to 2064 Sharwan 26, NEPSE was made transaction using the open-outcry manual system. This method was once used at the Sri Lankan Stock Exchange years ago. It means trading of securities was conducted on the open principle on the 'trading floor. Presently, NEPSE has adopted computerized trading system.

The brokers representing the buyer of the securities code the highest buying price for a stock and his code number is written on the buying column and the broker representing the seller of the securities code the lowest selling price and his code number on the selling column. Once the bid and offer (ask)\_price is matched, the buying broker and selling broker perform the contract on the floor.

The first trading price of the share of a company should not be more or less than 10% of the previous day's closing price. Once the, transaction is done, the price Can be change within a limit of 5% in each consecutive transaction.

There were many trading difficulties in NEPSE, The main difficulty realized by brokers is the trading system employed in NEPSE that is open-out-cry method. The other problems are created because of the disobedience of the rules and regulations promulgated by the regulating bodies and the government. Besides government and regulatory bodies there are also other parties involved in the procedure being responsible for ineffective management of the trading the shares.

After listing the shares of a company, the shares are traded on the secondary market .But some companies do not trade in secondary market and have become insolvent, In that case NEPSE de-list the stocks. of that company which should be approved by SEBON. Nearly all listed companies' of the stocks are owned by promoters. Thus corporate governance issues and the rights of minority shareholders are of continuing concern.

One of the reasons for the enlistment of the companies in NEPSE is that many of Companies are listed not because they wish to be so, but because of statutory requirement of the compulsory listing (the prohibition of share transaction if not listed.) in NEPSE, companies often listed for legal or tax reasons rather than to obtain ongoing equity financing. There is also absence of prescribed procedure suspension cancellation and de-listing of listed shares.

Typical investors are likely either to rely solely on their brokers, a dangerous or to be entirely on their own. Those who rely on their self decisions usually over-invest, love to trade on the latest report or hot tip, and are unhappy when nothing is happening. Brokering house is a source of both information and recommendations. The emphasis however, is on recommendations because brokers earn commissions based on the amount of trading that investors do.

The role of the 'broker in providing information plays significant role. Stock market, actually, is no place for amateurs but in spite of this knowledge potential investors come to invest their savings without adequate counseling analysis of the information and data. It is mainly by their ignorance that often felt cheated by the brokers when the time becomes too late to turn back.

The new system on NEPSE the only Stock Exchange in Nepal introduced fully automated screen based trading since 24th August, 2007. The NEPSE trading system is called 'NEPSE Automated Trading System '(NATS) is a fully automated screen based trading system, which adopts the principle of an order driven market.

### **2.1.5.3 Trading Procedures in NEPSE**

The buyer or seller can't make the transactions themselves without contracting the brokers of the listed securities. The broker may be selected by taking consideration a number of things. When a buyer/ seller of a security makes to give the order to the broker, he/ she, in the office of the broker fills up a standard form called 'buy/ sell order form'.

The buyer of these securities must deposit certain percentage of the total value of the shares that he wants to buy. This advance deposit may be set by the negotiation between the buyer and the broker. If the trusts the buyer then he may also do it without taking the advance. The buyer of the security is then given a slip from the brokering office as an evidence of his deposit of the money. Likewise, the seller also has to fill up the buy/ sell form mentioning all the details of the transaction.

While filling the buy/ sell order form, the buyer/ seller should mention the time Period Within which they want the transaction to be performed. If the broker fails to do the transaction within that period for the client, the contract will automatically come to an end and the buyer/ seller has to do another contract to reactive it.

In Nepalese context, if the buyer/ seller does not specify the time period, the broker will treat an order as 15- day order and the order expires at the end of the 15th day from the time order made, provided that they have not been fulfilled by then.

When trading shares, the investor places an order involving a round lot or an odd lot both, generally, round lot means that the order is for 100 shares or multiple of 100 shares. Odd lot orders are generally for 1 to 99 shares. But in Nepal, NEPSE has fixed the round lot of 10 shares if the face value- is Rs. 100 or 100 shares if the face value is Rs. 10.

The transaction should be done at least one round lot on regular trading. The trading of less than 10 shares of Rs. 100 face value is permitted only during odd lot trading hours. Besides this, for large block trades over 5% of the nominal value of a company's shares, the trading may be negotiated off floor and details are to be reported to NEPSE.

The broker, their representative and the NEPSE staffs are present at the transaction time. The buyer broker or the seller brokers both begin to code the

price of the shares of company they want to make transaction. There are separate buy/ sell column in the board for the securities of every company.

As soon as the buyer or the seller broker bids their order, it is placed in the buy or sell column with the code number of the broker below it. The first order should be placed within the range of 10% of the last day's closing price, and is followed by 5% range in the subsequent transactions.

The buy and sell order of the same price can be placed only by two brokers for a stock. It is a process by which the previous orders are ceded by each new buy order of the higher prices and in this way the prices of the stock is set higher and higher. The bidding price of each succeeding bid can range only in the 5 % of its previous bid as mentioned before. And on the selling side<sup>6</sup>, initially, the price of the stock is set higher than any of the buying bid; the seller broker in turn comes to quote the price in succession to match it with the buy bid. In this way little by little, in a series of bidding they come to match a common price which is above the initial buy bid and below the sell bid is set as the transaction price for that stock.

Once the buy and sell price matched, the brokers themselves talk about the number of shares they want to buy and sell. When they agree on the number of shares, the quantity is informed to the NEPSE staff who will then record the price, quantity, transaction number and traded amount in the computer.

After the price meets into agreement, the buyer broker or seller broker cannot undo the transaction and they should keep their word by trading at least 10) shares at that price. For more shares of the same company the buyer broker again continues to bid in the same trading floor and has to repeat the same procedures all again when he is unable to get the shares in the required number. When his code price is matched with the seller's code, the other transaction is performed. The buyer broker may now code little higher price if he feels unable to in a Seller broker at that price level.

Likewise, if the buyer broker does not buy all the shares as stated in the quotation board which the seller broker wanted to sell then he will sell the shares which the buyer broker agrees to buy and keeps with himself the remaining shares and continues to bid in seller's bid column unless he meets with another buyer broker to buy the number of shares which he wanted to sell.

The brokers have to code their price before 12:50, if they want to continue in the buy or sell order. The brokers who do not code their price cannot participate in the transaction after 12.50 PM. The buyer broker and sell broker negotiate to match their buy/sell price themselves. When they meet into agreement, they have to inform it to the NEPSE staff to code the new matched price in the board. Likewise, the quantity of the shares to be traded is also agreed and informed to the NEPSE staff to code in the board, who also records the quantity, price, transaction number and the amount of transaction in the computer.

When the trading is done, the broker informs his buyer/ seller client about the transaction details. Then the buyer of the securities should provide the amount of money for the security to the broker within five days, which is then transferred to the seller broker's account by the buyer broker. In case of declining market trend the buyer may refuse to pay the remaining amount by disobeying the written promise.

In that case the buyer broker should sell the security as soon as possible by informing NEPSE about the details. The buyer broker then calculates the total loss he will bear from the two transactions including his brokering charges by subtracting the total from the two transactions including his brokering charges subtracting the total proceeds from the amount he had paid. This loss is then med to the 'Appeal Court'.

#### **2.1.5.4 Trading Session of NEPSE**

NEPSE has fixed stock trading days, and hours during which the brokers are allowed to enter the floor to make the transactions.

Trading on equities takes place on all days of week (except Saturdays and holidays declared by exchange in advance). On Friday only odd lot trading is done.

The market timings of the equities are:

Market Open: - 12:00 Hours

Market Close: - 15:00 Hours

Odd Lot Trading is done on Fridays. For Odd Lot Trading Market Timings are

Market Open: - 12:00 Hours

Market Close: - 13:00 Hours

Source: NEPSE

There were 216 companies' securities listed on NEPSE till the last fiscal year 2011/012. There were 24 commercial banks, 71 finance companies, 21 insurance companies, 4 hotels, 68 development banks, 18 manufacturing & processing companies, 4 trading companies, and 6 on other category.

#### **2.1.5.5 Clearing and Settlement Procedures in NEPSE**

When a trade has been agreed the selling brokers complete and sign a standard dealing slip (trading slip) and obtains the signature of the buying broker. The g-slip (trading slip) copies of the dealing slips will be kept by the buying broker, NEPSE floor and the selling broker himself. Then the NEPSE staff enters the details of reading slip in a computer. At the same time another NEPSE staff writes in the details from the white board on a control sheet. Then the details from dealing slips and the control sheets are compared and corrected before closing off the day s trading activities Queries are referred back to the brokers in case-of confusion.

NEPSE has adopted a T+3 systems which means that settlement of the transaction should be done within 3 Working days following the transactions day settlement will be carried out on the basis of paper verses payment.

Once the transaction is made in NEPSE, the broker of the buying investor despites the amount of the shares bought from the seller including fee of the NEPSE which is 25% of the broker s services charge in the NEPSE's bank account and submit the voucher with necessary documents in NEPSE within five working days of the transaction made.

#### **2.1.5.6 After Trade Procedures of Shares in NEPSE**

There are two types of procedures adopted by NEPSE in case of blank transfer and ownership transfer, which is as follows:

##### **Blank Transfer**

After completion of trading the buying broker made the payment and the seller broker submit the share certificates to the NEPSE for the further processing in this process, if the buyer investor wants to buy the shares as a blank transfer (Without endorsing ownership in the share certificate) then it is registered in the NEPSE floor but the further processing is stopped i.e. not sending the share certificate to the concerned company to transfer ownership .It is done mostly in the view of selling the shares in the very near future for the capital profit. But the shares must be registered to the new buyer s name within the sufficient time before the annual general meeting if the buyer wants to get the dividend and the bonus declared by the company in the annual general meeting.

Under this mechanism an opportunities to derive the market benefit is provided. But presently, the buying brokers must complete the BT process within T+5. The transactions that are executed can be recorded in different way and NEPSE has considered all possible retention. The followings are the major key points to be considered.

- This is related only with buy of the securities.
- The buyer may decide to have market benefit either to have capital gains or to minimize the loss.
- In order to do this s/he may partly send for name transfer or may register it in blank transfer. If s/he register total purchase in blank transfer and can put for sale and if only the part of the shares are subscribed then s/he can handover the part and the part can be forwarded for name transfer to the concerned company. In order to do this s/he has to cancel the blank transfer for that portion.

### **Ownership Transfer**

If the buying investor wants to buy the shares as an ownership transfer the share certificate shall be sent to the companies for ownership transfer But it very lengthy process here in Nepal. Despite the amendments to the company act to reduce the allowable period for making transfer of ownership in the register of shareholders, from 60 days to 15 days, it is time consuming and takes weeks or seven months in actual practice. The overall registrar updates are slow and time consuming.

To by-pass this problems a large portion of settlements are done by blank transfer at present. The signature verification process is also slow. It begins from the buying/ selling broker sending a messenger with the share certificate to the Company's premises in Kathmandu office to obtain the company's verification from their records. This long period has its greater influence and adverse effects in the price formation of the stocks in Nepalese stock market. The whole for clearing and settlement are paper intensive. The highly manual based procedure often results in delay, inefficiencies and potential risks for all participants.

### **2.1.5.7 Mutual Trading Procedure in NEPSE**

Mutual trading is performed in NEPSE when the broker get buy and sell order of a particular share at particular price from two different clients. The mutual is

coded with green ink marker in the board of NEPSE. If the set of announce the mutual trading with little lower price of the same security, the previous mutual trading will be replaced with the new one.

The criteria of mutual trading plays vital role because the price is determined by only two brokers. So, it is sometimes said that the criteria or to perform mutual trade should be banned. The present practice of share trading by mutual consent is a kind of wash sales that should be discouraged as it crates distortion in the price determined by the market-forces. Such action helps in avoiding fictitious name created by several different share in share transaction and also to check on the creating an illusion of price" (Shrestha, 2056: 17).

With the objective of making securities transaction more transparent, SEBON has attempts to establish a system of time stamping of the orders form of clients Likewise, attempts have been made to make the mutual trading more transparent. Now after adopting the computerized trading system, the provision for mutual is not available.

#### **2.1.5.8 The Level of Capital Market Disorders**

There are many unfair acts being performed by different parties in the stock which eventually force the market to be inefficient.

These unfair share market practices cover wash sales, cornering of the share churning formation of pools and cartels, misuse of insider information so on.

#### **Wash Sale:**

Actually wash sale is not sale. In this course of action person who owns securities sells securities to him are like the name of dummy person. The purpose of wash sale is to create a record of sales. This may be done to mislead someone or total market in believing that a market price has changed.

“In wash sales, there is simply record of a sale but here is no sale of shares at all. If a man sells securities to his wife, this is a wash sale. The market markers

have taken share in the name of their family, relatives and other employees who were under their control. But, as they raise prices artificially to the peak, which is called forcefully created market boom by their own dishonest acts, they sold and later on put innocent investors to be the victims as they are made to buy at higher prices. At present, the practice of conducting share transaction at a price agreed by mutual consent of buyer seller is allowed in share market. This is a kind of wash sale since no money needs to be involved only the commission is to Paid to the broker" (Shrestha, 2056: 9).

