

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

The nation having effective fund collection and investing them properly in the productive areas is found economically sound. As for our country, the per capita income of Nepalese people, being very low, savings are also very poor, and then it have finally resulted in to the lack of financial resources for the investments in productive sectors. So, the industrial sectors of our country have not been able to develop so far due to the lack of capital and experience in related fields. However, after the restoration of the democracy in 1990, the economic liberalization policy of the nation has helped the country to mobilize the capital somehow through privatization. Though, the private sector companies are helping the country in mobilization of capital to some extent, the expected desired results could not be achieved so far, which is due to developing stage of the capital market.

Nepal's financial system comprises financial markets and financial institutions. It is a sub-system of a national economical system. Financial institutions facilitate the savings and borrowing process and in doing so, maximize the wealth of the institutional owners. Unlike non-financial business, which enters the money and capital markets to satisfy only their own needs, institutions deal in the financial markets to satisfy the needs of other business. The financial market is the part and the potential for the economic development of every country. But the financial system of our country is not functioning well. Though, our country has seen the growth of number of financial institution in a short span of time, development is not so appreciated.

Capital market along with the financial markets play important role in an economic development of the country. Capital market proved to be the

important segments of the economy since it facilitates and provides better institutional arrangements for the borrowing and lending of long-term funds. Capital market is the general barometer that measures the proper collection and canalization of savings for investment in productive and income generation assets.

The relationship between stock market development and economic growth has received renewed attention of academicians and policy makers in the present decade not in the developed and developing countries. The growing importance of stock markets in the developing countries has opened up many avenues for research in the relationship between financial development and economic growth, with focus on development role of stock market.

1.1.1 Security Board, Nepal [SEBON]

Securities Board of Nepal (SEBON) was established by the Government of Nepal on June 7, 1993 as an apex regulator of Securities Markets in Nepal. It has been regulating the market under the Securities Exchange Act, 2006.

Nepal Security Board promotes and protects the interest of the investors by regulating the issuance, sale and distribution of securities and purchase, sale and exchange of securities, to supervise, look after and monitor the activities of the stock exchange and the other related firms on securities business, and to render contribution to the development of the capital market by making securities transactions fair, healthy, efficient and responsible.

The Governing Board of SEBON is composed of seven members including one full time chairman appointed by the Government for tenure of four years. Other members of the Board include joint secretary of Ministry of Finance, joint secretary of Ministry of Law, Justice and Parliamentary Affairs, representative from Nepal Rastra Bank, representative from Institute of Chartered

Accountants of Nepal, representative from Federation of Nepalese Chambers of Commerce and Industries, and one member appointed by the Government from amongst the experts pertaining to management of securities market, development of capital market, financial or economic sector.

1.1.2 Nepal Stock Exchange [NEPSE]

Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act, 1983. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13th January 1994. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and members are the shareholders of NEPSE.

The history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction of the Company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange Center Ltd. in 1976 were other significant development relating to capital markets.

Securities Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. Nepal Government, under a program initiated to reform capital markets converted Securities Exchange Center into Nepal Stock Exchange in 1993.

Members of NEPSE are permitted to act as intermediaries in buying and selling

of government bonds and listed corporate securities. At present, there are 23 member brokers and 2 market makers, who operate on the trading floor as per the Securities Exchange Act, 1983, rules and bye-laws.

Besides this, NEPSE has also granted membership to issue and sales manager securities trader (Dealer). Issue and sales manager work as manager to the issue and underwriter for public issue of securities whereas securities trader (dealer) works as individual portfolio manager.

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. NEPSE facilitates trading in Shares (Equity Shares & Preference Shares), Debentures, Government Bonds and Mutual Funds. 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

The stock exchange provides floor for trading the shares of listed companies creating the liquidity in shares markets. The liberal financial policy adopted by

Nepalese Government after the restoration of democracy tried to reform the financial market of Nepal. That result open practice of buying and selling of securities in the open floor of NEPSE maintaining the suitable market price of the shares. In general, the prices are determined according to the demand and supply of the shares. This study attempts to examine the different determiners of the share price relating the MPS with major financial indicators.

1.2 Statement of the Problem

Various measures of stock market development indicate that stock market in Nepal is underdeveloped and has failed to show impact on the overall national economy. Small market size has made it weak to manipulation and price rigging, low turnover ratio and value trade-ratio it volatility and high concentration ratio indicate that the stock market in Nepal is highly illiquid and risky. Investors tend to avoid stock market because they do not have options to invest in securities according to their risk-return preference. Similarly, firms reject it because stock market is less reliable source of raising funds for them. Due to this financial system, Nepal has remained basically bank-dominated. In general, the following research problems have been raised to carry out the research;

- a) Is the speed of stock market growth in Nepal viable?
- b) Is the trend followed by stock Market satisfactory?
- c) What are the problems that are hindering the pace of growth of the stock growth?
- d) What are the prospects of stock market in Nepal?

1.3 Objectives of the Study

The general objective of this study is to analyze the problems and prospects of Nepalese stock market. However, the specific objectives of this study can be enumerated as:

- a. To trace out the pace of stock market growth in Nepal.

- b. To analyze the trend of Nepal of Nepalese Stock market.
- c. To analyze the problems and prospects of Nepalese Stock market.
- d. To realize the various components for the good governance of primary and secondary market.

1.4 Significance of the Study

The study on the problems and prospects of Stock Growth in Nepal is very helpful to all the parties related to stock market. The significance of the study can be point out as follows:

- a. The study helps to trace out the hurdles and prospects of stock growth to the interested investors in the market.
- b. The study is helpful to the people who are curious to know about the price trend of the stock, volume of stock traded, listed of new companies in the secondary market (NEPSE) and the impact of signaling factors on NEPSE index etc.
- c. The study is helpful to the issue managers, stock brokers, securities dealers and the market makers of stock market in Nepal.
- d. The study is helpful to the law makers to make the share market more efficient.

1.5 Limitations of the Study

Each study is conducted under some constraints and limitations. Likewise, this study is also limited by some common constraints. This study is based on the fundamental analysis of the stock market growth. The research is made for the partial fulfillment of the requirements for the Master Degree in Business Studies (MBS). However, the specific limitations of the study are:

- a. The study covers only the problems and prospects of Stock growth and it does not other aspects of Security market.
- b. The accuracy of the primary data highly depends on the opinion of respondents.

- c. Reliability of the secondary data depends upon the accuracy of publication.
- d. The study covers only five fiscal year period. Due to the unavailability of the data for the fiscal year 2008/09 at the time of preparing this study, only the data up to fiscal year 2007/08 have been analyzed.

1.6 Chapter Scheme

The entire study has been organized into five main chapters as:

Chapter I: Introduction

The first chapter deals with background of the study, a brief introduction of NEPSE and SEBON, focus of the study, statement of the problem, objective of the study, significance of the study and limitations of the study.

Chapter II: Review of Literature

The second chapter deals with conceptual framework including the fundamental concept of securities market. It also includes the brief review of previous research work.

Chapter III: Research Methodology

The third chapter deals with the research methodology which has been followed to achieve the purposes of the study. It consists of research design, the period covered, nature and sources of data, tools to be used, research variable etc.

Chapter IV: Data Presentation and Analysis

The fourth chapter deals with presentation and analysis of data. It gives a clear picture of how the collected data has been presented on the study and how it has been analyzed.

Chapter V: Summary, Conclusion and Recommendations

And at last, the fifth chapter shows the summary of whole study, conclusion drawn and recommendations given. This ends the study paper.

Besides these chapters, Bibliography and Appendix are included in this research paper.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Conceptual Review

2.1.1 Stock Exchange and Its Role

“Stock exchange is the most highly centralized and visible institution where already issued securities are bought and sold for investment and speculative purpose. It provides facilities of trading of listed financial securities.

Securities exchanges do not directly buy or sell securities, rather they provide trading floors on which a continuous auction market is conducted. To transact business on the trading floor of an exchange an individual must be member; that is, a seat on the exchange must be purchased. Individual or institutional investors who place orders to buy or sell the securities listed on an exchange may not be present when their orders are executed. Rather, they must transmit their orders to an exchange member- usually a commission broker- who sees that they are carried out.” (*Mishkin: 1998; 12*)

In recent years, the authorities are increasingly recognizing the role of the stock exchange. “Stock exchange is not and has at no time been the private concern of a few individuals. Nor have their activities been limited to the cyclical booms and slumps, which attracted so much popular attention. The stock exchange as the market for securities gives everybody access to a number of different opportunities for capital investment. The function of

stock exchange is to provide equal opportunities for many buyers and sellers of securities as possible. From general economic point of view the stock exchange constitute the core of capital market. It has put its finger on the pulse of the economy and gives the diagnoses to the public in the form of quotation.” (*Pinches and Singleton: 1998; 19*)

The institution plays a notable part in the economic life of the country acting as a free market for securities, where prices are determined by demand and supply. The function of a stock exchange is not only to provide a market for securities but also assist in the raising of for government and industries. Thus, free and active markets in stock and shares have become a prerequisite for the mobilization and distribution of a nation’s savings as to support modern business.

2.1.2 Participants in the Stock Exchange

Brokers:

“Brokers are the agents or middlemen, who facilitate the buying and selling of securities for investors. They take buy or sale orders from the investors in their own office and executes the transactions in the floor of the exchange. Besides the basic service of executing orders, brokers also provide services such as holding securities for safe keeping, providing information and advice relating to investment alternatives, extending margin loans and facilitating short sales.” (*Thygerson: 1992; 132*)

Dealers:

“Dealers trade solely for themselves and are prohibited from handling public orders. Since dealers have access on the floor and can own securities on their own name, they benefit from buying at low and selling at high prices. The benefit of the dealers to the market is that their buy and sell actions added up liquidity of the securities.” *(Thygerson: 1992; 132)*

Market Makers:

“Market makers, also known as specialists, facilitate the trading of securities by maintaining inventory in particular securities. They are similar to dealers in many ways except that they always stand ready to buy and sell securities at their bid and asked price for which they are market maker.” *(Thygerson: 1992; 133)*

2.1.3 Trading Procedure

“Securities market trading has traditionally been conducted by traders gathering at a central point to quote buy and sell prices and to strike a deal when prices matched. Early forums for such gatherings were coffee-houses and curb-sides but these gradually gave way to the trading posts of stock exchange floors around which traders gathered to trade the stocks listed on each post. Stock exchanges began as associations of such traders who wished to gather together to trade because of shared interests and mutual trust.” *(Kolb and Rodriguez: 1996; 157)*

a) Order Collection and Maintenance of Clients Records

“Order collection can be thought of as the starting point of a transaction in which a broker receives instructions from a client and notes those instructions either in writing or direct to a computer record. The main client records kept

are a record of client instructions regarding transactions, ledger entries of money and security transfers and balances, the name in which securities are registered and the location and from in which they are held, any lines or charges over the securities and details of any authority or power vested in the broker by the client relating to the client's assets. Traditionally all these records have been kept manually but are now computerized in all but the smallest broker's office." (*Sur: 1998; 29*)

b) Order Routing

This is the first step of the transaction process outside the Broker's office. It is the process of transmitting a client's order to the correct place for execution. This might be to the broker's trading representative on the floor of a local or distant stock exchange, to an automatic small order execution system, or to an off-exchange market such as a computerized over the counter (OTC) market or privately negotiated upstairs market. Such order routing facilities are commonly provided by stock exchanges but sometime by independent IT providers.

c) Quotation Display and Comparison

"On reaching the trading place, a client's buy or sell orders are brought together with other orders to begin the price setting process which is the corner stone of a securities market. They are displayed according to price priority and compared with each other to identify where a trade may be possible. In an order driven market the bid and ask prices of investors are displayed, while in a quote driven market the buy and sell quotes of market makers are displayed. At least the highest bid and offer price plus the last sell price are given, and on some computer systems, the highest five or ten bid and asks are quoted, sometimes together with their associated buy or sell

quantities. Order display and comparison systems are provided by stock exchanges or similar market operators. They may be centralized like a stock exchange or computer trading room, or they may be distributed on a computer network.” *(Jacob and Petit: 1984; 221)*

d) Order Matching and Selection

“Matching is price bases – the buy price must equal the sell price. Selection criteria are more varied and depend on the nature of the market: order or quote driven, automated or manual, continuous or call auction. One method is automatic selection by time priority, in which quotes at the same price are executed in order from the first one entered into the system to the last one entered. A second method is where brokers exercise some discretion, so that from within a group quoting the same price rather than having to deal strictly in time priority. A third computer bases or manual calls auctions which do not account for time priority. And finally, a quote driven market displays the bid and ask spreads of the market makers rather than bid and offers prices of investors. In this case, client orders are matched with the market maker’s quote.” *(Thygeson: 1992; 145)*

e) Order Execution

“A deal is struck when matched buy and sell orders are executed one against the other. This may be done automatically or manually. Manual execution requires a decision and an action by both the buy and sell broker. Fully automatic execution on computer based systems removes the decision to

consummate the trade from the control of the brokers and instead executes the trade automatically once order is matched.” (*Hirt and Block: 1983; 111*)

2.1.4 Problems of Stock Growth

As in most nascent markets, Nepal also went through a volatile period in its early years. In the section above, three market factors were identified whose dynamics influence the market behavior. Given below is a discussion on some of the problems faced in each of these three areas, especially during the speculative market stage. (*Pinder; 1998: 58*)

A) Lack of Tradable Market Instruments

Tradable market instruments in Nepal are limited to equity shares. An alternate over the counter market existed for long-term government bonds. Since bond trading was done at par, investors held on to their bonds and this market was very stagnant. In the absence of alternative investment opportunities, the demand of shares built up heavily. This was particularly problematic in the initial speculative period, as it only fueled the price rise of already overvalued shares.

B) Market Intermediaries and Investors

a) An Oligopolistic Market Structure

In its early stages, the market had very few active members. There were 25 registered stock brokers of whom only about 10 were active. There were only 3 market makers. As a result of this oligopolistic structure, prices could easily be manipulated with very small transactions. This easily led to transactions

being made on a speculative basis rather than on an investment basis. Similarly, when the market makers realized that they could exert tremendous market power, rather than playing a stabilizing role by trading on the basis of company's underlying financial position, the market makers themselves made transactions on a speculative basis which pushed the prices up further.

b) Functional Overlaps Amongst Intermediaries

Because of low business volumes, financial intermediaries such as merchant banks and brokers become engaged in multiple functioning, which according to developed country standards would constitute severe conflicts of interest. As a result, market intermediaries can command substantial market power and easily manipulate the market. If not rectified over time, this may lead to a serious abuse of the system with its impending consequences and erosion of investor confidence.

C) Economic and Regulatory Environment

a) Insufficient Scrips

One of the most common problems in emerging markets is the scarcity of public companies. Typically in developing countries, business enterprises are small in nature, closely held usually within a family and are highly reluctant to go public. This hesitation usually stems from the fear of making their financial statements public, thus no longer being hidden from tax authorities. This is, by far, one of the biggest reasons in deterring private businesses from going public. Similarly, dealing with shareholders - most of whom are not well educated - is rather cumbersome to promoters. They also fear the loss of control to outsiders.

b) Competition with the Financial Sector

The growth of the capital market is intricately related to the state of financial markets such as the banking sector and government bond market. Usually, the banking sector plays a competitive role in the development of capital markets. In Nepal, while the banking sector was crucial in developing the capital market, the banking sector also plays a strong complementary role in fulfilling financial needs of businesses. Share markets are resorted to only when it is mandated by a government directive or if the company leverage has reached very high levels.

c) Regulatory Confusion

In Nepal, a Universal Banking modality has been followed. Under this system, deposit taking institutions such as commercial banks and finance companies are also allowed to participate in the capital markets. Since these institutions are regulated by the Central Bank as well as the Securities Exchange Board, the presence of multiple regulators adds to the confusion. A striking example of this is the approval for operation of a mutual fund by the Central Bank even before the establishment of the Securities Exchange Board. In the absence of a coordinated effort whereby these institutions regulate by function rather than by institution, the enforcement capacity of these organizations is heavily undermined.

d) Enforcement

Perhaps the biggest problem that emerged in the capital markets in Nepal is the lack of teeth of the enforcement agencies. This can be attributed to

several factors:

- i. Inadequate Legal System:* The Securities Exchange Act lacks clarity in terms of the regulatory purview of the Securities Board over the market intermediaries. It does not vest sufficient powers on the Board to issue and enforce the rules and guidelines. Rules and Regulations can only be issued with the approval of the Cabinet. More than four years after the Board's establishment, this has yet to be amended. Another example of this weak legal infrastructure has been the outdated Companies Act. This Act is yet to be amended to include the information reporting standards and accounting standards required for publicly traded companies and timely ownership transfers to ensure liquidity in such a market.
- ii. Fear of Regulatory Overkill:* Market intermediaries are usually few in number and are engaged in multiple activities. At this infancy stage, regulators are constantly plagued with the dilemma of acting as a market promoter versus a market regulator. Regulators are worried of an "overkill" which may have a ripple effect in terms of investor confidence. This often results in extended forbearance with detractors. In a non-competitive, nascent market, regulators are often unable to enforce rules strictly.
- iii. Ownership:* A unique problem for proper enforcement in Nepal has been the ownership structure of institutions in Nepal. The Nepal Stock Exchange, instead of being owned by brokers, is still owned by the Central Bank, Government and a semi-government enterprise, the Nepal Industrial Development Corporation. Hence, the Stock Exchange has yet

to emerge as a self-regulatory body.

2.1.5 Suggested Policy Responses

Some of the policy responses that need to be taken by the regulators as well as the government are as follows: (*Serlif; 2000: 176*)

A) Increase Supply of Tradable Securities

a) Increase variety of market instruments

In the initial speculative period, the demand for market instruments is heavy. In Nepal, fortunately, the liberal economic policies adopted enabled more tradable scrips to be issued and listed. However, there was no variety in the types of instruments available for trading. Government bond trading was virtually stagnant. Corporate bonds did not exist. The Government ought to allow for a more variety of market instruments. Introduction of bonds, especially government bonds, in the primary and secondary market would have been very timely. In 1995, 35% of the long term government bonds were held by non financial and non governmental organizations. The size of this market alone was more than Rs. 2 billion (15% of the market capitalization). This market alone would have provided a substantial float to the nascent securities market.

b) Provide Fiscal Incentives

Policymakers should also increase the supply of tradable companies on the Exchange. This is achievable only through fiscal incentives by the government. A two tier corporate tax structure should be set up in favor of public companies. Since debt financing allows for more tax deductibility,

alternative incentives should also be considered so that companies do not necessarily favor debt financing over equity financing. These measures could be a tax exemption for newly listed companies, a tax deduction of a certain percentage of costs of going public, or even a tax deduction of a certain percentage of profits distributed to public shareholders.

c) Issue Mandatory Legal Requirements

Mandatory laws and regulations requiring public offering by companies is quite effective in increasing the supply of corporate scrips. For example, all commercial banks and finance companies are required to issue a minimum of 30% of their capital base. Similarly, privatized firms are mandated to make a public float of 25% of their capital base.

d) Create Favorable Legal Environment

It is very important that corporate law, particularly, the Companies Act, is supportive of public issuance and does not have stiff requirements and procedures in going public, without sacrificing accounting and information disclosure requirements. Ultimately, the transaction cost of raising capital from the public has to be low enough in comparison to alternative financial mobilization vehicles. This is one area where Nepal has had considerable problems with the Companies Act, as exemplified by the fact that a minimum of 35 days is required by the Companies Act before a share transfer can take place.

