

DEVELOPMENT OF CAPITAL MARKET IN NEPAL
(With reference of NEPAL STOCK EXCHANGE (NEPSE) AND SECURITY BOARD
OF NEPAL (SEBON))

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In partial fulfillment of the requirement for the Degree of
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RECOMMENDATION

This is to certify that the thesis

Submitted by
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Entitled
DEVELOPMENT OF CAPITAL MARKETS IN NEPAL
**(With reference of Nepal Stock Exchange (NEPSE) AND Security Board of
Nepal(SEBON))**

has been prepared as approved by this Department in the prescribed format of the faculty of Management. This Thesis is forwarded for examination.

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**(With Reference of Nepal Stock Exchange (NEPSE) and Security Board of Nepal
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DECLARATION

I hereby declare that this thesis entitled “*Development of Capital markets in Nepal with reference of Nepal Stock Exchange (NEPSE) and Security Board Of Nepal (SEBON)*” submitted to office of the Dean, Faculty of Management, Tribhuvan University is my original work as partial fulfillment of the requirement of Master's of Business Studies (MBS) prepared under the guidance and supervision of Mr. Mahesh Chaudhary, Lumbini Banijya Campus, Butwal, Rupandehi, Nepal.

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ABBREVIATIONS

A.D.	:	Anno Domini
B.S.	:	Bikram Sambat
S.N.	:	Serial Number
FY	:	Fiscal Year
Govt.	:	Government
JVBs	:	Joint Venture Banks
NRB	:	Nepal Rastra Bank
BOK	:	BOK Bank Ltd.
EBL	:	Himalayan Bank Ltd.
NEPSE	:	Nepal Stock Exchange
NYSE	:	New York Stock Exchange
S.D.	:	Standard Deviation
C.V.	:	Coefficient of Variance
P.E.	:	Probable Error
NPAT	:	Net Profit After Tax
TOI	:	Total Outside Investment
ROA	:	Return on Total Assets
SEBON	:	Security Board of Nepal
TU	:	Tribhuvan University
MBS	:	Master in Business Studies
i.e.	:	That is
Ltd.	:	Limited

CHAPTER-I

INTRODUCTION

1. 1. Background of the Study

Capital markets are financial markets for the buying and selling of long-term debt or equity-backed securities. These markets channel the wealth of savers to those who can put it to long-term productive use, such as companies or governments making long-term investments. Financial regulators, such as the UK's Bank of England (BoE) or the U.S. Securities and Exchange Commission (SEC), oversee the capital markets in their jurisdictions to protect investors against fraud, among other duties.

Modern capital markets are almost invariably hosted on computer-based electronic trading systems; most can be accessed only by entities within the financial sector or the treasury departments of governments and corporations, but some can be accessed directly by the public. There are many thousands of such systems, most serving only small parts of the overall capital markets. Entities hosting the systems include stock exchanges, investment banks, and government departments. Physically the systems are hosted all over the world, though they tend to be concentrated in financial centers like London, New York, and Hong Kong. Capital markets are defined as markets in which money is provided for periods longer than a year.

A key division within the capital markets is between the primary markets and secondary markets. In primary markets, new stock or bond issues are sold to investors, often via a mechanism known as underwriting. The main entities seeking to raise long-term funds on the primary capital markets are governments (which may be municipal, local or national) and business enterprises (companies). Governments tend to issue only bonds, whereas companies often issue either equity or bonds. The main entities purchasing the bonds or stock include pension funds, hedge funds, sovereign wealth funds, and less commonly wealthy individuals and investment banks trading on their own behalf. In the secondary markets, existing securities are sold and bought among investors or traders, usually on an exchange, over-the-counter, or elsewhere. The existence of secondary markets increases the willingness of investors in primary markets, as they know they are likely to be able to swiftly cash out their investments if the need arises.

A second important division falls between the stock markets (for equity securities, also known as shares, where investors acquire ownership of companies) and the bond markets (where investors become creditors).

A. Capital Market

Capital Market plays an essential role in an economy that allows investor's fund to gorge potential opportunity, i.e. saving funds are mobilize and channeled efficiently to users. Capital markets provide an effective way of procuring long-term funds by issuing shares and debentures or bonds for corporate enterprises and government and at the same time provide an investment opportunity for individuals and institutions (Adhikari, 2004, p. 75). Households, often through investing in pension and mutual funds, are net investors in the capital markets Corporations and the federal and state governments are net users of these funds. (Mishkin and Eakins, 2012, p. 299)

The capital market is a market where borrowing and lending of long-term funds takes place so in brief it deals in both debt and equity.

B. Capital Market Instruments

The instruments are the securities that are traded in the stock market. The instruments can be categorized into three major groups of securities according to Herbert (2004 cited in Josiah et al., 2012, p. 8). These are:

- Ordinary shares
- Preference shares
- Debt instruments

In recent time, derivatives are also included very important capital market instruments.

C. Development of Capital Market in Nepal

Institutional development of capital market in Nepal started from the year 1976 when Securities Exchange Centre (SEC) was established under the companies act with the joint capital contribution of Nepal Rastra Bank (NRB) & Nepal Industrial Development Corporation (NIDC). The Industrial Policy of the government also encouraged the promotion of securities exchange activities in Nepal. Nepal government under a program initiated to reform capital market converted SEC into Nepal Stock Exchange

(NEPSE) in 1993 as non-profit organization, operating under Securities Exchange Act, 1983.

Nepalese capital market was given proper structure in June 1993 with the establishment of Securities Board of Nepal (SEBON) as the market regulator. Since its establishment, SEBON has been concentrating its efforts on the legal and statutory frameworks, which are the bases for the healthy development of capital market. SEBON Nepal is the supreme body to regulate the Nepalese capital market (Dangol 2008, and Gurung 2004); however, SEBON is highly influenced by Nepal Rastra Bank (NRB) and Company Registrar office (Dangol, 2008). As a part of its continuous efforts to build a sound system, Institutional Reform and Informal Sector advice to amended the securities exchange act, 1983 in 1996. In addition, this act was amended for the second time on January 30, 1997.

This amendment paved the way for establishing SEBON as an apex regulatory body as it widened the horizon of SEBON by bringing market intermediaries directly under its jurisdiction and also made it mandatory for the corporate bodies to report annually as well as semiannually regarding their performance. SEBON (Annual Report, 2011).

After the inception of the Securities Exchange Centre (SEC), shares of various manufacturing, trading and banking companies listed on SEC. By the end of 1990, the listed shares were dominated by public enterprises. Forty-two companies were listed, out of which more than 25 companies had some form of government ownership. However, after the democracy, the trend has totally changed, and the listed number of companies reached at 207 by the end of FY 2010/11¹, while the government ownership companies had decreased due to the privatization that took place in different planning stage of privatization act (Maharjan, 2010, p. 4).

Nepalese financial system is characterized by small but a growing capital market. During the past 14 years of its operation, securities market has witnessed three market phases of ups and downs. The latest upswing started from the fiscal year 2002/03 and is continuing. During this phase, NEPSE index, the market indicator climbed from 205 to 621 (July 10, 2007). The market capitalization of the listed stocks climbed from Rs. 35.24 billion to Rs. 169.05 billion during the same period. During the past five years,

capital mobilized through public issue and rights offerings has been in the tune of Rs. 8.4 billion from 109 issues. In the fiscal year 2006/2007 alone, capital worth of Rs. 2.8 billion has been mobilized from 34 issues. (Kafle, 2007)

Capital market is the one of the most important part of any financial market. It is the market place for the collection of long term funds. Entrepreneurs who have ideas but do not have funds to establish, manage and operate the business can collect the required funds by mobilizing the scattered public savings. They issue tradable securities like shares, debentures and others. The market through which they make new issue or additional issue is called IPO market or primary market. The success of the issue depends upon the public response is high with over-subscription, it is called successful issue. The purchase of securities is called investment. The investors sacrifice their present consumptions for future. (Bhattarai, 2005)

The nature and volume of capital need in a productive process are directly related to the nature and volume of number of components. These components include use of land, capital equipment, labor, building up of stocks and miscellaneous expenses. (Goldschmith, 1965)

There are two important aspects of capital market, namely, the raising of funds in the form of shares and debentures and trading in the securities already issued by companies. While the first aspect is obviously is much more important from the point of view of economic growth, the second aspect is also of considerable importance. In fact, if facilities of transfer of existing securities are abundant, the raising of new capital is considered assisted for the buyer of a new issue of security is confident that whenever he wants to get cash he can find a buyer without much difficulty. This aspect is called the liquidity of the stock market. Thus, the liquidity of the stock market affects the raising of new capital from the market. (Bhatta, 1997)

Securities market is recognized as an effective way of raising capital for commercial enterprises, and at the same time providing an investment opportunity for individuals and institutions. The activities of buying and selling securities in the securities markets are extremely important for the efficient allocation of capital within economies. The securities market is a requisite for the sound development of and economy because it not only provides stable long term capital for companies and an effective savings vehicle for the public, but also functions as an efficient tool for resource allocation. Mass participation in country's industrialization process is possible only through the efficient mechanism of securities markets as it promotes efficient collection of small and

scattered savings from the investors and provides return to them in the form of divided. A developed securities market is the medium through which only productive firms that have better performance can easily raise capital. (Adhikari, 2005) In other words well developed capital market enable high quality firms to increasingly finance themselves from securities rather than form bank loans. (Shirai 2004) This type of behaviors of developed market enhances economic growth process by productivity growth.

Capital market is a market that enables suppliers and demanders of long-term funds make transactions or the place where long-term securities having maturity period greater than one year are traded. The instruments used in capital market are debt, stock, preferred stocks, bonds and convertible issue. The long-term debts are installment debts, commercial debts represented by acceptance bills, commercial debts and accommodation papers etc. Saving and deposits schemes, which are not securities bearings, fall under the non-securities segment of market. Capital markets are also classified as :

1. Primary market
2. Secondary markets

1. Primary market

Primary markets are the markets in which corporations raised new capital and in which newly issued securities are involved. If we were to sell new issue of common stock to raise common stock to raise capital, there would be a primary market transaction. The corporation selling the stock receives proceeds from the sale in the primary market transaction. Both the Securities Board of Nepal (SEBON) and the Nepal Stock Exchange (NEPSE) are involved in primary market activities in Nepal.

2. Secondary market

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

The SEC serves to promote the primary as well as secondary market for government and corporate securities from the fiscal year 1984/85. Although the growth of stock market is high relative to the growth of the economy, the share of corporate sector in the national economy any is still very low due to the negligible size of the corporate sector.

Securities market plays a crucial role in mobilizing a constant flow of savings and challenging these financial resources for expanding productive capacity in the countries. Thus securities market assumes a greater role and significance in the present day economies.

D. Nepal Stock Exchange (NEPSE)

The concept of stock market in Nepal is very new. It is still in infancy stage though Nepal Bank Limited (NBL) and Biratnagar Jute Mills Limited (BJM) began with the issue of shares in 1937 under the company act 1936. Government Bonds were issued for the first time in 1964. The establishment of Securities Exchange Center (SEC) in 1976 was the first and most important attempt made by the government to develop the stock market. And it was established to facilitate and promote the growth of capital markets, with the initiative of the government of Nepal and Nepal Rastra Bank. It was the only capital market institution that undertook the responsibilities of brokering, underwriting, managing public issue, creating markets for government bonds and other securities. The incorporation of the securities Board Nepal (SEBON) under the Securities Exchange Act 1993 and conversion of Security Exchange Center (SEC) into the Nepal stock Exchange (NEPSE) under the government policy of capital market reform has greatly contributed to the development of primary as well as secondary market of the corporate securities. Security Exchange Center was established with an objective of facilitating and permits the growth of capital market. Before conversion into stock exchange it was the only capital market institution undertaking job of brokering, underwriting. Managing public issues, market making for government bonds and other limited financial services

Objective of Nepal Stock Exchange

- 1) 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 members and market intermediaries such as brokers, dealer's market makers etc.

- 2) **The other important objective of NEPSE is to protect investors' rights and develop a secondary market, as prescribed at Memorandum of Association (MOA) and Article of Association (AOA) of NEPSE.**

E. Security Board of Nepal

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 Act, 2006. “SEBON is a regulatory body established by government of Nepal to regulate capital market of Nepal”. The functions, duties and powers of SEBON as per the Act are as follows.

-) To offer advice to Government on matters connected with the development of the capital market.**
-) To register the securities of corporate bodies established with the authority to make a public issue of its securities.**
-) To regulate and systematize the issue, transfer, sale and exchange of registered securities.**
-) To give permission to operate a stock exchange to any corporate body desirous of doing so, subject to this Act or the rules and bye-rules framed under this Act.**
-) To supervise and monitor the functions and activities of stock exchange.**
-) To inspect whether or not any stock exchange is executing its functions and activities in accordance with this Act or the rules and bye-rules framed under this Act, and to suspend or cancel the license of any stock exchange which is not found to be doing so.**
-) To issue licenses to conduct the business of dealing in securities, subject to this Act, or the rules and the bye-rules framed under this Act, to companies or institutions desirous of conducting the business of dealing in securities.**
-) To supervise and monitor the functions and activities of securities-dealers.**
-) To grant permission to operate collective investment schemes and investment fund programs, and to supervise and monitor them.**
-) To approve the bye-rules concerning transactions in securities framed by stock exchanges and institutions engaged in the business of dealing in securities, and, for the purpose of making necessary provisions concerning the development of the capital market and protecting the interests of investors investing in securities, issue**

orders to have necessary alterations made in such bye-rules of stock exchange and institutions engaged in the business of dealing in securities.

- J To systematize the task of clearing accounts related to transactions in securities.
- J To supervise whether or not security dealers are behaving in the manner prescribed in this Act, or the rules and the bye-rules framed under this Act, while conducting business of dealing in securities, and suspend the license to conduct the business of dealing in securities in case any securities dealer is not found to be behaving accordingly.
- J To make or ensure necessary arrangements to regulate the volume of securities transacted and the procedure of conducting such transactions in order to ensure the promotion, development and clean operation of stock exchanges.
- J To make necessary arrangements to prevent insider trading or any other offenses relating to transactions in securities in order to protect the interest of investors in securities.
- J To review or make arrangement for reviewing the financial statements submitted by the corporate bodies issuing securities and security dealers, and issue directives deemed necessary in that connection to the concerned corporate body.
- J To systematize and make transparent the act of acquiring the ownership of a company or gaining control over its management by purchasing its shares in a single lot or in different lots.
- J To establish coordination and exchange cooperation with the appropriate agencies in order to supervise and regulate matters concerning securities or companies.
- J To discharge or make arrangements for discharging such other functions as are necessary for the development of securities and the capital market.

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. There are two sections under the Corporate Finance Department namely, Public Issue Section

and Collective Investment Scheme Section. Likewise, Under the Regulation Department, there are two sections namely, Stock Exchange Regulation Section and Market Intermediaries Regulation Section. There are also four sections under the Surveillance Department namely, Stock Exchange Surveillance Section, Market Intermediaries Surveillance Section, Trading Surveillance Section and Corporate Surveillance Section. The major financial sources of SEBON are the government grant, transaction fee from the stock exchange and registration fee of corporate securities. Other financing sources include registration and renewal of stock exchange and market intermediaries and the income from mobilization of its revolving fund.

1.2 Statement of the Problem

The problem toward which this study is directed is to identify the performance of common stocks listed in NEPSE. Now-a-days, investment in common stocks in Nepal is getting momentum due to flow of information through print media although not so adequate. The individual investors are investing in common stocks despite very little information because of less opportunity available elsewhere. Most of them are based on the price movement of stocks in the market. Not much information is available in the market regarding various risk factors. There are no specific agencies to provide information on the performance various common stocks. Therefore, this study is directed towards the measurement of performance of common stocks. Are the common stocks listed performing well as per their risks? Which common stocks are outperforming the market? To what extent the performance of common stocks is related to the market? How can investors form profitable portfolios out of the available common stocks?

The investors could not identify the good and bad stock in lack of proper information and lack of not creating confidence. Several university researchers that because of the lack of sufficient support, information, and whim had played significant role in share price movements identified it and that investment on common stock is based on institution, imagination, guesswork and conscious judgment based on little understood, statistical probabilities in Nepalese stock market.

Brokers are also supposed to assist in the maintenance of a fair and orderly market but they may not be able to do this job in their full capacity successfully because of the various obstacles presented in the economic environment. So the necessity to analyze the practical situation of the price formation and brokering services in Nepalese stock market is a most in

present situation. There were various complaints from the investors about the performance of the brokers, such as:

- Absence from the stock market for a long period without pre-notice to the Nepal Stock Exchange, and
- The maintenance of verbal contracts with some investors by disobeying the rules and regulations.