### **Cornering the Market:**

Cornering in the market occurred while an investor or group of an investor buys all of a particular security for the purpose of sale. This person then the only source of Supply and can raises the price as per the desire. The person who obtains a corner on the market of some asset may then liquidate it at a high price a capital gain. Cornering may be defined as large acquisition of shares by individual to create a scarcely for delivery against the existing contract.

Market makers are also found to conduct unhealthy practice of cornering the share market in some selective scripts available for sale... Being price manipulators, they obtain a corner on the share market of some selective scripts then liquidate them at a higher price for a capital gain" (Shrestha, 2056: 9).

### **Churning:**

Churning is supposed to be blank order. Churning can occur when a client gives authority to the broker to trade securities with out approval to- every trade. In this course, investor gives the order to the broker as a whole. It creates an opportunities to the brokers to steal funds from their client's account while escaping detection by all but the most watchful clients. When the client buys or sells the commission are generated for brokers without regard to whether or not the client gains from the transaction. This practice is called churning because it involves 'turning over' the clients account.

"Another way how the market makers and share brokers deceive the investors is the growing practice of churning under which they steal funds from clients while escaping detection by all... It is a practice of turning over a clients' fund for the personal benefit of brokers by frequent transaction. However, it is difficult for an investor who has been deceived by broker to prove that churning has occurred" (Shrestha, 2056: 10).

**Pool:**

Pool is association of the interest group for manipulation in the price of the securities. According to (Shrestha, 2056: 10), "A pool is a formal or informal association of two or more persons with the objective of manipulating prices and profiting there from. When this objective is attained the poll is dissolved. some of the members may provide capital, some may provide inside information, some may operate the pool's operations or all members may participate in all functions"

**Insiders Trading:**

Due to the access of price sensitive information, they are restricted from trading in a company's shares. Insiders include officers, directors, auditors, and large shareholders. It is the sale or purchase of securities by persons who have price sensitive information about the company. Insider transactions include also those who receive confidential price sensitive information from insiders. Trading on basis of insider information is prohibited because the information is available to all market participants.

Insider activities are -growing in both volume and speed among company promoters, directors, officer another executives and technicians to influence the as of share in the market. There has been frequent release of price sensitive information by insiders to earn speculative profits by trading on share of such companies. Having no access to such price sensitive information, investors in general are put into disadvantage (Shrestha, 2056: 11).

### **Window Trading:**

Trading floor is, by rule, strictly closed to everyone except two representatives' each member broker. Similar is the practice in all the stock exchanges of world. Investors have to place their buy or sell orders to the brokers before They enter the trading floor and during the trading period no direct communication is allowed between the broker inside the trading floor and anyone (broker or investor) outside the floor. The investors or other people are, however, allowed to observe the activities of the floor from behind a glassed of a specially appointed observation room.

The idea is to 'stop the outsiders creating undue psychological impact and destroying the market. If such communication is allowed, some people may quote higher or lower for scrip just to push the price as they desire. Telephonic conversation between the inside and the outside of the floor is, however, allowed as such communication would not be able to make much of an immediate impact. The effect is that small investors who cannot manage to reach this important window are adversely affected. If the broker has been instructed to buy the stocks within a 'given range of prices, these window traders can manipulate the price in such a way that the investor will have to pay a higher price, similarly, the sellers get the lowest price of the band. More importantly, with such window traders frequently instructing the brokers inside the floor, the brokers cannot have the time to attend to the orders of the absent investors who place the orders at the brokers office (Bhattari, 2005).

### **Matching:**

Matching is similar a mutual trading, Matching is also helping market manipulators to increase the price of their selected stock by matching small quantities of shares at a higher price and thus misleading the naive investors would be tempted to buy large quantity of shares at the artificially increased price from the same manipulators.

As per the principles of stock exchange, a broker should try to execute the selling order for the maximum possible price and the buying order at the maximum price. This is possible only through the bidding process. But if they are allowed matching, there is a conflict of interest and possible moral hazard on broker's part. The broker uses this opportunity for his own gain or to give more benefit to one of his two clients. The client with whom the broker has closer relations will benefit and the other will be cheated. For example, if the broker is closer to the client who is selling his stock, the broker will match the at a maximum possible price, thus benefiting the buyer at the cost of selling client (Bhattari, 2005).

## **2.2 Review of Related Studies**

### **2.2.1 Review of Articles**

Dennis E. Logue and Donald L. Tuttle (February, 1973) had conducted the 'on 'Brokerage House Investment Advice'. They had taken the data from 1970 to June, 1971 of six New York Stock Exchange member firms which were publicly owned as of January 1972.

In the Study, they said that investors receive other free services, aside from the actual transactions. Mainly, these services include safe keeping of securities and copious flow of investment advice. The first free service allows an investor to avoid holding actual stock certificates; thus, if he takes advantage of it, it saves him the cost of a safe deposit box-and the cost of mailing or bringing stock certificates to a brokerage house office when he decides to sell. If, however, he does not utilize this service, he does not get "full value" from his commission outlays. The second free service is supposed to help the investor make better investment decisions and, not coincidentally, may encourage him to trade securities more frequently, incurring a fixed minimum charge each time. The value of the first free service is most likely very small, but positive. The value of second free service is unknown both in direction and effect.

In all, there were three hundred and sixty-four different usable reports on stocks on the New York Stock Exchange. These were classified according to the recommended action and put into one of the following five classes -- Buy, quantified Buy, Hold, Qualified Sell and Sell. Out of the 364 stock recommendations, they found 277 were buys, 27 were qualified buys, 40 were holds, 2 were qualified sells, and 18 were sells. They had used several very robust methods to conduct the study.

Dennis and Tuttle (1973) concluded their study as follows;

An investor who routinely follows the advice of his brokerage firm would do, on balance, as well by randomly selecting securities. While the overall results are not complimentary to brokerage firms or security analysts, it should be stressed that our intent is not to imply that security analyses are generally meaningless (p.53).

Further Dennis and Tuttle added- there are many investors who would have absolutely no idea as to what to buy or sell without advice of some sort or another. To the extent that they would otherwise not invest, except for brokerage firm investment advice, and since it appears that such advice is not generally harmful, brokerage firm investment advice serves a valuable purpose. What is the objectionable however is the fact that the cost of these service is included fixed minimum commission schedule and that investors therefore pay for investment advice, whether they desire it or-not. A free and accurate pricing system would be more appropriate, wherein investors pay competitive rates for each separate service (p. 53-54).

**Chan and Chan and Yau (1991)** had published research article 'Selecting a Broker or a Brokerage Firm; Segmentation of investor in the Hong Kong Stock Market'. In their article, they have suggested some selection criteria for brokerage service / firms as follows:

- Prompt and efficient services: This means that the broker/ brokerage firm is able to confirm a purchase or sale within minutes and provide quotes quickly.
- Integrity; this implies that the broker/ brokerage firm should have an excellent reputation in society.
- Good Experience: The broker/ brokerage firm has an established record of good services over a long period of time.
- Availability of information and research facilities: The broker/ brokerage firm is able to supply general economic information data about companies and industries along with economic forecasts.
- Appropriate qualifications: The broker/brokerage firms have individual qualifications with a philosophy that is compatible with the investor's aims and objectives.

This study they have used survey method. They have confined the sample size of 200 based on the information obtained from a plot and period of study 12 months. They had divided sampling procedure in three main stages. At first stage, 25 brokerage firms were drawn randomly from 124 active brokerage firms. At second stage brokerage firms were then divided into two categories according to the nature of these servicing customers. The first categories of brokers/brokerage firm were those who served customers over the telephone. Customers of this category constitute mostly part time investors and were mainly executives and professionals. The second category comprises brokers/ brokerage firms were those who served customers brokers of brokerage firms who had office or trading floors on busy road to give access to the public 60 percentage of sample were drawn from 1st category whereas 40 percentage of the sample were drawn were from second category. In this process, at least 30% quota sample of brokerage firm investing foreign capital was maintained. At the third stage, systematic sampling and telephone interviews are conducted from the both category.

**Robert (1991)** made four types of segmentation of the investors as follows:

- The Gamblers: Do not select brokers/ brokerage firms with good credibility and especial services. Relatively lower in competence, knowledge in stock and education but more risk preferred.
- The Experienced: Prefer to be more independent. Do not select brokers/ brokerage firms with special services and higher income, least satisfied with current brokers/ brokerage firms, risk-preferred, competent and knowledgeable.
- The Services Seekers: Looking for large firms with better and more services; middle in most characteristics.
- The Educated Green Horns: Seeking firms that try to understand the needs/ wants of clients most. Most satisfied with current brokers, risk-average, higher in education and knowledge in stock market, but lower income and experience; younger.

They have also stressed the role of self concept and demographics in selecting broker/ brokerage services. "Self concept is concerned with individual self - evaluation and the manner in which such appraisal motivates and directs behavior (Robert, 1991: 19).

Robert et, (1991) had concluded their study as follows:

The study concluded that there are significant difference among the four segments and those investors of -the segments are seeking different benefits related to their demographic and psychographic back grounds. Because of such distinctions among benefit segments brokers or brokerage firms should recognize the need to develop distinct marketing campaigns for each sub market. Using just demographic provides only part or the picture. Benefit analysis by itself does add value to define the target investors that a broker or a brokerage firm would like to serve a benefit appeal such as initialing an investment proposal and providing insider information special offers for example is appropriate for the services seekers and perhaps the educated green

horns but not for the gamblers and the experienced. This finding shows of considerable interest to brokers/brokerage firms which tend to provide broader and newer services, for example portfolio review services and investment management services. The services seekers and the educated green horns would welcome such new services, as evidenced by their level of risk averseness. However, as they have a lower income, the high service fee would probably discourage them.

The experienced, on the other hand do possess sufficient funds and experience what would appeal particularly to them are credible and reliable services. They are particularly interested in quick and accurate transaction services. Different from investors in other segments, the experienced are difficult to please. They tend to be complainers and non satisfiers. Much care is necessary in handling them. They are pleased to be placed under the kindly care of their brokers. However, special care should be taken not to defy their authority as experienced investors.

Employing a trading demographics approach would not result in a sufficient understanding of investors to identify subtle, yet critical distinction between segments. But using benefit segmentation alone results in a target market definition which has limited accessibility.

In summary, though somewhat limited in scope, this article has successfully adopted a componential approach which combines benefits with demographics and self-concept provides a full picture of the investors and guidelines to the brokers/ brokerage firm for attracting more new customers.

Bhatta (1997) has conducted research on the topic 'Dynamic of Stock Market in Nepal'. He objectified and analyzed the trend of the Nepalese Stock Market among the different objectives.

Bhatta has analyzed the market price of the shares of 10 companies four from manufacturing sector; one from hotel sector, two from trading sector three from

finance sector and four from banking sector for his study. Mr. Bhatta tried to analyze the trend of the market, to diagnose and compare the sectoral financial status of the stocks in Nepalese stock market. He also tried to analyze the market share price of the Nepalese stock market and to find out the impact of the secondary market on primary market and vice-versa.

Bhatta has concluded that the liquidity in the Nepalese stock market is very poor and the trading of only about fifty percent of the listed stocks takes place in the stock exchange when the market is in boom. The trading of stocks takes in terms of number of transactions; number of shares and value of shares traded are very low.

Bhatta has primarily based his study on secondary data He did not use any of the primary collecting tools for his stud) He tremendously used different ratios to calculate the financial status of the companies under study I-le missed about brokering services for stock market in Nepal.

### **2.2.2 Review of Previous Thesis**

Aryal (1999) has conducted research on” The General Behaviour of Stock Market” using correlation between 21 companies.

The specific objectives of this study were:

- To discuss theoretically the movements of stock market price as predicted by the random walk model.
- To develop the empirical probability distribution of successive price changes of the individual common stock and a stock market as a whole.
- To examine whether the successive price change of the stock market are independent to each other or not.
- The main conclusion of his study were:
- On basis of the run tests and serial correlation, it seems that the independent assumption of random walk model in the stock price is

rejected by the collected sample data of 21 companies at least as a description of price behaviour in NEPSE.

- The stock price changes are dependent on each other.
- The random walk of security speculative price behaviour has been refused at least in the Nepalese context, which clarifies that the knowledge of the past becomes useful in predicting the future movements of stock market price.
- The securities in the past were incorrectly priced either over or under valued, as a actual market price of securities do not reflect their intrinsic value. In other words, in case of sample securities, they are incorrectly adjusted those past information to the present market price.
- There exists frequent persistence than reaction in the general stock market climate because of the investors irrational behaviour that causes the irrational movement of price of stock
- The general stock market of Nepal for the initial period appeared to the inefficient in incorporating the possible appearance of information into the successive price change. Therefore, the investing publics are not aware of the information available publicly, appropriate in adjusting with the actual market price.