B) Maximize Competitive Forces in the Market

a) Increase number of intermediaries

As in all nascent markets where the size of the market is very limited, there are naturally few players. However, it is important that no one institution can command significant market concentration making it easier to manipulate the markets. To this end, policymakers should try to create as much of a competitive atmosphere as possible. For this, policymakers need to license more intermediaries. Not only should the number of intermediaries be maximized, but even their type and activities they can undertake should be increased while keeping their roles separate.

b) Promote Individual and Institutional Investors

Similarly, while the presence of institutional investors is important, the timing of their entry into the market is critical. Since they build up a substantial demand in the market, their entry should be timed only after there is a good increasing trend of the tradable number of scrips. However, once the market has entered a stable and a more mature period, collective investment vehicles such as institutional investors (mutual funds, pension funds) should be introduced.

C) Develop Stronger Regulatory Environment

Some of the issues pertaining to the development of a healthy regulatory environment are:

a) Strengthen Oversight Agency

The Securities Exchange Board (SEB) is the oversight authority which should regulate all aspects of capital markets. Given the nature of the financial sector in Nepal, an institution may be under the regulatory purview of different

agencies such as the Central Bank, Office of Company Registrar or SEB. Hence, regulation should be by function, i.e. through guidelines issued for that particular capital market function, instead of by parentage.

b) Timely Amendments in the Legal Framework

As far as possible, capital market related activities should be encompassed within a centralized Act. It is inevitable that some duplication or conflict may occur between different acts, and that the existing legal framework may be inadequate. But regulatory development is an evolutionary process requiring continuous modifications as circumstances dictate.

c) Develop Self Regulatory Structure

An important element in capital market regulation is the presence of self regulatory bodies such as a Stock Exchange which is owned by brokers and develops its own rules and standards. Similar self regulatory organizations like Merchant Bank's Association and the Institute of Chartered Accountants should be encouraged. This level of regulation is conspicuously absent in Nepal. This is vital to develop the quality and integrity of the profession.

d) Increase Information Disclosure

In a limited market, it is probable that price manipulation takes place due to insider information which is extremely difficult to prove and take action upon. While this is a part of the regulatory function, the importance of adequate information dissemination cannot be overstated. Today, the annual publication of the Stock Exchange contains financial statements of listed companies only through 1994. Financial data is not readily available

nor are uniform accounting standards applied. Hence, stock exchanges should try to disseminate as much timely public information as possible on corporate financial performance, which will stabilize any speculative trends in the market.

D) Liberal Economic Policies and Economic Growth

A healthy macroeconomic environment supported by favorable economic policies leading to increased savings and investments is the prerequisite for a stable and healthy growth of capital markets. For example, in many emerging markets, privatization of state owned enterprises has played a crucial role in promoting capital markets. Privatized enterprises have constituted a significant portion of primary issues in Nepal. Ultimately, the status of capital markets is a reflection of the state of economic growth of the country.

2.1.6 Malpractices in Share Market

Various irregularities exist in Nepal's Share Market. Although these irregularities generate income to certain group, general investor suffers from this. To build clear and transparent share market, the individual and institution, who inspect share market, should always remain aware. The irregularities that exist in Nepal's Share Market are: (*Bhattarai: 2006: 28*)

a) Pooling

In this irregularity, a certain group buys and sales share of certain company within themselves in order to raise up the price of share by displaying the maximum number of shares transaction to the general public. And when the

price reaches its zenith, the pooling members sells the shares and the share price, which rose up unnecessarily without any specific basis declines as a result the general investors, who buys that share with the hope of price rise, have to bear a great loss.

b) Cornering or Warehousing

The individual or group involved in this irregularity buys all the shares of certain company. As a result, the share of such company is limited to a single person or group and invites scarcity of share of such company. The supply of such share becomes low and demand will be high. On the increased demand of share, the person or group involved in cornering or warehousing sells in small lot, takes the share price to the maximum height and sells the remaining shares in high price.

c) Organized Runs

In organized runs, an active group flows an unnecessary rumor of certain company to influence share price. The main objective to flow such rumor is to fascinate the investor in the share and to sell the shares of the individual doing organized transactions. Both capital gain and prompt sale are achieved from this organized runs.

d) Ramping

To attract investors by displaying fast transactions of the shares dramatically just before the last movement of share transactions in the market and to make profit from such runs is ramping. From this fast raising of share price,

the general investor guess that the demand for that company's share is high and will increase further in future.

e) Washsale

Washsale is not actually a sale of share. Actually, the person involved in it sales shares to his family and relatives and indicates that the share price of certain is in decreasing/increasing. In this, the person sells share to himself in low price and indicates the price fall in the market and finally buys the share in low price to reap profit. The person involved in this does such activity with the aid of broker.

f) Matching

If a same broker gets both selling and buying order, then matching can occur. The broker may decrease the price if he is closer to buyer and may increase the price if he is closer to seller to match the order. However, this kind of activity has been prohibited from Ashad 2062 B.S.

g) Insider Training

The transaction done with the aid of confidential information of company is called Insider Trading. On the basis of unpublished information especially if the company's staff, director or executive takes advantages by buying/selling the share of same company, then it is called Insider Trading. For example, if the board of directors decides to distribute dividend but such decision has not been publicized and on the basis of this decision, the decision maker and other company staff, knowing the decision, collects the share of the company

and sells after the price increment or takes the bonus share, then this kind of transaction is known as Insider Trading.

2.1.7 Prospects of Nepal's Stock Market

The amendment in the securities exchange act and the guidelines were some of the measure taken to improve in the legal and statutory Framework. Nowadays, different measures have been taken to improve the performance of stock market and all the improvement activities will be prospects of Nepalese Stock Market, which are given below:

a) Trading System Automated

The Automated Trading System (ATS), an internationally compatible trading system was inaugurated by the then Finance Minister Dr. Ram Sharan Mahat on 24 August 2007. In order to adopt the ATS, NEPSE made an agreement with the British Company Comdaq Limited in November 2006 under the Asian Development Bank (ADB) loan assistance project--Corporate and Financial Governance (CFG)--at the cost of 300 thousand US dollars. The system has helped eliminate all possible human errors as seen in the open out cry trading procedures. Several international practices have been incorporated to make the system internationally compatible and modifications have also been made to customize the existing rules and regulations of the country.

b) Recruitment of new employees

In an effort to make the organization more efficient, NEPSE recruited 14 new employees for different positions under the open recruitment system on 2

September 2007. After a brief orientation six of them were placed in the Surveillance, Listing and Finance Departments and eight in the Trading and Human Resources Management Departments. In order to make its core business more efficient and smooth NEPSE has reformed its organization, introduced a new organizational chart and a Voluntary Retirement Scheme (45 per cent staffers opted for the scheme). Similarly, it also started outsourcing its non-core business, like security and cleaning services.

c) Trading through WAN started

After the introduction of the ATS and with the initiative and guidance of NEPSE, member brokers of NEPSE have started online trading through Wide Area Network (WAN) from their own office from 13 October 2007. Because of this facility, stock brokers can now sell or buy shares from their office. The brokers who have the necessary infrastructure prescribed by NEPSE will get access to WAN. To get access a broker must have a price board, separate rooms along with separate computers for clients' order entry, settlement and must provide up to date information to the clients. In the first phase, NEPSE granted permission to Malla and Mall Stock Broking Limited, Nepal Stock House, Nepal Investment and Securities Trading Private Limited, Shreekrishna Securities Limited and Premiere Securities Company Limited for trading through WAN. From the end of the FY 2007/08 all the 23 brokers transact from their office via WAN.

d) Market Halt System Introduced

NEPSE introduced a string of measure to stabilize the volatility of the stock market. Previously, NEPSE used to halt transactions of respective individual

company by imposing the circuit breaker whenever share prices of the companies move up or down over 10 percent in a single day transaction.

As per new measure, it can also suspend the whole market trading, which is known as index based circuit breaker or market halt. Now on NEPSE can halt the trading floor for 15 minutes if the index moves up or down by three percent during the first half an hour. After resumption of trading if the index moves up or down by four percent, NEPSE can suspend trading for another half an hour. After the resumption if again the index changes by five percent, NEPSE can suspend trading for rest of the day. The new measure also require brokers to clearly list orders of buying and selling shares and place those orders for transaction on priority basis. This provision has been enforced to address the rising concerns of small investors.

e) Trading hours extended

From 19 December 2007 NEPSE has increased the trading hours by one hour due to an increasing trading pressure after the automation of trading. Initially, NEPSE opened its trading activities for only two hours. Now the trading floor opens from 12.00 noon to 15.00. NEPSE has expected that investors in general and small investors in particular will benefit from the increase in trading hours.

f) Real time information disseminated

NEPSE has started providing real time information (live trading activity) to investors from 28 November 2008. Due to this facility investors can check

share prices online from anywhere live during the trading hours. Additionally, without any time gap investors can check trading activities like top-gainers, top-losers, imposition of trading halt and resumption on NEPSE's web page.

g) Trading of Promoters' shares

NEPSE began trading of promoters' shares on 31 March 2008, adopting a different price quoting mechanism for the first trading of promoters' shares of the listed companies. For the first trading, the price of the promoters' share of a company that has a positive net worth could not be less than five times of its net worth per share or half of the current market price of the ordinary share, whichever is low. Similarly, in the case of a company that has a negative net worth, the first trading price couldn't be below half of the current market price of the ordinary share. Earlier, one could have traded the promoters' shares on the basis of the market price of the ordinary share. It is expected that trading of promoters' shares will make the capital market more vibrant and stabilizes the prices of ordinary shares.

h) Publication of Newsletter, Monthly Market Statistics and Review

In its bid to make investors more aware of the secondary market NEPSE launched an English language newsletter, called 'NEPSE Newsletter', on 20 March 2008. Published once every two months, the newsletter will provide information on capital market activities. The newsletter will help reduce uncertainty and provide greater market efficiency through the dissemination of relevant information to investors and other concerned agencies and persons. NEPSE has also started publishing Monthly Market Statistics and Review from April 2008. It covers the secondary market related

activities on a monthly basis.

i) OTC Market Started

NEPSE started the over-the-counter (OTC) market from 4 June 2008 to give shareholders a chance to sell or buy the shares of companies that are de-listed and that are not listed on NEPSE for failing to meet the listing criteria. The shares of 43 companies can now be traded in the OTC market. But as per the request of Nepal Rastra Bank NEPSE has decided to restrict the shares trading of Nepal Bank Limited in the OTC, since shares trading of Nepal Bank Limited will have a negative impact on the ongoing Financial Sector Reform Project.

j) NEPSE Converted to Profit Seeking Entity

The 26th annual general meeting (AGM) of NEPSE held on 23 May 2008 has decided to convert the organization into a profit seeking entity. The Company Registrar Office approved the decisions made at the AGM. The approval allowed NEPSE to turn itself into a profit seeking company, change its board of directors and increase its capital. Accordingly, NEPSE's authorized capital increased to Rs 160 million from Rs 50 million. Likewise, the paid-up capital was raised to Rs 50 million from the present Rs 34.9 million. Similarly, the structure of NEPSE's board was made more professional and representation having conflict of interest has been removed from the board.

2.1.8 Present Status of Stock Market in Nepal

Equity market has shown impressive recovery from the sharp fall in 1994 with the lag effect elongated till late 2008. At present, it has been performing more strongly than in the earlier years. The improvement in the equity market has been attributed to various factors including good prospect of corporate earnings and broader household participation in the stock market. Investors not only rely on the statement of the brokers, but they also have a concern over the financial information of the concerned company. Therefore the shares of companies with better prospect of dividend, capital increment and growth have normally higher prices in the stock market. Recent rise in equity prices can also be attributed to the gradual fall in the bank deposit interest rates causing excess liquidity in the market. Investors without any credible investment opportunity have diverted their resources towards the stock market. At present, the stock market in Nepal has witnessed its strength surprisingly, and this has raised hopes for sustained growth of corporate undertakings.

Stock market in Nepal has been growing gradually both in terms of turnover as well as the capital investment. From 16 listed companies in 1986/87 they grew to 148 in 2007/08. Market capitalization of listed shares has been rising continuously, except with a few cases of volatility. It has reached Rs 366.24 billion in 2007/08 from Rs 548 million in 1986. Though the annual turnover is much volatile, it has reached to the highest level of Rs 22.82 billion in 2007/08 from Rs10.1 million in 1986/87.

2.2 Review of GON Policy

GON after adopting liberalized economic policy has been initiating different programmes for the organized development of securities market. In this context, during the period of Eighth Five Year Plan (1992-1997), some

infrastructures regarding the securities market regulation were prepared. In the ninth Five Year Plan period (1997-2002), efforts were made to develop an organized and credible market. While implementing the programmes of Ninth Five Year Plan, GON through the budget speech of 2000/01, announced the programmes to amend Securities Exchange Act, initiate necessary steps to bring wider participation in the stock exchange and make its operation more transparent. Similarly, the budget speech has also included the programme to take legal action against those listed companies, not publishing and submitting their audited financial statements of last two years. Accordingly, 25 companies were de-listed for not publishing their financial statements and not paying annual listing fees to the stock exchange. However, other programmes like amendment of Securities Exchange Act, Standardizing Stock exchange etc., which were perceived to be more important for the securities market development, could not move ahead concretely.

In the fiscal year 2001/02, GON came with the 10th Five Year Plan (2002-2007), which among others also includes various programmes for securities market development. The objective of the securities market development programme is to increase public ownership in the development projects operated by private sector and promote industries by supplying financial resources through securities as well as increase employment opportunities and fulfill the capital requirements to the development projects operated by GON, government enterprises and municipalities issuing debentures in the securities market thereby reducing foreign loan. To meet these objectives, it has taken the policy of modernizing stock exchange, strengthening the regulatory system of the securities market, widening the participation of the stock exchange and making it dynamic, transparent, credible and investor friendly and developing the securities market as an important sources of long-term financial growth by increasing its depth and breadth. It has incorporated the programmes of making public issue effective, enhancing regulatory capability of SEBO, making the securities trading process standard and credible, creating a state of transferring ownership immediately after transaction, diversifying securities market instruments, attracting institutional investors, protecting investors interest, expanding the securities market services nationwide and improving the compliance and integrity of the market. (www.sebonp.com; Dec., 2009)

Securities Market Programmes in 10th Plan (2059-2064)

a) Objectives

- To increase public ownership through shares in the development projects to be operated by private sector and to provide returns of such projects.
- To promote industry and trade by supplying the required financial in competitive cost and to increase employment opportunities.
- To issue bonds through securities market to meet the mid-term and long-term, financing required by development projects to be operated by HMG/N, government enterprises and municipalities, thereby gradually reducing the foreign loan.

b) Quantitative Goals

- To increase number of investors investing in share capital of corporate bodies to at least 3 percent of total population.
- To raise at least Rs.5000 million for the corporate bodies through primary market of securities.
- To increase the amount of securities trading to at least Rs. 10000 million.
- To increase the value of total market capitalization to at least 15 percent of total GDP.
- To list additional 40 corporate bodies in the stock exchange.

c) Strategies

- Modernizing the stock exchange.
- Making thesecurities market regulatory system more effective.

d) Policies and Working Policies

- Modernization of stock exchange (Related to strategy 1).
- To make corporate sector dynamic and broad based and to develop effective and investor friendly role of securities market regulators.
- To increase allocation and operational efficiency of securities markets.

- To make securities market mechanism fully transparent and credible.
- Effective securities market regulatory system (Related to Strategy2).
- To develop and expand securities market as an important source of long-term funds.
- To increase depth and breadth of securities market.

e) Programmes and implementation structure

- Establish one window policy for public issue through SEBO and enhance capability of SEBO.
- Arrange for the immediate ownership transfer of securities
- Develop simplified issue and trading system for the securities of privatized government enterprises.
- Constitute a permanent committee with representation of Ministry of Finance, Nepal Rastra Bank, SEBO and Insurance Board for the coordinated development of healthy and competitive financial market as well as for the development of unified financial regulator in the future.
- Expand securities exchange facilities in the other places of the country considering its feasibility for the savers residing there.
- Develop clear regulatory benchmark of SEBO and NEPSE.
- Make the securities trading process and financial statement of the issuer companies more credible and transparent.
- Implement codes of conduct for securities regulators, employees of stock exchange, directors, managers, auditors and advisors of the corporate bodies and for the securities businesspersons.
- Provide training and education on different aspects of securities market and make institutional arrangement for regular research and study.

- Make provision to take insider trading as a criminal offence so as to control such trading.
- Make necessary legal provision for securities trading through nominee system.
- Make necessary arrangement for SEBO to take membership of International Organization of Securities Commission (IOSCO).
- Privatize NEPSE and develop it as a self-regulatory organization following good governance practices.
- Establish central depository system for immediate ownership transfer of securities and to protect investors from frauds that may occur on securities trading.
- Provide incentives for the promotion of companies having wider ownership and good governance practices.
- Make legal provision to encourage mutual funds, debentures and securitization.
- Make arrangement for the trading government bonds in the stock exchange and provide benchmark and liquidity.
- Develop appropriate legal provision to encourage entry of contractual savings in to capital market as well as develop regulatory system of such instruments under securities jurisdiction.
- Simplify entry and exit process of securities businesspersons by following prudential norms.
- Assist ICAN for the establishment of international accounting system and establish and operate disclosure review system of issuing companies.
- Gradually automate securities trading of NEPSE as per feasibility.
- Expand present centralized floor trading system, establish OTC market and develop trading system that can accommodate trading for local areas.

- Make clearing and settlement system of securities transparent and establish and/or utilize central depository system of securities for clearing and settlement. (www.sebonp.com; Dec., 2009)

2.3 Review of Related Studies

Herriot (2003), in his article, *“The 4 Biggest Stock Market Myths”*, has mentioned that many investors are wonder whether or not investing in stocks is worth all the hassle. At the same time, however, it's important to keep a realistic view of the stock market. Regardless of the real problems, common myths about the stock market often arise. The five main myths in the stock market are;

i) Investing in Stocks is Just Like Gambling

This reasoning causes many people to shy away from the stock market. To understand why investing in stocks is inherently different from gambling, one needs to review what it means to buy stocks. A share of [common stock](#) is ownership in a company. It entitles the holder to a claim on assets as well as a fraction of the profits that the company generates. Gambling, on the contrary, is a [zero-sum game](#). It merely takes money from a loser and gives it to a winner. No value is ever created.

ii) The stock market is an exclusive club in which only brokers and rich people make money

Many market advisors claim to be able to call the markets' every turn. The fact is that almost every study done on this topic has proven that these claims are false. Most market prognosticators are notoriously inaccurate; furthermore, the advent of the internet has made the market much more open to the public than ever before. All the data and research tools previously available only to brokerages are now there for individuals to use.

iii) Stocks that go up must come down

The laws of physics do not apply in the stock market. There is no gravitational force that pulls stocks back to even. Over ten years ago, Berkshire Hathaway's stock price went from \$6,000 to \$10,000 per share in a little more than a year. Had you thought that this stock was going to return to its lower initial position, you would have missed out on the subsequent rise to \$70,000 per share over the following six years.

Curtis (2006), in his article, *“Activist Investors: A Good Or Bad Thing?”*, has mentioned that having an activist engaged in a stock you own may be a good thing or a bad thing depending upon the situation. Perhaps the most important things to understand is that sometimes activists have influence over companies that the average common shareholder would generally not have. In addition, they sometimes bring new ideas to the table that could potentially lift value and/or open doors. On the downside, they can be extremely fickle, and sometimes when it comes down to it, they may keep their financial interests above those of all others.