Stock market provides investors good investment opportunity with fair return and instant liquidity with minimal risk of loss. It helps to mobilize financial resources for the investment in development projects and thereby helps for economic development, in turn, further develop the stock market. The investment strategy based on the technical analysis is more profitable than buy and hold policy of timing of selling and buying. Fundamental analysis theory holds the view that there exists intrinsic value of the stocks, which helps to select the right stock at a time. Market is efficient in pricing the shares. In that condition, investment decision becomes simple. But investors are losing interest in the performance of share market mainly due to the behavior of fraudulent and scandalous activities. The investors are confused which stock is bad and which stock is good.

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

- I. What is the trend of annual turnover of Nepal Stock Exchange?
- II. What is the trend in market capitalization?
- III. What is the behavior of NEPSE index?
- IV. What are the roles of NEPSE and SEBON in the development of capital market?

1.3 Objectives of the Study

This study was conducted to meet the following objectives:

- 1) To analyze sector-wise listed companies and annual turnover of NEPSE.
- 2) To identify the most liked sector of Nepalese capital market.

- 3) To analyze the trend of Nepalese capital market in terms of quantity of shares and market capitalization.
- 4) To examine the role of SEBON for making awareness to Nepalese investor.

1.4 Significance of the Study

The people of Nepalese society are unknown about the role of NEPSE and SEBON, so this study emphasizes the importance of it in development of capital market.

Stockbrokers to evaluate the investment alternatives for the interested investors can use it. There are various factors that cause market fluctuation of stock price in the market; mainly two factors economic and non-economic factors. The most fundamental factor in stock price fluctuation is change in corporate earnings; interest rates and business cycle trends contribute to make up the economic factors. Political changes, administrative changes, changes in weather and other natural conditions. The volumes of transaction, institutional investors, transactions etc directly affect the stock price. Although margin transactions increase purchase whose stock price is going up, once the price begins to fall, they become a selling factor and accelerate price decline.

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

1.5. Limitations of the Study

No research works are free of some shortcomings or limitations. So this research study also has some limitations, which are mentioned below:

- a) Various trading costs (e.g. brokerage commission), taxes etc are excluded from the study.
- b) Market return is based only on NEPSE index.
- c) **The data provided by NEPSE, SEBON and other related sources are assumed to be corrected.**
- d) **Research was done as a part of course of study so there was time boundary.**

1.6 Organization of the study

The whole study has been divided into five chapters. The title of each chapter is as follows:

The first chapter i.e; introduction chapter deals with the introductory framework of the study. This includes background, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study itself.

The second chapter i.e; review of literature includes the review of relevant studies, journals and books and unpublished dissertations related to the study have been reviewed.

Similarly, research methodology chapter i.e; third chapter contains the presentation on how the study is done or the research methodologies used. For this purpose various financial and statistical tool are defined which are used for the analysis of the data presented in course of the studies.

The fourth chapter i.e. presentation and analysis of data is the main part of the study. In this the tabular presentation of the data and their analysis is done according to the objectives defined in the previous chapter.

Finally the last chapter of the study i.e.; summary, conclusion and recommendation includes the summary of the study, its finding conclusion drawn and recommendation presented. The presented recommendation is based on the analysis of data their findings.

CHAPTER – II

REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant prepositions in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. This study reviews some basic academic course books, journals, articles and previous research/dissertation report on concerned area. The main reason for a full review of research in the past is to know the outcomes of those investigations in area where similar concepts and methodologies have been used successfully.

2.1 Conceptual Review

In this section attempts have been made to review the theoretical concepts on stock market.

A. Capital Market:

The capital market is concerned with long-term finance. Broadly it consists of a series of the channels through which the saving of the community are made available for industrial and commercial enterprises and authorities. It is concerned with those private saving, individual as well as corporate, that are turned into investments through new capital issues and also new public load floated by the government, the semi-government bodies. In capital market, demand for funds comes from agriculture, industry, trade and government while the supply of funds comes from individual or corporate savings and Institutional investors and surplus of governments.

The vision of a vibrant capital market assumes that a country has respectable level of and visible progress in country's governance. Some aspects of governance like rule of law, effective tax administration, and political stability to ensure consistency and continuity of economic policies, directly impact the confidence of domestic and foreign investors in the market. The governance parameter, particularly the market related ones, should be improved so as to make a meaningful breakthrough in the capital market sector.

It is well understood that large number of intermediaries, institutions and professionals are the players and advisors active in capital market. Regulations and laws governing the capital market are diverse, numerous and complex too. At this point of time,

Nepalese capital market is focusing on reforming the laws, regulations and policies, building institutional capacity, above all visualizing a dynamic capital market in order to tap the inherent potential and managing the cross border issue and trading of securities. This article intends to highlight important reform initiatives and some critical aspects of capital market development in Nepal (Kafle, 2007).

The capital market serves as a link between supplies and uses of finance. It is a mechanism for the mobilization of public savings and channeling them in productive investment. In this way, an important constituent of the capital market is the securities market. It has a wide term embracing the buyers and sellers of securities and all those agencies and institutions, which assist the sale and resale of corporate securities (Gupta, 1978).

An ideal capital market where funds are available at reasonable rate of return for any proposition which offers a prospective yield sufficient to make borrowing worthwhile, given rate of return for any proposition which offers a prospective yield sufficient to make borrowing worthwhile gives the roles of interest (Shakespeare, 2001).

i) Primary Markets:

A primary market is the place where corporations and government issue new securities. All securities, whether in money or capital markets, are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefits from an issue- that is the company actually receives the proceeds from sale of securities. Once the securities begin to trade among individuals, business, governments, or financial institutions, savers and investors, they become a part of the secondary market (Nancy and Richardson, 1984).

The primary markets are media through which new financial assets are issued or generated. They are the media through which the demanders and supplies of today's funds, the creators and acceptors of financial claims meet. In these primary markets, financial assets are created and exchanged, satisfying in the part the financial needs of both demanders and suppliers of today's fund. At present concept, it is the market of direct issuance of government securities. The primary market of country is dominated by the government securities due to existence of insignificant new issue market for industrial securities. The primary securities market includes all transactions that result in the accumulation of financial capital by firms, government or individuals to be used in the consumption or real capital investment. The

participants in this process are many and valued, but an important segment, includes the money brokers who acts as a middleman in the process of exchanging securities for funds. These brokers provided invaluable services. Their principle role is to assist in the pooling of the funds by the creation of securities forms that will appeal to the ultimate investors (Nancy and Richardson, 1984).

ii) Secondary Markets:

Secondary Market is the place where already issued securities are traded. It is not the place to raise the funds/ capital for the institutions. The resell and repurchase of securities takes place in secondary market which the institutions indirectly. The types of secondary market are as follows:

Types of Secondary Market:

-) Organized Securities Exchanges
-) Over- the – Counter (OTC) Market
-) Third Market
-) Fourth Market

Organized Securities Exchanges:

Organized Securities Exchanges are the physical locations where trading of securities is done under a set of rules and regulations. Investors usually purchase securities in the secondary market by calling securities brokers. In the secondary market investors buy and sell securities themselves, the issuer never gets any cash flow from the trades. Nepal Stock Exchange (NEPSE) is an example of organized stock exchange and this is the only stock exchange in Nepal. Similarly, the New York Stock Exchange (NYSE), Tokyo Stock Exchange, American Stock Exchange (AMEX), Bombay Stock Exchange (BSE) etc. are the example of organized stock exchange.

Over- the-Counter (OTC) Market:

The Over- the-Counter (OTC) exchange is not an organization but and intangible market for the purchase and sellers of securities not listed by the organized exchanges. It is not a formal exchange like organized stock exchanges. It neither requires membership for trading of securities nor listing of securities for trading, meaning that formal listing of securities are not

necessary in the OTC market. A sophisticated telecommunication network links active traders in the market. The price at which securities are traded "Over-the-Counter" are determined by competitive bids and negotiation. The OTC in addition to creating a resale market for outstanding securities is a primary market in which new public issues are sold. Therefore, the OTC market competes with investment bankers and the organized exchanges because OTC dealers can operate in both the primary and secondary market (Gitman, 1988).

Third Market:

The third market is an OTC market where the securities listed in the organized stock exchange are also traded.

More generally the term 'third market' now refers to the trading of any exchanged listed security in the over the counter markets. The trading hours are not fixed to the third market like organized stock exchange. In the third market dealers provide only execution and record services for their clients.

Fourth Market:

The fourth market also exists in the over-the-counter market and here trades occur directly among investors. In other words, in this type of market the buyers and sellers deal directly with each other. This deal occurs in the exchange listed securities. Fourth market participants completely by pass normal dealers services.

The over the counter market is broader in scope than stock exchanges. It will be recalled that stock exchange limit their activities to trading in securities already issued. In contrast, the over-the-counter market handles both securities already issued and new securities being sold to public whereas the stock exchange are auction markets, the over the counter market is primarily a negotiated markets that is buyer and seller may haggle over prices before the transaction is completed. Dealers in the over-the-counter markets buy securities with the hope of being able to resell them at a higher price. This process resembles any merchandising activity in which the trader buys goods in the hope of reselling them at a higher price (Bradely, 1963).

Secondary markets are markets for existing assets, which are currently traded between investors. It is market that creates the prices and allows for liquidity. If secondary markets did not exist, investors would have no place to sell their assets. Without liquidity, many people would not invest at all (Geoffery, 1983).

Secondary (Indirect) securities markets allow outstanding securities to be traded from old to new owners. The advantage of secondary market is to provide liquidity or cash and investment opportunities to investors and to make certain assets more attractive to buyers and seller secondary market comprises the stock exchange, the over-the-counter market (Rimal, 1994).

The secondary financial markets are the markets where many already outstanding financial assets are traded from old to new owners. The secondary market provides "liquidity" for financial assets making more attractive. So secondary markets is a place where are securities once sold are purchased and repurchased to provided liquidity to the government securities and the secondary market is operated by Securities Exchange Center. The trading of government securities in secondary market is very thin because of limited distribution of the securities. Securities Exchange center in order to promote the market, used to support the market even involving itself in buying and selling activities, if necessary. The secondary market ever operated in the country was on DBs. The SEC initiated the secondary markets in the fiscal year 1975-76, since then the volume traded in generally increasing year by year (Pradhan, 1997).

B. Security Board of Nepal (SEBON):

SEBON was established on June 7, 1993 with its mission to facilitate the ordinary development of dynamic and competitive capital market and maintain its credibility, fairness, efficiency, transparency and responsiveness under the Security Exchange Act 1983 (SEBON, 2001). It is an apex regulator of the Securities market in Nepal. It registers the securities and approves the public issues. Moreover, SEBON frames the policies and programs required to monitor the securities market, provides license to operate stock exchange business and stock brokers and supervises and monitor the stock exchange operation and securities businesspersons (Gurung Jas Bahadur, 2004).

Security Board, Nepal, an apex regulator and facilitator of capital market, and Nepal Stock Exchange Ltd only a single stock market, are the main constituents of security market in Nepal. This paper attempts to study the growth trend and analyze the performance of Nepalese securities market. Likewise, the variables such as number of listed and traded companies and their securities, number of transactions, trading turnovers, paid up values, market capitalization and NEPSE index are analyzed for the secondary market (Gurung, 2004).

C. Stock Exchange:

) **International Stock Exchange** (Ms Encarta Encyclopedia Delux 2004:

Stock/International Stock)

Exchanges started in Western Europe and then spread to other parts of the world. Some of the older exchanges, dating back as far as the 1100s, are the Paris Bourse in France; the Amsterdam Bourse in The Netherlands; the Deutsche Stock Exchange (formerly the Börse) in Frankfurt, Germany; the London Stock Exchange (LSE) in England; and the Borsa in Milan, Italy. Other European exchanges opened in the 1600s and 1700s, including those in Belgium, Spain, Portugal, and Sweden. Because stocks were uncommon before the 1800s, all of these early exchanges traded in commodities and currencies. In 1785 Amsterdam's Bourse was the first to formally begin trading in securities. By the mid-1800s, many countries outside of Europe traded in securities, including Canada and Australia. During the 19th and 20th centuries, major exchanges opened in Asia, Eastern Europe, and parts of Africa and Latin America.

Most of the world's major exchanges have become highly efficient, computerized organizations. Each has a charter for regulating operations and some are integrated within regional economic unions. For instance, the EU was instrumental in organizing the EASDAQ and drafted its charter. In addition, exchanges now trade securities from companies around the world. Computerization has enabled brokers to instantaneously monitor activities on foreign exchanges. Many exchanges also list indexes and averages—such as the Nikkei 225 Stock Average of the Tokyo Stock Exchange (TSE) and the Financial Times Stock Exchange 100 of the LSE—that are closely followed by options and futures investors.

) **Historical Development of Stock Market in Nepal** (SEBON, 2005)

The establishment of the Securities Exchange Centre (SEC) in 1976 was the first attempt made by the government for the institutional development of the stock market in Nepal although the flotation of shares by Nepal Bank Ltd (NBL) and Biratnager Jute Mills Ltd. (BJM) had began in 1937 under the company Act, 1936. The SEC management five public issues, important medium to allow investment opportunities to the public, made by the corporate bodies till FY 1983/84.

Stock Exchange, organized market for buying and selling of financial instruments known as securities, which include stocks, bonds, options, and futures. Most stock exchanges have specific locations where the trades are completed. For the stock of a company to be traded at these exchanges, it must be listed, and to be listed, the company must satisfy certain

requirements. But not all stocks are bought and sold at a specific site. Such stocks are referred to as unlisted. Many of these stocks are traded over the counter—that is, by telephone or by computer.

Major stock exchanges in the United States include the New York Stock Exchange (NYSE) and the American Stock Exchange (AMEX), both in New York City. Far more corporations list their stock on the NYSE than on the AMEX, however. Nine smaller regional stock exchanges operate in Boston, Massachusetts; Cincinnati, Ohio; Chicago, Illinois; Los Angeles, California; Miami, Florida; Philadelphia, Pennsylvania; Salt Lake City, Utah; San Francisco, California; and Spokane, Washington. In addition, most of the world's industrialized nations have stock exchanges. Among the larger international exchanges are those in London, England; Paris, France; Milan, Italy; Hong Kong, China; Toronto, Canada; and Tokyo, Japan. These stock exchanges all have a central location for trading. The major over-the-counter market in the United States is the Nasdaq Stock Market (formerly, the National Association of Securities Dealers Automated Quotation [NASDAQ] system). The European Association of Securities Dealers Automated Quotation system (EASDAQ) is the major over-the-counter market for the European Union (EU). Nepal has one and only stock exchange; Nepal stock exchange (NEPSE).

In Nepal, organized securities exchanges are made through Nepal Stock Exchange (NEPSE). The securities exchange center was established with an objective of facilitating and promoting the growth of capital market. Before its conversion into stock exchange it was only a capital market institution undertaking the job of brokering, underwriting, managing public issue market making for government bonds and other financial services. In 1993, the center was converted into NEPSE with the basic objective of imparting free marketability and providing liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries, such as brokers market makes etc. and it is a nonprofit organization, operating under Securities Exchange Act, 1993. NEPSE opened its trading floor on 13th January 1994 through licensed members. His Majesty's Government, Nepal Rastra Bank, Nepal Industrial Development Corporation and Licensed members are the shareholders of the NEPSE.

2.2 Review of related studies:

This sub-section is concern with the previous research work done by the different scholars more specially; the chapter includes the conceptual framework, review of foreign research and review of Nepalese research.

A. Review of foreign research:

Research on the stock market and security price did not begin with the development of a theory of price formation, which was then subjected to empirical test. The impetus for the development of the theory came from the accumulation of evidence in the middle 1950 that the behavior of common stock and other speculation of prices could be well approximated by a random walk. Much of the theory on the random walk can be traced to French mathematician Louis Bachelor whose PhD dissertation titled "The Theory of Speculation". He tested the model in commodity speculation in France was a "Fair game". He also concluded that the current price of a commodity was an unbiased estimate of its future price. After the first discovery of the random walk model by Louis Bachelor, empirical testing of the model in the stock market prices almost remained stagnant until 1960s. There are large number of studies most of which are briefly reviewed below.

Kendall (1953) made significant contribution to advance in the study of the random walk model. He tested the model on the weekly price changes of the 19 indices of British industrial shares and in the spot price series of cotton (New York) and wheat (Chicago). He analyzed the data by serial correlation coefficient and concluded that the subsequent stock price movement follows random walk. He showed that the successive price changes are statistically independent to its past price changes.

Kendall (1953), Roberts (1959) and Osborn (1959) also tested the model that gave rise to the theory. Then after in 1960s and onwards numerous studies were carried out in this area validated the hypothesis while some other studies refuted this theory as a true description of the market. These researches apply various analyzing tools and mechanical rules, details of that have been presented in the following paragraphs.