His research revealed NEPSE to be an inefficient market. He performed a test of weak form efficiency by examining whether the stock price behaviour follow a random walk or not. He concluded the knowledge of past is useful in predicting the future movement of stock prices. Therefore, investors on the floor of the exchange for securities can make higher than expected profit in the future based solely on the historical prices series under the existing trading mechanism than they would under buy and hold strategy.

Dahal (2002) has conducted research on the topic “Stock Market Behaviour of Listed Joint Stock Companies in Nepal”. He objected to find out followings:

- To study and analyze stock price trend and volume of stock traded on the secondary market.
- To study and analyze the rate of listing of new companies and maintenance of listed companies in Nepal Stock Exchange Ltd.
- To study and analyze the investors views regarding the decision on stock investment.
- To study and examine the signaling factors impact on stock price with the help of NEPSE index.

Dahal's study was mainly based on the secondary data during the period of year 1997 to year 2001.

Dahal's in his study said that the major portion of the investors like to invest in banking sectors. Nepalese Stock Market is still in infancy stage and Nepalese investors are not well aware of investing process. He also claimed that on his study the NEPSE index price trend and investment facilitators are not doing their work in systematic way. The investors were found interested to be elected in company's management.

Furthermore, he added, the majority of the investors are facing many difficulties in Nepal Stock Exchange. The efficiency of stock market like brokers, market makers, security exchange limited were not found efficient by analyzing interviewers' expression as they were not getting required support from these parties.

Dahal has concluded that the investment decision is based on market price of shares. Volume of stock traded in stock exchange during his study period was found in increasing trend but in last year it was in decreasing trend. His study focused on the price of stocks rather than the brokerage services.

Guragai (2002) has conducted research on the topic "Price Formation and Brokering Services in Nepal Stock Exchange". The main aim of this study was price formation of the NEPSE. As a part of the study, he has studied and

analyzed the brokering services and the role of brokers in price formation in Nepalese Stock Market.

Guragai's study was based on 20 companies (Banking sector- 3, Financing- 8, Insurance - 3, Manufacturing - 3, Hotels - 1, Trading - 1 and other sectors -1) out of total 67 companies of the respective sectors. He used the data mainly from secondary sources on his study.

In the study, Guragain said, efficient price formation is one of the requirements for the development of the stock market. The involvement of different sectors especially the brokers with various services and facilitators in comparison to cost help to grow the involvement of the number of investors and the number of shares traded. The efficiency in pricing of shares in the stock market can also be reduced by increasing the involvement of the related sectors in share trading activities. The creation of fair market offers an easy mechanism to evaluate the conditions of securities market and future prospects of the securities and the movement in the price of the shares. In Nepal, the dynamism of stock market has been greatly reduced by the domination of the long-term shareholders who invest in the shares with the hope of increasing their wealth. Even though it was found from the responses given by the investors that they prefer blank transfer, it is their intention to prefer the shares having higher liquidity to earn capital gains when the time comes but actually most of them holds shares for long period.

Furthermore, he added that the efficient price formation was one of the major requirements for the development of the stock market. The effective price formation helps to create the liquidity of stock. If the price formation is inefficient in the stock exchange, prospective investors will find it hard to obtain securities at reasonable price.

Guragai, in his study also said that the stock price should indicate the direction in which community's savings should be invested. He further added, the price system established on the stock exchange provides guidance to investors and

helps them in directing the flow of fund into firms having prosperous and bright future. People in Nepal, simply invest in shares because they have very little alternatives of investment available. They are not well aware of the fact that investing in shares involves risk. He tremendously used different ratios to calculate the financial status of the companies under study.

However, Guragai's study had basically focused on the price formation of the stocks rather than brokering services of shares in NEPSE.

Joshi (2003) has conducted research on “Role of Nepal Stock Exchange in the Secondary Market”.

The main objectives of this study were:

- To assess the past and present behavior of business operation in Nepal stock Exchange market.
- To forecast the future trends of business and economic activity in the NEPSE in terms of quality, value and volume.
- To prescribe ways and means by which secondary market would be more effective and meaningful.

The main conclusions in her study were:

- NEPSE should introduce digital technology and on line marketing in its trading procedure.
- The rules and regulation should be up date.
- Privatization process needs to be carried out effectively in order to develop Nepalese Stock Market.
- Tax system should be reformed which should encourage and stimulate capital formation.

Neupane (2004) had carried out research study on the topic “An Empirical Study on Brokering Services in NEPSE” with following objectives

- To analyze the performance and effectiveness of Brokering Services in NEPSE
- To analyze the general Investor's opinion on Brokering Services

Mr. Neupanes study was based on both primary as Well secondary data to collect primary data he had distributed 135 questionnaires 115 to investors and 20 to brokers. He had got the response from 61 people 47 investors and 14 brokers. His study was mainly based on the data and information obtained from this questionnaires survey. He had used different analytical tools for the processing of obtained data.

In his study, Mr. Neupane said - Nepalese stock market is in infant stage. Both the investors and brokers are not satisfied with the brokering services of NEPSE. Investors are not getting adequate information and services from the brokers regarding the securities and the stock market. Due to the different types of market disorders like - mutual trading, Wash sales,- cornering the market, inside trading, churning, pool had increased the level of market disorder .

He further added, effective brokering service helps to increase the transaction and thereby helps to create the liquidity of stocks. It would also help to create the efficiency in the price of the shares. If there are shortages in the brokering services, it will not help to create the effective price of the share in the stock exchange and the prospective investors will find it hard to obtain securities at reasonable price which ultimately adversely affect economy of the nation. The effective price setting of the shares is one of the major requirements for the development of the stock market. The involvement of different sectors especially the brokers with various services and facilities in comparison to cost help to grow the involvement of number of invertors and the number of share traded The Creation of fair market offers an easy mechanism to evaluate the conditions of securities market and future prospects of the securities and the movements in the price of the shares. Though, the investors have very few investment alternatives, number of stock traded on the stock market is very low

such act reduces the dynamism of the stock market. But Mr. Neupane missed to analyze the service of brokers working in NEPSE.

Mainali (2006) has conducted research on “A Study on share Price Behaviour of Listed Companies”.

The main objectives of this study were:

- To analyze the behavior of stock price of listed companies.
- To examine the stock price trend and volume of stock traded on the secondary market.
- To identify the factors affecting the stock price.
- To analyze the investor's view regarding the decision on the stock investment.

The main conclusion in her study was:

- Share trading system in share market is still uncivilized even in this IT age. Though the volume of trading the number of brokers has not increased. Therefore, for the systematic operation of the share market the number of brokers should be increased according to the volume of trading. Similarly, the automation system has to be put in to practice to make the share market effective and competitive.
- The public investors not direct their saving in share hazard. They should at least analyze or get suggestions from the expert about financial position and the level of risk prior to taking an investment decision.
- Because of the persistence of the stock price movements' professional traders either institutional or individual can beat the market. Thus it is suggested that the investor should be alert to exploit the opportunities through short term speculation.
- It is also suggested to the concerned body to carry out or assist to carry out further research on stock market behaviour for the efficient functioning and betterment of the stock market of Nepal.

Overall, the previous studies in stock market support the idea that Nepalese stock market is not efficient even in the weak form hypothesis. Nepalese investors are not efficient enough to recognize potential for excess return.

Gurung (2008) has conducted research on “Broker’s Performance And Services in Secondary Market”

The main objectives of this study were:

- To examine the brokerage service in secondary market.
- To analyze the performance of the brokerage company in Nepal
- To examine the investor satisfaction toward the brokerage services.
- To explore NEPSE’s technology sustainability.

The main conclusions in his study were:

- The stock market should be efficient for liquidity in the stock.
- The investors have little knowledge about share market.
- The investors and broker are not satisfied with trading system in the NEPSE.
- Price of the stock is highly influenced by few investors who are also brokers.

On overall Gurung concluded that stock market is not generalizes due to the trading procedure, knowledge about stock market. He also added that there is no effective regularity body to regulate the stock market. His study focused on performance of broker which is in poor condition. At the time of his study the stock market was not developed but stock market is changed now.

Bhat (2012) has conducted research on “Problem and Prospects of Nepalese Stock Market”

The main objectives of this study were:

- To examine the pace of stock market growth in Nepal

- To analyze the trend of Nepalese stock market
- To evaluate the problems and prospects of Nepalese stock market

The main conclusion in his study was:

The development of stock market in Nepal so far cannot be considered satisfactory. This is evident from the facts and figure available in the stock market performance during the last 15 years. The diverse sector is coming up that need capital. The only requirement to fulfil the objectives of both parties is to create a conducive atmosphere where investors can avail the required capital from the market at low cost.

The dynamism of the stock market has been greatly reduced by the domination of the long-term shareholders, who prefer holding the shares with the hope of increasing their wealth. This can be justified by small number of shares that are traded on the stock market. Even though this reduces the dynamism of the stock market the investors have very few rather no alternative to holding shares.

There is almost no liquidity in the stock market for shares except that of banking and some finance and insurance sectors. Although, it has become late to take steps to overcome such problems of the Nepalese stock market in order to make it active and supportive, the stock market has a good prospect for the resource mobilization to finance the productive enterprises in the Nepalese economy..

In the context of primary share issue, there should be strict time frame for allotment of share, refund of money, distribution of share certificate and history of shares. There should be strict punishment if the prospectus is misleading and investors are affected by misleading prospectus.

The brokers do not have problem with each other in share transaction and settlement. But they have experienced conflicts in buying and selling of shares, mostly in signature verifications, and cash payment. Investors do not pay when prices fall and do not accept share price when prices rise. Shouting system is not effective because sometimes the board marker (person who writes in the board placed on the wall) may not listen to the first broker's quote and writes another broker's number in the board. It creates conflicts in the floor.

Majority of brokers agree that certain requirement like minimum qualifications and experiences should be met. Some added the brokers should be allowed to operate according to volume of transaction.

Investor's confidence in Nepalese stock market is relatively low because of stock market volatility, low return in investment, inadequate information, lack of financial market instruments and investors not knowing about the risk of the stock market investment. The size of the market in terms of market capitalization and number of issue is relatively small. Market for corporate debt instrument is undeveloped. The retailers also dominate present stock market in the absence of foreign investors and local institutional investors. Only a small portion of shares is actively traded while others are traded either in small number or infrequently which leads to poor liquidity and small turnover in the market.

### **2.3 Research Gap**

There is no exactly same previous research in the subject. However research in this subject will be great important and useful for various related persons including academicians, government investors brokers themselves and general public. Due to lack of research in service of securities broker in Nepalese Stock Market, the strength and weakness of brokerage service and their individual performance and about capital market in Nepal remained unexplained.

Therefore this research will have tried to examine service of security broker in Nepalese stock market. With the help of available data and the information, this research will try to examine service of broker in different aspects. This research will have made some recommendation for the enhancement of brokerage service through improving performance of individual brokers. This research, of course, will be must fruitful to the concern parties to take into consideration.

# **CHAPTER-III**

## **RESEARCH METHODOLOGY**

This chapter refers to the overall research methodologies from the theoretical aspects to the collection and analysis of data. This study covers quantitative methodology in greater extent and also used the descriptive part based on both technical aspect and logical aspect. This research tries to perform a well designed quantitative research in a very clear and direct way using both financial and statistical tools as required by the study. Detail research methods are described in the following headings.

### **3.1 Research Design**

Research design is a overall plan for the activities going to be undertaken during the course of research. This research completely based on analysis and description. “Description research ia a fact-finding operation searching for adequate information” (Wolf & Pant, 2005: 100).

This study is based on descriptor and analytical research design. This research assesses the option, behaviors/characteristics of the responded investors and brokers. It is based on both primary and secondary data. To collect the primary data, total populations of the licensed brokers are to be taken as sample. From the side of the investors, 50 persons are to be taken as sample. The sample investors are chosen from the person who visited the NEPSE floor at the time of securities trading. Necessary data and information are to be collected from interested investors and responded brokers. Brokers financial performance related data are collected from secondary source. The acquire data are organized in tabular form. The facts and the figure are analyzed and presented in graphical views to achieve the objectives. The searches clearly identifies the problem, justifies the current situation and practices, and compare the results

from the study. The research covers the five year data from FY 2006/07 to FY 2011/12 or FY 2007/08 to FY 2012/13

### **3.2 Nature and Sources of Data**

The main place of data was the central office of Nepal Stock Exchange (NEPSE), Securities Boards office, Kathmandu and Economic Survey published by Ministry of Finance. The main source of data is annual report of the SEBON. Besides annual report, various bulletins available and useful to the study are also taken into consideration. The research is based on primary and secondary data.

### **3.3 Data Collection Procedure**

This study equally takes data from both primary and secondary source of data.

The entire primary data had been collected from selected investors and brokers. Necessary consultation had been made and interviews were taken with the authorities of NEPSE, SEBON and brokers. Likewise, secondary data had been collected from different institution and from websites. The major organizations that they supplied data are SEBON and NEPSE.