Pinsent (2007), in his article, *“5 Reasons To Avoid Index Funds”*, in his article said that although many people say that index investing is the way to go, one should look at some reasons why it isn't always the best choice. The five main reason to avoid index funds are;

a) Lack of Downside Protection

The stock market has proved to be a great investment in the long run, but over the years it has had its fair share of bumps and bruises. Investing in an

index fund, such as one that tracks the [S & P 500](#), will give you the upside when the market is doing well, but also leaves you completely vulnerable to the downside.

b) Lack of Reactive Ability

Sometimes obvious mispricing can occur in the market. If there's one company in the internet sector that has a unique benefit and all other internet company stock prices move up in sympathy, they may become [overvalued](#) as a group. The opposite can also happen. One company may have disastrous results that are unique to that company, but it may take down the stock prices of all companies in its sector.

Index investing does not allow for this advantageous behavior. If a stock becomes overvalued, it actually starts to carry more weight in the index. Unfortunately, this is just when astute investors would want to be lowering their portfolios' exposure to that stock. So even if you have a clear idea of a stock that is over- or undervalued, if you invest solely through an index, you will not be able to act on that knowledge.

c) No Control Over Holdings

Indexes are set portfolios. If an investor buys an [index fund](#), he or she has no control over the individual holdings in the portfolio. You may have specific companies that you like and want to own, such as a favorite bank or food company that you have researched and want to buy. Similarly, in everyday life, you may have experiences that lead you believe that one company is markedly better than another; maybe it has better brands, management or

customer service. As a result, you may want to invest in that company specifically and not in its peers.

d) Limited Exposure to Different Strategies

There are countless strategies that investors have used with success; unfortunately, buying an index of the market may not give you access to a lot of these good ideas and strategies. Investing strategies can, at times, be combined to provide investors with better [risk-adjusted returns](#).

e) Dampened Personal Satisfaction

Finally, investing can be worrying and stressful, especially during times of market turmoil. Selecting certain stocks may leave you constantly checking [quotes](#), and can keep you awake at night, but these situations will not be averted by investing in an index. You can still find yourself constantly checking on how the market is performing and being worried sick about the economic landscape. On top of this, you will lose the satisfaction and excitement of making good investments and being successful with your money.

Pinsent (2009), in his article, *“Don't Let Stock Prices Fool You”*, has mentioned that some investors may focus on share price when looking at a stock, because it is the most visible number in the financial press. Prices play an important role in dividing companies into units, but investors should not get fixated on share price alone, because companies can change share prices dramatically without changing fundamentals. Dig a little deeper when thinking about your next investment and remember that a stock with a high price can go much higher under the right circumstances, just as a stock with a low price can sink even further if it isn't really a good value.

2.4 Review of Thesis

Baral (2003), in his Master' Thesis, "*Stock Price Movement in Nepalese Securities Market*", has the main objectives:

- a. To study and analyze the stock price and volume.
- b. To study and analyze the rate of newly listed companies and maintenance of already listed companies in NEPSE.
- c. To study and analyze the investors views regarding the decision on stock investment.
- d. To suggest the findings of the study to the interested parties related to stock investment.
- e. To study & examine the signalling factors impact on stock price with the help of NEPSE index.

The major findings of Baral are as follows:

- a. Studying the annual trend analysis of Nepalese stock price market, it was found that stock price trend is decreasing from many years as smoothly but from one year price of stock is decreasing as rapidly.
- b. On analyzing the price trend of three years NEPSE index in different months (36 months) with the help of monthly trend showed that the price trend of different months of the year 2000 was in increasing trend 2001 in decreasing trend while that of 2002 was sometimes in increasing and sometimes in decreasing trend. So from this trend analysis we can say there is no relationship of price trend between three successive years.

- c. Studying the sector wise monthly trend analysis for one year (Poush 2058 to Mangsir 2059), it was found that unsystematic activities of the Nepalese stock price market. No experts can certainly forecast about the stock price.
- d. Volume of stock traded in stock exchange during the study period was found in increasing trend but in last year it was in decreasing trend.

Kharel (2005), in his Master's Thesis, *"Current Problems and Prospects of Securities Market in Nepal"*, has the major objectives to detect out the existing problems in Securities market in Nepal and also the prospects of Securities Market in future.

The main findings of her study were:

- a. The development of stock market primarily depends on program and their implementation.
- b. In Nepal, the overall policy environment has not been conducive to the development of stock market. Therefore, it is difficult to develop more efficient secondary market, trading system for both equity and debt security.
- c. Lack of investor's confidence in stock market since many listed companies resulted not trading on regular basis or hold AGM.
- d. Restriction on foreign portfolio investment hindered market development.
- e. NEPSE does not have appropriate policies, memberships and fee structure to attract member outside the Kathmandu.

- f. In Nepal, banks dominate primary market in government debt instruments, OTC trading is not permitted; therefore, secondary market is totally inactive.
- g. Lack of necessary provisions in the laws and regulation for the privatization and automatics of stock exchange as well as for the establishment of central depository of securities (CDS).

Baniya (2006), in his Master's Thesis, "*Determinants of Share Price in Nepalese Financial Market*", has the main objectives:

- a. To examine and evaluate the relationship of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.
- b. To analyze the market trends of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.
- c. To identify whether stocks of the sampled companies equilibrium priced or not.
- d. To present some recommendations bases on the findings of the study.

The major findings of the research pointed out by Dhamala are as follows:

- a. HBL's MPS is negatively correlated with major financial indicators. But it has positive relationship with DPS and DPR respectively.
- b. NBL's MPS has positive relationship with EPS and ROE, whereas it has negative relation with other financial variables.
- c. NBBL's MPS is positively correlated with EPS, NWPS and DPS which are statistically significant at 1% and 5% levels of significance. Further, MPS is positively correlated with DPR and ROE.

- d. NIBL's MPS is reversely correlated with major financial variables. However, MPS and DPS is statistically significant at 1% level of significance.
- e. SCNBL's MPS is negatively correlated with major financial indicators. But it has higher positive relationship with ROE.
- f. AFCL's MPS has positive correlation with main financial variables except ROE, with which it has negative relationship. But no such relationship is statistically significant.
- g. KFL's MPS has positive relationship with major financial variables except DPR and ROE, with which it has opposite relationship. The relationship of MPS with EPS and NWPS is statistically significant at 5% level.
- h. NHDL's MPS has positive relationship with main financial indicators, but such relationship is not statistically significant.

Rijal (2008), in his Master's Thesis, "*Role of Financial Indicators in Determining Share Price in Nepalese Financial Market*", has the main objectives:

- a. To examine and evaluate the relationship of MPS with various financial indicators like NWPS, EPS, DPS, ROE, etc.
- b. To analyze the market trends of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.
- c. To find out whether stocks of the sampled companies are equilibrium priced or not.
- d. To identify qualitative factors affecting the stock price.

The major findings of Regmi are as follows:

- a. NABIL's MPS is positively correlated with all financial indicators but these values are not statistically significant at either 5% or 10% level of significance.
- b. NIBL's MPS has negative correlation with all financial indicators.
- c. For all other banks, the correlation coefficients of MPS with other financial indicators are both positive and negative. These values are statistically significant at either 5% or 10% level of significance.
- d. Relationship with all financial indicators of MPS for NFCL is positively correlated and the relationship is statistically significant at 5% level of confidence with EPS and at 10% level of confidence with NWPS and DPS.
- e. For other Finance Companies, the correlation coefficient of MPS with other financial indicators, are both positively and negatively correlated and the relationship is statistically significant for KFL and UFCML and for others it is insignificant.

Shrestha (2009), in his Master's Thesis, "*Share Price Behaviour of Commercial Banks listed in NEPSE*", has the main objectives:

- a. To analyze the stock price movement of the NEPSE market.
- b. To test the random walk or weak efficient market hypothesis.
- c. To test whether the successive price changes are independent or dependent with the price of historical change.

The major findings of Shrestha are as follows:

- a. The total numbers of actual and expected runs are statistically significant for most of the equity shares, which implies that their price changes are significantly different from random series. Result of run test also supports the result of autocorrelation. Therefore, today's price change is dependent on the information of yesterday's price.

- b. The mean absolute values of the autocorrelation coefficients are lower when the lag days are increases. This means the information of past price changes have little role to predict the future price changes for longer days.
- c. Half of the sample companies' share have greater than average value of K (18.87%) difference between actual and expected number of runs, which indicates significant difference between the actual and expected number of runs.
- d. Because the persistence hypothesis has been supported by the result of autocorrelation and run test, professional investors either individual or institutional can beat the market. Therefore, to make greater profit than "naïve buy and hold strategy", acute fundamental or other analysis are required which accurately predict the appearance of the new information in the market that affects the price of shares.
- e. There exists a low order serial dependence, which helps in certain extent to increase investor's expected profit.

2.5 Research Gap

None of the above thesis encompasses the present technology like trading through Automated trading system, trading through WAN, Market Halt System, OTC market and other adopted by NEPSE in 2008. Also, the malpractices like pooling, washsale, insider training have not been mentioned in previous thesis. To overcome such research gap, the study has been conducted including all the problems, malpractices existing in the stock market at present and to predict the prosperity of stock market on the basis of current trading system and new techniques adopted.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Research Design

“A research design is a specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of frame work for the project that stipulates what information is to be collected, from which sources and by what procedures.” (*Paul & Donald; 1999: 134*)

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

3.2 Period Covered

The study covered the period of 5 years from the fiscal year 2003/04 to 2007/08. Data were taken from NEPSE and SEBON and the analysis was made on the basis of these five years' data. Also, the questionnaires are disbursed and the primary data analysis is done.

3.3 Population and Sample

According to the annual report of SEBO/N 2007/08, there are altogether 179 listed companies in the NEPSE from different sector. The concern of the study is on the problems and prospects of stock growth in Nepal. So, NEPSE is taken as sample, which reflects the overall data of all the companies, to achieve the research objectives.

3.4 Nature and Sources of Data

To fulfill the predetermined objectives that are set up for the study, both primary and secondary sources are included. The secondary data was obtained from the central office of Nepal Stock Exchange (NEPSE), Singhadarbar, Security Board Office, Thapathali and economic survey published by Ministry of Finance. Annual report of SEBO/N and NEPSE are considered the main source of secondary data. Besides these, various bulleting available, websites, journals are also taken into consideration. The primary data are collected from field survey.

3.5 Data Collection Procedures

a. Primary data: The primary data were collected from the field directly during survey period. The researcher conducted mainly questionnaire and other; interview, discussion, and made direct observation to obtain required information.

b. Secondary data: The secondary data were collected from the secondary sources. These secondary sources consist of two sources.

i. Internal sources:

-) Annual report of NEPSE from the fiscal year 2060/61 to 2064/65.
-) Annual report of SEBON from the fiscal year 2060/61 to 2064/65.
-) Prospectus of NEPSE and SEBON
-) Website of NEPSE and SEBON
-) Booklets etc.

ii. External sources:

-) Books and publications
-) Journal and articles.
-) Local newspaper.
-) Previous reports etc.

3.6 Data Processing and Analysis

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

3.7 Tools used

Different tools were used to enlighten the problems and prospects of stock growth in Nepal.

a) Financial tools:

-) NEPSE Index
-) Transaction number
-) Paid up Value
-) Issues Approval
-) Market Capitalization
-) Shares Traded
-) Market Days and Annual Daily Turnover
-) Sectorwise Market Capitalization
-) Sectorwise Turnover

b) Statistical tools:

-) Percentage
-) Pie chart
-) Graph
-) Ranking
-) Trend Analysis

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This section provides interpretation and analysis of secondary data. Thus this section is exclusively devoted for the analysis of common stocks of different companies through price trends, signaling factors impact on NEPSE index with the help of NEPSE index provided by Nepal Stock Exchange Center, volume of stock traded, Rate of listing of New Companies in Secondary Market and maintenance of them in NEPSE is considered. For doing such a presentation statistical tools such as regression analysis, bar diagram, pie chart, t-statistics are used.

4.1.1 NEPSE Index

Market indexes are used to determine the relationship between historical price movements and economic variables and to determine the systematic risk for individual securities and portfolios.

The index is taken as a measuring tool whether the performance of stock market is good or not. This clearly focuses on the price of stocks that is increasing or decreasing in the market. Because the prices of stocks go up and down in a particular period compared to the previous period as disclosed by index. The highest index suggests the increase in market price of the stocks and implies the better performance of companies and vice-versa. Thus the NEPSE index shows the behavior of stock prices in the capital market.

The computation formula for price index is as follows:

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

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

Where,

P_{01} = NEPSE Price Index

P_1 = Today's Stock Price

Q_1 = Listed Shares (i.e. no. of Shares Outstanding)

Q_0 = Base Listed Shares.

Table 4.1
NEPSE Index

Fiscal Year	NEPSE Index (In Million)	Percentage Change
2003/04	222.04	8.39
2004/05	286.67	29.11
2005/06	386.83	34.94
2006/07	683.95	76.81
2007/08	963.36	40.85

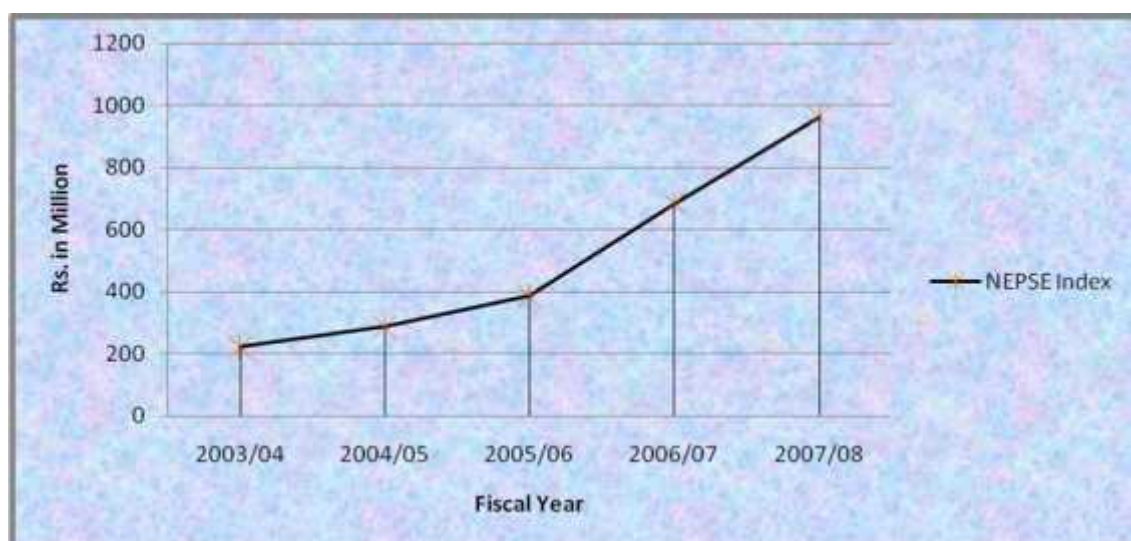
Source: Trading Reports, NEPSE

Due to a whopping increment in the share prices of banks, financial institutions, hydropower companies and development banks, the NEPSE index increased notably over the year. The restoration of peace, an improvement in listed companies' financial performance and, most importantly, the central bank's direction, dated 26 March 2007, to double paid-up capital for banks and financial institutions contributed to a remarkable increment in share prices and subsequently the stock market indices.

The stock market opened with the NEPSE index of 222.04 points at the beginning of the FY 2003/04 and ended with 963.36 points in the FY 2007/08. The NEPSE index increased highest (76.81%) in the fiscal year 2006/07 and

finally by 40.85% in the fiscal year 2007/08 compared to the index of previous year. As per the annual report of NEPSE, the NEPSE index reached the high of 1064.09 on 17 December 2007 and the low of 677.98 on 18 July 2008 within the last two years. Of the NEPSE Index, banking sub-index went up by 181.39 points to 985.65 (which is also the highest point) during the fiscal year 2007/08. The banking sub-index measures the transactions of companies listed under commercial bank group. It touched the lowest point of 759.67 on 31 July August 2007 in the last two years.

Figure 4.1
NEPSE Index



4.1.2 Annual Turnover

The annual turnover analysis indicates the number of shares transacted in amount in the NEPSE. The annual turnover of NEPSE in the five year period is presented in the following Table 4.2.

Table 4.2
Annual Turnover

Fiscal Year	Turnover (Rs. in Million)	Percentage Change
2003/04	2144.27	272.28
2004/05	4507.68	110.22
2005/06	3451.43	-23.43
2006/07	8360.07	142.22

2007/08	22820.76	172.97
Average	8256.84	
S.D.	7571.39	
C.V. %	91.70	

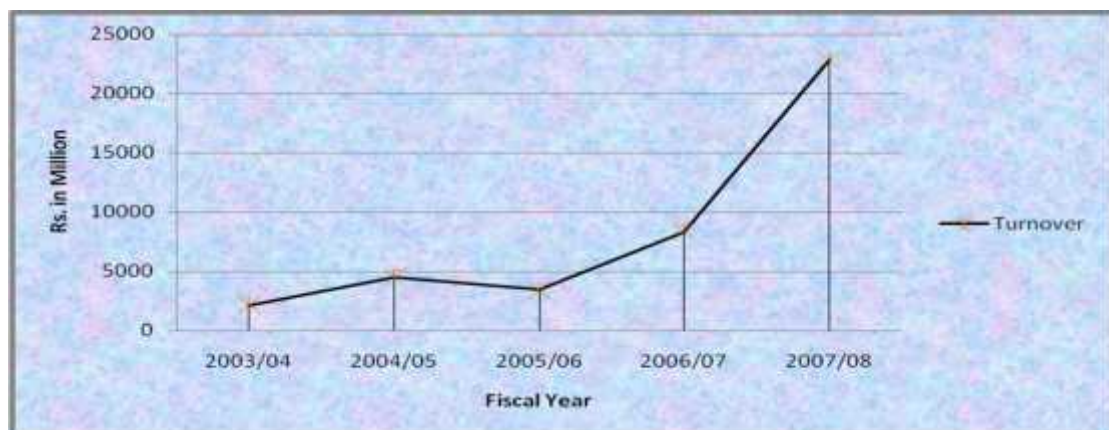
Source: Annual Reports, NEPSE

The table 4.1 shows that the annual turnover of NEPSE from the shares traded followed increasing trend except in the fiscal year 2005/06. The annual turnover of NEPSE shares traded was Rs. 2144.27 in the base year 2003 and reached to Rs. 22820.76 millions in the fiscal year 2007/08. The annual turnover of NEPSE increased more than ten-fold within the five year period taken for research. Such an increment indicates good prospects of stock growth in future as well. However, the percentage change indicates that the pace of annual turnover growth did not follow the same growth during the entire period. The percentage change of annual turnover ranged from -23.43% in the fiscal year 2005/06 to 272.28% in the fiscal year 2003/04.

In average, NEPSE made a turnover of Rs. 8256.84 millions in these five year periods. The standard deviation and coefficient of variation of annual turnover are 7571.39 and 91.70 % respectively. The coefficient of variation indicates that the annual turnover is highly inconsistent.

Figure 4.2

Annual Turnover of NEPSE



4.1.3 Sector wise No. of Shares Traded

The sector wise number of shared traded clarifies the number of shares traded on the basis of sector and thus enlightens on the contribution of each sector on the total number of shares traded. The sector wise number of shares traded in the five year period is presented in the following Table 4.3.