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

Cootner (1962) analyzed weekly and 14 week interval data on 45 stocks from New York stock exchange (NYSE). He found that one-week interval stock price move as a random walk. However, he also found some dependencies in the data at 14-week interval. The average serial correlation coefficient for one week was -0.047 and for 14 was 0.131. He focused the importance of "differencing interval" while testing for randomness in stock price behavior.

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

Dryden (1970) studied daily London all-market indices for four year, and found the serial correlation coefficient 3.30 to 0.16 that is significantly differs from zero. He suggests "sufficient divergence from the random walk hypothesis to justify a more extensive analysis of the behavior of individual share quote on the London stock exchange".

Solnik (1973) investigated the daily price of 234 common stocks of eight European countries namely, France, Italy, UK, Germany, Netherlands, Belgium, Switzerland, Sweden for the time period from March 1966 to April 1971. He calculated the returns for various interval of the each stock and studied the distribution of serial correlation coefficient. He pointed out random walk is more apparent in the European stock price behavior than in the American price behavior.

Sharma and Kennedy (1977) tested the random walk model, by run test and spectral analysis against representative stock market indices of Bombay, Network and London stock exchange during 1963. They found that the stocks on Bombay stock exchange obey random walk and are equivalent in sense to the behavior of share price in the market of developed countries.

Gupta (1985) found out comprehensive test of the random walk hypothesis by employing serial correlation and run analysis in two sets of time series data. The two sets of time series data are the first was the economic time index, number of daily share prices and financial express index number of equity prices on a daily and other weekly series and another was a

weekend closing price. He concluded on the basis of these test the random walk model share price behavior suggesting in the Indian stock exchange were efficient in the weak sense in pricing share.

Mahapatra (1995) tested the weakly efficient market hypothesis using rank correlation analysis bases on relative strength. The sample was end of month closing price of 26 stocks from Bombay stock exchange during the period January 1989 to December 1992. He argued that the Indian stock market is less efficient in the short run but more efficient in the long run.

Mobarek and Keasey (2000) The study seek evidence supporting the weak form efficient of the market using daily market return series of the listed securities on the Dhaka Stock Exchange for the period of 1988 to 1997. Empirical analyses suggest that the Dhaka Stock Market Of Bangladesh is not weak form efficient. The result of individual share returns also evidence that they are not following random walk model.

Majnoni and Massa (2001) measurement of market efficiency of the Italian Stock Market. The data used two deferent data sets on prices and returns, first on daily data then on intraday data. The analysis based on daily data that shows the strong positive correlation between price changes and trading volume is due to significant causal relationship between trading volumes and price formation. The increasing concentration of trading should not be interpreted as an indication of poor market efficiency since the component of price volatility due to the market imperfections has declined as a proportion of total volatility even for infrequently traded stocks.

Abraham, Seyyed and Alsakran (2002) The data consist of weekly index value for the three major Gulf Sock Markets of Kuwait, Saudi Arabia and Bharain for the period (October 1992 to December 1998). Random walk hypothesis and market efficiency hypothesis are assessed using the variance ratio and the nonparametric (run test) consistent with results in the literature for similar emerging markets both RWH and weak form efficiency are rejected for the Gulf Markets when the observed index levels are used. The corrected indices show that successive price changes are independent for all three markets implying weak form efficiency. Random Walk Hypothesis for the Saudi Arabia and Bahrain markets cannot reject. Kuwaiti market falls to follow a random walk even after the correlation.

Pena and Alana (2003) test if stock index price follows random walk in the Spanish Stock Market by means of variance ratios. By using daily, weekly and monthly price returns autocorrelation in the Spanish Stock Market for the two indexes (IGBM and IBEX35) and for individual securities by means of variance ratio tests. They found that positive string autocorrelation for both IGBM and IBEX35 index daily returns cannot reject the random walk hypothesis for the period March 31, 1997 to 2000, significant position of autocorrelation especially in daily and weekly period. The positive index autocorrelation monthly returns are not significant at 5% level in any period. On the other hand, Spanish Stock Market security daily returns show weekly positive autocorrelation. Even though index monthly return cross-correlation at one lag (a month) between portfolios based on size. In particular, large stock portfolios lead to the small stock ones.

Islam and Khaled (2005) carried out a test of weak-form efficiency of the Dhaka Stock Exchange using monthly versus daily data or weak. The study uses daily, weekly, and monthly market prices and returns of the stock exchange during the year 1990 to 2001. Starting from the January 1990, the daily market price data cover the period up to 23 November 2001, while the weekly and monthly price data cover the period up to 21 November 2001 and October 2001 respectively. Data for the period 1990 to 1991 were taken from the daily price quotations. Test of weak form efficiency of the Dhaka Stock Exchange by using the autocorrelation test. Test separately for the period before July 1996 and for the period after March 1997. They concluded on the basis of these tests weak-efficiency is rejected by using autocorrelation test but on the basis of hypothesis at 5% significance level in the case of monthly data. But for Weekly data and daily data the market efficiency was rejected for the pre boom period (1996) but not for the post crash.

B. Review of Nepalese Research:

Shrestha (1982) conducted a study on the role of securities marketing center in the economic development of Nepal. The study was conducted with the objectives to examine the role played by securities marketing center in promoting Nepalese security. This study covered the period of 4 years (2034/35 to 2037/38). He has concluded that the securities marketing center is very poor in terms of the primary market and facing the problem in the demand and supply. Investors are influenced by the value to share and dividend policy of the company while buying or selling the securities.

Bhattarai (1985) carried out a study of impact of securities exchange center on capital mobilization with special reference to the government securities and share market in Nepal. The objective of this study was to evaluate the significant features of government securities market to find out the contribution of Securities Exchange Center. He concluded that Securities Exchange Center has mobilized long-term capital required to the new companies launch the development activities in the country to provide the investment opportunities to investor through the primary market.

Bhattarai (1990) carried out a study on share market in Nepal. The sample for the study comprised of 12 companies. This study was based on secondary data. Differential statistical tools and financial tools were applied. She concluded that the investors in capital market through brokers' network raised the transaction volume. Market starts to walk randomly reflecting providing alternatives to make diversified portfolio facilitates true value of share and investors.

Bhatta (1995) carried out a study on assessment of the performance of listed companies in Nepal. The basic objective of this study was performance of listed companies. He has taken 10 listed companies as sample based on secondary data. By using different statistical tools like ratio analysis, beta coefficient and portfolio to analyze the dividend yield, liquidity, leverage, risk and return etc. He concluded that capital market to run efficiently requires continues flow of information and there is serious deficiency of such information in market. Investors are depressed in the market by rules and regulations and bureaucratic set up mind of the companies.

Bhatta (1997) carried out a study on dynamic of stock market in Nepal. The primary objective of the study was to anal use trend research study and to analyze the market share price of secondary market. By using differential statistical tools like mean, standard deviation and other essential tools for the study purpose of 14 companies listed in stock market could be regarded as the heart of the capital market. There is a high volatility of share price.

Gurung (1999) conducted a study on the basis of share price behavior of listed companies in Nepal. The study was conducted with the objectives to test the monthly movement of share price behavior of listed companies in Nepal. The sample for the study comprised of 15

companies representing form commercial bank, insurance and finance, manufacturing and processing and trading. Using different statistical tools like mean, coefficient correlation and financial parameters. He mentioned that the number of listed companies has been increased during the study period. The study was to analyze the relation between traded and listed companies, to evaluate the trading turnover, to analyze the share price behavior of listed companies whose stocks are listed in stock exchange center and trade in the stock market. The performance of commercial banks is better than that of trading concerns and the investment in this group is more attractive so, banking group is higher than compare to the other group. Market was bluish during the initial period of the study. The higher fluctuations in prices in decreasing trend and higher variations in prices showed the performances of listed companies have been deteriorating. More over this implies the uncertainty and instability in stock market.

Timilsina (2001) conducted a study on capital market development and stock price behavior in Nepal. The main objectives of the study was to find out the fair market prices of equalities and observe the variation of actual prices from the computed fair prices to test whether the present behavior of prices will remain stable. The study covered a period of 8 months (2002/2003). By using different statistical, mathematical and financial tools including the formulation of hypothesis was done in the study. He concluded that the market price of share depends on earning per share (EPS) as well as dividend per share (DPS), direct and immediate response in the market.

Pradhan (2003) conducted a study on stock market behavior in a small capital market. Different financial tools were used in the study period of 1986 to 1990. The sample for study was taken from 7 listed companies. The main objective of the study was the stock market behavior in a small capital market in the context of Nepal. He concluded that the larger stocks have larger price earning ratios, larger ratio of market value to book value of equity, lower liquidity, lower profitability and smaller dividend. Larger stocks also have higher leverage, lower assets turnover and lower interest coverage but these are more variable for smaller stocks than for larger stocks. Stocks with higher price earning ratios have lower liquidity, higher leverage, lower turnover, lower profitability and lower interest coverage's.

Pradhan and Upadhya (2004) conducted a study on the efficient market hypothesis and the behavior of share prices in Nepal. The objective of the study was to make a comprehensive

investigation of weak and other form of efficient market hypothesis. Different statistical tools were used in the study serial correlation, the run test, weighted mean, median, chi-square test and spearman's rank correlation. Twenty-three equity shares listed and actively traded in the Nepal Stock Exchange LTD. He concluded that Nepalese Stock Market might not be termed as "weakly efficient" in Pricing shares where market efficiency is defined as all historical information is reflected in security price. The main factors affecting share prices perceived by the respondents are dividends, retained earnings, bonds share and right issue. The study also found that the shareholders in high tax brackets did not prefer relined earning instead of dividends.

Gurung (2004) conducted a Study on "Growth and Performance of Securities Market in Nepal" the main objective of the study was to analyze the performance of Nepalese security market and to study the growth trend. This study was based on secondary data only. This study has covered 10 year time span-FYs 1993/94 to 2002/03. Through that study he had concluded that security market plays a pivotal role in mobilizing savings and channeling them in productive purpose and many more like providing liquidity on securities so that one can minimize the risk and maximize the returns. The study on the securities market performance reveals that there is no synchronization among different securities market performance indicators, but it is true that they almost have depicted an erratic trend during the observed period. This indicates the unstable and poor performance of securities market. Relative to the overall economy, the size of the securities market is very small and liquidity of securities a bearish situation. The growth and performance of Nepalese securities marker, even after the introduction of new mechanism in 1993/94, are not satisfactory through it is improving gradually.

Poudel (2005) conducted study on share price behavior of listed companies in Nepal. The study was conducted with the objectives to test the daily share price behavior of listed companies in Nepal. The sample for the study comprised of 21 companies representing from each sector listed in Nepal Stock Exchange. This, study is based on the secondary data. Different statistical tools like serial correlation and run test were used. He concluded that NEPSE index showed a steady increase in the later month of the study period, which also shows the better performance of NEPSE. Stock market performance is more less in a stable position in the capital market overall in the study period. The stock market performance is steady increasing with the increase in the number of listed companies. The badly affected

sectors were hotels, trading, manufacturing and processing sectors due to different reasons. The NEPSE index showed a better performance during the study period.

Koirala (2010) conducted study on role of NEPSE and SEBON on development of capital market in Nepal. The study was conducted with the objectives to find out the role and importance of NEPSE and SEBON. The study was based on secondary data. Different statistical tools like serial correlation and run test were used. Stock market performance is more less in a stable position in the capital market overall in the study period. The stock market performance was steady increasing with the increase in the number of listed companies.

2.3 Research Gap

Out of Various studies in Capital Market, NEPSE and SEBON, we could hardly find the research work on Development of Capital Market in Nepal. Acharya in 2008 carry out a study in this topic but it cover only time period up to 2007/08. Koirala in 2010 carry out a study in this topic but it cover only time period up to 2009/10. However this study implies technical concept but no emphasis has been given on fundamentalism. Though finding of the previous researches are equally important, It is realized that the necessity of the research work on this particular topic. The main focus of the research will be to analyze the performance, growth & downfalls of the capital market. This will helps to analyze whether the capital market is in increasing trend or in decreasing trend. By analyzing these aspects, focus can be set on the weakness. So that in future this weakness can be turned into the strength of the Capital Market. This will helps to make the existence of the Capital market more robust. Furthermore, by being able to career the weakness, more investors can be made to contribute for the Development of capital market.

In this study various primary data are also been observed to analyze, assess and to decide the various thoughts of the people towards the NEPSE, SEBON and Capital Market. Hence this study is a supplement to overcome the weakness and limitation of previous studies.

CHAPTER – III

RESEARCH METHODOLOGY

Research methodology is a process of arriving to the solution of problem through planned and systematic dealing with the collection, analysis and interpretation of the facts and figures. Research Methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view. It tries to make clear view of method and process adopted in the entire aspect of the study. It is known as a path from which we can systematically solve the research problem. This research tries to perform a well-designed quantitative and qualitative research in a very clear and direct way using both financial and statistical tools. Detail research methods are described in the following headings.

3.1 Research Design

Selection of appropriate research design is necessary to meet the objective of the study. This study emphasizes on descriptive and analytical study of collective data over a period of time and it gives suggestion on the improvement of capital market in Nepal. So this study is based on descriptive and analytical research designs.

A quantitative research design has been adopted to plan the activities required to be followed for carrying out the various tasks of research work such as choosing the methodology to be adopted, gathering data, analyzing data and finally writing the report. Using a quantitative approach provides richer detail for exploring viewpoints in early stages of research, allowing the researcher to gain a better initial understanding of the problem and to identify phenomena, attitudes and influences. (Reilly, Frank K. (1990).

The research methodology is concentrate on the following sub topics: -

i) Research Design

Selection of appropriate research design is necessary to meet the objective of the study. This study emphasizes on descriptive and analytical study of collective data over a period of time and it gives suggestion on the improvement of capital structure. So this study is based on descriptive and analytical research designs.

ii) Sources and Procedures of Data Collection

This study is based on primary as well as historical data. The data required for this research study are particularly collect from secondary sources. It contents mostly the annual reports,

profit and loss account and balance sheet of concerned companies. Primary data is taken through questionnaire method.

The data are collected from various annual reports, trading reports, and financial statements, various articles and journals available in central library and library of the SEBON. Besides, website of NEPSE was used to collect relevant data.

iii) Tools of Analysis

The tools used for the analysis of the data include both financial and statistical tools. Financial tools used are the formulas of returns and risks for the individual securities and the portfolios.

3.2 Description of Data and Sample

Nepal stock exchange has classified the companies into nine sectors i) Commercial bank ii) Financial companies iii) Insurance companies iv) Hotel companies v) Manufacturing and processing companies vi) Trading companies vii) Development companies Viii) hydro power and iv)Others. The overall sector has been taken for the study period of 2006/07 to 2011/12 as population and among them.

3.3 Sources and Procedures of Data Collection

This study is based on primary as well as historical data. The data required for this research study are particularly collected from secondary sources. It will content mostly the annual reports, profit and loss account and balance sheet of concerned companies. Primary data will be taken through questionnaire method.

The data are collected from various annual reports, trading reports, and financial statements, various articles and journals available in central library and library of the SEBON. Besides, website of NEPSE and SEBON were used to collect relevant data.

The supplementary data and information have been acquired from various sources like;

- ⇒ **Trading reports of NEPSE.**
- ⇒ **Annual reports of SEBON.**
- ⇒ **Nepal Rastra Bank's Economic Report.**

- ⇒ **Previous research studies and dissertations.**
- ⇒ **Articles and journals available in central library and library of the SEBON.**
- ⇒ **Central bureaus of statistics.**
- ⇒ **Websites of NEPSE and SEBON**

3.4 Tools of Analysis

The tools used for the analysis of the data include both financial and statistical tools. Financial tools used are the formulas of returns and risks for the individual securities and the portfolios. The statistical tools used are: measures of dispersion (variance, standard deviation and co-variance),

3.5 Measurement of Risk

When analyzing investments, analysts define risk as variability of return. Financial analysts and statisticians prefer to use a quantitative risk surrogate called the variance of returns, denoted $\text{Var}(r)$. The variance of an asset's rates of return for historical data is given by:

$$\text{Var}(r_i) = \frac{\sum_{t=1}^T (r_{i,t} - \bar{r}_i)^2}{T}$$

Where,

$\text{Var}(r_i)$ = variance of returns of asset i;

$r_{i,t}$ = rate of return of asset i in period t; and

\bar{r}_i = average rate of return of asset i.