### **3.4 Data Processing Procedure**

Secondary data are not further processed. These data are used in the study directly. Data collected from questionnaire fill-up, interviews and discussions were analyzed by using different statistical tools.

### **3.5 Analysis Tools**

The results came from the analysis were presented in tabular form and clear interpretations on it are given simultaneously. Detail calculations, which cannot be shown in the body part of the report, are presented in appendices at the end of this study report.

On the basis of primary data collected from questionnaires and informal discussion with different investors', brokers and staff as well as officers of NEPSE and SEBON, statistical tools are used to perform the details analysis as required by the study.

### **3.5.1 Percentage Analysis**

The percentage analysis is done to compare the two or more data for general information. It is used as a method to divide the opinions of the related sectors into two or more sectors.

### **3.5.2 Arithmetic Mean**

Arithmetic mean is the sum of all the observations divided by the numbers of observations. The arithmetic mean is denoted by  $\bar{X}$ . It is computed as:

$$\text{Arithmetic Mean } (\bar{X}) = \frac{\sum x}{n}$$

### **3.5.3 Range**

Range is calculated to describe the distance of the data acquired from a source. The higher range describes that the response is scattered highly while the lower range describes that there is unity between the responses regarding that question.

## **CHAPTER–IV**

### **DATA PRESENTATION AND ANALYSIS**

In this chapter, relevant available data of the primary and secondary sources are collected and analyzed. Investors and brokers were taken as the sources to gather relevant raw information and data by distributing questionnaires. The relevant data published in different publication were also utilized to make the study meaningful. Appropriate statistical tools have been used to perform the analysis. Different types of graph are also used to show the facts and figure.

#### **4.1 Analysis and Presentation of Data**

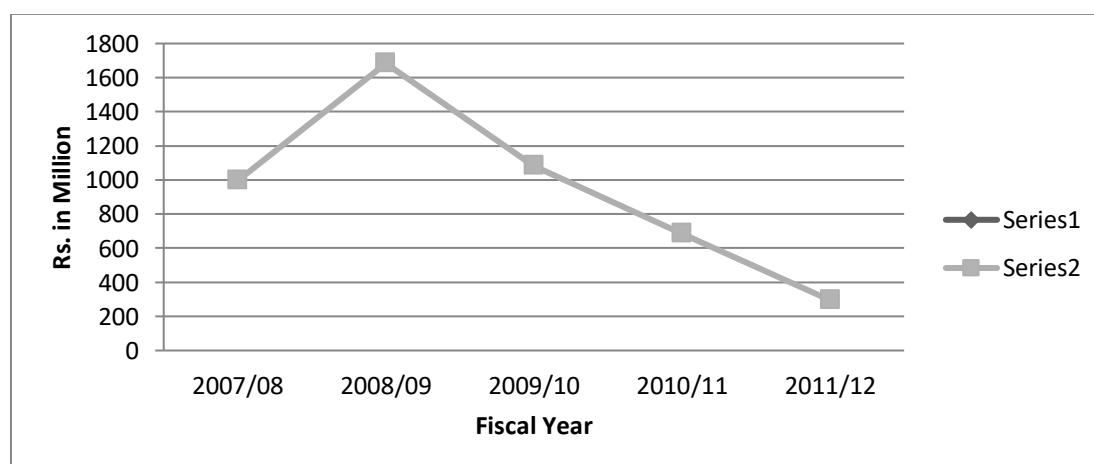
Capital Market is a robust medium for mobilization of nonproductive small savings spread across the country to the productive sector. Capital Market consolidates small savings and investments of the people engaged in different sectors of the economy, savers, saving mobilizes, and investors on one hand, while it helps enhancing availability of capital required for expeditious economic growth on the other. The capital fund necessary for the growth of productivity of various economic development sectors can be availed from the primary and secondary securities market.

**Table 4.1****Primary Market Trend****(Rs. in 10 million)**

Description	Fiscal Year				
	2007/08	2008/09	2009/10	2010/11	2011/12
Capital Mobilization	996.82	1682.85	1082.24	685.40	295.01
Ordinary Share	92.48	181.57	264.93	172.88	129.85
Right Share	609.34	1426.28	817.30	507.52	45.16
Preference Share	-	-	-	-	-
Debenture	295.00	75.00	-	5.00	120.00
Citizen Unitary Plan	98.00	95.34	100.88	31.54	32.70
Mutual Fund	-	-	-	-	-
Number of Capital Mobilizing Companies	64	64	61	47	25

Source: Securities Board of Nepal (SEBON)

As shown in the above table in primary market capital mobilization in FY 2007/08, was Rs. 9.97 billion, and increased in following FY 2008/09 and was began to decrease in following fiscal year FY 2009/10, 2010/11, 2011/12 to Rs.16.83 billion, Rs.10.82 billion, Rs.6.85 billion, Rs.2.95 billion. The capital mobilization in primary market yearly basis is presented in following chart.

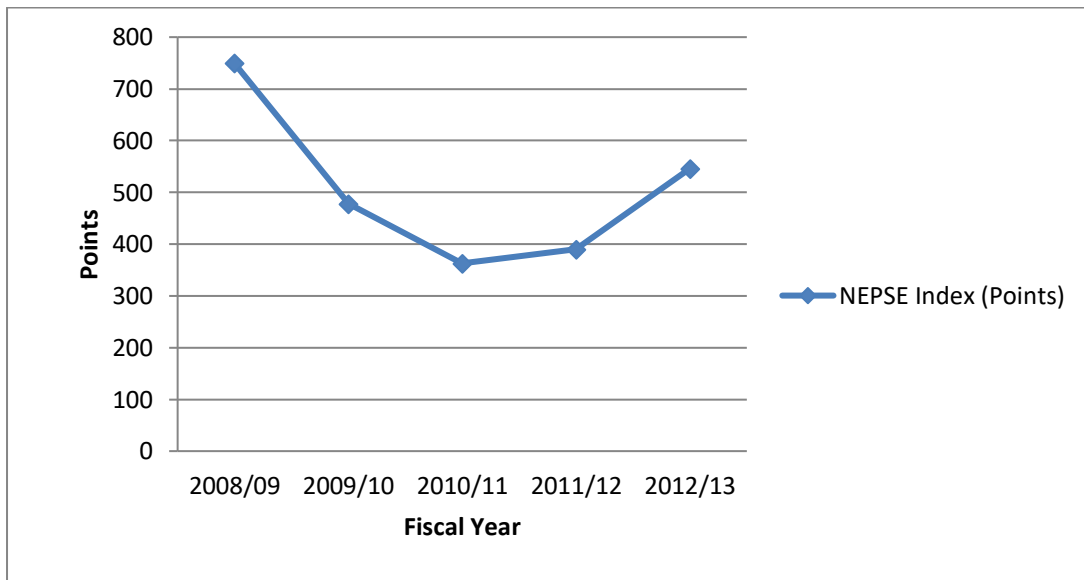
**Figure 4.1: Capital Mobilization, FY 2007/08 to FY 2011/12**

**Table 4.2****Secondary Market Trend****(Rs. in 10 million)**

Description	Fiscal Year				First Eight Months	
	2008/09	2009/10	2010/11	2011/12	2011/12	2012/13
Securities Transaction Rs.	2168.11	1185.11	666.53	1027.28	527.67	1415.45
Number of securities transaction(1000)	30547.17	26231.35	26240.39	41878.90	24302.24	48356.99
Transaction number	209091	213733	302364	293489	195273	201890
Market Capitalization	51293.9	37687.13	32348.43	36826.21	29355.64	52972.09
Percentage of Market Capitalization Transactions	4.23	3.14	2.06	2.79	1.8	2.67
Market Capitalization/GDP (Percent)	51.74	32.15	19.48	23.41	28.48	33.63
Paid up Price of Listed Shares (Rs. in million.)	6114	7935.6	10023.8	11061.0	10847.1	11909.7
Number of Listed Organized Institutions	159	176	209	216	215	229
Type of Securities Transaction (Script Traded)	170	198	222	230	211	207
NEPSE Index (Points)	749.10	477.73	362.85	389.74	313.92	545.72

Source: Securities Board of Nepal, Nepal Stock Exchange Ltd.

The NEPSE index was 749.10 points at the end of the FY 2008/09 and was decreased in following FY 2009/10 and 2010/2011 to 477.73 points and 362.85. .NEPSE index that indicates the state of the entire secondary market stood at 545.72 points in mid-March of the fiscal year 2012/13 which was greater than as compared to the corresponding period of previous fiscal year NEPSE Index 313.92 points. Observation of the movement of NEPSE index indicates that the economy in aggregate is heading towards positive direction. NEPSE Index is presented in following chart.



**Figure 4.2: NEPSE Index**

The number of members that the Securities Exchange Board of Nepal issued the licenses to act as securities broker was 50 during the FY 2011/12. 48 brokers were made the transaction. The list of them and the brokering transaction they have made in NEPSE during FY 2006/07 to FY 2011/12 are presented in the following table. The data for FY 2007/08 were not found.

**Table 4.3****Total Brokers Transaction in NEPSE (FY 2006/07 to FY 2011/12)**

Transaction Amount (Rs. in Millions)

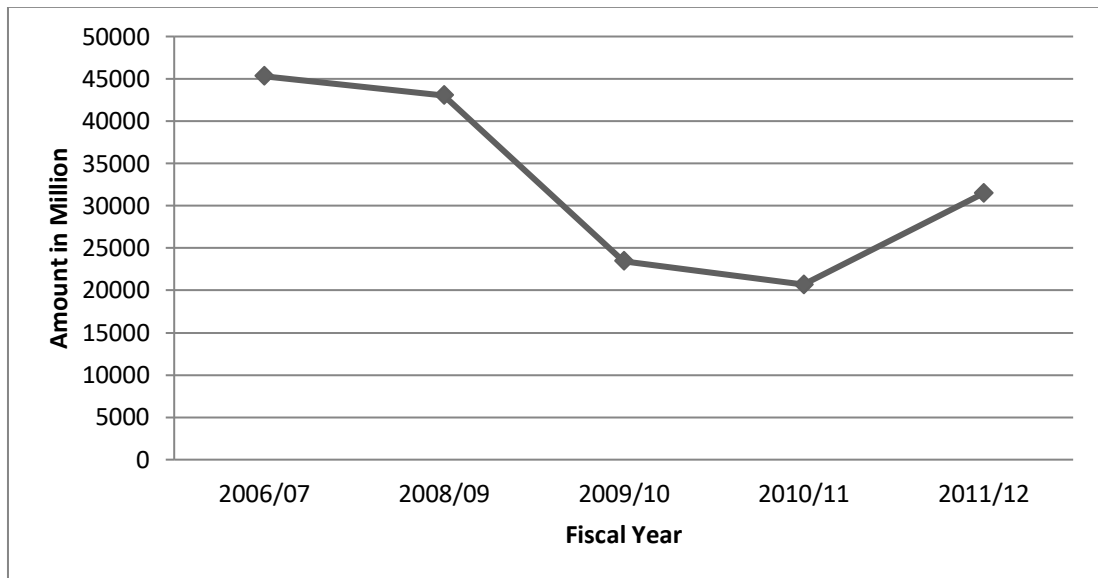
Name of the Licenses Brokers	Code No	2006/07	2008/09	2009/10	2010/11	2011/12	Total	Rank
Pragyan Securities (P) Ltd.	10	1247.5	1407.31	1234.2	732.53	16153.3	20774.84	1st
Agrawal Securities (P) Ltd.	6	3179.7	3517.74	2280.75	2086.75	356.4	11421.34	2nd
Nepal Investment & Securuties Trading Pvt.Ltd	19	3540	3307.63	790.97	776.44	1774	10189.04	3rd
Nepal Stock House (P) Ltd.	14	3738.2	2384.56	1734.83	897.11	834.4	9589.1	4th
Aashutosh Brokerage & Securities (P) Ltd.	8	3360.9	2814.79	1538.87	612.71	866.1	9193.37	5th
Sweta Securities (P) Ltd.	25	3234.2	3800.64	1189.6	723.74	161.5	9109.68	6th
Primo Securities (P) Ltd	16	3863.5	2309.59	1276.3	866.11	399.2	8714.7	7th
Sri Krishna Securities (P) Ltd.	28	2697.1	2643.32	1466.03	823.01	723.7	8353.16	8th
ABC Securities Ltd.	17	1935.3	1819.02	1442.61	2413.53	128.6	7739.06	9th
Trishul Securities & Investment Ltd.	29	1610.6	3701.06	980.23	661.08	265.5	7218.47	10th
Premier Securities Co. Ltd.	32	1825.2	1915.66	1269.22	651.9	897.1	6559.08	11th
Siprabi Securities (P) Ltd.	22	2082.9	1898	1052.5	566.17	851.3	6450.87	12th
Kumari Securities (P) Ltd.	1	2223.7	1966.44	1314.07	711	228.5	6443.71	13th
Sipla Securities (P) Ltd.	20	2166.6	1351.31	700.09	596.58	315.8	5130.38	14th
Thrive Brokerage House (P) Ltd.	13	977.3	1295.11	726.91	834.44	159	3992.76	15th
Malla & Malla Stock Broking Co. (P) Ltd.	11	1027.4	1140.29	649.01	315.89	776.4	3908.99	16 <sup>th</sup>
Arun Securities (P) Ltd.	3	1603.1	1019.44	758.42	192.02	194.1	3767.08	17 <sup>th</sup>