Table 4.3
Sector wise No. of Shares Traded

Sector	Fiscal Year 'No. in 000'					Average	
	2003/04	2004/05	2005/06	2006/07	2007/08	No.	%
Commercial Banks	2737.52	6416.57	5534.72	9090.95	11241.41	7004.23	41.76
Finance	1202.27	1443.34	1957.49	2343.46	3094.26	2008.16	11.97
Hotel	61.04	98.17	392.65	81.70	158.07	158.33	0.94
Manufacturing & Processing	1977.82	7602.89	59.80	82.92	1655.08	2275.70	13.57
Other	0.33	1.21	0.47	14.24	7.70	4.79	0.03
Hydro Power	2.11	354.96	473.61	4460.27	7251.21	2508.43	14.95
Trading	8.64	10.41	15.22	11.47	14.97	12.14	0.07
Insurance	256.37	328.13	574.93	627.61	433.26	444.06	2.65
Development Banking	212.80	135.62	386.44	1360.53	2534.88	926.05	5.52
Mutual Fund	9.28	2042.25	2826.60	74.10	319.10	1054.27	6.29
Preferred Stock		-	-	-	101.42	20.28	0.12
Promotor Share		-	-	-	1788.41	357.68	2.13
Total	6468.18	18433.55	12221.93	18147.25	28599.77	16774.14	100

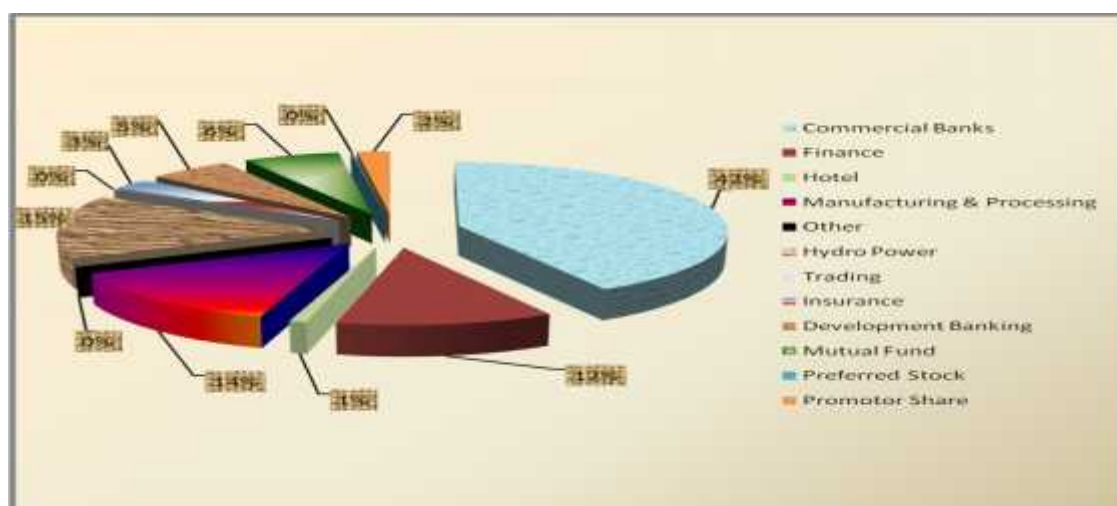
Source: Annual Reports, NEPSE

The table 4.2 shows the number of shares traded in NEPSE on sectorwise. The table showed that the trading of NEPSE is dominated by the Commercial Banks. The average number of shares traded during the five year period is 16774.14 thousands, out of which, 7004.23 thousand shares of commercial banks, 2508.43 thousand shares of hydropower, 2275.70 thousand shares of manufacturing and processing companies, 2008.16 thousand shares of finance companies, 1054.27 thousand shares of Mutual fund, 926.05 thousand shares of development banks, 444.06 thousand shares of Insurance, 357.68 thousand shares of promoter, 158.33 thousand shares of Hotel, 20.14 thousand shares of

preferred stock, 12.14 thousand shares of Trading companies and 4.79 thousand shares of other are transacted.

In average, commercial banks occupied 41.67% of the total number of shares traded in NEPSE. This clearly indicates that the investors are highly fascinated in commercial banking sector than other sector, with the hope of gaining high income.

Figure 4.3
Sector wise Number of Shares Traded



4.1.4 Sector wise Turnover Collection

The contribution of each sector on the total turnover of the NEPSE can be clarified with the aid of sector wise turnover collection. The Sector wise turnover collection in the five year period is presented in the following Table 4.4.

Table 4.4
Sector wise Turnover Collection

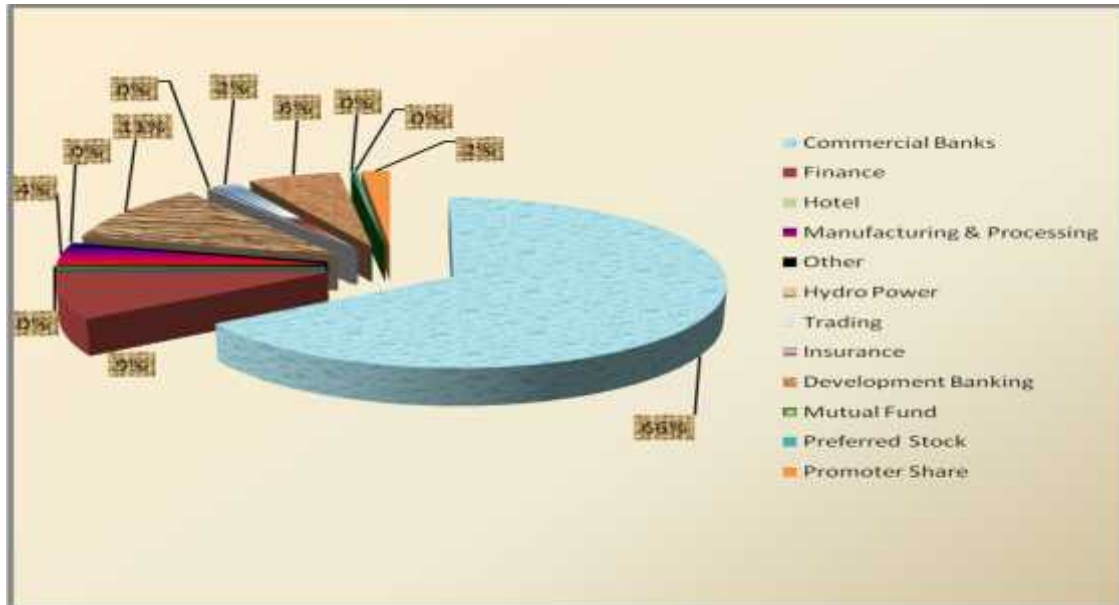
Sector	Fiscal Year 'Rs. in Million'					Average	
	2003/04	2004/05	2005/06	2006/07	2007/08	Turnover	%
Commercial Banks	863.41	4021.83	2696.27	5855.77	13822.14	5451.88	66.03
Finance	165.09	216.37	305.84	642.64	2307.53	727.49	8.81

Hotel	2.84	4.48	19.76	7.07	27.67	12.36	0.15
Manufacturing & Processing	1031.62	114.90	17.19	24.12	343.44	306.25	3.71
Other	0.02	0.24	0.02	0.54	0.29	0.22	0.00
Hydro Power	0.11	16.45	152.01	1258.01	3199.94	925.30	11.21
Trading	11.83	7.99	15.80	10.42	33.65	15.94	0.19
Insurance	36.86	67.62	129.90	204.97	264.86	140.84	1.71
Development Banking	32.33	22.01	82.76	355.73	1981.05	494.78	5.99
Mutual Fund	0.16	35.79	31.88	0.80	6.09	14.94	0.18
Preferred Stock		-	-	-	81.15	16.23	0.20
Promoter Share		-	-	-	752.95	150.59	1.82
Total Turnover	2144.27	4507.68	3451.43	8360.07	22820.76	8256.84	100

Source: Annual Reports, NEPSE

The above table showed the turnover that NEPSE made in five fiscal year period. The table showed that within these five year period, the turnover Finance company, Insurance Company and Hydro Power followed increasing trend. However, the turnover of other companies followed fluctuating trend including commercial banks. In average, NEPSE collected Rs. 8256.84 million from the transactions of shares in the period taken for research. Likewise, the annual turnover of NEPSE is highly dominated with the share transaction of commercial banks, since commercial banks covered almost one-third (66.03%) of the total turnover of NEPSE. After commercial banks, hydropower occupied 11.21%, Finance occupied 8.81% and Development Bank occupied 5.99% of the total turnover of NEPSE. While the contribution of other sector in turnover of NEPSE are less than 5%. So, the contribution of mainly commercial banks in turnover of NEPSE cannot be ignored.

Figure 4.4
Sector wise Turnover Collection



4.1.5 Number of Shares Traded

The total number of shares traded indicates the trend of shares trade during the period taken for research. Also, the percentage change in number of shares traded are presented in the following Table 4.5.

Table 4.5
Number of Shares Traded

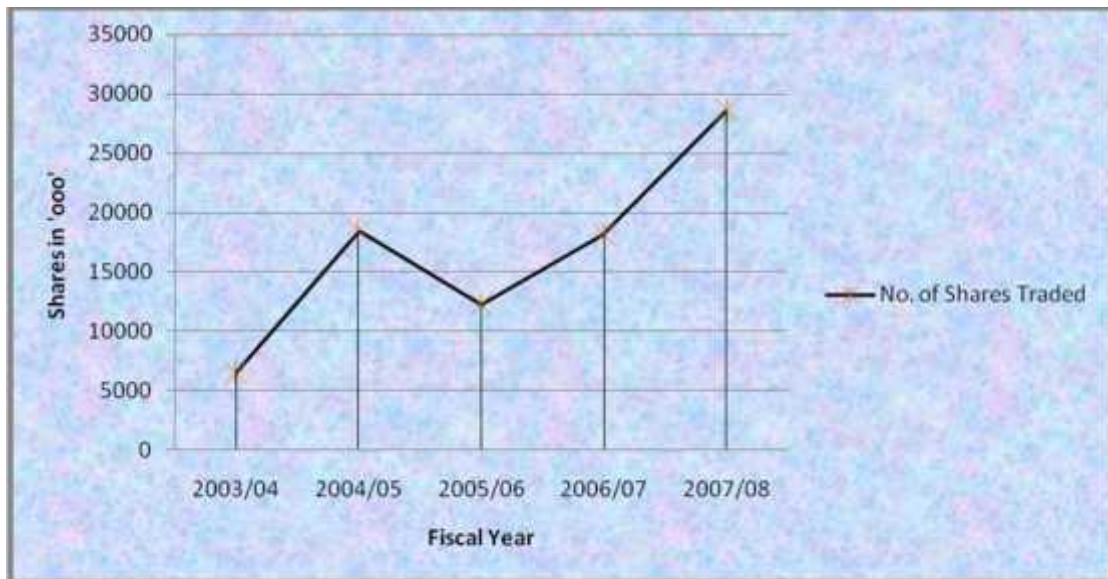
Fiscal Year	No. of Shares Traded	Percentage Change
2003/04	6468.18	166.41
2004/05	18433.55	184.99
2005/06	12221.93	-33.70
2006/07	18147.25	48.48
2007/08	28599.77	57.60
Average	16774.14	

Source: Annual Reports, NEPSE

The above table showed that the number of shares transaction increased unexpectedly in the fiscal year 2003/04 and 2004/05 compared to the number of shares transaction in the previous year. However, in the fiscal year 2005/06, the number of share transaction decreased by 33.70 and again gradually followed increasing trend in the past two years. The number of shares

transaction ranged from 6468.18 thousands in the fiscal year 2003/04 to 28599.77 thousands in the fiscal year 2007/08. This indicates that the number of shares traded increased by almost 4.5 times in these five year period. It clearly implies the growing awareness of investors on the income that arises from share business and further indicates a good prospect of stock growth in Nepal in forthcoming year.

Figure 4.5
Number of Shares Traded



4.1.6 Number of Company Traded

This clarifies the total number of company traded out of the total listed companies in NEPSE. The number of company traded also clarifies the increasing/decreasing trend of the companies traded in the NEPSE during the fiscal year compared to the previous year. The total number of company traded during the period taken for research and the percentage change is presented in the Table 4.6.

Table 4.6
Number of Company Traded

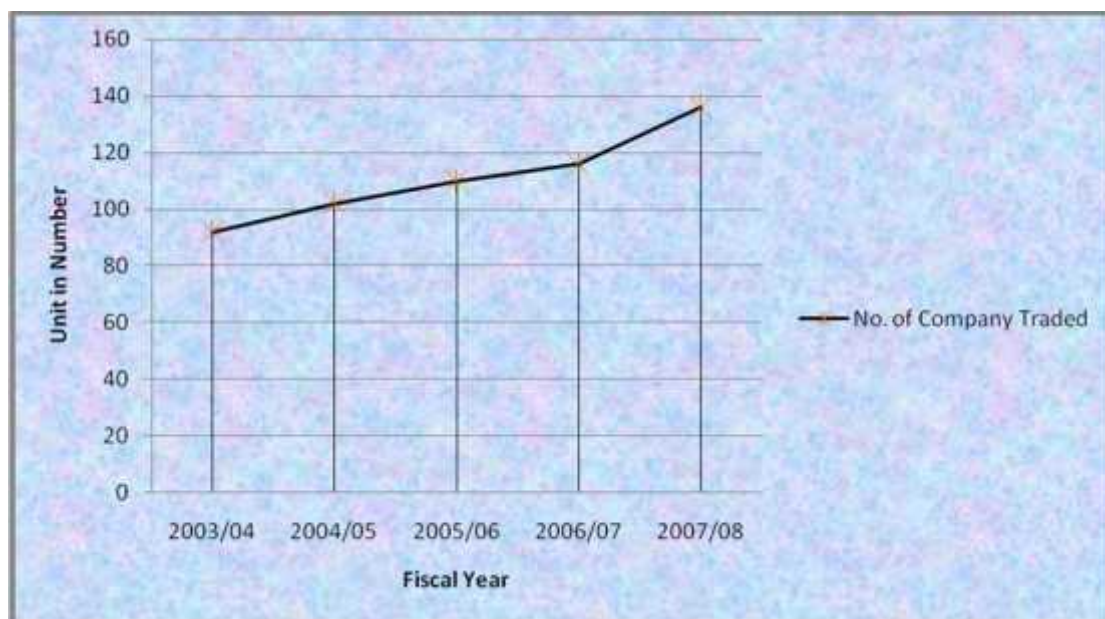
Fiscal Year	No. of Company Traded	Percentage Change
2003/04	92	15.00
2004/05	102	10.87

2005/06	110	7.84
2006/07	116	5.45
2007/08	136	17.24
Average	111	

Source: Annual Reports, NEPSE

The above table shows that the number of company traded in each fiscal year has increased. In fiscal year, 2003/04 only 92 companies were traded, similarly in fiscal year 2004/05, 2005/06, 2006/07 and 2007/08, 102, 110, 116 and 136 companies were traded respectively. In average, 111 companies were traded during the period taken for research. This indicates that the investors have shown interest in different sector and in different companies for investment in share.

Figure 4.6
Number of Company traded



4.1.7 Market Days

To increase the turnover of the NEPSE and the stock growth, the number of operating days in NEPSE is crucial. The total market days operated in the NEPSE is presented in the Table 4.7.

Table 4.7
Market Days

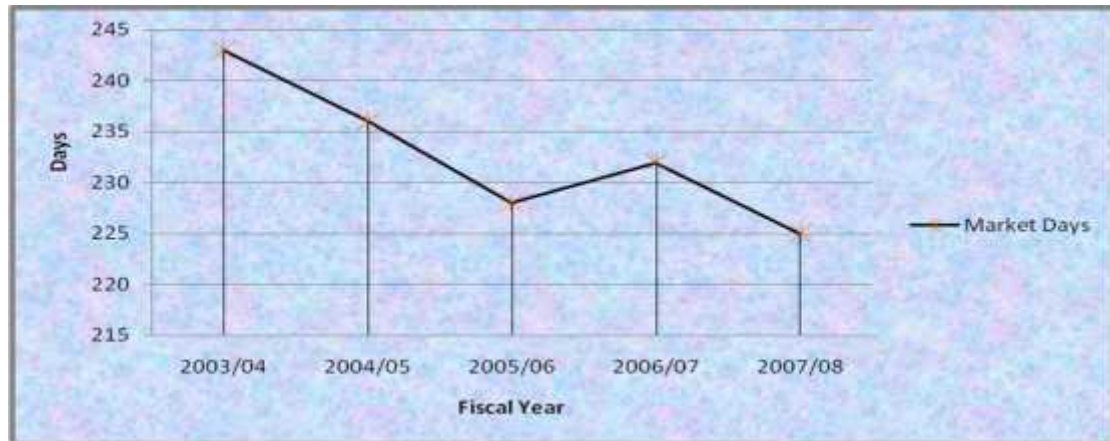
Fiscal Year	Market Days	Percentage Change
2003/04	243	2.10
2004/05	236	-2.88
2005/06	228	-3.39
2006/07	232	1.75
2007/08	225	-3.02
Average	232	

Source: Annual Reports, NEPSE

The above table showed that the market days of the NEPSE office varied during the period and followed fluctuating trend. Within these five year period NEPSE transacted maximum 243 days in the fiscal year 2003/04 and minimum 225 days in the fiscal year 2007/08. Since, the hurdles in the market days adversely affect the turnover of NEPSE, the number of holidays and other factors like Nepal Bandh and other disturbing factors should be minimized by

the government for the smooth operation of NEPSE and eventually increase the turnover.

Figure 4.7
Market Days



4.1.8 Average Daily Turnover

This indicates the turnover collected by NEPSE per day and is the useful indicator to measure the efficiency of NEPSE in turnover collection. The average turnover also delineates the average number of shares traded per day. The average daily turnover of NEPSE is presented in the Table 4.8.

Table 4.8
Average Daily Turnover

Fiscal Year	Average No. of Shares	Daily Turnover
2003/04	26.62	8.82
2004/05	78.11	19.10
2005/06	53.60	15.14
2006/07	78.22	36.03
2007/08	121.70	97.11
Average	71.65	35.24
S.D.	31.44	32.22
C.V. %	43.88	91.43

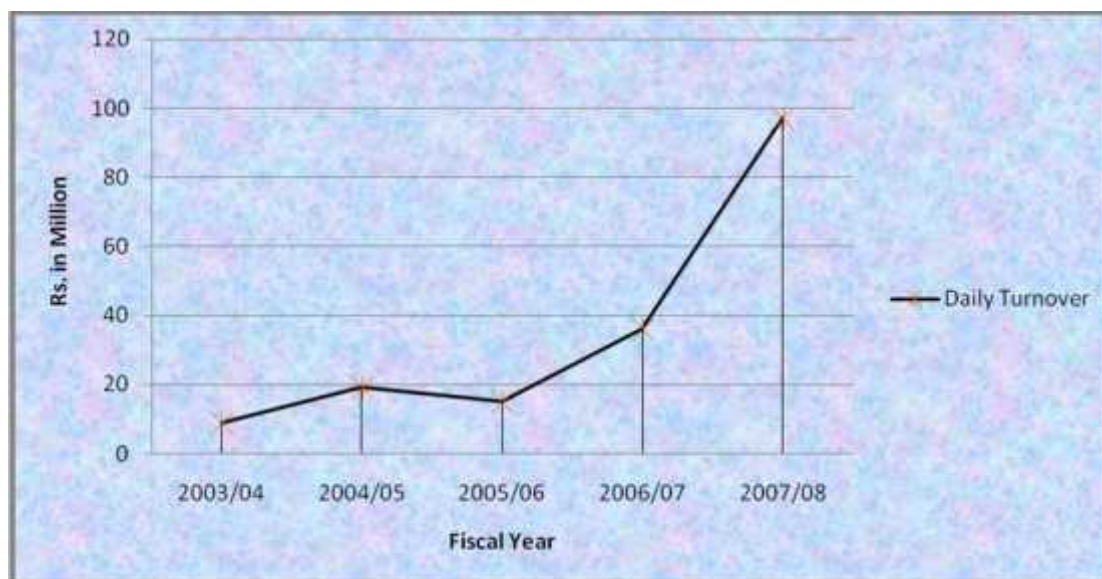
Source: Annual Reports, NEPSE

The above table shows that the average number of shares per day of NEPSE ranged from 26.62 in the fiscal year 2003/04 to 121.70 in the fiscal year 2007/08. The same table shows that the average daily shares transacted followed increasing trend and finally increased almost 4.5 times in the fiscal year 2007/08 compared to the daily transacted shares in the fiscal year 2003/04. Similarly, NEPSE transacted 71.65 shares per day within these five year periods in average. The coefficient of variation indicates a high inconsistency (43.88%) in the average number of daily shares transacted.