Variance as well as standard deviation measure total risk of an asset. So standard deviation (Ω), of the rates of return is given by:

$$\Omega = \sqrt{\text{Var}(r_i)}$$

The total risk of an asset can be divided into two parts: diversifiable risk and undiversifiable risk. Therefore,

$$\text{Total risk} = \text{Undiversifiable risk} + \text{Diversifiable risk}$$

Undiversifiable risk is that portion of total variability in return caused by market factors that simultaneously affect the prices of all securities. It is also called *systematic risk*. Changes in the economic, political, and sociological environment that affect securities markets are sources of systematic risk. The beta (β) is an index of systematic (or undiversifiable) risk that gauges how much the i^{th} asset's return typically reacts to a change in the market portfolio's return. Beta coefficients may be used for ranking the systematic risk of different assets. The beta coefficient also measures the slope of the characteristic line. The beta coefficient is defined as:

$$\beta_i = \frac{\text{Cov}(r_i, r_m)}{\text{Var}(r_m)}$$

Where,

β = beta coefficient of asset I

$\text{Var}(r_m)$ = the variance of returns for the market portfolio.

$\text{Cov}(r_i, r_m)$ = the covariance of returns of i^{th} asset with the market.

$$\text{Cov}(r_i, r_m) = \frac{\sum_{t=1}^T (r_{i,t} - \bar{r}_i)(r_{m,t} - \bar{r}_m)}{T}$$

Systematic risk is given by,

$$\text{Systematic risk} = \beta^2 \text{Var}(r_m)$$

The percentage of total risk that is systematic risk can be measured by the coefficient of determination ρ^2 .

$$\sigma^2 = \beta^2 \frac{\text{systematic risk}}{\text{unsystematic risk}} = \beta^2 \frac{\text{Var}(r_m)}{\text{Var}(r_i)}$$

Diversifiable risk is that portion of total risk, which is unique to the firm that issued the securities. It is also called unsystematic risk. It is given by:

$$\text{Diversifiable risk} = \text{Var}(e)$$

Var(e) is called residual variance or standard error squared. The percentage of unsystematic risk equals $(1 - \beta^2)$.

3.6 Various indexes used in Performance Evaluation

- 1) Rate of Return
- 2) Standard Deviation (SD)
- 3) Coefficient of Variance (CV)

3.6.1 Rate of Return

In analyzing a common stock's performance, the holding period return on the common stock needs to be correctly calculated over the period of the evaluation. The single period rate of return is the basic random variable in investments analysis. This rate of return concept is important because it measures the speed at which the investor's wealth increases or decreases. The rate of return formula can be stated in a form appropriate for almost any investment.

$$R_t = \frac{P_t + \frac{C_t}{1 + Z} - P_{t-1}}{P_{t-1}}$$

Where,

R_t = an investment's single period rate of return

P_t = market price at the end of period t

P_{t-1} = price at the end of period t-1

C_t = cash flow income received during the t^{th} period

For common stocks, it can be simply stated as:

$$R_t = \frac{EP_t + \frac{D_t}{1 + Z} - BP_{t-1}}{BP_{t-1}}$$

Where,

EP = end price of stock;

BP= beginning market price of stock; and

D_t= dividend received during the period of the evaluation.

Average return or arithmetic average is the simple time-weighted average. So

$$\bar{R}_t = \frac{1}{T} \sum_{t=1}^T R_t$$

Where,

R₁...R_T= Returns for assets from 1 to T time periods and

T= Numbers of time periods.

3.6.2 Standard Deviation

Standard deviation is measure of dispersion, which takes into account each value of the data and also how all observation are distributed (Chandan, 200). In general, if different values of data are reasonably close to mean then there is very little variability of dispersion of data. On the other hand if values are at a considerable distance from the center of mean, the variability is said to be small. Standard deviation measures such variability and it can be computed by using following formula:

$$\sigma_i = \sqrt{\frac{1}{T} \sum_{t=1}^T (r_{i,t} - \bar{r}_i)^2}$$

where,

r_{i,t}= rate of return of asset i in period t; and

\bar{r}_i = average rate of return of asset i.

σ_i = Standard deviation

3.6.3 Coefficient of Variation (CV)

The CV is relative measure of dispersion. It is expressed as a percentage and is useful in comparing the variability of two or more set of data. Since it is a ratio, the units of measurement have no significance. The co-efficient of variation is given by:

$$CV = \frac{\sum \frac{\sigma_i}{R_i}}{X} \times 100$$

3.7 Definition of Key Terms

The financial statements published by different organizations have its own format for publishing the financial data on a more or less uniform basis. The following terms may have different meanings in different circumstance and under different conditions. It is, therefore, desirable to define some key terms so as to avoid misunderstanding.

- ❖ **Market Capitalization: - Market capitalization is a measurement of corporate or economic size equal to the share price times the number of shares outstanding of a public company. As owning stock represents owning the company, including all its assets, capitalization could represent the public opinion of a company's net worth and is a determining factor in stock valuation. Market capitalization represents the aggregate value of a company or stock.**
- ❖ **Value Traded: - Value traded is the value of the shares traded in the domestic exchanges.**
- ❖ **Turnover: - Turnover equals to the value of the trades of domestic shares on domestic exchanges divided by the value of listed domestic shares.**
- ❖ **Volatility: - Volatility is the measure of the state of instability. It measures the movement of the stock market index during the certain period around the mean value. Specifically, it is the variance of the market index during a certain period.**
- ❖ **Size of Primary Market: - Size of primary market is the amount of capital mobilization through the primary market during the study period.**

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter, Data presentation and Analysis are major part of the study or main Body of the study. This chapter consists of presentation and analysis of secondary data and primary data related to different variables explained in the third chapter. It also consists of the secondary data, statistical tools that has been used for the analysis of the data. The basic objective of this chapter is to achieve the objectives which are set in the first chapter. In order to achieve the objective these objective the gathered data are presented, compared and analyzed with the help of different tools. Also, this chapter deals with the analysis and interpretation of the data collected from various sources and research methodology. In the courses of analysis, data gathered from the various sources have been inserted in the tabular or graphical form. Thus, this chapter is the focal part of the study which helps to analyze the role of Nepal stock exchange and security board in development of capital market. There are three parts in this chapter, The First part Deals with the Historical Development of capital market. The second and third part deals with the sector wise listed companies, annual turnover, market capitalization, traded share quantity and the findings of the study. Hence, secondary and primary data are presented to make the topic meaningful.

4.1 Analysis of Primary Data

For primary research, 65 close-ended questionnaires (see appendix Q) were distributed within 1 month. Out of 65 only 47 were collected back. For the purpose of research, just 40 questionnaires were qualified. The remaining seven were excluded because some very valuable data's were missing.

4.1.1 Respondent's Demographic Information

Table 4.1: Demographic Analysis

Characteristics	Category	Frequency	Percentage
Sex	Female	18	45
	Male	22	55
Employment Sector	SEBON/NEPSE	8	20
	Bank/ Finance	16	40
	Government	2	5
	Broker	3	7.5
	Lecturer/ Student	7	17.5
	Corporate House	4	10
Education Level	SLC	0	0
	Intermediate	3	7.5
	Bachelors'	21	52.5
	Masters & Above	16	40
Level of Investment (Rs.)	Below 500000	16	40
	500000-1500000	14	35
	1500000-2500000	5	12.5
	Above 2500000	5	12.5

Source: SPSS output and the Author

Out of 40 respondents, 55% were male and 45% were female.

More than 90% had achieved their Bachelor's degree and over. Therefore, respondents were categorised as highly qualified.

About 40% had invested in the capital market below Rs. 500000. Thirty-five percent had investment between Rs. 500000 to Rs. 150000, and 25% had an investment of more than Rs. 1500000.

4.1.2 Respondents Knowledge on Capital Market

Q. Do you know the Capital Market?

Table 4. 2: Known about Capital Market

	Respondents Employer and Sector						Total	Percent
	SEBON/ NEPSE	Bank/ Finance	Govt.	Broker	Lecturer/ student	Corporate house		
Yes	4	14	2	2	7	4	33	82.5
No	0	2	0	1	0	0	3	7.5
some how	4	0	0	0	0	0	4	10
Total	8	16	2	3	7	4	40	100

Source: SPSS output and the Author

More than 82% of respondent had known capital market but 3 out of 40 had no knowledge of capital market and 4 had some general knowledge about capital market. It is surprised to see 3 person who do not know about the capital market were from brokers and bank/finance sector which is actually the sensitive sector dealing with capital market.

Q. Does Capital Market help to invest the security that you liked?

Table 4.3: Capital Market helps to invest in Security liked

	Respondents Employer and Sector						Total	Percent
	SEBON/ NEPSE	Bank/ Finance	Govt.	Broker	Lecturer/ student	Corporate house		
Yes	2	9	2	3	6	4	26	65
No	6	7	0	0	1	0	14	35
Total	8	16	2	3	7	4	40	100

Source: SPSS output and the Author

Sixty-five percent respondents believed that capital market had helped to invest in the securities they liked. The respondent who expressed that capital market does not help to invest in their liked securities is from SEBON/NEPSE (75%) and Bank/Finance sector (44%).

Q. Development of Capital Market in Nepal is satisfactory?

Table 4.4: Development of Capital Market in Nepal

	Respondents Employer and Sector						Total	Percent
	SEBON/ NEPSE	Bank/ Finance	Govt.	Broker	Lecturer/ student	Corporate house		
very satisfied	4	9	2	0	1	0	16	40
Satisfied	2	0	0	3	0	0	5	12.5
Average	2	3	0	0	6	1	12	30
Dissatisfied	0	4	0	0	0	3	7	17.5
Total	8	16	2	3	7	4	40	100

Source: SPSS output and the Author

More than one third respondent (82%) expressed Nepalese capital market has developed averagely out of them 40% were very satisfied with capital market developed so far while 17.5 % were dissatisfied with its development. 4 respondents were from Bank/Finance and 3 were from Corporate house.

Q. What are the major problems of Capital market?

Table 4.5: Major problems of Capital Market

	Respondents Employer and Sector						Total	Percent
	SEBON/ NEPSE	Bank/ Finance	Govt.	Broker	Lecturer/ student	Corporate house		
small capital market	2	7	0	1	0	0	10	25
lack of investor's confidence	0	3	2	2	3	4	14	35
lack of co-ordination between monitoring bodies	2	3	0	0	4	0	9	22.5
restriction of foreign investors	4	3	0	0	0	0	7	17.5
Total	8	16	2	3	7	4	40	100

Source: SPSS output and the Author

Regarding the problem of capital market there was mixed response. Thirty five percent of respondent had expressed lack of investor's confidence is a major problem of capital market. Almost similar percent thinks small capital market and lack of co-ordination between monitoring bodies are the major problem of Nepalese capital market.

Q. In which type of market have you invested?

Table 4.6: Types of Market Invested

	Respondents Employer and Sector						Total	Percent
	SEBON/ NEPSE	Bank/ Finance	Govt.	Broker	Lecturer/ student	Corporate house		
primary market	2	2	0	0	0	0	4	10
secondary market	6	13	2	1	6	4	32	80
Both	0	1	0	2	1	0	4	10
Total	8	16	2	3	7	4	40	100

Source: SPSS output and the Author

Eighty percent of respondent had invested in the secondary market while just 10% had invested in both markets, with same percentage invested in primary market. Thirteen respondents from the bank/finance sector were the major portion to invest in secondary market. Two respondents from SEBON/ NEPSE and Bank/ Finance each had invested in primary market.

Q. In which type of security have you invested?

Table 4.7: Types of Security Invested

	Respondents Employer and Sector						Total	Percent
	SEBON/ NEPSE	Bank/ Finance	Govt.	Broker	Lecturer/ student	Corporate house		
Shares corporate bonds	2	15	2	1	4	3	27	67.5
government bonds	0	1	0	0	0	0	1	2.5
shares and corporate bonds	0	0	0	1	0	0	1	2.5
Total	6	0	0	1	3	1	11	27.5
Total	8	16	2	3	7	4	40	100

Source: SPSS output and the Author

More than 67% respondent had invested in shares and about 28% had invested in shares and corporate bonds. Very few respondents had invested in Government bond and corporate bond.

Q. What are objectives to invest in such security?

Table 4.8: Objectives for Investment and Achievement of Objectives

		Respondents Employer and Sector						Total
		SEBON/ NEPSE	Bank/ Finance	Govt.	Broker	Lecturer/ student	Corporate house	
	Interest	4	7	0	1	0	1	13
	Dividend	4	3	0	0	3	3	13
	capital growth	0	6	2	2	4	0	14
Total		8	16	2	3	7	4	40

Source: SPSS output and the Author

Regarding the objectives of investment there was mixed response, as they had equal preference to interest, dividend and capital growth. Respondent from SEBON/NEPSE had preferred for interest and dividend where more than 50% respondent of Lecturer/Student sector prefers capital gain and dividend.

4.1.3 Respondent Knowledge of Investment and Stability

Q. Is it secure to investment in stock market?

Table 4.9: Evaluation of Investment in Stock Market

	Respondents Employer and Sector						Total	Percent
	SEBON/ NEPSE	Bank/ Finance	Govt.	Broker	Lecturer/ student	Corporate house		
very secure	6	8	2	1	3	1	21	52.5
Secure	0	5	0	1	4	0	10	25
not secure	0	0	0	1	0	0	1	2.5
don't know	2	3	0	0	0	3	8	20
Total	8	16	2	3	7	4	40	100

Source: SPSS output and the Author

Almost 78% of respondent had expressed that their investment are secure where eight respondents cannot evaluate whether it is secure or not. Just one respondent from broker sector had experienced it was not secure.

Q. How do you react with the news of Government Agencies to invest in capital market?

Table 4. 10: Reaction towards news of Government Agencies to invest in Capital Market

	Respondents Employer and Sector						Total	Perc
	SEBON/ NEPSE	Bank/ Finance	Govt.	Broker	Lecturer/ student	Corporate house		
Satisfied	6	4	2	1	3	1	17	42.
Average	2	8	0	2	0	3	15	37.
Dissatisfied	0	4	0	0	4	0	8	20
Total	8	16	2	3	7	4	40	100

Source: SPSS output and the Author

Regarding to the news of government agencies to invest in capital market about 42% reacted they were satisfied and 38% reacted they were average not satisfied nor dissatisfied. Who had expressed dissatisfaction was from Bank/ Finance and Lecturer/ Student, while respondent from SEBON/NEPSE, more than (75%) expressed they were satisfied with the news.

Q. Market maker has helped to stabilise the share price?

Table 4.11: Market maker has helped to stabilize the Share Price

	Respondents Employer and Sector						Total	Percent
	SEBON/ NEPSE	Bank/ Finance	Govt.	Broker	Lecturer/ student	Corporate house		
Yes	0	4	0	1	0	1	6	15
No	8	12	2	2	7	3	34	85
Total	8	16	2	3	7	4	40	100

Source: SPSS output and the Author

Regarding question about market makers majority (Table 18 and 19) had expressed that they cannot stabilize the share price but more than 67% hope that market maker can give stability to Nepalese Capital Market. Out of eight respondents from SEBON/ NEPSE are against market makers about share price stability but four of them had strongly agreed that it can give stability to Nepalese capital market. Respondent of bank/finance, majority of 75% did not agree that market maker had stabilized the share price but more that 68% had expressed market maker can stabilize the capital market.

4.1.4 Findings of Open Ended Questionnaire

Research question one of this research is to investigate the present state and status of the present Nepalese capital market. To fulfil this, an open-ended questionnaire is used (see appendix R)

A summary of the result are listed below.

- 1. Currently Nepal's capital market is in the developing phase so there are many areas where it can focus for its systematic development. Many regulations have been formulated to support the current Nepalese capital market however uncertain political condition, limited user group and lack of implementation about the tools and technique had forced capital market as not promising as it has to be.**
- 2. In terms of control and pricing, the secondary market is very unpredictable. It has been compared with a "fish market where big players gain and small players are still in wait."**
- 3. Nepal Stock Exchange development is in very slow stage. As they have introduced CDS and Mutual Fund, implementation part is still in process. However, Regulatory board are intending to make it more accessible for all investors.**
- 4. The major economic activity of the country focuses upon the service sector. In same context, Banking is moreover systematic and the risk in investing in bank is least in comparison to others. Because of investor confidence level is very high in BFI**
- 5. The major role of the Government of Nepal to take all sectors as equal preference and systemization of the sectors is the only measure to initiate the inclusion of the other sectors into capital market. However, this could not be done until "stable government comes with strict policies that will boost stakeholder's confidence". Once it has done then there is lot of potential for other company to come forward in the capital market.**
- 6. CDS duly does reduce the manual exertion; however, it also creates new opportunities to for innovation and techniques. It helps through creation of the platform for the investment.**
- 7. In the financial term, "demand and supply of the financial instruments in the stock market defines the basic pricing of the stock". The entity's performance currently has very less impact on the prices. However, major impact is hit by the "political embargo of the country, which majorly disrupts the system of the stock exchange.**

8. **The investors are currently in jeopardy to invest due to absence of the return in the market. Big players of the market have secured their investments but the others are keeping their money dislodged at home.” Sense of insecurity and instability has discouraged the investors”. They are still in wait and watch situation.**
9. **Awareness (proper understanding and guidelines) about the capital market is only the way to attract investors. GON shall act upon creation of the new horizon of the investment in the country and it should not be limited to Kathmandu valley.**
10. **CDS and Mutual Funds shall provide improved transacting of the capital market that would ease the investors to study and invest in the market. However, the implementation part is always a problem in Nepal. Moreover, it shall provide the base of improvement of the market.**
11. **If scenario changes in Nepal i.e. Political embargo and instability in the country is kept away from the stock market as practicable as possible the Future of the Nepal Stock Market has very potential. There is many more to happen in this area.**
12. **Nepal seeks opportunities in this field for improvement but due to the political influence level of the country, every sector has been pressed into its premature state. For every sector to enhance their capacity they suggest the leaders, current and future, shall keep eye over it.**

4.2 Presentation and Analysis of Secondary Data

This part of the study provides analysis and interpretation of secondary data provided by the NEPSE and SEBON. Trade share quantity, market capitalization and annual turnover have been analyzed. Similarly, the signaling factors like as major events happening in the world and political instability in the country also affect the NEPSE Index and its transaction. For doing presentation and analysis of secondary data different statistical and financial tools are used.