Sagarmatha Securities (P) Ltd.	18	981.4	1041.08	615.46	478.26	238.7	3354.9	18 <sup>th</sup>
Asian Securities Ltd.	26	884.5	762.98	544.04	193.41	823	3207.93	19 <sup>th</sup>
J.F. Securities (P) Ltd.	7	1267.3	853.51	649.4	391.24	0	3161.45	20 <sup>th</sup>
Opel Securities (P) Ltd.	4	943.9	488.08	383.85	279.69	456.4	2551.92	21 <sup>st</sup>
Market Securities & Exchange (P) Ltd.	5	521.2	1053.38	553.91	265.51	75.5	2469.5	22 <sup>nd</sup>
Midas Stock Broking Co. (P) Ltd.	21	388.5	548.62	321.91	128.68	0	1387.71	23 <sup>rd</sup>
Dipsikha Securities trading Co. Pvt. Ltd.	38				264.16	797.8	1061.96	24 <sup>th</sup>
Imperial Securities Pvt. Ltd.	45				495.03	495	990.03	25 <sup>th</sup>
Dynamic Money Managers Securities Pvt.Ltd.	44				439.2	439.1	878.3	26 <sup>th</sup>
Creative Securities Pvt. Ltd.	40				449.81	110	559.81	27 <sup>th</sup>
South Asian Books Pvt. Ltd.	43				255.86	255.3	511.16	28 <sup>th</sup>
Investment Management Nepal Pvt. Ltd.	53				6.23	503.6	509.83	29 <sup>th</sup>
Secure Securities Pvt. Ltd.	36				238.29	239.1	477.39	30 <sup>th</sup>
Vision Securities Pvt. Ltd.	34				213.8	213.7	427.5	31 <sup>st</sup>
Sanny Securities Pvt. Ltd.	42				274.89	131.4	406.29	32 <sup>nd</sup>
Kohinoor Investment & Securities Pvt. Ltd.	35				197.91	197.9	395.81	33 <sup>rd</sup>
Trishakti Securities Pvt. Ltd.	48				184.78	184.7	369.48	34 <sup>th</sup>
Sumeru Securities Pvt. Ltd.	39				176.74	177.7	354.44	35 <sup>th</sup>
Srihari Securities Pvt. Ltd.	56				98.01	219.9	317.91	36 <sup>th</sup>
Crystal Kanchanjanga Securities Pvt. Ltd.	50				254.46	44.8	299.26	37 <sup>th</sup>
Neev Securities Pvt. Ltd.	47				160.14	93.2	253.34	38 <sup>th</sup>
Swarna Laxmi Securities Pvt. Ltd.	37				22.59	225.9	248.49	39 <sup>th</sup>
Kalika Securities Pvt. Ltd.	46				152.59	92.4	244.99	40 <sup>th</sup>

Lynch Stock Market Ltd.	41				129.05	110.3	239.35	41 <sup>st</sup>
Dakshinkali Securities Pvt. Ltd.	33				203.71	2.5	206.21	42 <sup>nd</sup>
Bhrikutee Securities Pvt. Ltd.	55				77.26	97.6	174.86	43 <sup>rd</sup>
Sundhara Securities Pvt. Ltd.	52				48.04	83.1	131.14	44 <sup>th</sup>
Oxford Securities Pvt. Ltd.	51				83.18	0	83.18	45 <sup>th</sup>
Online Securities Pvt. Ltd.	49				60.44	6.5	66.94	46 <sup>th</sup>
Sewa Securities Pvt. Ltd.	54				8.44	41.3	49.74	47 <sup>th</sup>
Aryatara Investment & Securities Pvt. Ltd.	57					39	39	48 <sup>th</sup>
Nasa Securities Pvt. Ltd.	58					0	0	49 <sup>th</sup>
Divya Securities & Stock House Pvt. Ltd	59					0	0	50 <sup>th</sup>
Total		45300	43039.56	23473.18	20692.41	31480.3	163985.5	

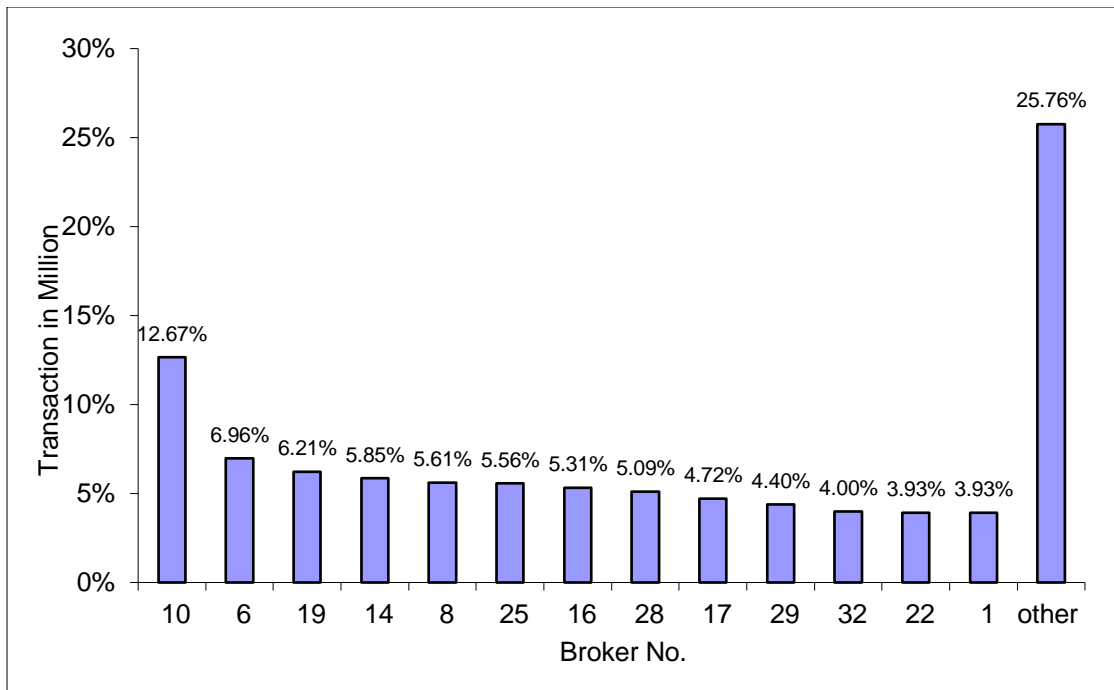
Source: Annual Report

As shown in above table, NEPSE through its member brokers made the transaction of securities in FY 2006/07 of the value of Rs.45,300 million. The transaction of the NEPSE was decreased in the following FY 2008/09, FY 2009/10, FY year 2010/11, to Rs. 43,039.56, Rs. 23,473.18, Rs. 20,692.41, and increased to Rs. 31,148.03 in following FY 2011/12. The trend of brokers' transaction in yearly basis is presented in following chart.



**Figure 4.3: Annual Transaction in NEPSE**

From the FY 2006/07 to FY 2011/12, 48 brokers had been doing transaction in the NEPSE. The following figure shows the cumulative average transaction of each broker. If the brokering business is perfectly competitive around 3.7% of transaction would go to the pie of each broker. Here in the figure 13 brokers had done the transaction above the average transaction. Other 37 brokers have the below average performance. The highest cumulative average transaction 12.67% has been made by the broker number 10. 6.96%, 6.21%, 5.85%, 5.61%, 5.56%, 5.31%, 5.09%, 4.72%, 4.40%, 4.%, 3.93% and 3.93% of cumulative average transaction has made by broker number 6, 19, 14, 8, 25, 16, 28, 17, 29, 32, 22 and 1 respectively. The remaining 37 brokers had contributed 25.76% of the total transaction in the average in the research period. Broker number 58, 59 had not made any transaction.



**Figure 4.4: Cumulative Average Performance in NEPSE**

The transaction data of broker during the study period were also analyzed year wise. In fiscal year 2006/07, top -5 best performers did 39.15% transaction of NEPSE. Among them, broker No, 16 made 8.53% transaction. Broker No. 14, 19, 8, and 25 had followed 2<sup>nd</sup> , 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> position with 8.25%, 7.81%, 7.42%, and 7.14% of NEPSE transaction. Remaining 60.86% of NEPSE transaction has been made by other remaining 18 brokers.

Similarly, in fiscal year 2008/09, 39.90% of total transaction was made by top 5 brokers. Broker No. 25 was the best performer in this year. It did the 8.83% of total transaction. The second, third, fourth and fifth highest was followed by broker No. 29, 6, 19 and 8 with the 8.59%, 8.17%, 7.69% and 6.54% of total transaction respectively. The remaining broker with out 5 had made about 60.10% transaction only.

In next fiscal year 2009/10, 36.05 % volume of total transaction was made by the top 5 brokers. Broker no. 6 was the best performer in this fiscal year with 9.72% out of total. Remaining broker no. 14, 8, 28 and 17 achieved 7.39%,

6.56%, 6.25% and 6.15% of total transaction respectively. 63.95% transaction was made by other remaining 18 brokers.

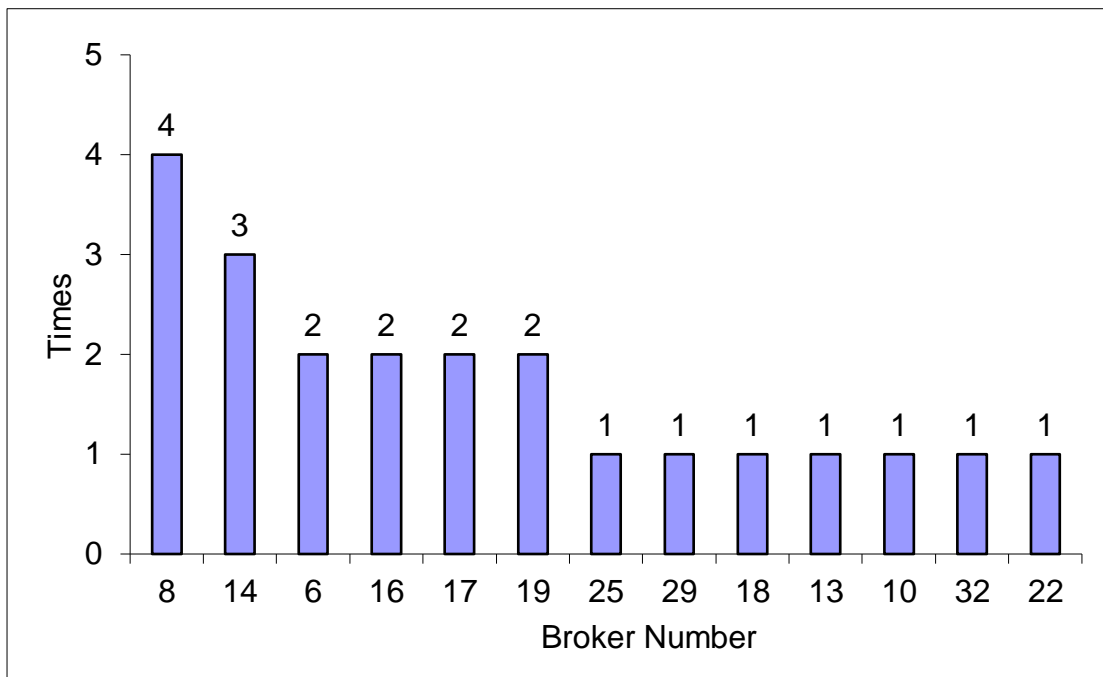
Then in fiscal year 2010/11, the top 5 broker have achieved 34.30 % out of total volume traded in NEPSE. Broker no.17 was succeed to achieve 11.66% out of total transaction made. Any other four broker out of top 5 broker no.14, 19, 8,and 25 had made the volume by 10.08%, 4.33%, 4.19 and 4.02% of total volume made by total broker. 65.70% transaction was made by remaining 42 brokers.

In the last FY 2011/12, the top 5 broker were succeed to make service about 66.25% of total transaction. Broker no. 10 was almost succeed to make transaction about 51.31% , other remaining 4 broker 19,32,8 and 22 had 5.63%, 2.85%, 2.75%, 2.70% and 2.65% respectively. In this period only 32.10% transaction was performed by remaining 41 brokers.