Similarly, the daily turnover collected from shares transaction followed increasing trend. The daily turnover increased from Rs. 8.82 million in the fiscal year 2003/04 to 97.11 million in the fiscal year 2007/08. Compared to the base year 2003/04, the daily turnover increased by 12 times in the fiscal year 2007/08. As a result the coefficient of variation indicates 91.43% inconsistency in the daily turnover over these five year periods.

The above table showed that the average number of shares per day and daily turnover of NEPSE from share transactions have increased drastically within the periods taken for research and indicates high turnover in the future as well.

Figure 4.8
Average Daily Turnover



4.1.9 Number of Companies Listed

To transact shares in the secondary market, the company should be listed on the NEPSE. The number of companies listed indicates the increasing/decreasing trend of the number of companies listed per year. The number of companies listed in the NEPSE during the five year period is depicted in the Table 4.9.

Table 4.9

Number of Companies Listed

Fiscal Year	No. of Companies Listed	Percentage Change
2003/04	92	15.00
2004/05	125	35.87
2005/06	135	8.00
2006/07	135	0.00
2007/08	142	5.19

Source: Annual Reports, NEPSE

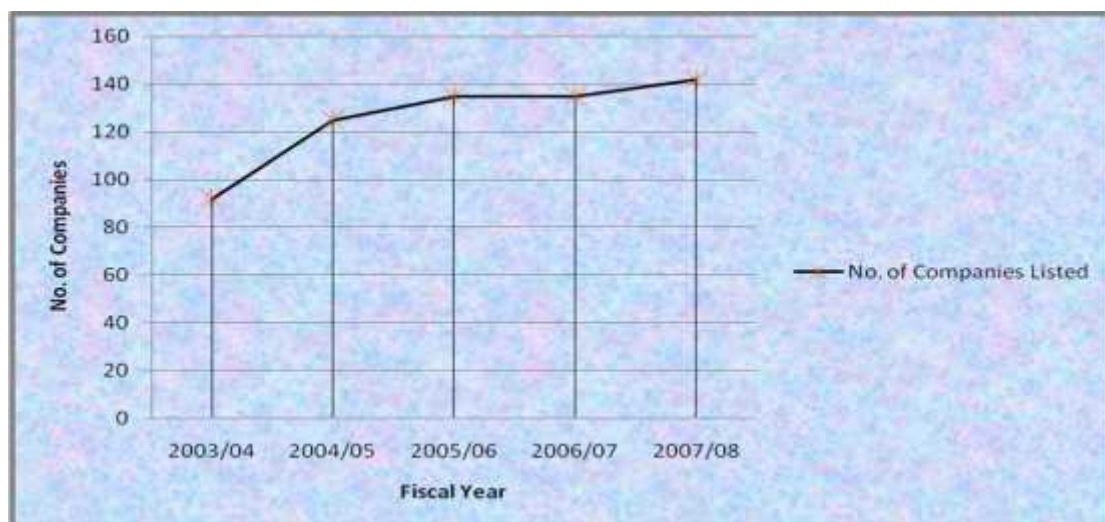
The number of listed companies in the FY 2007/08 reached 148 with the listing of 13 new companies. However, the number of listed companies at the end of the fiscal year came down to 142 with the delisting of five companies and merger of two. De-listed companies have been either already closed or have not held annual general meetings or have not audited their results for

more than two years. Altogether 0.17 million unit shares amounting Rs.174.91 million have been de-listed during the year.

At the end of the FY 2006/07 there were 17 companies listed under the commercial bank group. Similarly, there were 23 companies in the development bank group, 17 companies in the insurance group, 55 companies in the finance group, 18 companies in the manufacturing and processing group, 4 each in the hotel and trading group, 1 in other group and 3 in the hydropower group.

During the year, a total of 7.49 million units of ordinary shares amounting Rs. 749.40 million, 38.45 million units of rights shares amounting Rs. 384.56 million, 18.69 million units bonus shares amounting Rs. 1869.73 million were listed for trading. With the listing of these shares the number of listed securities other than corporate and government bonds reached 321.13 million units in the FY 2007/08. This is an increase of 31.9 per cent, from 243.50 million units in the previous year. The paid-up value of listed shares reached Rs. 29.46 billion during the FY 2007/08, which rose by 35.50 percent over the previous year. Likewise, for the first time 2 million units of convertible preference shares amounting Rs.200 million were listed during the review period.

Figure 4.9
Number of Companies Listed



4.1.10 Traded Companies to Listed Companies

This ratio depicts the percentage of number of companies traded out of the companies listed in each year. This ratio also delineates how many company remained active and inactive during the period. The traded companies to listed companies is presented in the Table 4.10.

Table 4.10

Traded Companies to Listed Companies

Fiscal Year	Companies Traded	Companies Listed	Ratio %
2003/04	92	92	100.00
2004/05	102	125	81.60
2005/06	110	135	81.48
2006/07	116	135	85.93
2007/08	136	142	95.77
Average			88.96

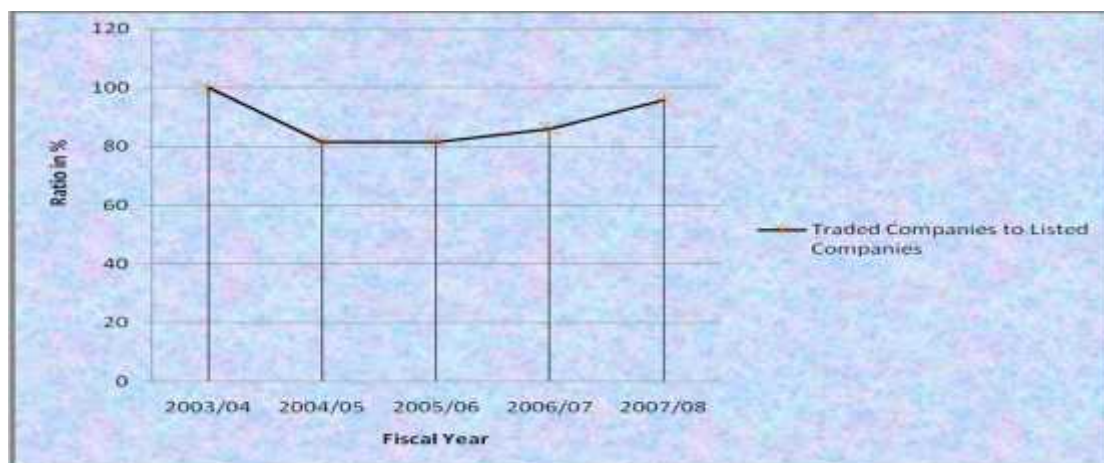
Source: Annual Reports, NEPSE

The table shows that the traded companies to listed companies in the five year period. The table depicts that in the fiscal year 2003/04, all the companies listed in NEPSE have traded their securities. However, the ratio decreased to 81.60% in the fiscal year 2004/05, 81.48% in the fiscal year 2005/06 and then increased to 85.93% in the fiscal year 2006/07 and finally 95.77% in the fiscal year 2007/08. Hence, the ratio has followed fluctuating trend. The ratio shows

that the fiscal year 2003/04 remained the most satisfactory as all the companies listed have been traded. In average, only 88.96% of the listed companies in NEPSE have been traded within the five year period taken for research. NEPSE should set out new policy and techniques to effectively jerk out the untraded companies in transactions and thus increase the turnover.

Figure 4.10

Traded Companies to Listed Companies



4.1.11 Market Capitalization of Listed Companies

This indicates the total market value of the listed companies during the research period. The total market capitalization of listed companies and the percentage change in the five year period is presented in the Table 4.11.

Table 4.11

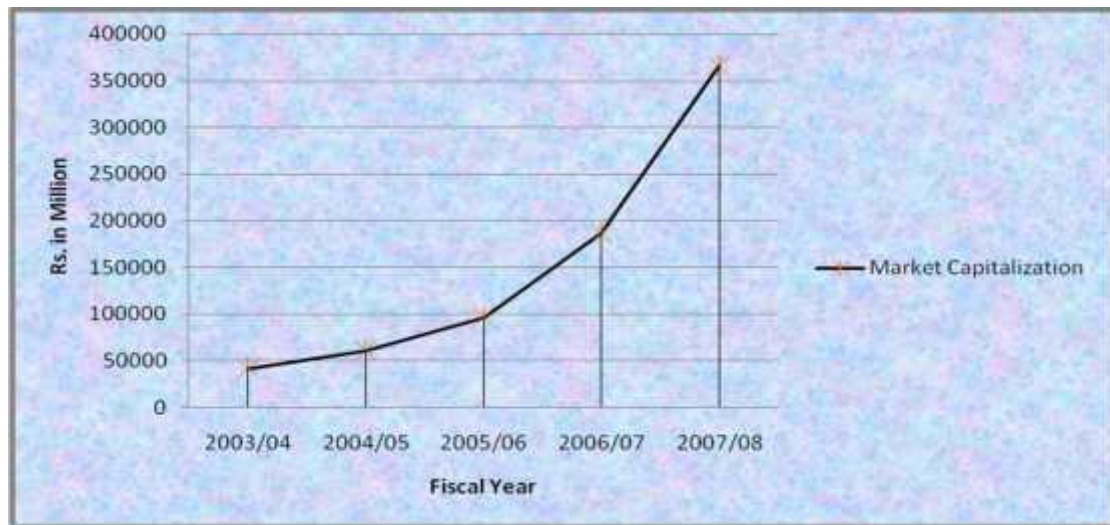
Market Capitalization of Listed Companies

Fiscal Year	Market Capitalization (In Million)	Percentage Change
2003/04	41424.77	17.55
2004/05	61365.89	48.14
2005/06	96763.74	57.68
2006/07	186301.28	92.53
2007/08	366247.56	96.59

Source: Annual Reports, NEPSE

The above table shows that the market capitalization of the listed companies has followed increasing trend. The market capitalization ranged from Rs. 41424.77 millions in the fiscal year 2003/04 to Rs. 366247.56 millions in the fiscal year 2007/08. The market capitalization increased highest (96.59%) in the fiscal year 2007/08 and lowest (17.55%) in the fiscal year 2003/04.

Figure 4.11
Market Capitalization of Listed Companies



4.1.12 Turnover to Market Capitalization

This ratio indicates the efficiency of NEPSE in effectively utilizing the market capital in converting to turnover. The total turnover to market capitalization in the five year period is presented in the Table 4.12.

Table 4.12
Turnover to Market Capitalization

Fiscal Year	Turnover	Market Capitalization	Ratio in %
2003/04	2144.27	41424.77	5.18
2004/05	4507.68	61365.89	7.35
2005/06	3451.43	96763.74	3.57
2006/07	8360.07	186301.28	4.49
2007/08	22820.76	366247.56	6.23
Mean			5.36
S.D.			1.32

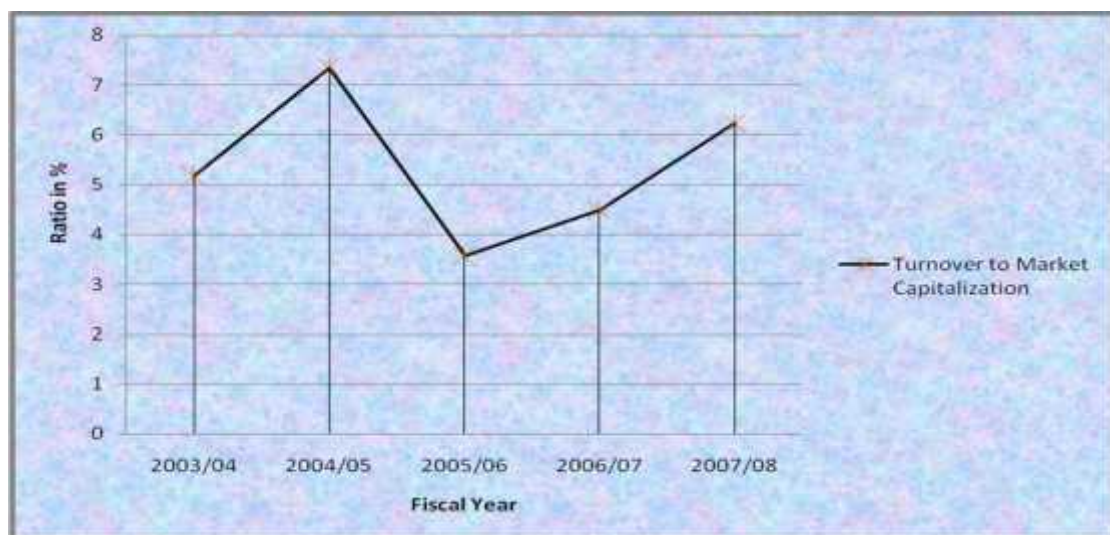
C.V.		24.61
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Source: Annual Reports, NEPSE

The table depicts that the turnover to market capitalization of NEPSE. The table shows that the turnover to market capitalization of the listed companies ranged from 3.57% in the fiscal year 2005/06 to 6.23% in the fiscal year 2007/08. The turnover to market capitalization started from 5.18% in the fiscal year 2003/04, increased to 7.35% in the fiscal year 2004/05 and then decreased to 3.57% in the fiscal year 2005/06 and again increased to 4.49% in the fiscal year 2006/07 and finally reached to 6.23% in the fiscal year 2007/08. Hence, the turnover to market capitalization followed the fluctuating trend. However, NEPSE utilized 5.36% of the market capitalization in average in generating turnover. The standard deviation and coefficient of variation of turnover to market capitalization are 1.32 and 24.61% respectively. The coefficient of variation indicated that turnover to market capitalization of NEPSE fluctuated by 24.61% during the period taken for research.

Figure 4.12

Turnover to Market Capitalization



4.1.13 Paid up Capital

To find out the increase/decrease in the total paid up capital of listed companies, the paid up capital in five fiscal year period is taken. The five

year's paid up capital also clarifies the trend, that the NEPSE paid up capital is following. The paid up capital of listed companies is presented in the Table 4.13.

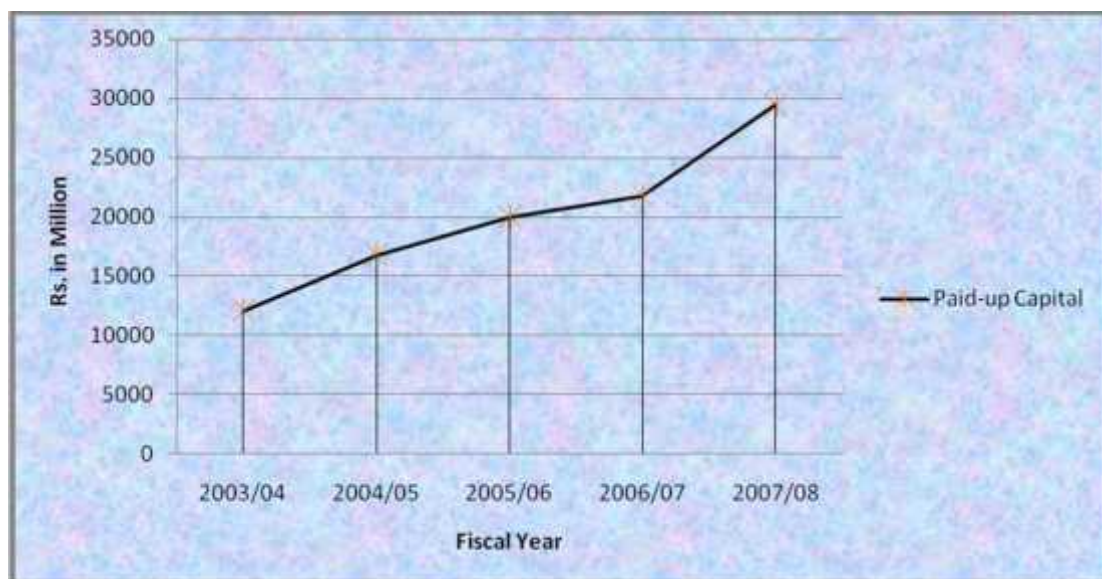
Table 4.13
Paid up Capital

Fiscal Year	Paid-up Capital (In Million)	Percentage Change
2003/04	12016	0.99
2004/05	16771	39.57
2005/06	19958	19.00
2006/07	21746	8.96
2007/08	29465	35.50

Source: Annual Reports, NEPSE

The above table showed that the total paid up capital of companies listed in NEPSE is in increasing order. The paid up capital increased from Rs. 12016 millions in the fiscal year 2003/04 to Rs. 21746 millions in the fiscal year 2006/07. The paid up capital increased highest to 39.57% in the fiscal year 2004/05 and lowest to 0.99% in the fiscal year 2003/04 compared to the paid up capital of previous year. The table shows that along with the increase in the number of companies listings in NEPSE, the paid-up capital of the listed companies have increased.

Figure 4.13
Paid up capital



4.1.14 Turnover to Paid up Capital

This ratio measures the NEPSE's efficiency in optimally utilizing the paid up capital in generating sales. The turnover to paid up capital in the five fiscal year period is presented in the Table 4.14.