4.3 Historical Development of Capital Market

The history of security market began with the flotation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction of the Company Act in 1964, the first issue of Government Bond in 1964 but there was no secondary market to provide liquidity for these bonds until the establishment of securities marketing center in 1976 were other significant development resulting to capital markets.

In 1983, His Majesty's Government Nepal under a programmer initiated to reform capital market, converted Securities Exchange Centre (SEC) in 1984. Securities Exchange Centre

was established with an objective of facilitating and promoting the growth of capital markets. SEC carried primary and secondary market services for the corporate securities. Thus, the actual development of the stock market began since 1984. The remarkable changes came only after the initiation to reform the market in 1993 when the SEC was converted into Nepal Stock Exchange. Nepal Stock Exchange Centre (NEPSE) is a non-profit organization and new market mechanism was introduced. NEPSE is the only stock exchange in the country. It is owned by the Government, Nepal Rastra Bank (the central Bank) and Nepal Industrial Development Corporation. It has an ownership holding of its member also. Securities businesspersons such as stockbrokers, market makers and securities sellers, registered by Securities Exchange Board (SEBON) have to get membership from the stock for conducting securities business. The Securities Exchange Board (SEBON) is operating since 1993.

Securities market is a place where buying and selling of securities takes place in an organized way. The parties involved in securities market are investors, intermediaries and specialists. Securities markets provide options to all categories of investors and make the financial market most competitive in the developing countries. Securities Exchange Act has empowered NEPSE with the capacity of promulgating various Byelaws in order to ensure orderly and fair transactions of securities. Accordingly, the NEPSE has made and adopted the securities listing Byelaws 1996 and membership of stock exchange and transactions Byelaws 1998.

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

Member brokers are the license holders who are empowered to accept the buy and sale orders from their individual and institutional clients and make transactions in trading floor organized, managed and operated by stock exchange. The rate or brokerage commission ranges from 1 to 1.5 percent. These intermediaries are not allowed to buy and sale in and from their own account.

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

4.4 Sector-Wise Listed Companies

Companies established under company act 1964, must be listed in Stock Exchange Ltd. Number of listed companies was 62 in the initial month of floor trading of NEPSE. Then this number increased by listing of additional companies. The number of listed companies is in increasing trend. The trend of group wise a listed company is increasing. The number of listed companies in finance group has increased at higher rate, than that of other sectors. The higher number of listed companies in finance group implies the well management, facilities provided to investors, effective securities to the investors.

Table 4.12: Distribution of Listed Companies

Sector										
Year	Com Bank	Finance	Insurance	Hotel	Mfg and Processing	Trading	Devt. Bank	Others	Total	% change
2007/08	17	57	17	4	18	4	24	5	146	13
2008/09	21	61	17	4	18	4	29	5	159	8.9
2009/10	23	62	19	4	18	4	40	6	176	11
2010/11	24	69	21	4	18	4	61	6	207	18
2011/12	26	69	21	4	18	4	61	6	209	1
Mean	22.2	63.3	19	4	18	4	43	5.6		
S.D	3.42	4.72	2	0	0	0	15.58	0.55		
C.V	15.4	7.44	10.52	0	0	0	36.23	9.64		

The total number of listed companies was 146 in the initial year of floor trading. In 2008/09 the numbers of listed companies are increase to 159, and then started to increase in each year. The trend of group wise listing companies is increasing. At the end of observed period, 209 companies are listed in NEPSE. The number of listed companies in Finance, Commercial and Development Bank group has increased at higher rate than that of Hotel, Manufacturing and processing, and Other groups.

Finance group dominates over other listed companies in the terms of total number of listed companies. At the end of the observed period, the total number of companies is 69 in Finance companies where as it is a few in Hotel and Trading group. Year wise total no. of listing companies are shows the increasing in trend i.e. 146 companies in 2007/08, 159 companies in 2008/09, 176 companies in 2009/10, 207 companies in 2010/2011 and 209 companies in 2011/2012. However, the number of companies is in increasing process. So, it indicates the expansion of capital market in Nepal.

The coefficient of variation CV indicates that the fluctuation occurs in the variables during the period of observations. So, the higher CV indicates the higher volatile and lower CV indicates the lower volatile. Here the higher CV 0.3623 in development bank indicates the higher change in number of listed company whose mean and SD are 43 and 15.58 respectively. Lowest CV 0 in hotel, manufacturing and trading indicate the no fluctuation in number of listed company, their SD and mean is 4,18,4 and 0 respectively. This data shows that no increment in number of listed companies of Hotels, Trading and Manufacturing and processing companies.

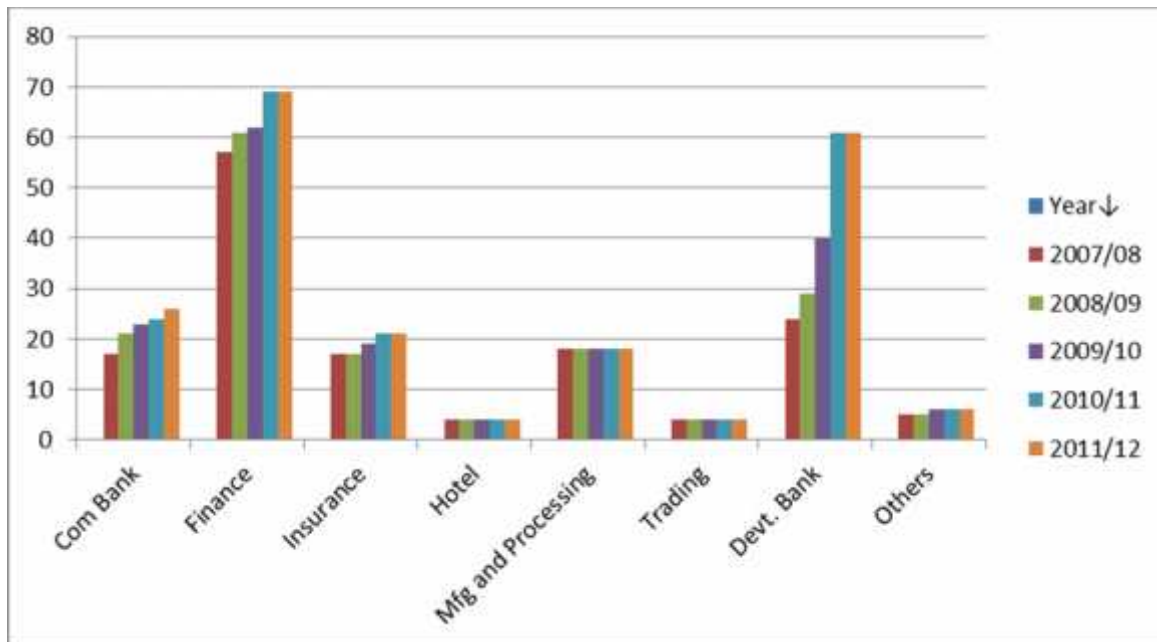


Fig. 4.19: Distribution of Listed Companies

Fig.4.1 shows the number of listed companies of listing figure indicators shows that the stock market in Nepal is burning issue with rapidly growing companies i.e. 146 companies in 2007/08, 159 companies in 2008/09, 176 companies in 2009/10, 207 companies in 2010/11 and 209 in 2011/12 . By seeing the fig we can say that the numbers of finance companies are in growing train with comparison of other sector. Then development banks occupy the second position which growing rate is higher with comparison of other. Increment in No. of listed company in Trading and hotel sector are insignificant.

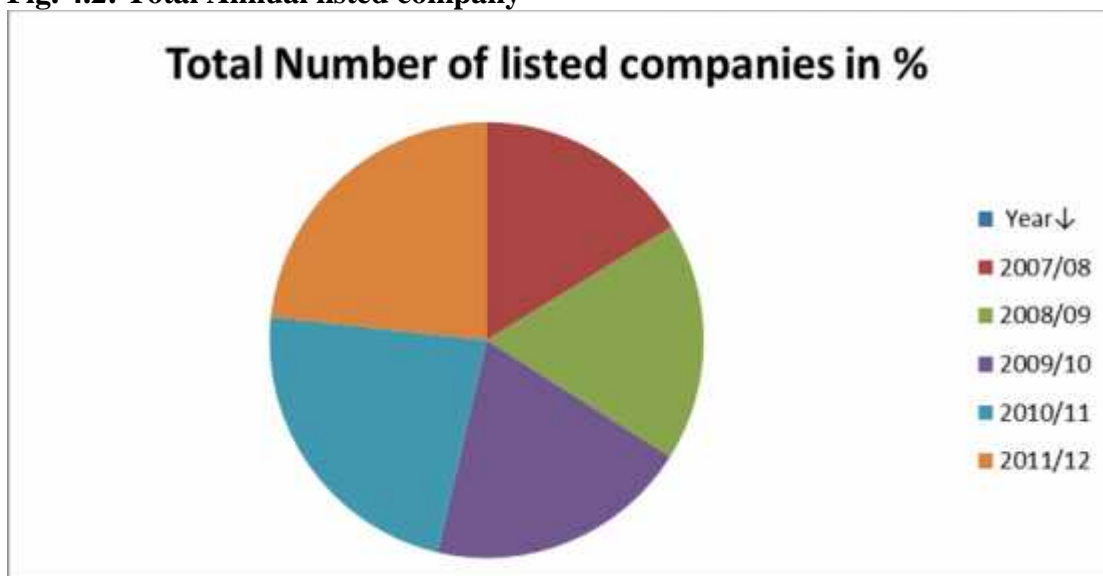
Table 4.13: Total Annual listed company

Year	Listed Companies
2007/08	146
2008/09	159
2009/10	176
2010/11	207
2011/12	209

Source: Nepal Stock Exchange Ltd (Annual report of NEPSE 2007/08 to 2011/12)

Here in the table the total annual listed company is given, where we can see that the no. of listing company is in increasing train. Where the total no of listed company in 2007/08 is 146, in 2008/09, 2009/10, 2010/11 and 2011/2012 is 159,176, 207 and 209 respectively. This is shown in pie chart

Fig. 4.2: Total Annual listed company



In the given chart total Annual listed company shown in % which is 16%, 18%, 20%, 23% and 23% in 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively.

4.5 Annual turnover

The most successful year so far for Nepal Stock Exchange was 2008/09 year. Whose annual turnover of the market was Rs 19438.13 million compare to other years. It's annual Turnover in 2007/08 Was Rs 18780.59 million. The drastically Increase from Rs. 18780.59 million to Rs 19438.13 million in 2008/09, then after the turnover decrease to 11020.8 in 2009/2010, The trend of declining continued and reached to Rs. 6260.93 in 2010/2011 and annual turnover became increase in 2011/2012 and reached to Rs. 9344.7 millions. Commercial Bank has dominated over other groups in the terms of amounts. Annual turnover for observed year is Rs 5615.38 million which is 60.09 % of the annual turnover of commercial Bank.

Table 4.14: Annual Turnover (Rs. in Million)

Sector Year	Com Bank	Financ e	Insuranc e	Hotel	Mfg. and Processin g	Tradin g	Devt. Bank	Others	Total
2007/08	13822.1	2307.5	264.86	27.67	343.44	33.65	1981	0.29	18780.59
2008/09	12406.45	2615.4	212.8	18.86	26.08	33.49	2740	1384.7	19438.13
2009/10	7196.24	1263.94	183.47	10.15	37.74	35.43	1324	970.28	11020.78

2010/11	3431.82	630.7	377.15	151.9	363.06	27.53	813.24	465.51	6260.93
2011/12	5615.38	279.86	334.28	185.4	811.25	22.91	647.4	1448.2	9344.7
Mean	8494.39	1419.48	274.512	78.81	316.314	30.602	1501.1	853.79	
S.D	3982.26	912.568	72.52	74.35	286.26	4.6806	774.4	552.8	
C.V	.4688	.6428	.2641	.9434	.9049	.1529	.5158	.6474	

4.3: Annual Turnover (Rs. in Million)

Source: Nepal Stock Exchange Ltd. (Annual report of NEPSE 2007/08 to 2011/12)

Table 4.23 shows that the annual volume is fluctuating. The annual turnover is Rs 18780.59 million in 2007/08. In 2008/09 the annual turnover is reaches to 19438.13 in which share of commercial bank is most impressive, which is 63.8 % of total turnover. Its Turnover is started to increases up to 2008/09 and its turnover suddenly decreases to 11020.8 in 2009/10, 6260.9 in 2010/2011 and some improvement is shown in 2011/2012 and increases to Rs 9344.7 million. The share of commercial bank is high in comparison of other sector every year, which is 73.6, 63.83, 65.3, 54.81, and 60.09 percent respectively. The high turnover of Financing company is comes after commercial bank. Its turnover is 2307.53 in 2007/2008, Then its turnover is also increasing in process up to 2008/09. Suddenly in 2009/10 its turnover decreases to 1263.94 in from 2615.4 and the process of reducing is became continue in 2010/2011 and 2011/2012 the turnover were Rs.630.7 and 279.86 respectively.

Table 4.15: Annual Turnover (Rs. in Million and in %)

Annual Turnover (Rs. in Million)										
Year	2007/08		2008/2009		2009/2010		2010/2011		2011/2012	
Sector	Value	%	Value	%	Value	%	Value	%	Value	%
Commercial Bank	13822.1	73.6	12406.5	63.8	7196.24	65.3	3431.8	54.81	5615.38	60.092
Finance	2307.53	12.29	2615.4	13.5	1263.94	11.47	630.7	10.07	279.86	2.9949
Insurance	264.86	1.41	212.8	1.09	183.47	1.66	377.15	6.024	334.28	3.5772
Hotel	27.67	0.15	18.86	0.1	10.15	0.09	151.92	2.426	185.43	1.9843
Mfg. and Processing	343.44	1.83	26.08	0.13	37.74	0.34	363.06	5.799	811.25	8.6814
Trading	33.65	0.18	33.49	0.17	35.43	0.32	27.53	0.44	22.91	0.2452
Dev. Bank	1981.05	10.55	2740.36	14.1	1323.53	12.01	813.24	12.99	647.4	6.928
Others	0.29	0	1384.69	2.54	970.28	1.98	465.51	7.435	1448.19	15.497

Total	18780.6	100	19438.1	100	11020.8	100	6260.9	100	9344.7	100
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Table 4.4: Annual Turnover (Rs. in Million and in %)

Source: Nepal Stock Exchange Ltd. (Annual report of NEPSE 2007/08 to 2011/12)

The annual turnover of Insurance companies in 2007/08 Rs. 264.86 million (1.41%), Then after it started to decrease in 2008/09 Rs. 212.8 million (1.09%) and 2009/10 Rs. 183.47 million (1.66%) in 2010/2011 turnover of insurance companies share increased and reached to 377.15 million but in year 2011/12 it declined to 334.28 million. It shows that turnover of insurance companies is not constant. The annual turnover for Hotel group was up to 27.67 million covering 0.15% in total turnover in year 2007/2008. Then after its turnover unfortunately decrease to 18.86 which cover 0.1% of total turnover. Again in 2009/2010 its turnover decreases to 10.15 covering 0.09% of total turnover. Year 2010/2011 was very fruitful for Hotel business and turnover reached to 151.92 million which was 2.426 percent of total turnover it also increased in the year 2011/2012 turnover was 185.43 million (1.98 percent of total value). Annual turnover of manufacturing and processing is fluctuating its turnover in 2007/08 its turnover drastically increase to 343.65 which share is 1.83% of total turnover then its Turnover slump down to 26.08 million in 2008/09 which share in total is 0.13% Then its turnover walk up little bet in 2009/10 and went up 37.74 million sharing 0.34% of total turnover. In total turnover in 2009/2010 the signal became green and turnover increase up to Rs.363.06 million which was 5.799 percent of total turnover in 2011/2012 it also increased to 811.25 million which was 8.68 percent. Trading sector is also in same situation its share in total turnover is 0.18, 0.17, 0.32, .44 and 0.24 percent in 2007/08, 2008/09, 2009/10, 2010/11 and 2011/2012 respectively. Annual turnover of Development bank is also fluctuating its turnover is 1981.05, 2740.36, 1323.53, 813.24 and 647.4 in 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. By seeing all the data of other sector we can say that annual turnover shows the highest turnover in terms of volume in 2011/12 which is 1448.19. Here SD of Com. Bank is 3982.26 which is highest then other sector then its C.V is .4688 with comparison of other sector it is in average level. Then second Finance companies which S.D is 912.57 and its C.V is .6428 and Development Bank sector is in third position which SD is 774.4 and C.V is .5158 and then other sector which SD is 552.8 and C.V is .6474, Mfg and Processing which SD is 286.26 and C.V is .9049, Hotel sector has SD of 74.35 and C.V. is .9434 same as insurance which SD is 72.52 and CV is 0.2641 and at last trading sector its SD is 4.68 and CV is .1529.