**Table 4.4****Best Performer Brokers in Chronological Order**

FY 2006/07		FY 2008/09		FY 2009/2010		FY 2010/11		FY 2011/12	
Broker Number	Amount	Broker Number	Amount	Broker Number	Amount	Broker Number	Amount	Broker Number	Amount
16	3863.5	25	3800.64	6	2280.75	17	2413.53	10	16153.3
14	3738.2	29	3701.06	14	1734.83	6	2086.75	19	1774
19	3540	6	3517.74	8	1538.87	14	897.11	32	897.1
8	3360.9	19	3307.63	28	1466.03	16	866.11	8	866.1
25	3234.2	8	2814.79	17	1442.61	13	834.44	22	851.3
Others	27563.20	Others	25897.70	Others	15010.09	Others	13594.47	Others	10938.5
Total	45300	Total	43039.56	Total	23473.18	Total	20692.41	Total	31480.3

It was found that from the available data, 13 brokers were rated top 5 performers during the study for FY 2006/07 to FY 2011/12. Broker number 8 has shown outstanding performance among the active brokers. It has secured its place in top 5 positions in 4 year out of 5 year. During the study period the top 5 record were followed by the broker no.14 & 6 for three times , 16, 17, 19, 25 for two times and remaining broker out of 13, broker no. 29, 28, 13, 10, 32, and 22 for only once time on a fiscal year.



**Figure 4.5: Brokers Performance: Top-5 Leaders**

50 questionnaires were distributed to investors and unstructured interview were made around Pokhara valley's brokers to collect primary data. Among them 29 questionnaires were returned from the investors with necessary filled-up.

#### **A. Data Acquired From Investors**

- Number of year involvement of investors in securities investing activities.
- The first question is asked to the investors to know the particular information of their involvement with securities investing activities in security market of Nepal. Twenty six investors responded this question.

They have different involving years. The highest involving year is 15 and 1 is the lowest involving year in securities market. The average involving year in the securities market of the Nepalese investors is found to be 5.5 years.

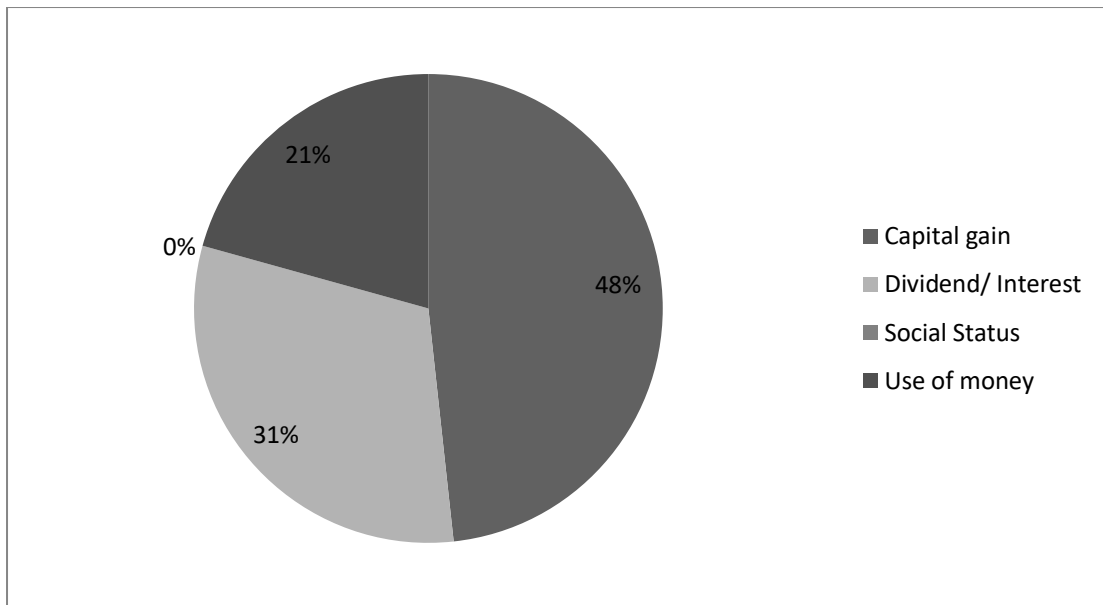
- **Purpose of Securities Investment**

The study tries to explore the view of investors about purpose of securities investment which is as under.

**Table 4.5**  
**Purpose of Securities investment**

Purpose	Number of investor	Percentage (%)
Capital gain	14	48
Dividend/ Interest	9	31
Social Status	0	1
Use of money	6	0
Total	29	100

The second question is asked to the investor to know their specific purpose in investing securities. Four purpose capital gain, dividend/interest income, use of excess money and making social status are set in the questionnaire. All of the 27 responded giving the answer of this question. Among them 14, 9, 0 & 6 respondents have stated capital gain, dividend/ interest, making social status and use of excess money as purpose of making investment in securities. Purpose of investment is presented in following chart.



**Figure 4.6: Purpose of Securities Investment**

From the acquired data majority of the investors are preferred capital gain, 28.27% investors prefer capital gain whereas 31.03% investors preferred dividend/interest and 20.68% investors prefer the use of money.

- **Number of companies in the investment portfolio**

The investors are asked this 3<sup>rd</sup> question to know about the number of companies they have invested among the listed companies in NEPSE. Among the respondent investors, 29 have given the answer of this question. From the acquired data, it was found that the highest score of 24 companies' securities in their investment portfolio. However, in an average 10 companies' securities have been owned by each investor.

- **Sources of advice/information for buy /sell decisions**

The 4<sup>th</sup> question is asked to the investor to know the basis to reach to the buy/sell decisions of securities. In this question, four alternate source of information are put to choose i.e. brokers' advice, fundamental & technical analysis of companies, market fluctuation /trend and others. 29 investors responded this question. Among them 15 investors followed fundamental & technical analysis of the companies and 12 investors followed market

fluctuation/trend and 2 investors followed about benefit/profit of company to reach the buy/sell but it was found that no one followed the brokers' advice to take the buy/sell decisions of the securities. From acquired data 51.72% and 41.38% investors reached to securities buy/sell decision with the help of fundamental and technical analysis of the companies and market fluctuation/trend of the securities market and 6.90% investors reached to buy/sell decision as per the benefit/profit of the company respectively.

- **Preferred investment sectors**

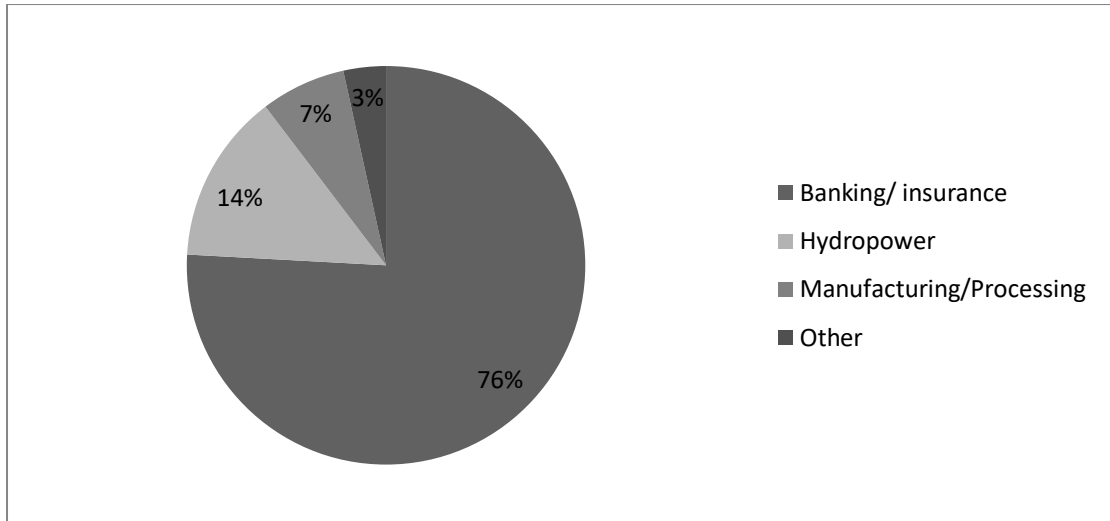
The study is made to know about the investor's preferred investment sector which is found as followings.

**Table - 4.6**

**Preferred investment sectors**

<b>Sector</b>	<b>Number of Investor</b>	<b>Percentage (%)</b>
Banking/ insurance	22	76
Hydropower	4	14
Manufacturing/Processing	2	7
Other	1	3
Total	29	100

The 5<sup>th</sup> question is asked to know the preferable sector for investment. Out of 29 respondents 22, 4, 2 & 1 investors are preferred in banking/insurance, Hydropower, manufacturing/processing and other sector respectively. It is also presented by following chart also.



**Figure 4.7: Preferred investment sectors**

From the acquired data, 75.86 % investors have preferred to invest in banking/insurance sectors' securities in the Nepalese securities market and 13.79% investor are preferred in Hydropower , 6.90% in manufacturing and 3.45% in other sector.

- **Investors receiving service from broker**

On the study period it is found that the investors are receiving the serve from the broker as per the following details.

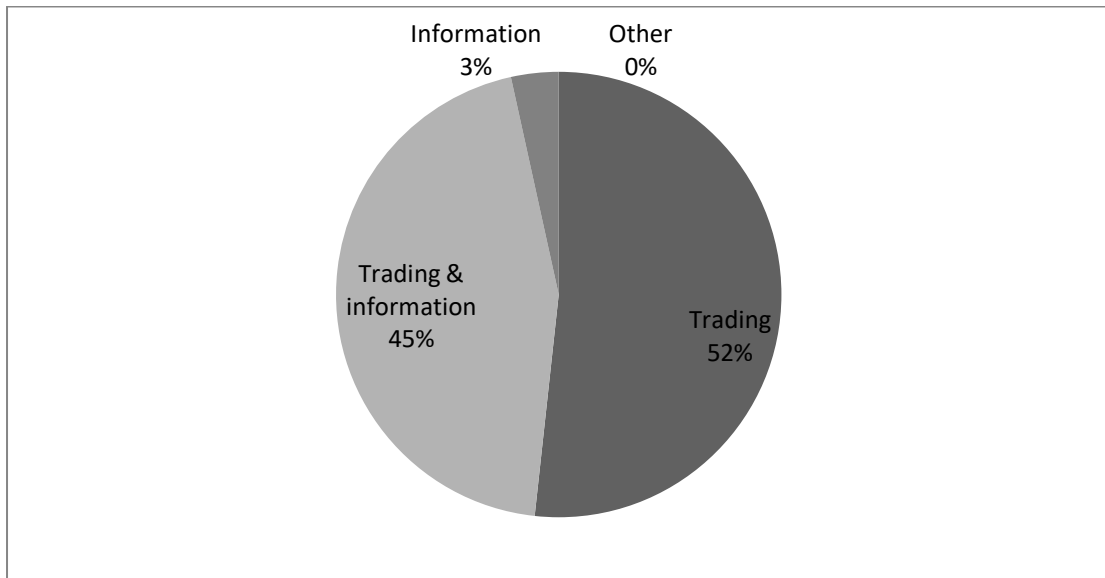
**Table 4.7**

**Investors Receiving Service from Broker**

Service	Number of Investor	Percentage (%)
Trading	15	52
Trading & information	13	45
Information	1	3
Other	0	0
Total	29	100

The 6<sup>th</sup> question is asked to the investors to know the types of service providing by the broker to their customer/clients. To this question, 29 investors have responded in which 15, 13,1,0 investors were receiving corresponding service

from the brokers among the four alternatives services- trading only, trading & information , information only and other (like discounting etc) services respectively.



**Figure 4.8: Investors receiving service from broker**

Most of the investors are receiving securities trading service only from the broker which is 51.72%. The 44.83% of investors are receiving both trading and information service 3.45% investor are receiving information service only with the broker.

- **Investor’s satisfaction with the performance brokering service**

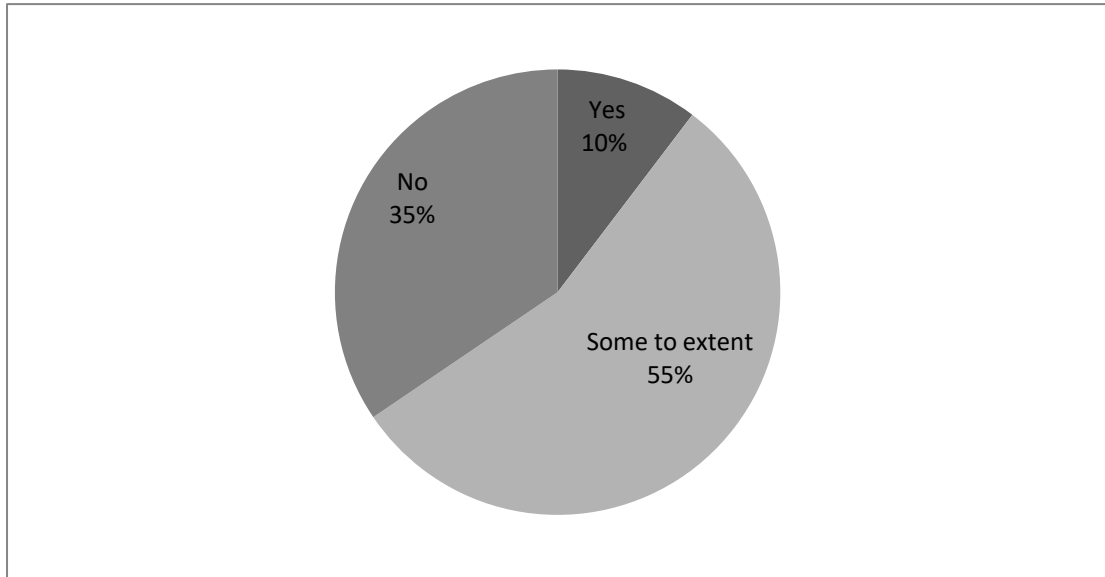
The study is made to check the level of investors satisfaction with the brokering service which was found as per following details.