Table 4.14
Turnover to Paid up Capital

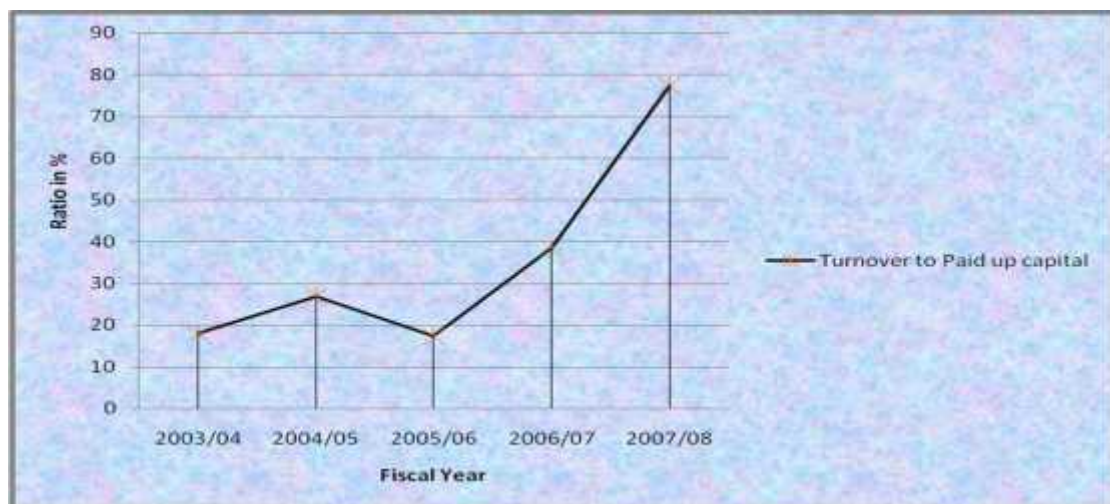
Fiscal Year	Turnover	Paid up Capital	Ratio in %
2003/04	2144.27	12016	17.85
2004/05	4507.68	16771	26.88
2005/06	3451.43	19958	17.29
2006/07	8360.07	21746	38.44
2007/08	22820.76	29465	77.45
Mean			35.58
S.D.			22.30
C.V. %			62.66

Source: Annual Reports, NEPSE

The table shows that the turnover to paid up capital of NEPSE ranged from 17.29% in the fiscal year 2005/06 to 77.45% in the fiscal year 2006/07. The ratio is also in fluctuating trend in the entire period. The ratio increased in the

fiscal year 2004/05 to 26.88%, then decreased to 17.29% in the fiscal year 2005/06 and then followed increasing trend and eventually reached to 77.45%. In average, 35.58% of the total up capital has been converted to sales. The coefficient of variation (62.66%) depicts high inconsistency in turnover to paid up capital. NEPSE should increase its market days to increase the turnover and finally optimally utilize its paid up capital in generating higher turnover.

Figure 4.14
Turnover to Paid up Capital



4.1.15 Number of Transactions

To determine how many times the each share is transacted annually, the number of transactions is essential. Greater the number of transactions higher

will be the turnover. Hence, the number of transactions in each fiscal year and the percentage change is presented in the Table 4.15.

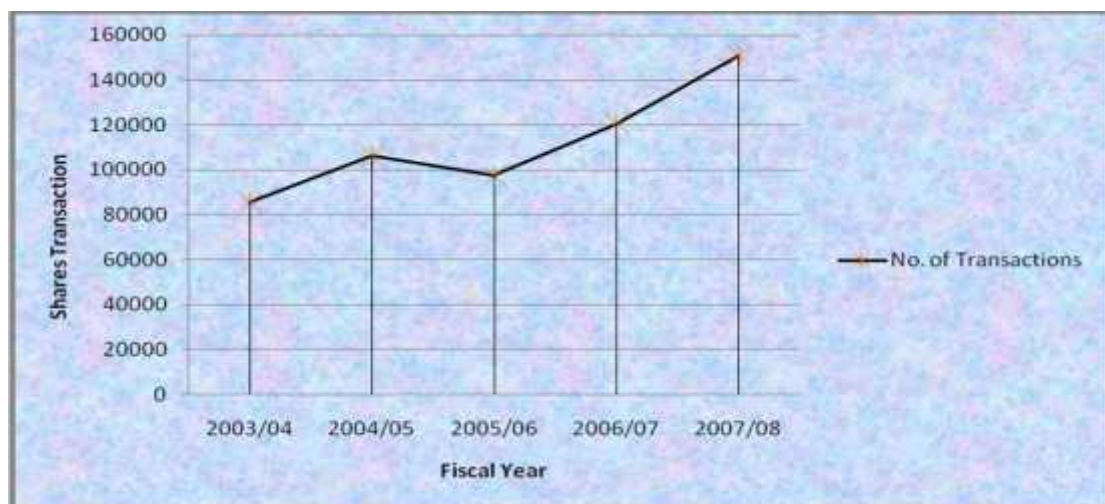
Table 4.15
Number of Transactions

Fiscal Year	No. of Transactions	Percentage Change
2003/04	85533	23.67
2004/05	106246	24.22
2005/06	97374	-8.35
2006/07	120510	23.76
2007/08	150800	25.13
Average	112092	

Source: Annual Reports, NEPSE

The above table depicts that the number of transactions made during the five year period followed increasing trend except in the fiscal year 2005/06, where the number of transaction decreased by 8.35%. The number of transaction ranged from 85,533 thousand in the fiscal year 2003/04 to 150,800 thousand in the fiscal year 2007/08. The number of shares transaction increased highest (25.13%) in the fiscal year 2007/08 and lowest (-8.35%) in the fiscal year 2005/06 compared to the number of shares transactions of previous year. The average number of shares traded (16774.14) and the average number of shares transactions (112092) showed that the same share is transacted for 6.68 times in average.

Figure 4.15
Number of Transactions



4.1.16 Number of Listed Securities

Higher the number of listed securities indicates higher probability of share trading and the fast growth of stock market. The number of listed securities in NEPSE and the percentage change in such number is presented in the Table 4.16.

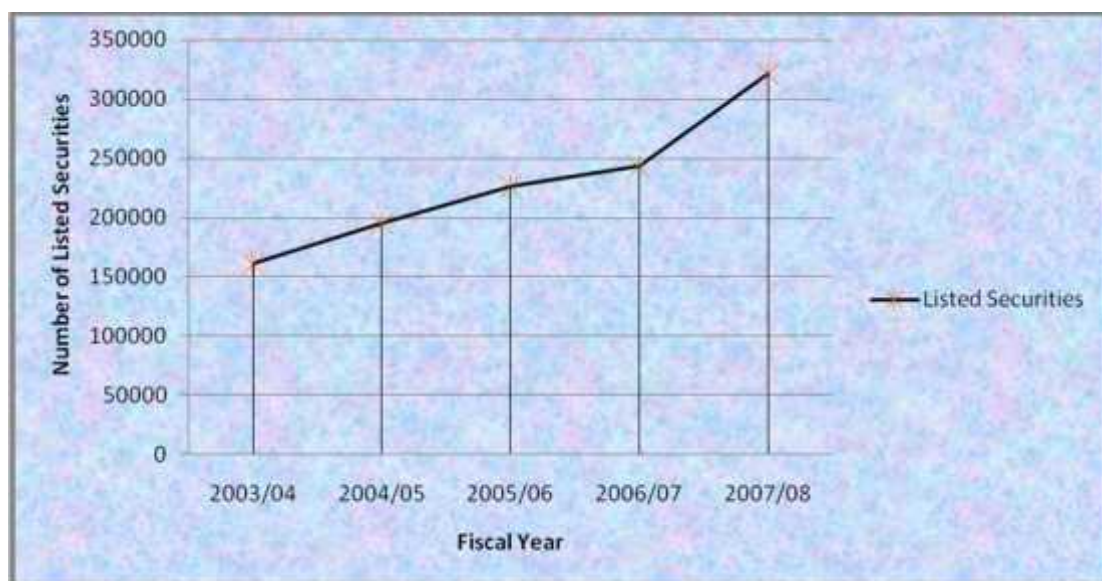
Table 4.16
Number of Listed Securities

Fiscal Year	Listed Securities	Percentage Change
2003/04	161141	0.74
2004/05	194673	20.81
2005/06	226540	16.37
2006/07	243504	7.49
2007/08	321131	31.88

Source: Annual Reports, NEPSE

The table depicts that the number of listed securities has increased during the five year period. The number of listed securities increased lowest by 0.74% in the fiscal year 2003/04 and highest by 20.81% in the fiscal year 2004/05. Also, the number of listed securities ranged from 161141 thousands in the fiscal year 2003/04 to 321131 thousands in the fiscal year 2007/08. The table shows that with the increase in the number of listed companies, the number of listed securities in NEPSE has also increased.

Figure 4.16
Number of Listed Securities



4.1.17 Classifications of listed Companies

NEPSE has classified 71 companies under the 'A' category on 8 February 2008 while there were 66 companies under this category last year. Nine new companies comprising Nepal Insurance Company, Annapurna Finance Company, Everest Finance Company, Prudential Bittiya Sansthan, Bhajuratna Finance and Saving Company, Chimek Vikas Bank, Business Development Bank, Sanima Vikas Bank and Sahayogi Viksa Bank have been upgraded from category 'B' to 'A' and four companies namely Paschimanchal Development Bank, Prudential Insurance Company, Union Finance and Fewa Finance have been demoted to 'B' category owing to their poor performance. Companies earning profit consecutively for three years with at least 1000 shareholders and the paid-up capital of Rs. 20 million are listed under category 'A'.

Table 4.17
Classifications of listed Companies

Fiscal Year	Classification for 'A'	Percentage Change
2003/04	43	6.42

2004/05	48	11.63
2005/06	55	14.58
2006/07	66	20.00
2007/08	71	7.58

Source: Annual Reports, NEPSE

The table shows an increase in the number of companies classified under 'A' category. There were 43 companies classified as category 'A' in the FY 2003/04. This number reached 71 in the FY 2007/08: 12 commercial banks, 8 development banks, 11 insurance companies, 38 finance companies and one each company from the hydropower group, and the manufacturing and processing group. Companies classified under the 'A' category occupied 55.8 percent of the total paid-up capital, 50.9 percent of the total listed shares and 79.4 percent of market capitalization.

Figure 4.17

Number of 'A' classified Companies



4.1.18 Primary Market in Fiscal Year 2007/08

In the FY 2007/08 the Security Board of Nepal (SEBON) granted permission to 71 companies for mobilization of Rs.11.56 billion while 33 companies got approval to mobilize Rs. 2.75 billion in the preceding year. The number of capital mobilizing companies and amount of capital mobilization has risen by

132.25 percent and 320.36 percent respectively.

4.2 Primary Data Analysis

As the study was based on primary data, information was collected through developing a scheduled questionnaire and distributed to Share Brokers, Professional Investors and Potential Investors. A set of questionnaire related to the objectives of the study has been prepared for 45 respondents each. Some questionnaires were sent through fax service, some through direct visit to the respondent. Among the questionnaire distributed, only 36 were answered, i.e. the respondent rate is 80% of the total targeted respondents. Similarly, some additional information was also collected through interview and personal meeting with the respondents.

Table 4.18

List of Questionnaire Distributed

Group	Respondents	Sample Size	Percentage
A.	Share Brokers	10	22
B.	Professional Investors	15	33
C.	Potential Investors	20	45
	Total	45	100

Source: Opinion Survey, 2009

The number of respondents who showed interest in responding the questionnaire is presented in the following table 4.19.

Table 4.19

List of Questionnaire Collected

Group	Respondents	Sample Size	Percentage
A.	Brokers	7	19
B.	Professional Investors	15	42
C.	Potential Investors	14	39
	Total	36	100

Source: Opinion Survey, 2009

4.2.1 Satisfaction on Growth Trend

To investigate the level of satisfaction on the present trend of growth in the stock market, the respondents were asked whether they are satisfied with the growth trend. The responses achieved from them are presented in the following table.

Table 4.20

Satisfaction of Growth Trend

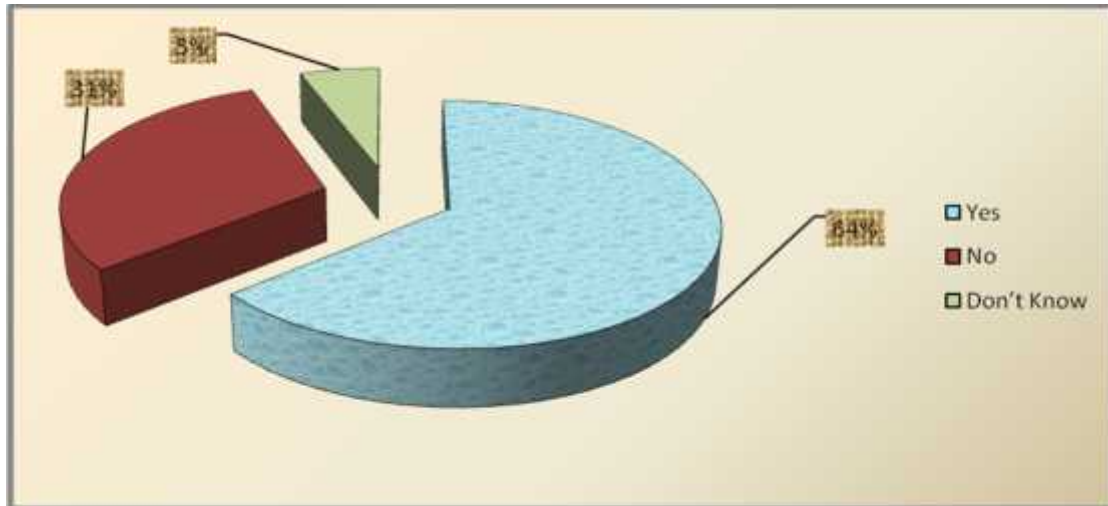
Satisfaction	Responses				%
	Brokers	Prof. Investors	Pot. Investors	Total	
Yes	6	9	8	23	64
No	1	6	4	11	31
Don't Know	0	0	2	2	6
Total	7	15	14	36	100

Source: Opinion Survey, 2009

The above table showed that out of 7 Brokers, 6 Brokers are satisfied with the existing growth in stock market, however 1 is not satisfied with the growth trend. Similarly, 9 Professional Investors are satisfied and 6 are not satisfied and 8 Potential Investors are satisfied, 4 are not satisfied and 2 remained neutral on the growing trend of stock market. In overall, 64% of the respondents are satisfied, 31% are not satisfied and 6% remained neutral. As the majority of the respondents, 23 out of 36, are satisfied with the growing trend of stock market, it can be considered that the stock growth is growing on the right path and there is good prospect of stock market in future as well.

Figure 4.18

Satisfaction on Growth Trend



4.2.2 Problems of Stock Market Growth

Many factors are hindering the stock market growth in Nepal. To detect which factor barricades most in the stock growth of Nepal, the respondents were asked to express their view. The responses obtained from them are presented in the following table 4.21.

Table 4.21
Problems of Stock Market Growth

Problems	Basis	Rank						Total	Weight	Mean Wt.	Overall Rank
		1	2	3	4	5	6				
Small Capital Market	Total	8	15	6	7	0	0	36	84	2.33	2
	Brokers	2	4	1	0	0	0	7	13	1.86	2
	Professional Investor	4	4	3	4	0	0	15	37	2.47	2
	Potential Investor	2	7	2	3	0	0	14	34	2.43	2
Lack of Investor's Confidence	Total	20	14	2	0	0	0	36	54	1.50	1
	Brokers	4	3	0	0	0	0	7	10	1.43	1
	Professional Investor	7	8	0	0	0	0	15	23	1.53	1
	Potential Investor	9	3	2	0	0	0	14	21	1.50	1
Lack of Proper Knowledge	Total	0	0	4	7	14	11	36	176	4.89	6
	Brokers	0	0	2	0	3	2	7	33	4.71	5
	Professional Investor	0	0	0	4	7	4	15	75	5.00	6
	Potential Investor	0	0	2	3	4	5	14	68	4.86	5
Lack of Coordination	Total	0	1	5	8	5	17	36	176	4.89	5
	Brokers	0	0	1	3	1	2	7	32	4.57	4
	Professional Investor	0	1	3	1	2	8	15	73	4.87	5
	Potential Investor	0	0	1	4	2	7	14	71	5.07	6

Inappropriate Rules and regulations	Total	4	4	11	9	3	3	36	120	3.33	3
	Brokers	0	0	2	4	1	0	7	27	3.86	3
	Professional Investor	1	0	5	4	2	3	15	60	4.00	4
	Potential Investor	3	4	6	1	0	0	14	33	2.36	3
Restriction on Foreign Investors	Total	4	2	6	5	14	5	36	146	4.06	4
	Brokers	1	0	1	0	2	3	7	32	4.57	4
	Professional Investor	3	2	4	2	4	0	15	47	3.13	3
	Potential Investor	0	0	1	3	8	2	14	67	4.79	4

Source: Opinion Survey, 2009

The above tables showed that lack of investor's confidence is the major problem that is barricading the stock growth in Nepal. The respondents ranked 1 for lack of investor's confidence, 2 for small capital market, 3 for Inappropriate rules and regulations, 4 for restriction of foreign investors, 5 for lack of coordination among monitoring bodies of stock market and 6 for lack of proper knowledge on investors. Looking individually as well, the majority of each group, 4 out of 7 brokers, 7 out of 15 professional investors and 9 out of 14 potential investors, ranked 1 for lack of confidence in investors, which indicted that the lack of investor's confidence is the major hindrance in stock growth of Nepal. Besides this, small capital market is also the next problem of stock growth.

4.2.3 Prospects of Stock Market

NEPSE has adopted various techniques for the enhancement of stock growth in Nepal. So to examine which method is appropriate for the amelioration of stock growth, the respondents were asked to express their opinions. The responses obtained from them is presented in the following table 4.22.