Fig. 4.3: Annual Turnover

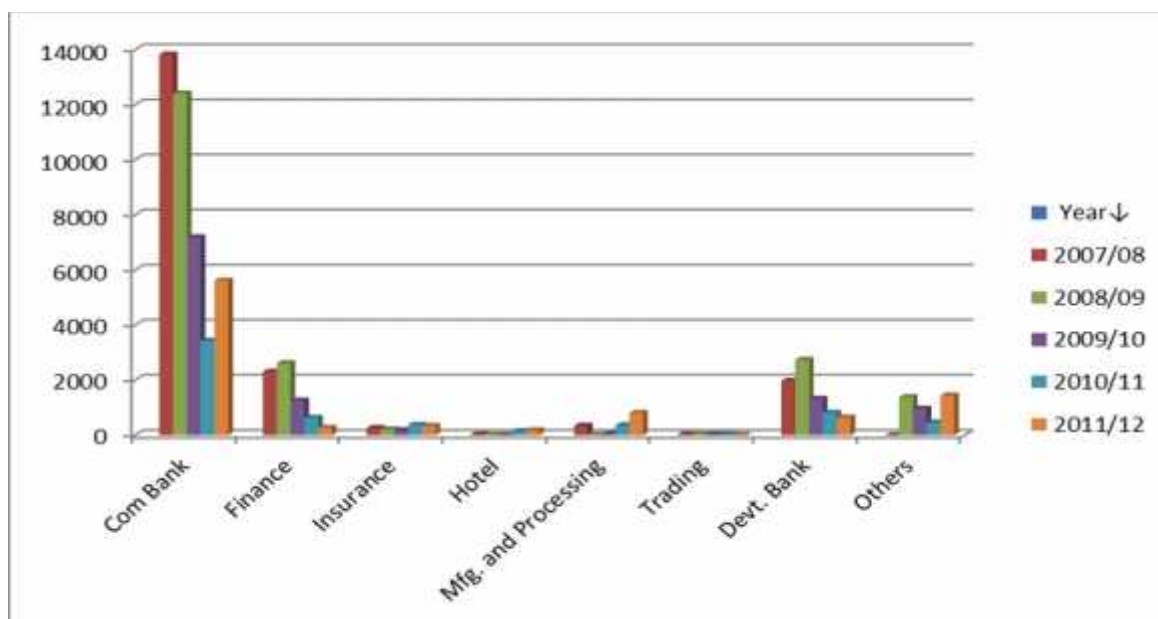


Fig 4.3 of annual turnover shows the highest turnover in the terms of volume in 2008/09 share traded was Rs. 19438.13 and the lowest turnover is in 2010/11, whose turnover is Rs. 6260.93 million.

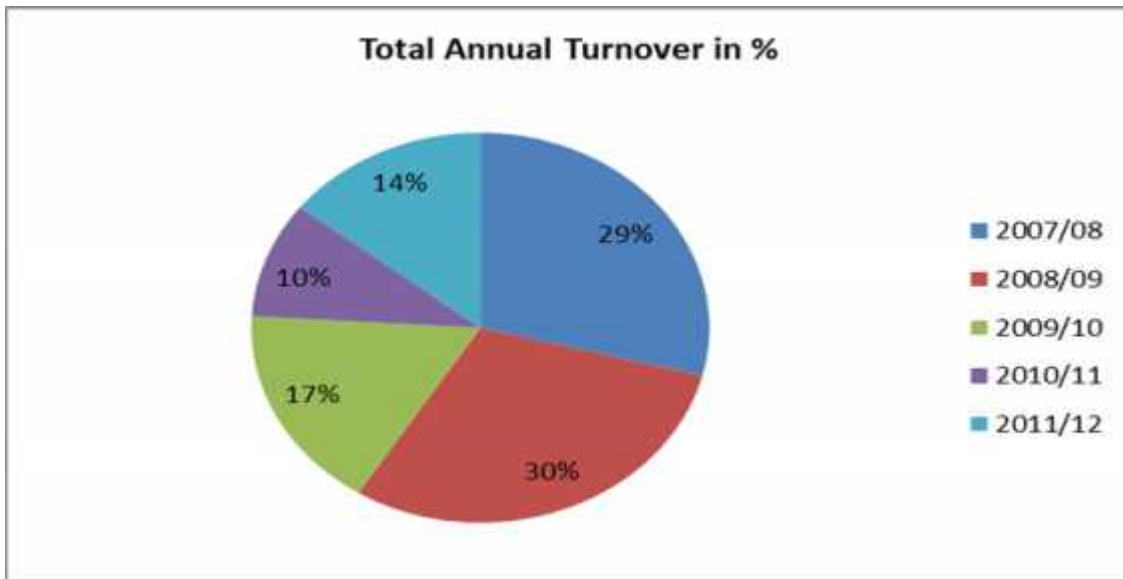
Table 4.16: Total Annual Turnover (Rs. in Million)

Year	Total
2007/08	18780.59
2008/09	19438.13
2009/10	11020.78
2010/11	6260.93
2011/12	9344.7

Source: Nepal Stock Exchange Ltd (Annual report of NEPSE 2007/08 to 2011/12)

According to the above table the total annual turnover in amount is shown where highest turnover is in 2008/09 which is 19438.13. from this table we can say that the total annual turnover is moving in positive direction up to 2008/09 it means it is in increasing in process up to 2008/09 which is 19438.13, but it decrease to 11020.78 in 2009/10. It may be due to unstable political situation in Nepal. In the year 2011/12 some improvement is getting to 9344.7 it is hopeful situation.

Fig 4.4: Total Annual Turnover



Above figure shown that the highest turnover is in 2008/09 which is 30% of total turnover. Total turnover in 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 holds 29%, 30%, 17%, 10% and 14% respectively.

4.6 Market Capitalization

Market capitalization measures of a company's total value. It is estimated by determining the cost of buying an entire business in its current state. Market capitalization derived by multiplying the number of shares outstanding by the current market price of shares (no. of share MP) Market capitalization the lists of companies at the secondary market are on the continuous rise. The increased market value suggests the good performance of the companies that the investors are highly interested to such companies. The values of market capitalization of the listed securities are given below.

Table 4.17: Market Capitalization (Rs. in Million)

Sector	Com Bank	Finance	Insurance	Hotel	Mfg. and Processing	Trading	Devt. Bank	Others	Total
Year									
2007/08	218264	27113.6	10897.16	3484	6576.18	686.73	15619	26128.93	308770.28
2008/09	302219	43007.1	10537.49	4852	7706.09	1696.4	27138	115782.9	512939.08
2009/10	206283	29869.6	9756.61	5286	7592.03	1617.5	27489	88978.67	376871.38
2010/11	165776	27477	9034.67	5448.35	10495.13	1387.48	25738.89	78127.17	323484.35
2011/12	192836	24860.4	12593.6	6457.9	11830.16	1116.9	22442.72	95124.26	367262.12
Mean	217076	30465.5	10563.91	5105.65	8839.918	1301.002	23685.52	80828.39	
S.D	46014.3	6468.85	1201.807	966.71	1982.351	367.4813	4409.438	29973.14	
C.V	0.21197	0.21233	0.113765	0.18934	0.22425	0.28246	0.186166	0.370824	

Source: Nepal Stock Exchange Ltd (Annual report of NEPSE 2007/08 to 2011/12)

From the following table we come to know that, the percentage of market capitalization of commercial bank has highest shares as 70.69.0%, 58.92.0%, 54.74%, 51.89% and 52.51% among other eight sectors of the listed companies. The commercial banks are dominating the other sectors in terms of market capitalization.

Table 4.18: Market Capitalization (Rs. in %)

Year	2007/08		2008/2009		2009/2010		2010/2011		2011/2012	
Sector	Value	%	Value	%	Value	%	Value	%	Value	%
Commercial Bank	218264	70.69	302219	58.92	206283	54.74	165775.7	51.89	192836	52.51
Finance	27113.6	8.78	43007	8.38	29869.6	7.93	27476.98	8.601	24860.4	6.769
Insurance	10897.2	3.53	10537	2.05	9756.61	2.59	9034.67	2.828	12593.6	3.429
Hotel	3484.13	1.13	4852	0.95	5285.58	1.4	5448.35	1.706	6457.9	1.758
Mfg and Processing	6576.18	2.13	7706.1	1.5	7592.03	2.01	6457.9	2.022	11830.2	3.221
Trading	686.73	0.22	1696.4	0.33	1617.51	0.43	1387.48	0.434	1116.9	0.304
Devt Bank	15619.4	5.06	27138	5.29	27488.9	7.29	25738.89	8.057	22442.7	6.111
Others	26128.9	8.46	115783	22.57	88978.7	23.61	78127.17	24.46	95124.3	25.9
Total	308770	100	512939	100	376871	100	319447.1	100	367262	100

Source: Nepal Stock Exchange Ltd (Annual report of NEPSE 2007/08 to 2011/12)

Commercial banks alone has a market capitalization of Rupees 218264 million (70.69%) in 2007/08 followed by the finance company Rupees 27113.6 million (8.78%) in year 2007/08, 8.38, 7.93, 8.601, 6.769 percentage in the year 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Manufacturing and processing occupies second position in the term of market capitalization as 2.13, 1.50, 2.01, 2.022 and 3.221percentage over all the listed companies. The proportion of market capitalization of Hotel and Trading as well as Development Bank is lower but the proportion of market capitalization of insurance, Finance, Manufacturing and Processing and Other Sectors are attractive to encourage the investors to invest in these sectors. Here the highest SD is 46014.3 in commercial bank which C.V is 0.2119 then after other sector is in second position which SD is 29973.14 whose C.V is 0.37084. Financial sector is in third position which S.D is 6468.85 and its C.V is 0.2123. Then after the Dev. Bank is in fourth position which S.D is 4409.438 and C.V is 0.1861 then after Mfg and Processing its S.D. and is 1982.35 and C.V. is 0.22425 then Insurance sector its S.D is 1201.807 and C.V is 0.1137 and Hotel and Trading has S.D of 966.71, and 367.481 respectively and its C.V is 0.1893, and 0.2824 respectively. This is shown in figure 4.4.

Fig. 4.5: Market Capitalization

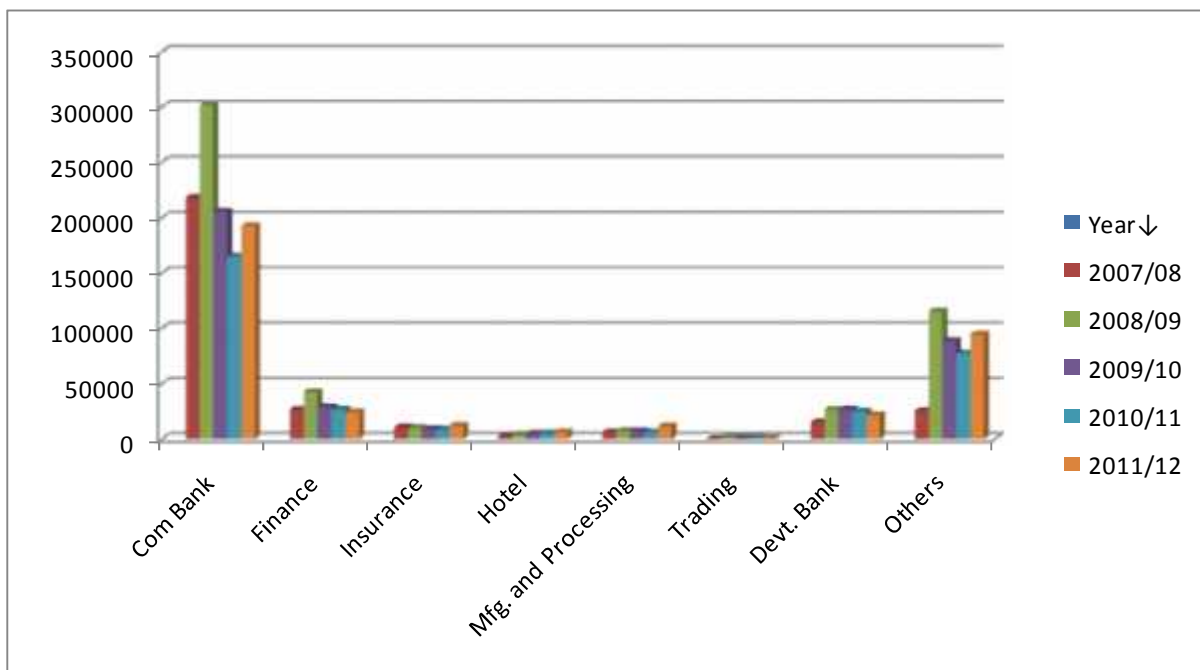


Fig 4.5 of market capitalization shows that the commercial bank dominated the trading floor. The Finance sector occupied the second position all over the eight listed companies like wise others, Development bank and insurance groups also shows the better performance than that

of trading and hotel groups. Market capitalization since the commercial bank group commands a lion's share in the total NEPSE trading.

Table 4.19: Yearly Total Market Capitalization

Year	Total
2007/08	308770.28
2008/09	512939.08
2009/10	376871.38
2010/11	319447.10
2011/12	367262.10

Source: Nepal Stock Exchange Ltd (Annual report of NEPSE 2007/08 to 2011/12)

According to the given table we can say that the total market capitalization in 2008/09 is higher than other years which is 512939.08, whereas the lowest total market capitalization is in 2007/08 which is 308770.28. Here total market capitalization is increasing up to 2008/09 but unfortunately it decrease in 2009/10 and 2010/11 it may be the unstable political and economic situation of Nepal. In the year 2011/12 some improvement is shown and increased to 367262.10.

Fig. 4.6: Yearly Total Market Capitalization



Here in the above figure same thing shown in the %. From this chart also we can say that the highest market capitalization is in 2008/09 which is 27% of total, and then 20%, 20%, 17% and 16% in 2009/10, 2011/12, 2010/11 and 2007/08 respectively.

4.7 Traded Share Quantity

Number of share transaction is shown in traded share quantity. No. of share traded is shown by group as follows:

Table 4.20: Traded Share Quantity

Sector	Com Bank	Finance	Insurance	Hotel	Mfg. and Processing	Trading	Devt. Bank	Others	Total
Year									
2007/08	11241.4	3094.3	433.27	158.1	1655.09	14.97	2535	7578	26710.02
2008/09	13301.4	3552.01	418.49	95.89	95.12	14.65	3632	4242.9	25352.34
2009/10	9680.62	3265.92	629.9	50.28	360.68	12.01	3535	5199.8	22734.31
2010/11	8534.28	3591.19	1590.59	1585	1128.52	37.77	5158.69	1950.8	23576.44
2011/12	15415.74	2196.91	1521.56	1388	1132.46	9.82	5419.47	7583.6	34667.31
Mean	11634.7	3140.066	918.762	655.3	874.374	17.84	4056.032	5311	
S.D	2476.29	506.1003298	526.1433	682.1	567.774	10.14	1080.707	2133	
C.V	0.21284	0.161175061	0.572666	1.041	0.64935	0.568	0.266444	0.4016	

Source: Nepal Stock Exchange Ltd (Annual report of NEPSE 2007/08 to 2011/12)

Table 4.9 presents the sector wise traded shares quantity and percentage of share traded quantity. The traded share quantity of the sector wise listed companies is increasing during the study period even the number of traded companies. In 2007/08 the share-traded quantity was 26710.02

then after it started to decrease to 25352.34 in 2008/09, 22734.31 in 2009/10 then after it starts to increase to 23576.44 in 2010/11 again 34667.31 in 2011/12.