**Table 4.8**

**Investor’s satisfaction with the performance brokering service**

<b>Investor’s satisfaction</b>	<b>No of investor</b>	<b>Percentage (%)</b>
Yes	3	10
To some extent	16	55
No	10	35
Total	29	100

The question number seven is asked to the investors to check the level of satisfaction of the investors with the performance of the broker. The 29 investors have given their opinion on this. From the acquired data, it was found that 3 are satisfied, 10 are not satisfied where as 16 investors are satisfied only some to extent.



**Figure 4.9: Investor’s Satisfaction with the Performance Brokering Service**

The majority of the responded i.e. 55.17% are only satisfied to some extent whereas 34.49% of the investors are totally dissatisfied and 10.34% of the investors are fully satisfied respectively with performance of the brokering services.

- **Factors considering to select the brokering service/brokerage firms**

The question number eight is asked to the investor to know the factors on which basis the broker to transact the securities by the investors. Four major factors were considered in this study. They were services charge, counseling/advice quality of services, and experience and reputation of the broker (brokerage firm). The 19 investors have given their answer to this question. Among them 19 (65.52%) investors have given the 1<sup>st</sup> priority to the quality services of the brokers/brokerage firms while appointing them.

Similarly, service charge, experience/reputation and counseling/advice have 6.90%, 3.45% and 24.13% votes respectively.

- **Flow of the information from listed companies**

The question number nine is asked to know if the listed companies were providing the information related to their performance and future planning. Sufficient, to some extent and not sufficient, 3 options were put for choice. The 29 investors responded this query. Among them, 16 persons were believed that the listed companies are providing the information about them to some extent, which is 69% having highest weight among the alternative. Similarly, 5 (17%) of the respondent believe they are not providing sufficient information. Four among them i.e. 14% of the respondent are found in the support of the companies that the listed companies are providing adequate information related to their performance and future planning.

- **Preference of share transfer method of investors**

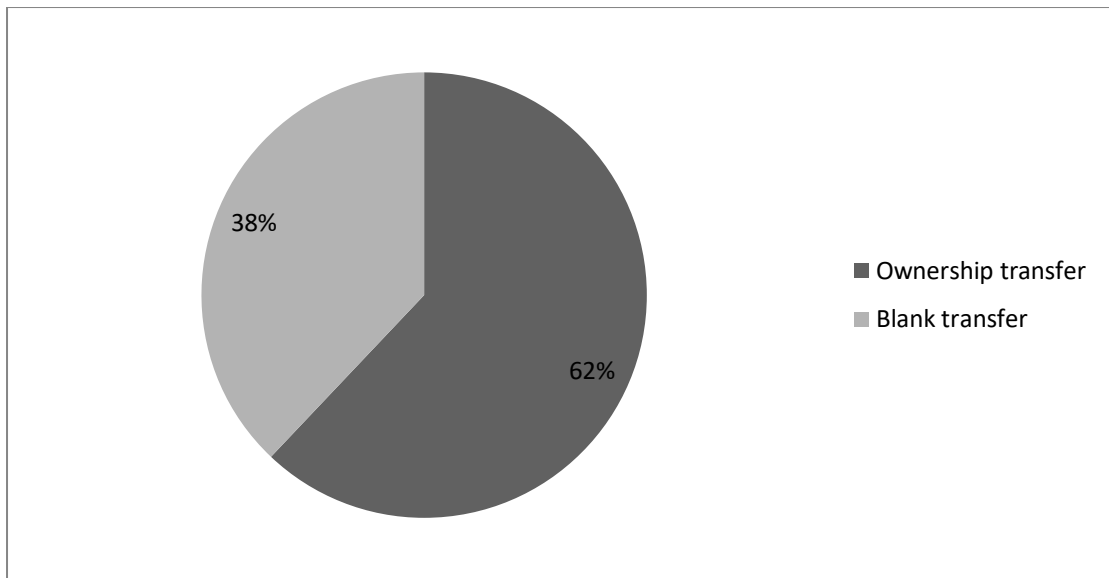
The study tried to explore view of investors on preference of share transfer method.

**Table 4.9**

**Preference of share transfer method of investors**

<b>Preference of Share transfer</b>	<b>Number of Investor</b>	<b>Percentage (%)</b>
Ownership transfer	18	62
Blank transfer	11	38
Total	29	100

The 10<sup>th</sup> question is asked to the investors to know the attitude of their share transfer methods. Among the 29 investors, 18 were in the favor of ownership transfer and 11 are in the favor of blank transfer of securities. It is also presented as following chart.



**Figure 4.10: Preference of Share Transfer Method of Investors**

62.07% of the total responses preferred ownership transfer and remaining 37.93% were in support of blank transfer. It was found from the acquired data that higher portion of the investors preferred ownership transfer of securities in NEPSE.

- **Adequacy and Reliability of Information Provided by Brokers to the Investors**

The 11<sup>th</sup> question is asked to get reliable and adequate information from brokers and official of NEPSE regarding the transaction of securities. In this particular question 29 investors gave the response, majority of the respondent i.e.19,(65.52%) investors believed that they are getting moderate level of adequate and reliable information. The low, very low, high and very high level reliable and adequate information that the investor are receiving from brokers and official of NEPSE are 5(17.24%), 3(10.34%), 2 (6.90%), 0(0%) respectively.

- **Mutual Trading as Stock Market Disorder**

The 12<sup>th</sup> question is asked to measure the belief of the investor that the mutual trading was responsible in stock market disorder. Among the 29 investors, the highest, 14 (58.62%) investors believed that the mutual trading distorted the securities market moderately. Whereas 20.70%, 10.34% and 10.34% investors

believed highly, very highly, and very low level of market disorder due to the mutual trading activities.

- **Brokers Activities Responsible to Market Disorder**

The thirteen questions are asked to measure the extent of responsibilities of the brokers in securities transaction activities, wash sale, cornering the market, insider trading, churning, pool and mutual trading are responsible for market disorder. Twenty five investors have given the answer of this question. Among them 14 (48.28%) investors moderately believed that the market disorder is caused from the brokers activities. Similarly 31.03%, 13.79%, and 6.90% investors believed highly, very low level and very high level market disorder due to the broker's different types of activities.

- **Satisfaction of the Investors with the Online Trading System Followed by NEPSE**

The fourteen question is asked to the investor to know their view about the trading system followed by the NEPSE. 29 investors have given answer of this question. Major portion of the investors 13 are satisfied at the level of to some extent which is 20.69%, 10 (34.48%) investors are not satisfy and remaining 6(20.69%) investors are satisfy with the online trading system followed by NEPSE.

- **Knowledge about the Online Trading System**

The last question is asked to know about knowledge on trading system of NEPSE. 29 investors have given their views. Among them 18 (62%) have to some extent knowledge about trading system of securities and remaining 11 (38%) investors have full knowledge about online trading system of securities.

## **B. Data Acquired from Brokers**

An unstructured interview and discussion was made about service of securities broker around Pokhara Valley. To develop the secondary market there is a vital role of broker. So, broker should provide quality trading service as well as information service too. Most of the broker are providing trading and few information service only to the investor. They are not providing any tools for securities analysis to the investor. Brokers mostly have provided trading

service only. As per the interview with the broker it is found that the investors are not knowledgeable about the stock market so it is difficult to facilitate the brokerage service to the investors. As per interview with the brokers they have conducted interaction program in Pokhara 2/3 times. It is also found that from the broker most of the investors prefer the ownership transfer rather than blank transfer. Brokers have received order from the client mostly more than Rs100,000. It was also found that they collect annual report of listed company. Brokers are following to maintain the record of data and information by computerized and manual system. It is also found that brokers are not providing any discount on service charge on trading the share. Brokers are satisfied with the online trading system. Brokers are said that there is a main problem to send the document on NEPSE and return back due to the courier error. So, brokers are suffering from the problem that the comment received from the investor about document processing and document missing. Brokers are supposed to send trading transaction related document within 3 days if they failed to send this they will be punished by NEPSE. NEPSE breaks to transact them. It is the main problem of outside Kathmandu valley's broker. Brokers are said that if the Central Depository System (CDS) implemented such type of problem will not arise and investors will also receive payment in time and document missing problem will be solved. Brokers are not allowed to advertise about themselves and they are not allowed to suggest the customer to buy or sell of a particular company which is restricted by NEPSE.

#### Questions for discussion

1. What types of service you are providing to your client?
2. Do you suggest to your client to buy /sell the securities?
3. What types of transaction do you receive from your client mostly?
4. Which method do you follow to keep record of data?
5. Do you collect annual report of listed company?
6. Do you provide any discount on service charge to your clients?
7. What are the problems in providing services to client?
8. Do you have any suggestions?

### **Comment and Suggestion from investors/brokers**

During the study, comments and suggestion from the investors, professionals and official were made. They have given different types of suggestion and comments to improve the brokerage service. The major comments are presented below;

- Most of investors are not gained about online trading system. They should provide such types of information to the investors by orientation and education.
- According to the investors, brokers are more profit oriented than service. They are sufficient and reliable information to the investor. To improve the performance of broker professionalism should be developed.
- The NEPSE should provide easy access of information for the interested parties regarding the transaction data.
- For development of secondary market, market maker, brokers ought to be honest toward the investors.
- For the foster payment procedure Central Depository System (CDS) should be implemented soon.
- Some investors are seeking tax free or very nominal on capital gain in securities business transaction.
- The some investors are said that the brokers are responsible for stock market disorder therefore they are not receiving actual return.
- There are sufficient market imperfections on securities market, thus effort should be concentrated on removing such imperfection.
- Securities transaction should be transparency and reliable.

### **4.2 Major Findings**

According to based on the available data. Major findings of the study are summarized as followings;

- It is found from the available data that the market capitalization decreased from Rs.996.82 million to Rs.295.01 million in FY 200708 to

FY 2011/12. It shows that the capital investment is decreasing order in the following year.

- The NEPSE index is 749.10 points at the end of the FY 2008/09 and was decreased in following FY 2009/10 and 2010/2011 to 477.73 points and 362.85. .NEPSE index that indicates the state of the entire secondary market stood at 545.72 points in mid-March of the fiscal year 2012/13 which is greater than as compared to the corresponding period of previous fiscal year NEPSE Index 313.92 points. Observation of the movement of NEPSE index indicates that the economy in aggregate is heading towards positive direction.
- It is found that the annual transaction of NEPSE was Rs.45,300 million in FY 2006/07 and it is decreased up to Rs.20,624.41 within FY 2010/11 and it is increased to Rs.31,480.3 during FY 2011/12. So performance level of the broker is decreased in the study period in mid study period and it began to increase. The highest cumulative average transaction 12.67% has been made by the broker number 10. 6.96%, 6.21 %, 5.85%, 5.61%, 5.56%, 5.31%, 5.09%, 4.72%, 4.40%, 4. %, 3.93% and 3.93% of cumulative average transaction has made by broker number 6, 19, 14, 8, 25, 16, 28, 17, 29, 32, 22 and 1 respectively. The remaining 37 brokers had contributed 25.76% of the total transaction in the average in the research period. Broker number 58, 59 have not made any transaction.
- It is found from the available data the investor's involvements in share investing activities are found to be 5.5 years. It is regarded very short period of time.
- The purposes of investment in securities market are found 28.27% investors have preferred capital gain whereas 31.03% investors have preferred dividend/interest and 20.68% investors prefer the use of money.
- From the acquired data, it is found that average 10 companies' securities have been owned by each investor and upper range is 24. It is quite reasonable.

- From acquired data it is found 51.72% and 41.38% investors reached to securities buy/sell decision with the help of fundamental and technical analysis of the companies and market fluctuation/trend of the securities market and 6.90% investors reached to buy/sell decision as per the benefit/profit of the company respectively.
- From the acquired data, it is found 75.86 % investors have preferred to invest in banking/insurance sectors' securities in the Nepalese securities market and 13.79% investor have preferred in Hydropower, 6.90% in manufacturing and 3.45% in other sector.
- According to data most of the investors are receiving securities trading service only from the broker which is 51.72%. The 44.83% of investors are receiving both trading and information service 3.45% investors are receiving information service only with the broker.
- The acquired result of the survey data said that the majority of the responded i.e. 55.17% were only satisfied to some extent whereas 34.49% of the investors are totally dissatisfied and 10.34% of the investors are fully satisfied respectively with performance of the brokering services of NEPSE.
- The study shows that 65.52% investors have given the 1<sup>st</sup> priority to the quality services of the brokers/brokerage firms while appointing them. Similarly, service charge, experience/reputation and counseling/advice have 6.90%, 3.45% and 24.13% votes respectively.
- The study shows that the listed companies are providing the information about them to some extent, which is 69% , 17% of the respondent believe they are not providing sufficient information 14% of the respondent are found in the support of the companies that the listed companies are providing adequate information related to their performance and future planning.
- As per the study 62.07% investors are preferred ownership transfer and remaining 37.93% are in support of blank transfer. It is found from the

acquired data that higher portion of the investors preferred ownership transfer of securities in NEPSE.