Table 4.22

Prospects	Basis	Rank											Total	Weight	Mean Wt.	Overall Rank
		1	2	3	4	5	6	7	8	9	10	11				
Automated Trading System	Total	3	2	4	9	11	4	3	0	0	0	0	36	155	4.31	4
	Brokers	1	1	1	2	2	0	0	0	0	0	0	7	24	3.43	4
	Pro. Investor	2	1	0	5	3	2	2	0	0	0	0	15	65	4.33	4
	Pot. Investor	0	0	3	2	6	2	1	0	0	0	0	14	66	4.71	4
Recruitment of New Employee	Total	0	0	1	1	5	15	6	6	2	0	0	36	230	6.39	6
	Brokers	0	0	1	0	0	1	2	2	1	0	0	7	48	6.86	7
	Pro. Investor	0	0	0	1	3	6	2	3	0	0	0	15	93	6.20	6
	Pot. Investor	0	0	0	0	2	8	2	1	1	0	0	14	89	6.36	5
Trading through WAN	Total	0	0	0	1	7	7	10	5	3	3	0	36	248	6.89	7
	Brokers	0	0	0	0	1	3	3	0	0	0	0	7	44	6.29	6
	Pro. Investor	0	0	0	0	3	3	5	1	3	0	0	15	103	6.87	7
	Pot. Investor	0	0	0	1	3	1	2	4	0	3	0	14	101	7.21	6
Market Halt Introduced	Total	0	0	0	0	4	0	3	7	4	11	7	36	320	8.89	9
	Brokers	0	0	0	0	1	0	1	2	0	3	0	7	58	8.29	9
	Pro. Investor	0	0	0	0	2	0	1	5	1	6	0	15	126	8.40	9
	Pot. Investor	0	0	0	0	1	0	1	0	3	2	7	14	136	9.71	9
Extended Trading Hours	Total	3	1	8	10	4	4	2	0	2	0	2	36	167	4.64	5
	Brokers	0	0	0	2	1	2	1	0	1	0	0	7	41	5.86	5
	Pro. Investor	1	0	4	4	3	0	0	0	1	0	2	15	75	5.00	5
	Pot. Investor	2	1	4	4	0	2	1	0	0	0	0	14	51	3.64	3
Real Time Information	Total	0	0	0	0	0	0	2	1	11	15	7	36	348	9.67	10
	Brokers	0	0	0	0	0	0	0	0	4	2	1	7	67	9.57	10
	Pro. Investor	0	0	0	0	0	0	0	1	3	7	4	15	149	9.93	10
	Pot. Investor	0	0	0	0	0	0	2	0	4	6	2	14	132	9.43	8

Promoter's shares Traded	Total	0	0	0	0	1	5	8	14	7	1	0	36	276	7.67	8
	Brokers	0	0	0	0	1	1	0	3	1	1	0	7	54	7.71	8
	Pro. Investor	0	0	0	0	0	4	3	5	3	0	0	15	112	7.47	8
	Pot. Investor	0	0	0	0	0	0	5	6	3	0	0	14	110	7.86	7
OTC Market Started	Total	6	4	9	11	3	1	2	0	0	0	0	36	120	3.33	3
	Brokers	1	1	2	2	1	0	0	0	0	0	0	7	22	3.14	3
	Pro. Investor	3	2	6	2	0	0	2	0	0	0	0	15	47	3.13	3
	Pot. Investor	2	1	1	7	2	1	0	0	0	0	0	14	51	3.64	3
Profit Seeking NEPSE	Total	10	11	11	3	1	0	0	0	0	0	0	36	82	2.28	2
	Brokers	2	1	3	1	0	0	0	0	0	0	0	7	17	2.43	2
	Pro. Investor	4	5	3	2	1	0	0	0	0	0	0	15	36	2.40	2
	Pot. Investor	4	5	5	0	0	0	0	0	0	0	0	14	29	2.07	2
Monthly Publication	Total	0	0	0	0	0	0	0	3	7	6	20	36	367	10.19	11
	Brokers	0	0	0	0	0	0	0	0	0	1	6	7	76	10.86	11
	Pro. Investor	0	0	0	0	0	0	0	0	4	2	9	15	155	10.33	11
	Pot. Investor	0	0	0	0	0	0	0	3	3	3	5	14	136	9.71	10
Increasing Interest	Total	14	18	3	1	0	0	0	0	0	0	0	36	63	1.75	1
	Brokers	3	4	0	0	0	0	0	0	0	0	0	7	11	1.57	1
	Pro. Investor	5	7	2	1	0	0	0	0	0	0	0	15	29	1.93	1
	Pot. Investor	6	7	1	0	0	0	0	0	0	0	0	14	23	1.64	1

Prospects of Stock Growth

Source: Opinion Survey, 2009

The above table showed that the increasing interest of investors on stock market is the most important prospects of stock growth in Nepal. The respondents ranked 1 for increasing interest of investors, 2 for the conversion of NEPSE into profit oriented, 3 for the starting of OTC market, 4 for launching automated trading system, 5 for extending trading hours, 6 for recruitment of new employee, 7 for trading through WAN system, 8 for trading of Promoter's share, 9 for the introduction of Market Halt system, 10 for the dissemination of real time and 11 for monthly market review publication. In overall, the majority of the respondents, 14 out of 36, opined that the increasing interest of educated people toward stock market is the most important factor for raising the prospect of stock market in Nepal.

4.2.4 Malpractices in Stock Market

The malpractices in share market have provoked the uncertainty in the stock price. General investors are facing huge losses from the malpractices existing

in the stock market and obviously hindering the growth of stock market. To examine which of the major malpractices is causing problem in the stock market, the respondents were asked to express their opinions on the basis of their past experience in stock trade. The responses obtained from them are presented in the following table 4.23.

Table 4.23
Malpractices in Stock Market

Malpractices	Basis	Rank						Total	Weight	Mean Wt.	Overall Rank
		1	2	3	4	5	6				
Pooling	Total	18	11	5	2	0	0	36	63	1.75	1
	Brokers	4	2	1	0	0	0	7	11	1.57	1
	Professional Investor	8	5	1	1	0	0	15	25	1.67	1
	Potential Investor	6	4	3	1	0	0	14	27	1.93	1
Cornering or Warehousing	Total	2	1	7	15	9	2	36	142	3.94	4
	Brokers	0	0	1	4	2	0	7	29	4.14	4
	Professional Investor	1	0	3	4	5	2	15	63	4.20	5
	Potential Investor	1	1	3	7	2	0	14	50	3.57	3
Organized Runs	Total	5	6	11	12	2	0	36	108	3.00	3
	Brokers	1	1	3	2	0	0	7	20	2.86	3
	Professional Investor	2	2	3	7	1	0	15	48	3.20	3
	Potential Investor	2	3	5	3	1	0	14	40	2.86	2

Ramping	Total	0	0	0	1	7	28	36	207	5.75	6
	Brokers	0	0	0	0	2	5	7	40	5.71	6
	Professional Investor	0	0	0	1	2	12	15	86	5.73	6
	Potential Investor	0	0	0	0	3	11	14	81	5.79	5
Washsale	Total	10	16	7	1	2	0	36	77	2.14	2
	Brokers	2	4	1	0	0	0	7	13	1.86	2
	Professional Investor	3	6	4	0	2	0	15	37	2.47	2
	Potential Investor	5	6	2	1	0	0	14	27	1.93	1
Insider Training	Total	1	2	6	5	16	6	36	159	4.42	5
	Brokers	0	0	1	1	3	2	7	34	4.86	5
	Professional Investor	1	2	4	2	5	1	15	56	3.73	4
	Potential Investor	0	0	1	2	8	3	14	69	4.93	4

Source: Opinion Survey, 2009

The above table showed that pooling, buying and selling shares within a group, is a major malpractice in the existing stock market. The respondents ranked 1 for pooling, 2 for washsale, 3 for organized runs, 4 for cornering or warehousing, 5 for insider training and 6 for ramping. The stock exchange of Nepal should introduce new rule and regulations to control such malpractice. The introduction of fines and penalties is essential for the person committing such malpractice. Effective administration by NEPSE can control such malpractices and also keeping very confidential the unpublicized decision of the listed company can also control the malpractice like insider training.

4.2.5 Influencing Factor of Stock Price

The investors are attracted in the stock of companies by analyzing various factors. Such factor creates rise or fall in the stock price. To examine which factor most influence the investor on buying shares of certain company and influences the stock price of the listed company, the respondents were asked on this regard. The opinions obtained from them are presented in the following table.

Table 4.24
Influencing Factor of Stock Price

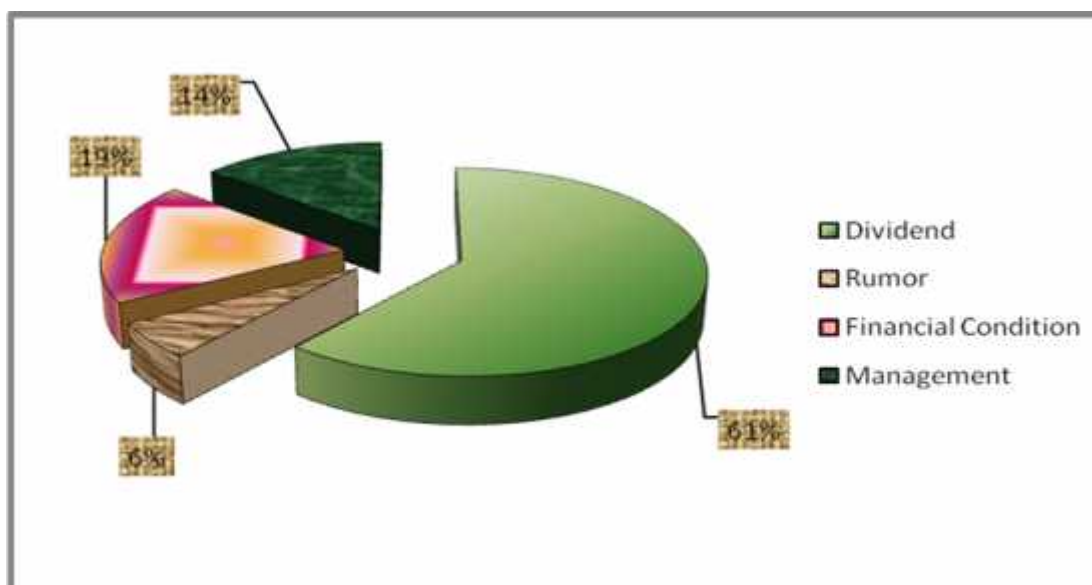
Factor	Responses				%
	Brokers	Prof. Investors	Pot. Investors	Total	

Dividend	4	10	8	22	61
Rumor	0	0	2	2	6
Financial Condition	2	2	3	7	19
Management	1	3	1	5	14
Total	7	15	14	36	100

Source: Opinion Survey, 2009

The above table showed that the majority of the respondents, 22 out of 36 (61%), stated that dividend is the most influencing factor of stock price. Similarly, 6%, 19% and 14% of the respondents affirmed that rumor, financial situation of the company and management of the company respectively are the influencing factors of the stock price. Gazing in each category, the majority of each category; 4 out of 7 brokers, 10 out of 15 professional investors and 8 out of 14 investors, stated that dividend is the main factor that moves the stock price. Hence, it can be concluded that dividend distribution pattern of the company is the major motive behind investing on the share of a company and which affects the stock price.

Figure 4.19
Influencing Factor of Stock Price



4.2.6 Motives on Investment

Each investor has different motive in investing on the stock of the company. To trace out the main motive on the basis of which the investors makes investment on stock, the professional investors are asked about their motive of investment. As the question is related with the professional investors only, the other respondents were ignored on this question. The responses obtained from the professional investors are depicted in the following table.

Table 4.25

Motives on Investment

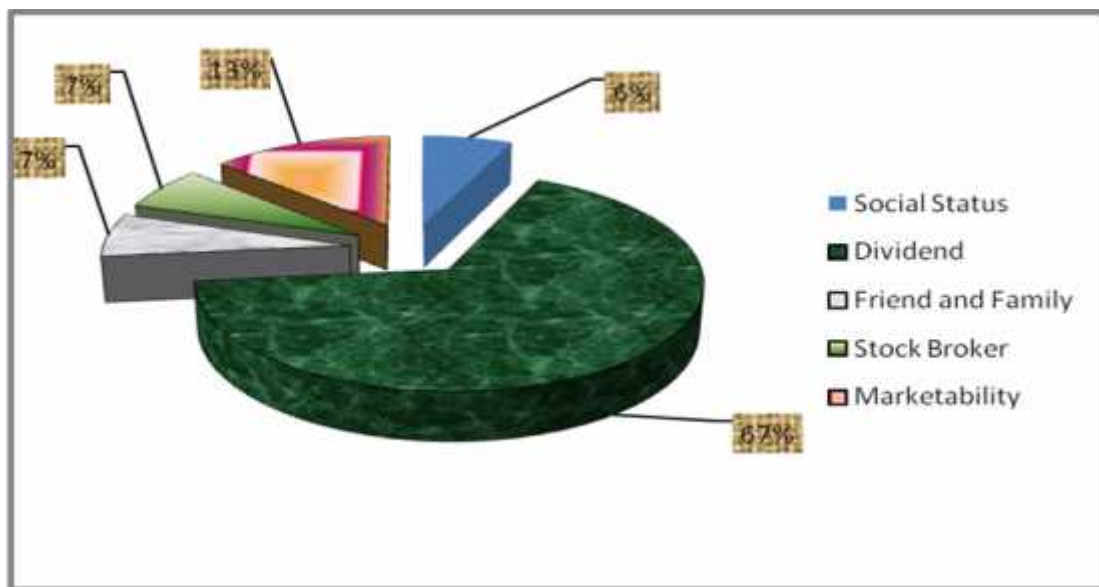
Motives	Professional Investors	
	Responses	Percentage
Social Status	1	7
Dividend	10	66
Friend and Family	1	7
Stock Broker	1	7
Marketability	2	13
Total	15	100

Source: Opinion Survey, 2009

The above table showed that the majority of the professional investors makes decision on the basis of dividend distribution pattern of the company. About 66% of the professional investors are motivated to invest on stock by the

dividend. Similarly, 1 out of 15 (7%) makes investment to gain social status, 1 out of 15 (7%) makes investment on the suggestions of friend and family, 1 out of 15 (7%) makes investment on the advise of stock broker and 2 out of 15 (13%) makes investment by analyzing the ease marketability of the stock. Thus, on the basis of the majority, it can be concluded that the investors are highly motivated to invest by dividend structure of the company and eventually to generate income.

Figure 4.20
Motives on Investment



4.2.7 Effects of Rules and Regulations of SEBON

To determine whether the rules and regulations of SEBON affect the stock value, the respondents were asked on this matter. The answers achieved from them have been presented in the following table.

Table 4.26
Effects of SEBON

Opinion	Responses				%
	Brokers	Prof. Investors	Pot. Investors	Total	
Yes	4	8	5	17	47
No	2	3	6	11	31
Don't Know	1	4	3	8	22

Total	7	15	14	36	100
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Source: Opinion Survey, 2009

The table showed that the majority of the respondents, 17 out of 36, stated that the rules and regulations of SEBON causes rise or fall on stock value of the company. However, 31% respondents (11 out of 36) affirmed that there is no relationship between rules and regulations of SEBON and the value of stock. Likewise, 22% respondents (8 out of 36) remained neutral on this matter. Looking each category, the majority of brokers, 4 out of 7, and professional investors, 8 out of 15, opined that the rules and regulations affect the stock value. However, the majority of the potential investors, 6 out of 14, stated that stock value is not affected by such rules and regulations. Rather mixed opinion has been obtained in this matter. Hence, gazing the overall majority, 47% respondents and the experience of respondents engaged in share transactions, it can be concluded that the rules and regulations of SEBON directly affect the stock price.

4.2.8 Awareness of Investors

Full Awareness of investors about the stock market is most crucial for the growth of stock. Hence, to examine whether investors are fully aware about the Nepalese Stock Market, the respondents were asked to express their view on this regard. The different opinions obtained from the respondents are presented in the following table.

Table 4.27
Awareness of Investors

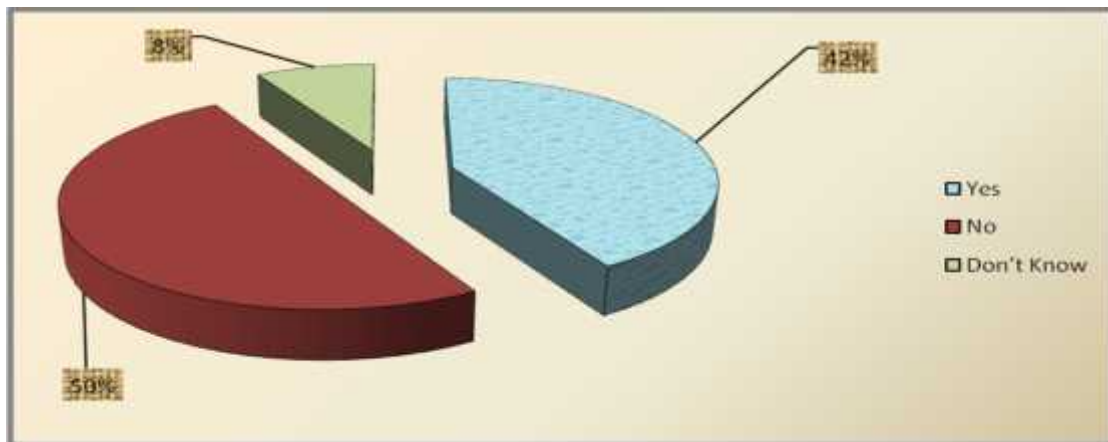
Opinion	Responses				%
	Brokers	Prof. Investors	Pot. Investors	Total	
Yes	4	6	5	15	42
No	3	8	7	18	50
Don't Know	0	1	2	3	8
Total	7	15	14	36	100

Source: Opinion Survey, 2009

The above table showed that the majority of the respondents, 18 out of 36, opined that the investors are not fully aware about the Nepalese stock market. However, the majority of the brokers, 4 out of 7, affirmed that the investors are fully aware about the stock market. In contrast, the majority of the professional investors, 8 out of 15, and the majority of the potential investors, 7 out of 14, strongly stated that the investors are not fully aware about the stock market. Hence, mixed opinion is obtained on the full awareness of investors. Eventually, considering the overall majority (50%), half of the respondents, it can be concluded that the investors are not fully aware about Nepalese Stock market and thus SEBON should conduct different programs and seminars to fully aware investors and eventually increase turnover.

Figure 4.21

Awareness of Investors



4.2.9 Basis to Invest in Secondary Market

To know the basis of investment in the Secondary Market, both investors, professional and potential were asked on this matter. To draw the exact basis, the brokers have been excluded from this question. The different opinions obtained from the investors are presented in the following table.

Table 4.28

Basis to Invest in Secondary Market

Basis	Responses			%
	Prof. Investors	Pot. Investors	Total	

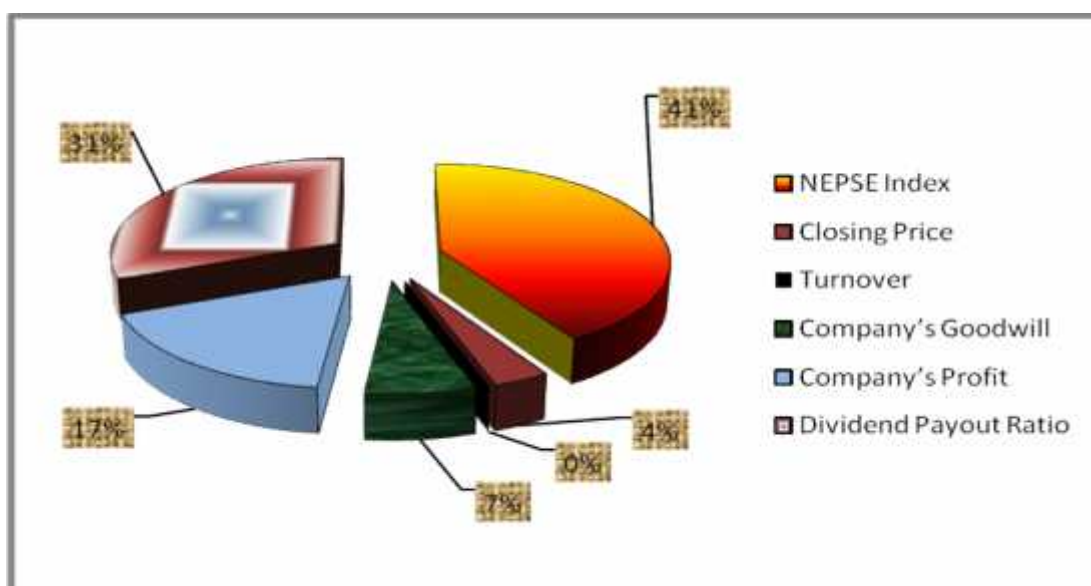
NEPSE Index	6	6	12	41
Closing Price	1	0	1	3
Turnover	0	0	0	0
Company's Goodwill	1	1	2	7
Company's Profit	3	2	5	17
Dividend Payout Ratio	4	5	9	31
Total	15	14	29	100

Source: Opinion Survey, 2009

The above table showed that 12 investors invest on secondary market by overlooking the trend of NEPSE index. Similarly, 9 investors invest by gazing the dividend payout ratio of the company, 5 investors invest by analyzing the considering the company's profit, 2 investors invest on the basis of company's goodwill and 1 on the basis of closing price. Since, the majority of the investors (41%) invest on the basis of NEPSE Index, it can be considered that NEPSE index is the major indicator for share investment in secondary market.

Figure 4.22

Basis to Invest in Secondary Market



4.2.10 Efficiency of Stock Market

To detect whether the stock market provides up to date information and it is operating efficiently, the respondents were requested to express their feelings. The different opinions obtained from them are presented in the following table.