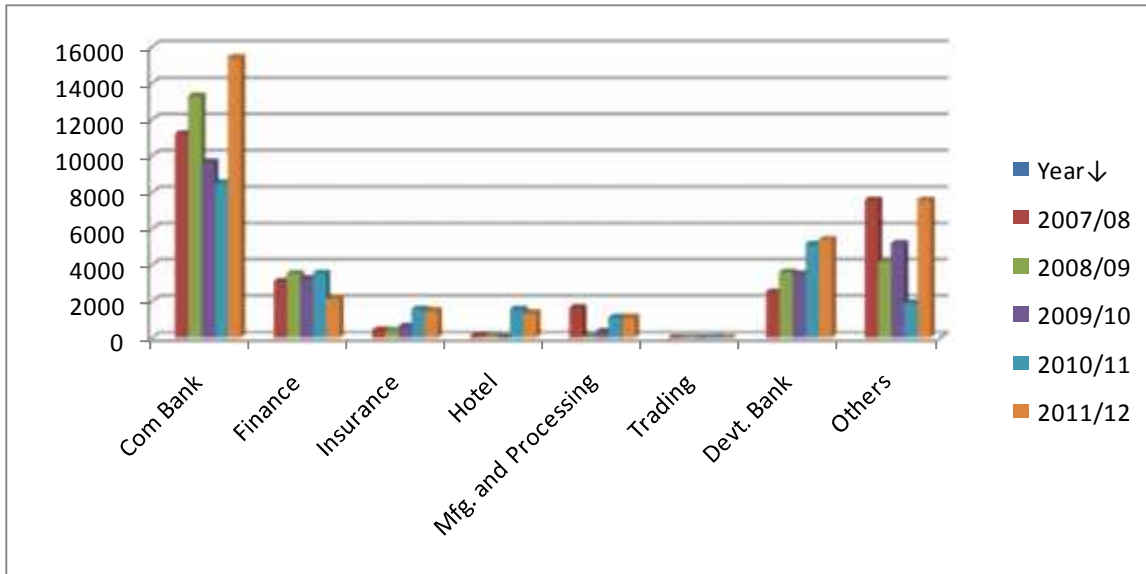
Table4.21: Traded Share Quantity in %

Year	2007/08		2008/2009		2009/2010		2010/2011		2011/2012	
Sector	Value	%	Value	%	Value	%	Value	%	Value	%
Commercial Bank	11241.4	42.09	13301	52.47	9680.62	42.58	8534.28	36.198	15415.74	44.47
Finance	3094.3	11.58	3552	14.01	3265.92	14.37	3591.19	15.232	2196.91	6.337
Insurance	433.27	1.62	418.49	1.65	629.9	2.77	1590.59	6.7465	1521.56	4.389
Hotel	158.07	0.59	95.89	0.38	50.28	0.22	1584.59	6.7211	1387.77	4.003
Mfg and Processing	1655.09	6.2	95.12	0.38	360.68	1.59	1128.52	4.7866	1132.46	3.267
Trading	14.97	0.06	14.65	0.06	12.01	0.05	37.77	0.1602	9.82	0.028
Devt. Bank	2534.9	9.49	3631.8	14.33	3535.07	15.55	5158.69	21.881	5419.47	15.63
Others	7578.02	28.37	4242.9	16.74	5199.83	22.87	1950.81	8.2744	7583.58	21.88
Total	26710	100	25352	100	22734.3	100	23576.44	100	34667.31	100

Source: Nepal Stock Exchange Ltd (Annual report of NEPSE 2007/08 to 2011/12)

Commercial bank dominated the trading floor, as it captured the largest chunk of the total share trading. It accounted 42.09 in 2007/08, 52.47% in 2008/09, 42.58% in 2009/10, 36.198% in 2010/11 and 44.46% in 2011/12. The maximum share traded of 34667.31 shares of total shares traded in 2011/12 and lowest share traded of 22734.31 shares in 2009/10. Second position occupied the Finance company sectors whose percentage of share traded are 11.58% in 2007/08, 14.01% in 2008/09, 14.37% in 2009/10, 15.23% in 2010/11 and 6.33% in 2011/12. The highest share traded quantity was 3591.19 in 2010/11 and lowest share traded quantity of Finance was 2196.91 in 2011/12. The entire sector the highest share quantity share traded was in 2011/12 as 34667.31 and the lowest share traded was in 2009/10 as 22734.31. S.D of Com Bank, Finance, Insurance, Hotel, Mfg. and Processing, Trading, Development Bank and other has 2476.28, 506.10, 526.143, 682.09, 567.77, 10.13, 1080.70 and 2132.9 respectively and its C.V is 0.212, 0.161, 0.572, 1.040, 0.649, 0.568, 0.2664 and 0.4016 respectively.

Fig 4.7: Traded Share Quantity



The figure 4.7 of traded share quantity shows that the commercial bank dominates the other sectors. Finance, Development bank and other sector shows the better performance. Insurance hotel manufacturing and processing and trading sectors are in poor condition. The highest traded share quantity was in 2011/12 and the lowest traded quantity share was in 2009/10, which is shown in figure 4.7.

Table 4.22: Yearly Total Traded Share Quantity

Year	Total
2007/08	26710.02
2008/09	25352.34
2009/10	22734.31
2010/11	23576.44
2011/12	34667.31

Source: Nepal Stock Exchange Ltd (Annual report of NEPSE 2007/08 to 2011/12)

In the given table we can see that the total traded share quantity is higher in 2011/12 which is 34667.31. Traded share quantity was decreasing up to 2009/10 and then it started to increase. Minimum traded share quantity is in 2009/10 which is 22734.31.

Fig 4.8: Yearly Total Traded Share Quantity



Above figure shows the total traded share in percentage, from this figure also we can say that the higher one is 26% which is in 2011/12 and minimum is 17% which is in 2009/10. Total traded share quantity is increasing now a day with comparison of last years. It may be due to stability in share market.

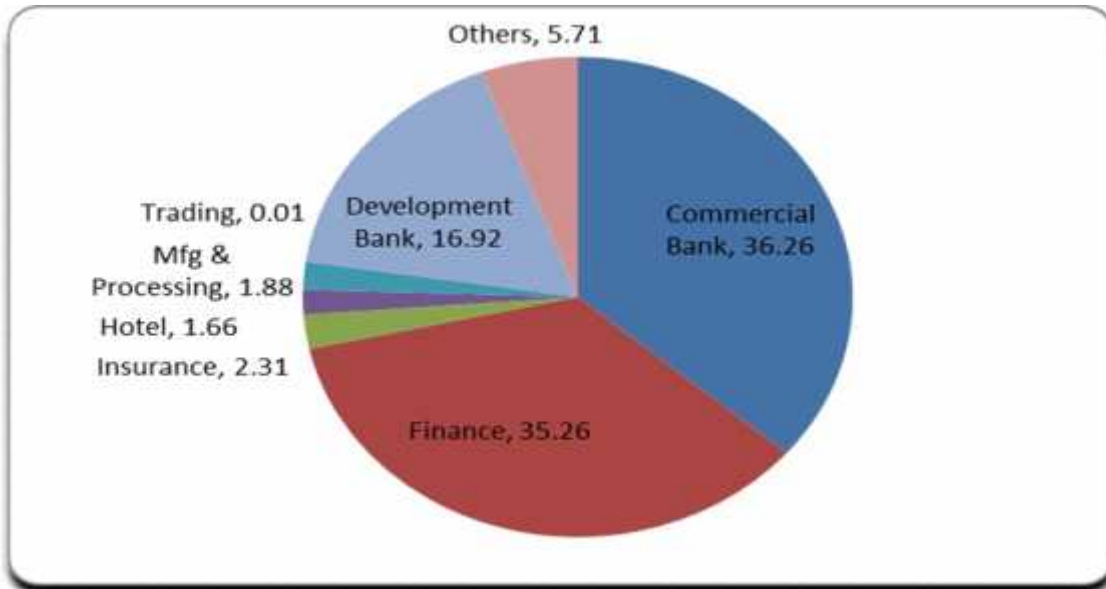
4.8 Sectors Issued Securities

Table 4.23: Sectors Issued Securities (From 1995/96 to 2011/2012)

Sectors Issued Securities	
Sector	Percentage (%)
Commercial Bank	36.26
Finance	35.26
Insurance	2.31
Hotel	1.66
Mfg and Processing	1.88
Trading	0.01
Development Bank	16.92
Others	5.71

Source: Annual report of SEBON, 2011/12.

Fig. 4.9: Sectors Issued Securities (From 1993/94 to 2011/2012)



This table and figure shows the percentage of issued securities in different sector from 2006 /2007to 2011/2012, here commercial bank shows the highest percentage in comparison of other which is 36.26%. Then finance sector occupy second position which issue 35.26% of total securities. And then Development bank occupies the third position which has 16.92% of total securities. Then after Other, Insurance, Manufacturing and Processing, Hotel and Trading which occupy 5.71, 2.31, 1.88, 1.66 and 0.01 respectively.

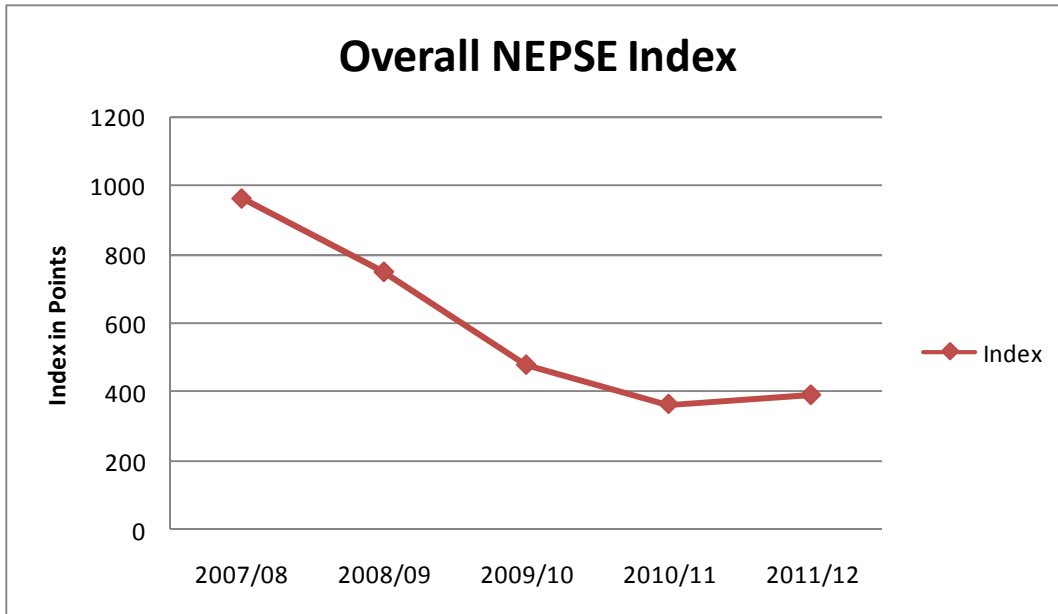
4.9 Overall Behavior of NEPSE Index

Table 4.24: Overall NEPSE Index (from 2007/08 to 2011/2012)

Overall NEPSE Index	
Year	Index
2007/08	963.36
2008/09	749.1
2009/10	477.73
2010/11	362.85
2011/12	389.74

Source: Annual report of SEBON, 2007/08 to 2011/12.

Fig 4.10: Overall NEPSE Index (From 2007/08 to 2011/2012)



Here this table and figure shows the overall NEPSE index of 2007/08 to 2011/12. According to given figure NEPSE index is increasing up to 963.36 in year 2007/08 then after it started to decrease up to 2010/11 then some increment in 2011/12. NEPSE index is 963.36, 749.1, 477.73, 362.85 and 389.74, in 2007/08, 2008/09, 2009/10, 2010/11 and 2011/12 respectively. NEPSE index was in decreasing train it may be due to unstable political and economic situation of the country. In the year 2011/12 some increment is shown in NEPSE index now some expectation is raised in capital markets.

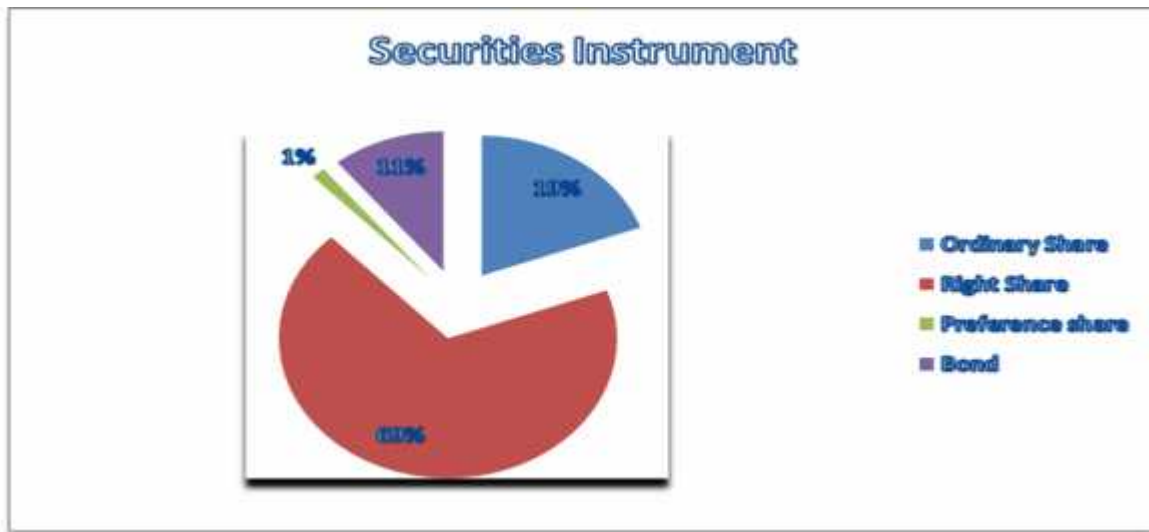
4.10 Issued Securities Instruments

Table 4.25: Issued Securities instruments (from 2006/07 to 2011/2012)

Instrument	Percentage (%)
Ordinary Share	19.41
Right Share	68.46
Preference share	1.33
Bond	10.8

Source: Annual report of SEBON, 2011/12

Fig. 4.11: Issued Securities instruments (from 2007/07 to 2011/201)



From the above figure we can say that the securities instrument are divided into four parts in Nepalese market which are ordinary share, right share, preference share and bond. Here 19% ordinary share, 59% right share, 1% preference share and 11% bond are issued up to observing period. From this chart and table we can say that preference share 1% shows that there is no contribution of preference share in capital market development. There is rapid growth in the market of right share which is 69 % of total market. Ordinary share and bond market are reasonable.

4.11 Major Findings of the Study

The major findings of this study are as follows:

-) There are altogether 209 companies listed in stock exchange. Out of these are 26 Commercial Bank, 69 Finance, 21 Insurance, 4 Hotels, 18 Manufacturing and Processing, 4 Trading, 61 Development Bank and 6 others.
-) The number of listed companies is in increasing trend. The number of the companies in the initial year was 146 in 2007/08 and 179 in 2008/09 went up to 176 in 2009/10, 207 in 2010/11 and 209 in 2011/12.
-) The annual turnover is fluctuating. In 2007/08 annual turnover was Rs 18780.59 million and then increased to Rs 19438.13 million in 2008/09 and it decreased to Rs 11020.8 million in 2009/10, Again decreased in 2010/11 to 6260.93. In year 2011/12 it slightly increased to 9344.7 million.
-) The total annual turnover in amount is shown where; highest turnover is in 2008/09. The total annual turnover is moving in positive direction up to 2008/09, but it

decrease in 2009/10 and 2010/11. But some increase in 2011/12 This shows that annual turnover also in increasing trend now a day. It may be due to unstable political situation to suitable condition in Nepal.