- The 65.52% investors have believed that they are getting moderate level of adequate and reliable information. The high level reliable and adequate information that the investors are receiving from brokers and official of NEPSE are 6.90%.
- From the acquired data 58.62% investors have believed that the mutual trading distorted the securities market moderately. Whereas 20.70%, 10.34% and 10.34% investors have believed highly, very highly, and very low level of market disorder due to the mutual trading activities.
- The study finds that 48.28% investors moderately have believed that the market disorder is caused from the brokers activities. Similarly 31.03%, 13.79%, and 6.90% investors have believed highly, very low level and very high level market disorder due to the broker's different types of activities.
- Major portion of the investors are satisfied at the level of to some extent which is 20.69%, 34.48% investors are not satisfy and 20.69% investors are satisfy with the online trading system followed by NEPSE.
- The 62% investors have to some extent knowledge about trading system of securities and 38% investors have full knowledge about online trading system of securities.
- It is found that most of the brokers are providing trading and information service to the customer but it is not sufficient.
- The brokers main problem is to send document at NESPE in time and safely.
- Brokers are supposed to send trading transaction related document within 3 days if they failed to send this they will be punished by NEPSE. NEPSE breaks to transact them. It is the main problem of outside Kathmandu valley's broker. Brokers are said that if the Central Depository System (CDS) implemented such type of problem will not

arise and investors will also receive payment in time and document missing problem will be solved.

- Brokers are not allowed to advertise about themselves and they are not allowed to suggest the customer to buy or sell of a particular company's share which is restricted by NEPSE.

## **CHAPTER-V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 Summary**

The economy of the world is changed rapidly. Economic sector plays a vital role for developing the nation. Nepal is one of the least developed countries in the World. Economic growth of any nation highly influenced and characterized by development and expansion of capital market. The growth of economy of the USA had been largely due to strength and efficiency of its capital market. Further, East Asian economic boom and crises are largely the effect of capital market fluctuation. The capital market has more significant role in developing economies like Nepal. The stock market plays important role encouraging and canalizing the saving to provide the entrepreneurs for investment in profitable areas.

The history of Nepalese stock market is not long. Stock market in Nepal is in infant stage. There are many problems in development of stock market. Stakeholders, regulatory body and the broker members are responsible to creating such a situation. Securities transaction procedure in NEPSE is not easy. The investors are not getting the reliable information and better service from the broker. The effective brokering service helps to increase the investment in securities and thereby help to create liquidity of stock. It will help also create the efficiency in the capital market. If there is no better service of the broker the investor will not be interested to invest in the securities in the security market. For developing the stock market the market may be competitive, so that the share price will be reasonable.

This study service of securities broker in Nepalese stock market examines brokerage services, performance of brokerage firm, and satisfaction of the

investor. There is a vital role of security market in the national economy. Investor has to forgo opportunity income from alternative source while investing it in stock. Service, advice and response of broker will influence the investment decision of the investor. Broker also considered as the main player of the stock market in developing country like Nepal. So the services of the broker need to be reliable.

The study period is taken from FY 2006/07 to Fy 2011/12 or FY 2008/09 to FY 2012/13 based on the both primary and secondary information. Questionnaires were distributed to the investors and unstructured interview and investigation was taken to the broker around Pokhara valley to acquire the information relevant to the study. Necessary interview and discussion were taken with concern. Brokers' annual transaction was taken as secondary source of information. The related data from other source were also used. The information was then analyzed by using different statistical tools like percentage analysis, range and medial etc.

The major findings of the study are summarized in the following words. Nepalese capital market is in infant phase. Capital market in Nepal is poor. The exercise of the Nepalese investors in investing in the stock market is no long. Most of the investor prefers the ownership transfer of security to hold long time and capital gain will reduce the dynamism of the securities market. Investors follow the fundamental and technical analysis of the securities. Brokers are providing trading service. They provide little information service to the investors. Brokerage firm should conduct information and awareness campaign activities. Most of the list companies will not provide realistic information to the public. Few listed companies will provide real information to the public. Mutual trading, pool, churning, cornering, matching have the greater role for stock market disorder. The number of the broker is increasing but most of the brokers have below average performance. Least brokers are doing actively in the share market. The regulation of NEPSE is not effective for stock market operation.

## 5.2 Conclusion

For the economic development of the country there should be efficient stock market. Stock market provides golden investment opportunities to the investor. It also provides liquidity for the investor. For the economics activities, liquidity plays a vital role. The level of liquidity is influenced by the price formation of the stock in the stock market. So, in order to maintain the high liquidity in the stock, the stock market has to be efficient in all area. The conclusion of the study is presented below;

- The market capitalization was in decreasing trend in the study period due to the fluctuation in economy and lack of political instability.
- NEPSE Index was also in decreasing phase on FY2010/11 there after it is began to increase due to improve in the economic activities. In our contest, the dynamism of stock market has been greatly reduced by the domination of the long-term shareholders who invest in the share with the hope of increasing their wealth. Even though it was found from the responses given by the investor that they prefer ownership transfer, it is their intention to prefer the share having higher liquidity to earn capital gains when the time comes but actually most of them hold the share for long time.
- The rationality of the Nepalese investors was found to be at low level. They are mainly interested in securities of financial sectors. Investors have little knowledge about trading procedure and the price setting mechanism at Nepal stock exchange.
- In the study period major portion of the broker have below the average performance. Higher part of the NESPSE transaction goes to the hand of few numbers of selected brokers. Such a situation is being created from the side of broker themselves as well as regulatory authorities. To avoid such types of problem brokers should improve themselves and regulatory body ought to change some rules and regulation to foster the

performance of the secondary market. To develop the secondary market there should be highly regulation by the authority.

- In the efficient stock market the price of share fully reflect the available information and rationality of the investors. The role of information is decisive in pricing of securities. Lack of sufficient information, rumor and whim have played significant role for price movements of share and investment on common stocks. The decision of investment is based more on intuition, imagination, guesswork than on conscious judgment based on understood statistical probabilities in Nepalese stock market. But the Nepalese investors are seeking qualitative service from the broker in respect of trading of securities and higher accuracy in the information they are getting. The quality of the information works a main source of their goodwill and uplifts the moral responsibility towards the investors. It also leads the superior performance.
- Brokers are also quite rigid to provide additional services to their clients. Different types of awareness programs, discount in service charge, home service will encourage the perspective investors for the investment. It is found that the price of the stock is fixed by few actively participating brokers who represent the investors in the Nepalese Stock exchange. They play the vital role and the market is also loyal to these few investors and brokers. There were some conditions and circumstances seen in the stock market disorders. These activities were preformed to protect their sole interest and the mutual interest connected with the very little number of investors and brokers themselves. The stock market is in the hand of few investors who are also broker.
- Most of the brokers are supposed to provide trading information only. They are not provided adequate information to the investors. Brokers they have some problem also. Brokers outside the Kathmandu Valley are suffering from the process to submit trading related document on NESPE within 3 days.

- Most of the investor's satisfaction toward the broker's service was found at level to some extent, only few investors were satisfied with the brokerage service. The NESE has adopted automated screen based trading system replacing the 'open-out-cry' system. But the investors are not satisfied with the delay payment procedure as well as documentation part. They are seeking central depository system (CDS).

### **5.3 Recommendation**

Economic development of a nation is depending upon the stock market development. The pace of economic growth should be accelerated in order to have its positive impact on the stock market development. The following recommendations are made to the different sectors related service of securities broker in Nepalese stock market on the basis of the finding and conclusions of the study.

- For the increase in the capital mobilization there should be political stability in the country and privatization should be made in the economy.
- For the growth in the secondary market NEPSE should provide necessary and reliable information to the investors.
- Number of brokers should be increased and their service should be accountable. There should be fair competition among the brokers.
- Brokers firms are found to be not obeying their obligation timely. They should help regulatory bodies performing their activities by providing the financial statement and other issues timely. They should follow the rules and regulations made by regulatory bodies for increase the performance level.
- It is seems that brokers are responsible for market disorder. They should provide right and real information about all the companies to help investors chose the share of a particular company that best fit his personal risk and return category.

- Most of the brokerage firms are concentrated in Kathmandu valley only, so brokerage firm should be established in other potential area. They should also focus in other activities apart from trading the share in NEPSE. Such services include information dissemination about the listed companies to the investors, providing margin trading facilities to the small investors.
- The brokers should be trained for better service providing to the customer and there should be organized informative program by concern body.
- The brokers should act as an important and responsible factor for the development securities market and should strictly avoid involving themselves into stock market disorder.
- The Nepalese investors are found having little information about stock market. Therefore, NEPSE should conduct information related activities to meet expectation of the investors. If the investors have more information about stock market they will be interested in making investment in securities.
- Investors are not getting adequate and reliable information from the listed companies. Hence listed companies should provide financial information related report timely and comprehensively.
- Brokers are mainly focusing their services in trading activities. They should provide additional facilities and information with minimum cost to the investor. It will motivate investors to buy or sell the securities.
- In Nepal, size of the stock market is small because for the corporate sector in the economy. The share of the corporate sector is also negligible compared to total investment in the economy as a whole. Because of the small size of the corporate sector, government should promulgate suitable policies to equip and enable brokers to perform their duties effectively and thereby foster the development of corporate sectors in the economy. If the brokers are able to provide adequate

information to the investor, investor will motivate to invest in stock market.

- The investors are not satisfied with payment procedure in buying/selling of securities. The documents submit process in NEPSE is not practical. There should be implement central depository system (CDM) as soon as possible.
- It was found Nepalese investors have very low level of knowledge about share investment and stock market. So, the concerned authorities should conduct various research studies and disseminate the information relating to the share trading activities to increase the knowledge of investors in using financial tools to estimate the intrinsic value of share of a company before making investment decision.

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[www.nepalstock.com](http://www.nepalstock.com)

## APPENDIX-2

### RESEARCH QUESTIONNAIRE: INVESTORS

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I am Laxman Prasad Timilsina student of master of business study (MBS) at Prithvi Narayan Camps Faculty of Management, TU. I am conducting a research on the topic “Service of Securities Brokers In Nepalese Stock Market” for the partial fulfillment of the degree of Master of business Studies (MBS). So, I would like to request you to answer the following questions related to my topic of study to help me get the research objective. I assure that your response will be kept strictly confidential.

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#### PERSONAL DETAILS

Name:.....

Profession:.....

Address:.....

Date:.....

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1. How long have you been involved In the share investing activities. Please specify the number of year.

Since the last  years

2. For which purpose do you buy share?

For capital gain  For social status

For dividend/ interest income  For use of money

3. How many companies’s share do you have presently own? Please specify the number of company

Companies

4. Generally, how do you reach in decision to buy and sell of the securities

Based on the broker  Based on market fluctuation/trend

Based on Fundamental & Technical Analysis  Others

Please Specify .....

5. In which of the following sectors do you want to invest in share

Banking/insurance  
 Manufacturing and  
 Insurance sector  
 Hydropower  
 Others, please specify  
the sector

6. What types of services are you presently getting from the Brokers?

Trading services only  
 Information  
service only

Trading and information  
 Others, please  
Specify. ...

7. Are you satisfied with the performance of Brokering Service of NEPSE?

Yes  
 To some extent  
 No

8. Which of the following factor do you consider while selecting the boker?

Service charge  
 Quality of service  
 Counseling/ Advice  
 Experience &  
Reputation

9. Do you think that the listed Companies are sufficiently providing the information the information related to their performance and future

ing?  
 Yes  
 to some extent  
 No

10. Which transfer do you prefer while buying the share why

Blank Transfer  
 Ownership Transfer

11. To what extent do you think that investors are getting reliable and adequate information from brokers and the official of NEPSE regarding

ansition of shares in NEPSE?  
 Very Highly  
 Very low  
 Highly  
 Moderately  
 Low

12. To what do you think that the mutual trading (matching) is responsible for stock market disorder?

Very Highly  
 Moderately  
 Very Low  
 Highly  
 Low

13. To what extent do you think that the brokers are responsible for stock market disorder? Such as: Wash sale, Cornering the market, Insider's trading, Churning, Pool and Mutual Trading

Very Highly                      Moderately  Very Low

Highly                       Low

14. Do you satisfied with 'Online Trading System' followed by NEPSE to

trade the share ?

Yes                       To some extent                       No

15. Do you have knowledge about the online trading system of securities?

Yes                       To some extent                       Now

16. Do you have any comments/suggestions about brokering service of Nepalese Stock Market ?

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