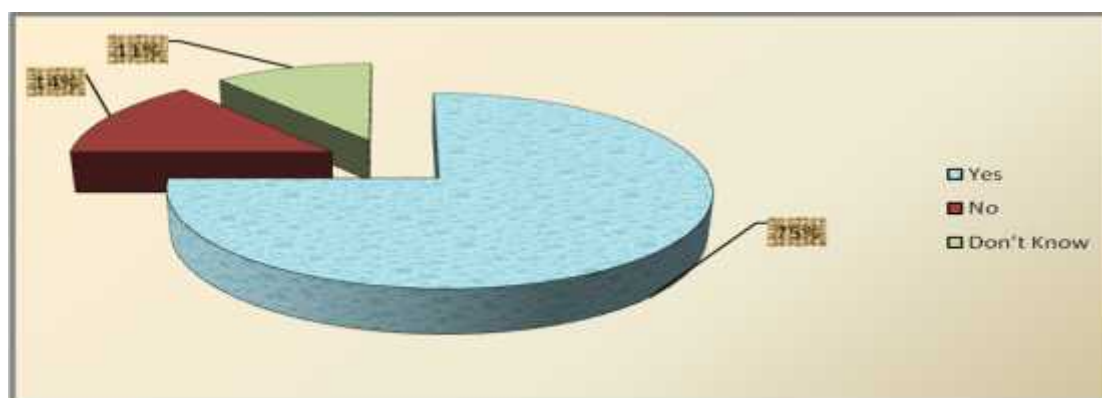
Table 4.29
Efficiency of Stock Market

Efficiency	Responses				%
	Brokers	Prof. Investors	Pot. Investors	Total	
Yes	6	12	9	27	75
No	1	2	2	5	14
Don't Know	0	1	3	4	11
Total	7	15	14	36	100

Source: Opinion Survey, 2009

The above table shows that the majority of the respondents, 27 out of 36, said that the Nepalese stock market is informational and operationally efficient. Look on each category, the majority of each group; 6 out of 7 brokers, 12 out of 15 professional investors, 9 out of 14 potential investors, strongly affirmed that Nepalese stock market is efficient. Only 14% of the respondents said that the stock market is not efficient in operation and does not provide effective information. However, 11% respondents remained neutral on this query. Considering the majority, 75% respondents, it can be concluded that the stock market of Nepal is informational and operationally efficient in the present context and thus should be enhanced in the future.

Figure 4.23
Efficiency of Stock Market



4.2.11 Responsible for Appropriate Trading System

To know who is most responsible for the appropriate trading system in the stock market, the respondents were asked to opine their views. The opinions obtained from them are depicted in the following table.

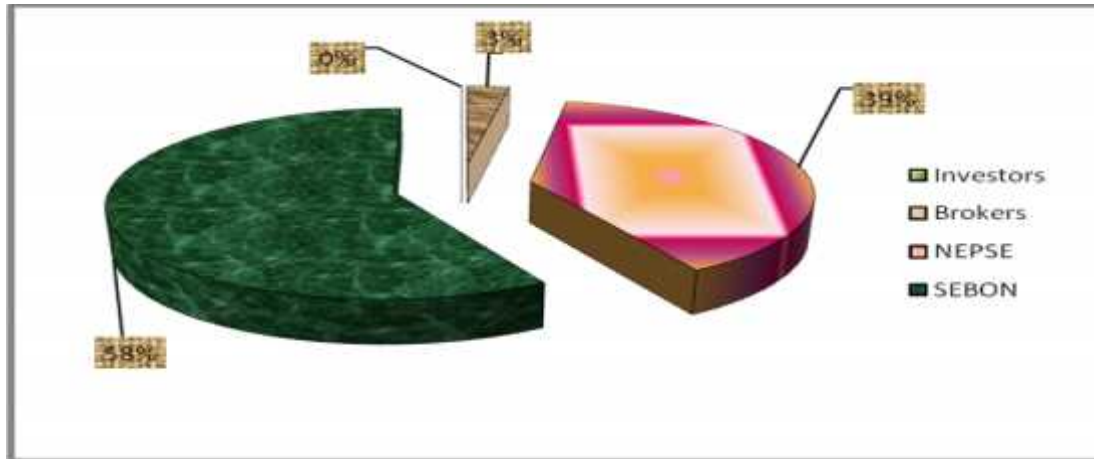
Table 4.30
Responsible for Appropriate Trading System

Responsible	Responses				%
	Brokers	Prof. Investors	Pot. Investors	Total	
Investors	0	0	0	0	0
Brokers	0	1	0	1	3
NEPSE	3	5	6	14	39
SEBON	4	9	8	21	58
Total	7	15	14	36	100

Source: Opinion Survey, 2009

The above table showed that the majority of the respondents, 21 out of 36, strongly stated that SEBON should be responsible for appropriate trading system in the stock market. However, 14 out of 36 (39%) said that NEPSE should be responsible and 1 professional investor (3%) blamed that stock should be responsible for appropriate trading system in the stock market. Also looking each category, the majority in each group, 4 out of 7 brokers, 9 out of 15 professional investors and 8 out of 14 potential investors, pointed out SEBON to be responsible for appropriate trading practices in the stock market. Hence, looking the overall majority (58%), it can be concluded that SEBON is the major regulating body in effective trading system, however, the responsibility of other bodies cannot be neglected completely. So, for appropriate system each participant should contribute equally.

Figure 4.24
Responsible for Appropriate Trading System



4.3 Major Findings

On the basis of both the primary and secondary data analysis, the following major findings have been reached.

4.3.1 Findings from Secondary Data

-) The NEPSE index followed increasing trend. The NEPSE index started from Rs.222.04 millions in the fiscal year 2003/04 and ended with Rs.963.36 in the fiscal year 2007/08. It increased maximally by 76.81% in the fiscal year 2006/07 compared to the index of previous year.
-) The annual turnover of NEPSE reached to Rs.22820.76 in the fiscal year 2007/08 from Rs. 2144.27 in the fiscal year 2003/04. NEPSE made average sales of Rs.8256.84 in the five year period.
-) Commercial bank covers the major portion of NEPSE turnover both in the no. of shares traded and the amount generated from the sales. Similarly, 16774.14 thousands shares were traded in average during the five year period.
-) The number of company traded and listed companies are increasing in every year. However, the market days of NEPSE decreased to 225 days in the fiscal year 2007/08 from 243 days in the fiscal year 2003/04. Also, NEPSE made an average daily turnover of Rs.35.24 millions in the five year period.

-) In average, 88.96% of the listed companies were traded in the five year period. Likewise, NEPSE converted 5.36% of total market capitalization into turnover and 35.58% of total paid up capital in turnover in average.
-) All market capitalization paid up capital and number of transactions followed increasing trend in the entire period. Similarly the number of listed securities has also increased to 321131 in the fiscal year 2007/08 from 161141 in the fiscal year 2003/04.

4.3.2 Findings from Primary Data Analysis

-) 64% of the respondents said that the investors are satisfied with the existing growth trend of stock. Similarly, lack of investor's confidence is the major problem of stock market hindering the growth. Also, the growing interest of the educated people in the stock market is the major prospects of stock growth in Nepal.
-) The major malpractice, pooling, is widespread in stock market and thus is creating uncertainty in stock price. Besides pooling washsale is also equally practiced.
-) 66% of the professional said that they invest share to gain dividend and also dividend is the most influencing factor that fluctuates share price.
-) 47% of the respondents are of the opinion that the rules and regulations of SEBON affect the value of stock. Likewise, 50% of the respondents said that the investors are not fully aware about the stock market.
-) 41% of the investors look at NEPSE index before making investment in the secondary market and 58% of the respondents stated that SEBON should be responsible for appropriate trading system in stock market.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Securities market refers the buying and selling price of the stock, bond share and debt. Capital market is the backbone of any economy, and Nepal is not an exception. Under the capital market, stock market growth has played the vital role to pull and push the proper economy balance of the country. So by promoting the stock market in sizeable economic sector gives raises the economic development by mobilizing swing into productive sectors, by making suitable investment environment.

In 1993, Securities Board Nepal was established with the objectives to regulate, supervise and monitor the securities market. Similarly, the Securities Exchange Centre was converted into Nepal Stock Exchange Limited (NEPSE) with the objectives to provide secondary market for securities transaction. NEPSE, now, is adopting an open out-cry system, where the investors were allowed to deal in securities out through licensed brokers.

The main objective of the present research was to examine and study the main problems and prospects of stock market growth in Nepal. To achieve the objectives different elements like price trend of NEPSE index, volume of stock traded, paid up value and market capitalization, annual turnover both in yearly and daily, sector wise trade have been analyzed.

According to the nature and objective of the study, primary data as well as secondary data has been used to meet the objective. Secondary data were collected from annual report of NEPSE index, daily newspaper, library search, newspaper, magazine, bulletin and other journals. Questionnaires were

distributed and interviews were made to gather information. Information was tabulated and presented as per the requirement of the study.

The research has been divided into five main chapters, viz, i) Introduction, ii) Review of Literature, iii) Research Methodology, iv) Data Presentation and Analysis and v) Summary, Conclusion and Recommendations.

5.2 Conclusion

From the above research it can be concluded that the Nepalese stock market is in developing stage. The increasing trend followed by NEPSE index indicates of good prospects of stock growth in future. Similarly, from the increasing trend of market capitalization and paid up value of listed companies shows positive attitude for stock growth. Likewise, NEPSE's turnover increased more than ten-fold within these five year periods and commercial banks are the major companies occupying larger portion of turnover and number of shares traded.

Likewise, the number of company traded and listed is increasing in each year, which indicates the interest of investors in diversified sectors. The investors are making portfolio to invest to reduce the risk. Likewise, the number of listed securities also increased by double in the past five years. All of these indicate good prospects of stock growth in Nepal.

On the basis of primary data, it can be concluded that the lack of investors confidence is the major problem of stock growth. Besides this, small capital market and inappropriate rules and regulations have also barricaded the stock growth. Similarly, the increasing interest of educated people, conversion of NEPSE into profit-oriented organization recently, starting of OTC market and adoption of sophisticated technique are the main prospects of stock growth. However, the malpractices like pooling, washsale, organized runs and

cornering or warehousing are creating uncertainty in stock price and breaking the confidence of general investors. Similarly, dividend is the most influencing factor and motives of investors for stock investment. The analysis also concluded that SEBON is responsible for appropriate trading system in stock market and for the smooth operation of the secondary market. Many investors are not fully aware about the trading system in secondary market as well. Besides NEPSE Index, dividend payout ratio and company's profit is the major basis for share investment.

5.3 Recommendations

On the basis of major findings and conclusions drawn, the following recommendations have been made;

-) NEPSE index plays major role for creating investment prosperity. So for removing stock market difficulties such as transaction facilities should be managed in effective way by formulating investor's protection act.
-) NEPSE can expand its services to the regional levels rather than just concentrating solely in the valley. They should also replace the old and outdated open cry system with on-line trading system following international standards.
-) The price fluctuation trend is not predictable by general investors so technician facilities should be realized by Nepal Stock Exchange Ltd., so that general investors should also get benefit from the Nepal Security Exchange Centre Ltd.
-) Approval process should be streamlined to make it easy and hassle free. If possible, one window policy should be adopted in providing approval.
-) Awareness should be increased amongst the general public about the capital market, regarding nature of risk and return, through promotional campaigns, seminars, publications and programs in FM/TV etc.

-) The possibilities of pooling, insider's trading and other malpractices should be discouraged through improved corporate governance and initiate strict corrective measures for compliance.
-) Government of the nation should formulate proper rules, regulations, articles of association and code of conduct to develop the capital market of the country. For this purpose national and international stock experts should be hired to develop the system.
-) The listed companies' data their performance appraisal, their conduction of work, their productivity, their commitment to NEPSE should be updated and analyzed in time and again. If any company is found in doing works against, NEPSE should immediately take action on it.
-) Signaling factors should be analyzed so that future movements of price can be predicted from the side of analyst and from the side of investors.
-) The stock market lacks the existence of sophisticated investors, it is recommended to regulatory bodies to carry out programs using various media and spot program to inform and attract the potential investors in investing its shares.

APPENDIX - I

Questionnaire

Dear Sir/Madam,

I am conducting a research on “*Problems and Prospects of Stock Market Growth in Nepal*”, in partial fulfillment for the requirement of Degree of Master of Business Studies (MBS). I am preparing some questions about the study, which will help to know the existing problems and prospects of stock market. I request you to fill up this questionnaire from your side, which can be great help for me to conduct the research in this topic. I would be grateful to you for the contribution of your valuable time and effort.

Please note that all the questions are related to the Problems and Prospects of Stock Market Growth.

Name : _____ Sex : M [] F [] Age : _____

Occupation (Tick One):

Professional Investor

Potential Investor

Brokers

Others (Specify)

Questions:

1. Are you satisfied with the growth trend of Nepalese stock?

i) Yes

ii) No

iii) Don't Know

2. In your opinion what are the problems of stock market growth in Nepal (Rank 1 for the most?)

i) Small capital market

ii) Lack of investor's confidence

iii) Lack of proper knowledge on investor

iv) Lack of coordination between monitoring body of stock market

v) Inappropriate rules and regulations

vi) Restriction of foreign investor

3. Rank the following prospects of Nepalese stock market (No. 1 for the most important)

- i) Trading System Automated
- ii) Recruitment of New Employees
- iii) Trading through WAN started
- iv) Market Halt System Introduced
- v) Trading Hours Extended
- vi) Real Time Information Disseminated
- vii) Trading of Promoter's Share
- viii) OTC Market Started
- ix) NEPSE converted Profit Seeking
- x) Monthly market review publication
- xi) Increasing interest of educated people toward stock market

4. In your opinion which of the following malpractices is creating uncertainty in the stock price? (Rank 1 for the most important)

- i) Pooling
- ii) Cornering or Warehousing
- iii) Organized Runs
- iv) Ramping
- v) Washsale
- vi) Insider Training

5. In your opinion which of the following is the main influencing factor of stock price?

- i) Dividend
- ii) Rumor
- iii) Financial situation of the company
- iv) Management of the company

6. What factors motive you to make investment in stock market?

- i) Social status
-
-
-
-

- ii) Dividend
- iii) Friends and Family
- iv) Stock Broker
- v) Marketability

7. Does SEBON rules and regulation affect the value of stock?

- i) Yes ii) No iii) Don't Know

8. Do you think that investors in Nepalese Stock Market are fully aware?

- i) Yes ii) No iii) Don't Know

9. On what basis do you make decision to invest in share in the secondary market?

- i) NEPSE Index
- ii) Closing Price
- iii) Turnover
- iv) Company's Goodwill
- v) Company's Profit
- vi) Dividend Payout ratio

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

- i) Yes ii) No iii) Don't Know

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

- i) Investors
- ii) Brokers
- iii) NEPSE
- iv) SEBON

Thank You,

.....
.....

MBS
Shanker Dev Campus
Tribhuvan University

APPENDIX – II

NEPAL STOCK EXCHANGE LTD.

Singhadurbar Plaza, Kathmandu

Summary Sheet Transactions

Fiscal Year 2060/061

	Particulars	059/60			060/061		
		Share units ('000)	Rs. in Million	%	Share units ('000)	Rs. in Million	%
1	Turnover	2427.89	575.99	100.00	6468.18	2144.27	100.00
2	Commercial Banks	858.98	332.51	57.73	2737.52	863.41	40.27
3	Development Banking	163.64	25.90	4.50	212.80	32.33	1.51
4	Insurance	391.63	64.59	11.21	256.37	36.86	1.72
5	Finance	804.34	129.69	22.52	1202.27	165.09	7.70
6	Manufacturing & Processing	48.00	4.00	0.69	1977.82	1031.62	48.11
7	Hotel	121.29	6.68	1.18	61.04	2.84	0.13
8	Trading	22.42	11.84	2.06	8.64	11.83	0.55
9	Other	17.59	0.66	0.11	11.72	0.29	0.03
10	Market days	238			243		
11	Average daily turnover	10.20	2.42		26.62	8.82	
12	Number of transactions	69163			85533		
13	Number of Company Traded	80			92		
14	Number of Share Traded	2427.89			6468.18		
15	Number of Companies Listed	108			114		

16	Number of Scripts Listed *	110		118	
17	Total Amount of Listed Share		11898		12016
18	Market Capitali. of Listed Cos.		35240.40		41424.77
19	NEPSE Index of the Month				
	High		230.01		227.83
	Low		198.44		195.14
	Closing		204.86		222.04
20	% of turnover to paid up value			4.84	17.85
21	% of turnover to market Capita.			1.63	5.18
22	Number of Listed Securities	159958		161141	
23	Number of Outstanding Securities	161189		161356	
24	Commercial Banks	11	10.19	11	9.65
25	Development Banking	4	3.70	4	3.51
26	Insurance	13	12.04	13	11.40
27	Finance	35	32.41	41	35.96
28	Manufacturing & Processing	29	26.85	29	25.44
29	Hotel	4	3.70	4	3.51
30	Trading	8	7.41	8	7.02
31	Other	4	3.70	4	3.51
Note:- US \$ 1 = Rs. 75/-					

NEPAL STOCK EXCHANGE LTD.

Singhadurbar Plaza, Kathmandu

Summary Sheet Transactions

		2061/62 (2004/05)		2062/63 (2005/06)		2063/64 (2006/07)	
		Share units	Rs. in	Share units	Rs. in	Share units	Rs. in
Particulars		('000)	Million	('000)	Million	('000)	Million
1	Turnover	18433.55	4507.68	12221.93	3451.43	18147.25	8360.07
A	Commercial Banks	6416.57	4021.83	5534.72	2696.28	8700.20	5563.49
B	Development Banking	135.62	22.01	386.44	82.76	1360.55	577.55
C	Insurance	328.13	67.62	574.93	129.90	627.61	204.97
D	Finance	1443.34	216.37	1957.49	305.85	2534.19	713.57
E	Manufacturing & Processing	7602.89	114.90	59.80	17.19	82.92	24.27
F	Hotel	98.17	4.48	392.18	19.77	81.70	7.04
G	Trading	10.41	7.99	15.22	15.80	11.47	10.42
H	Other	2398.42	52.48	3301.15	183.88	4748.61	1258.76
2	Market days	236		228		232	
3	Average daily turnover	78.11	19.10	53.60	15.14	78.22	36.03
4	Number of transactions	106246		97374		120510	
5	Number of Company Traded	102		110		116	
6	Number of Share Traded	18433.55		12221.93		18147.25	
7	Number of Companies Listed	125		135		135	
8	Number of Delisted Companies					12	
9	Total Amount of Listed Share		16771		19958		21746
10	Market Capitali. of Listed Co		61365.89		96763.74		186301.28
11	NEPSE Index at the end of Year						
A	High		298.78		388.49		683.95
B	Low	103	222.65		287.90		355.60
C	Closing		286.67		386.83		683.95

14	Number of Listed Securities	194673		226540		243504	
15	Sector wise Listed Companies						
A	Commercial Banks	14		15		15	
B	Development Banking	7		8		16	
C	Insurance	14		15		16	
D	Finance	44		50		53	
E	Manufacturing & Processing	29		29		21	
F	Hotel	4		4		4	
G	Trading	8		8		5	
H	Other	5		6		5	
16	Preference Share	-		-		-	
17	Bond Market						
i	Government Bond	1500.00	150.00	2500.00	250.00	3300.00	330.00
ii	Corporate Bond	-	-	500.00	500.00	650.00	650.00
Note : US \$ 1 = Rs. 65.44 (17 July)							

Fiscal Year 2063/064

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