-) Market capitalization value is in unpredictable trend in each group in each year. The proportion of market capitalization of commercial bank is the highest among eight sectors. Its proportion is 70.69%, 58.92%, 54.74%, 51.24% and 54.31% in 2007/08 2008/09, 2009/10, 2010/11 and 2011/12 respectively. Commercial bank commands a lion's share in the NEPSE trading floor.
-) The total market capitalization in 2008/09 is higher than other year, Here total market capitalization is increasing up to 2008/09 but unfortunately it decrease in 2009/10, and 2010/11 but in the year 2011/12 some increment happened. This shows that total market capitalization is increasing now a day it may be the stable political and economic situation of Nepal and some expectation in Business sector.
-) In the term of traded share quantity again commercial bank captures the largest chunk of the total share trading. Trading sector has lowest share traded quantity comparing other sectors.
-) Total traded share quantity was decreasing till 2009/10 but now a day with comparison of last 3 years it is in increasing trend. It may be due to stability in share market
-) NEPSE index is increasing up to 963.36 in year 2007/08 then after it started to decrease up to observing period 2010/11. But last year it increased to 389.74. Here it shows that highest index is 963.36 in year 2007/08, then after due to unstable political and economic situation index has dropped down and reached to 362.85 in 2010/11. But in the year 2011/12 it slightly increased to 389.74.
-) Though the listed number of companies and number of share increased, sized of capital market, market capitalization, traded share quantity annual turnover has not increased in same ratio.
-) The percentage of issued securities From 1993/94 to 2011/2012, commercial bank shows the highest percentage in comparison of other, which issue 36.26% of total securities. Then finance sector occupy second position which issue 35.26% of total securities. And then Development bank occupies the third position which has 16.92% of total securities.

-) Four Securities instruments are issued in Nepalese securities markets which are ordinary share, right share, preference share and bond. Here 19% ordinary share, 69% right share, 1% preference share and 11% bond are issued up to observing period.
-) According to this research Commercial Bank sector is seen as most liked sector of investor in Nepal. Although no. of listed companies are less than other sector like Development Bank, Finance etc the turnover of commercial bank sector's security is high.
-) **The Role of Security Board of Nepal is to offer advice to Government on matters connected with the development of the capital market, regulate and systematize the issue, transfer, sale and exchange of registered securities, to establish coordination and exchange cooperation with the appropriate agencies in order to supervise and regulate matters concerning securities or companies, to discharge or make arrangements for discharging such other functions as are necessary for the development of securities and the capital market etc so SEBON is playing vital role for making awareness to Nepalese Investor.**

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The chapter presents the summary and the conclusion of this study. Finally, it presents recommendations for the future study.

5.1 Summary

Capital market is that market meant for long-term securities issued by the government or corporation. There are various instruments or securities used in the stock market like as shares of stock, bonds or debentures, etc. Efficient capital market helps to mobilize the financial resources and provides efficient channel to productive investment. So, development and expansion of capital market is essential for the rapid growth of the country. But, in the context of Nepal the concept of capital market is neither very old nor very complex. It is still in the beginning stages and different efforts have been made for the development of capital market since 1936 to till now. But also, Nepalese capital market got a proper structure only in the year 1993 when the Securities Board established as a regulatory body and stock trading commenced through the member brokers adopting open-out-cry auction system. When the NEPSE opened its trading floor on 13th January 1994, after that NEPSE has listed more than 209 public companies till now. Capital market proved to be one of the important segments of the national economy since it facilitates and provides better institutional arrangements for the borrowing and lending of long-term funds. So, capital market is the general barometer that measures the proper collection and canalization of savings for investments in productive and income generating assets. The allocative efficiency in the use funds is the basis for measuring the performance of capital market.

The capital market institutions are engaged in mobilization of savings into the productive investment activities. So to develop the economy of the country an efficient and effective capital market is a vital importance. The basic objectives of this study are concern to the concept of capital market; analyze its performance and role of NEPSE and SEBON.

Capital market and financial institutions are the key to the development of any economy, whether developed or underdeveloped countries.

Developed economics usually already have a highly sophisticated capital market, where as underdeveloped economics usually have none or only rudimentary institutions in place.

History with 19 year, Nepalese capital market has many more things to learn from the developed country to leave its mark in the economy, however, the improvement assessment from various institutions like World Bank, International Monetary Fund and Indian Capital Market and others had helped Nepalese capital market to develop in recent time. This market has been deepening with increased listed companies and amount traded every year.

The second chapter presents the theoretical and research review. In theoretical there are two approaches technical analysis and fundamental of security analysis. Technical analysis involves the study of the past volume price fluctuations whereas fundamental analysis approach, the security analyst the factor economic influences, industry factors and pertinent company information such as product and management in order to calculate an intrinsic value of the firms security.

Research Methodology and Presentations of data deals with the methods of analysis. This chapter presents the research design of the study. This study covers five years of time period from 16 July 2007 through 16 July 2012. In Nepal Stock Exchange there are eight sectors listed. So, all eight sectors (1) Commercial Bank, (2) Finance Companies, (3) Insurance Companies, (4) Hotel, (5) Manufacturing and Processing (6) Trading, (7) Development Bank and (8) Others have been taken as a sample for the study. Data used for the study purpose are based on the secondary data, primary data and major sources of data are NEPSE and SEBON. For analysis of data, percentage method, bar diagram has been used. Calculation of standard deviation is a positive relationship between risks varies from investor to investor. A risk aversion is the approach where the investor doesn't want to bear additional risk and wants secured and safe return. The level of risk is not so easy to measure.

The number of listed companies is in increasing trend. The numbers of listed companies were 146 in 2007/08, 159 in 2008/09, 176 in 2009/10, 207 in 2010/11 and 209 in 2011/12.

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

Total number of transactions increasing trend during the study period and investors are encouraged to invest in commercial bank and finance sectors.

5.2 Conclusion

There is almost no liquidity in the stock market for shares except that of banking and some finance and insurance sectors. Although, it has become to take steps to overcome such problems of the Nepalese stock market in order to make it active and supportive, the stock market has a good prospect for the resource mobilization to finance the productive enterprises in the Nepalese economy. The following conclusions have been derived from the major of findings of this study.

-) Capital market is a vital importance to develop the economy of the country, an efficient and effective stock market. The growth of institutional, growth of primary and secondary market and increase in listed companies it implies that the capital market in Nepal is in developing process.**
-) The number of transactions, traded amount and market capitalization suggest that the Banks, Development Banks and Finance companies as companies as compared to others are in better position. They look less affected than the performance of Hotel and Other companies.**
-) Indicators reveal that the share of commercial banks has a dominant role in determining the key indicators of the Nepalese Stock Exchange. It is thus unsurprising that commercial banks have continued to appear as the most attractive investment alternatives since the opening of the floor. Then finance company is in second position which market is in increasing trend and then Development Banks are also in developing trend.**
-) Market performance of NEPSE index shows the decreasing trend and no any sign of improvement of NEPSE index are shown here till 2010/11. In Year 2011/12 some improvements is shown in NEPSE index. Overall NEPSE index up to the end of fiscal year is 963.36 in 2007/08, 749.1 in 2008/09, and 477.73 in 2009/10, 362.85 in 2010/11 and 389.74 in 2011/12 which shows that the overall NEPSE index is fluctuating.**

-) Though there are fluctuating in NEPSE indexes, Investors are ready to assume more risk in obtaining a higher expected monetary value. So investors are encouraged to invest in manufacturing and processing and finance sector too.**
-) From all the analysis we can conclude that the NEPSE and SEBON play the vital role in Development of capital market. Through which all the trading, supervising and monitoring activities are done.**
-) Majority of brokers agree that certain requirement like minimum qualifications and experience should be met. Some added the brokers should be allowed to operate according to volume of transaction.**

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

Transparency and openness of transaction, quality professional services, adequate corporate financial disclosures and improved legal and supervisory framework are the urgent needs of Nepalese stock market.

5.3 Recommendations

The Nepalese capital market has grown in the country as an important base for the collection, mobilization and utilization of needed funds in the listed public companies. Still now, the numbers of listed companies in the NEPSE are not enough in comparison of other developing countries. To increase the number of listed companies in the NEPSE and improve the behaviour of the individual investors towards the investment in the securities. The following recommendations are made on the basis of findings and conclusion.

-) The performance of commercial bank, Development banks, finance companies and manufacturing and processing companies is better than the other sectors so it is recommended to the investors to invest their investment in these sectors.**
-) It is also recommended to the concerned regulatory body to carry out or helps to carry out further research on the specifics of market efficiency to develop an efficient capital market.**
-) Statistical tools like serial correlation and run test, filter rules technique is not carried in this study so the up-coming researchers are suggest carrying out study by applying these tools.**
-) There should develop clear regulatory benchmarking of SEBON and NEPSE.**
-) There should provide training and education on different aspects of the stock market and make institutional arrangement for regular study and research.**
-) Category listed in the NEPSE should be increased to represents true picture of economic growth. This approach can be done by relaxing some tough regulation like double taxation to NRN investment as instant, as this investment group has invested millions in different productive sectors from hospital to hydropower, and education few to mention.**

Stockbrokers are the financial intermediaries between the investors and listed companies. They have a significant role, responsibility and duties to create and operate the capital market opportunities. But professional ethnics of the brokers are questioned in different public gathering and investor's forum. There are no clear-cut laws or professional code of conduct to curb the unfair trading practices of the brokers. So, SEBON should formulate the guidelines for professional code of conduct of stock brokering companies in order to make stock brokering business more credible and transparent along with specifying clearly the duties and responsibilities of the stockbrokers towards their clients, other financial intermediaries and regulatory bodies. For contributing the development of capital market it is suggested that, the stockbrokers should provide their kindly, friendly, rational and adequate advices to their investors and increase their knowledge and professionalism. The existing present number of the stockbrokers is not adequate to serve the large number of investors. So, there should increase the number of stockbrokers to some extent.

There was no variety in the types of instruments available for trading. Government bond trading was virtually stagnant. Corporate bonds have limited existence. The Government ought to allow for a more variety of market instruments in primary as well as secondary market.

NEPSE has to open stock exchange in out-sided the Kathmandu valley to provide the opportunity to all investors and facilitate and promote public transactions. In other words there should expand securities exchange facilities in other places of the country considering its feasibility for the savers residing there.

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APPENDIX – A

Distribution of listed company

Commercial Bank					Finance				
Year	X	Mean(x)	$\frac{(x-x)}{x}$	$(x-x)^2$	Year	X	Mean(x)	$\frac{(x-x)}{x}$	$(x-x)^2$
2007/08	17	22.5	$\frac{-}{5.5}$	30.25	2007/08	57	63.6	$\frac{-}{6.6}$	43.56
2008/09	21	22.5	$\frac{-}{1.5}$	2.25	2008/09	61	63.6	$\frac{-}{2.6}$	6.76
2009/10	23	22.5	0.5	0.25	2009/10	62	63.6	$\frac{-}{1.6}$	2.56
2010/11	24	22.5	1.5	2.25	2010/11	69	63.6	5.4	29.16
2011/12	26	22.5	3.5	12.25	2011/12	69	63.6	5.4	29.16
Total	111			47.25	Total	318			111.2
SD				3.05941171	SD				4.71593
Insurance					Hotel				
Year	X	Mean(x)	$\frac{(x-x)}{x}$	$(x-x)^2$	Year	X	Mean(x)	$\frac{(x-x)}{x}$	$(x-x)^2$
2007/08	17	19	-2	4	2007/08	4	4	0	0
2008/09	17	19	-2	4	2008/09	4	4	0	0
2009/10	19	19	0	0	2009/10	4	4	0	0
2010/11	21	19	2	4	2010/11	4	4	0	0
2011/12	21	19	2	4	2011/12	4	4	0	0
Total	95			16	Total				0
SD					SD				0
Mfg and Processing					Trading				
Year	X	Mean(x)	$\frac{(x-x)}{x}$	$(x-x)^2$	Year	X	Mean(x)	$\frac{(x-x)}{x}$	$(x-x)^2$
2007/08	18	18	0	0	2007/08	4	4	0	0
2008/09	18	18	0	0	2008/09	4	4	0	0
2009/10	18	18	0	0	2009/10	4	4	0	0
2010/11	18	18	0	0	2010/11	4	4	0	0
2011/12	18	18	0	0	2011/12	4	4	0	0
Total				0	Total				0
SD				0	SD				0
Development Bank					Others				
Year	X	Mean(x)	$\frac{(x-x)}{x}$	$(x-x)^2$	Year	X	Mean(x)	$\frac{(x-x)}{x}$	$(x-x)^2$
2007/08	24	43	$\frac{-}{19}$	361	2007/08	5	5.6	$\frac{-}{0.6}$	0.36
2008/09	29	43	$\frac{-}{14}$	196 ⁸³	2008/09	5	5.6	$\frac{-}{0.6}$	0.36
2009/10	40	43	-3	9	2009/10	6	5.6	0.4	0.16
2010/11	61	43	18	324	2010/11	6	5.6	0.4	0.16

Annual Turnover (Rs in Million)

Commercial Bank				
Year	X	Mean(x)	(x-x)	(x-x) ²
2007/08	13822.1	8494.4	5327.7	28384387
2008/09	12406.5	8494.4	3912.05	15304135
2009/10	7196.24	8494.4	-1298.2	1685219.4
2010/11	3431.82	8494.4	-5062.6	25629716
2011/12	5615.38	8494.4	-2879	8288756.2
Total	42472			79292214
SD				3982.266

Appendix B: Close- Ended Questionnaire

(This Questionnaire is only for the academic purpose. The answer you give us will be kept fully confidential)

Part I

Demographic and General Information

Following questions are about your personal initiates. This section is very important for analysing data so please try to be honest.

1. Serial No:
2. Age(in years)
3. Sex
 Male Female
4. Employment Sector
 SEBON/NEPSE Bank/ Finance Government Broker
 Lecturer/Student Corporate House
5. Education Level
 SLC Intermediate Bachelors' Masters & Above
6. Level of Investment
 Below 500000 500000-1500000 1600000-2500000 Above
 2500000

Part II

Section A: Knowledge on Capital Market

7. Do you know about the Capital Market?
Yes No Some How
8. Does Capital Market help to invest the security that you liked?
Yes No Some How
9. What do you think the development of Capital Market in Nepal?
Very Satisfied Satisfied Average Very Dissatisfied Dissatisfied
10. What are the major problems of Capital Market?
Small Capital Market
Lack of Investor's confidence
Lack of proper knowledge
Lack of co-ordination between monitoring bodies
Inappropriate rules and regulations
Restriction of foreign investors
11. In which type of market have you invested?
Primary Market Secondary Market Both
12. In which type of security have you invested?
Shares Corporate Bonds Government Bonds Shares & Corporate Bonds
13. What are your objectives to invest in such security?
Interest Dividend Capital Growth others
14. Have you achieved your objectives by investing in Capital Market?
Yes No Some How
15. If further investment opportunities were available, on which type of securities would you like to invest?
Shares Corporate Bonds Government Bonds Shares & Corporate Bonds

Section B: Knowledge of Investment and Stability

16. How do you evaluate your investment in stock market?
Very Secure Secure Not Secure Don't Know
17. Which sector is more secure in term of returns and price stability?
Commercial Banks **Development Banks** **Finance Companies**
Hotels
Manufacturing & Processing **Hydropower** **Others**

18. Which of the following factors should be considered while making investment decision regarding the stock of a particular company?
Profitability & dividend policy **Future prospect**
Corporate Governance **Financial stability**
19. How do you react with the news of Government Agencies to invest in Capital Market?
Very Satisfied Satisfied Average Very Dissatisfied Dissatisfied
20. Will Central Depository System (CDS) improve Capital Market activity?
Yes No Don't Know
21. Do you think CDS will boost investor's confidence?
Yes No Don't Know
- Market maker has helped to stabilize the share price.
Yes No Don't Know
22. Market maker can give stability to Nepalese Capital Market.
Strongly Agree **Agree** **Strongly Disagree** **Disagree**

Section C: Knowledge on Impact of Signaling Factors

23. Which factor do you think for the NEPSE index drift?
Political instability **Rules & Regulation** **Company's news/announcement**
others
24. Which of the following factors that will awake share price of stock?
Political stability **Rules & Regulation** **Company's news/announcement**
others
25. When did you experience the share's price has plunged more sharply?
Political instability **Rules & Regulation** **Company's news/announcement**
others

Appendix 2: Open- Ended Questionnaire

This set of open-ended questions is designed to carry out in partial fulfillment of Master's Degree dissertation. This is entirely for academic research purpose and the information provided will be kept confidential (Please insert pages if needed)

Name: Name of Institution : Position : Education: Date of interview:

1. How do you assess the Nepalese Capital Market's present position?

2. What is the present status of the Nepalese Secondary Market?
3. How Nepal Stock Exchange (NEPSE) is developing?
4. NEPSE index is influenced mainly of Bank and Finance Institution. What do you think, why investors are prominent to invest in BFI over other sectors?
5. What can help to include other sectors in the Capital Market?
6. The Central Depository System (CDS) was established last year but not yet functioned in the country. Do you think this system will help to boost Capital Market? How?
7. What are the main factors affecting on stock price?
8. How do you find the psychology of investors at present?
9. How more investors can be attracted to the Capital Market?
10. CDS and Mutual Funds are in offing. How will they help improve the Capital Market?
11. How is the future of the Nepalese Stock Market?
12. At the end, any suggestion that might be important to capital market, please.