

STOCK PRICE MOVEMENT IN NEPALESE SECURITY MARKET

**By
PRAMILA POUDEL
Central Dept. of Management
Roll No. 402/063
T.U. Regd. No: 7-2-241-134-2003**

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RECOMMENDATION

This is certify that the thesis

Submitted by

Pramila Poudel

Entitled

Stock Price Movement in Nepalese Security Market

has been prepared as approved by this Department in the prescribe format of faculty of management. This thesis is forwarded for examination.

.....
Prof. Dr. Radhe Shyam Pradhan
(Thesis Supervisor)

.....
Prof. Dr. Bal Krishna Shrestha
(Chairman, Research Committee)

.....
Prof. Dev Raj Adhikari
(Head)

VIVA-VOCE SHEET

Pramila Poudel

Entitled

”Stock Price Movement in Nepalese Security Market”

And found the thesis to be the original work of the students and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of then requirement for Master’s Degree of Business Studies (MBS)

Viva-Voce Committee

Chairman, Research Committee:

Member (External expert):

Member (Central Department of Management):

Member (Thesis Supervisor):

Date: August, 2011

DECLARATION

I hereby declare that the thesis entitled “**Stock price movement in Nepalese Security Market**” submitted to the Central Department of management, faculty of Management, Tribhuvan University is my work, which is prepared as the partial fulfillment of the requirement of the Degree of Master of Business studies (M.B.S.) under the supervision of Prof. Dr. Radhe Shyam Pradhan of Central Department of management.

Pramila Poudel

Researcher

Roll no. 402/063

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Finally due to limitations of resources constrains and others the study may have many short comings. Therefore, I do not declare that the study is comprehensive. I hereby, take responsibility of any defects of analysis or error in this thesis.

August, 2011

Pramila Poudel
Kuleswor, Kathmandu

CONTENTS

	Page
Recommendation Letter	
Vivo-voce Sheet	
Declaration	
Acknowledgment	
Table of Contents	

CHAPTER I

INTRODUCTION

1.1	General Background	1
1.2	Statement of the problem	3
1.3	Objective of the study	5
1.4	Limitation of study	5
1.5	Organization of the study	6

CHAPTER II

REVIEW OF LITERATURE

2.1	Conceptual Review	7
	2.1.1 Common Stocks	8
	2.1.2 Advantages of Common Stock to the company	10
	2.1.3 Value of the Common Stock	11
	2.1.4 Types of the Common Stock	11
	2.1.5 Features of Common Stock	13
	2.1.6 Theories of stock price movements	16
2.2	Review of Major studies	32
2.3	Review of Nepalese Studies	36
2.4	Research Gap Analysis	43

CHAPTER III

RESEARCH METHODOLOGY

3.1	Introduction	46
3.2	Research Design	46
3.3	Population and Sample	47

3.4	Sources and Collection of data	48
3.5	Tools for data analysis	48
	i. Index number	49
	ii. Run test Analysis	49
	iii. Correlation Coefficient	51
	iv. Coefficient of Determination	51
	v. Coefficient of multiple determination in terms of explained, unexplained and total variation	52
	vi. Regression Analysis	52

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1	Introduction	54
4.2	Presentation and Analysis of Secondary Data	55
	4.2.1 No of companies Delisted from Stock Exchange	55
	4.2.2 Statistical Analysis	56
	4.2.3 NEPSE Index	56
	4.2.4 Monthly Trend Analysis	58
	4.2.5 Annual Trend Analysis	64
	4.2.6 Number of Listed Companies in Stock Exchange	65
	4.2.7 Number of Traded Companies and Volume Stock Traded	66
	4.2.8 Paid up value of listed companies	68
	4.2.9 Annual turnover of listed Companies	69
	4.2.10 Market capitalization of listed companies	70
	4.2.11 Financial Indicators (Earning per share, Dividend per share, and Market value per share's relationship)	72
	4.2.12 Correlation Coefficient Analysis	73
	4.2.13 Regression Analysis	75
	4.2.14 Run test for randomness	79
4.3	Presentation and Analysis of Primary Data	90
	4.3.1 Interview with Experts	90

4.3.2	Questionnaire	90
4.4	Major Findings	98

CHAPTER –V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1	Summary	100
5.2	Conclusion	102
5.3	Recommendations	104

Bibliography

Appendix - I

LIST OF TABLES

Table 3.1	Total Population, Sample & Sample Percentage	47
Table 3.2	Sample considered for the study	48
Table 4.1	NEPSE Index	57
Table 4.2	NEPSE PRICE Index for 2005/06	59
Table 4.3	NEPSE Price Index for 2006/07	60
Table 4.4	NEPSE Price index for 2007/08	61
Table 4.5	NEPSE Price Index for 2008/09	62
Table 4.6	NEPSE Price Index for 2009/10	63
Table 4.7	Annual Trend Analysis from fiscal year 1998/99 to 2009/10	64
Table 4.8	No of listed companies in NEPSE	65
Table 4.9	No. of Traded Company and Volume of Stock Traded	67
Table 4.10	Paid up value of listed companies	68
Table 4.11	Annual Turnover of listed companies	69
Table 4.12	Market capitalization of Listed companies 2009/10	71
Table 4.13	Correlation coefficient of selected companies EPS and MVPS74	
Table 4.14	Correlation coefficient of selected companies DPS and MVPS75	
Table 4.15	Earnings per share of selected sampled companies	76
Table 4.16	Dividend per share of selected sampled companies	77
Table 4.17	Market value per share of selected sampled companies	77
Table 4.18	Run test for Standard Chartered Bank Ltd.	80
Table 4.19	Run test for Nabil Bank Ltd.	81
Table 4.20	Run test for Everest Bank Ltd.	82
Table 4.21	Run test for Siddhartha Development Bank Ltd.	83
Table 4.22	Run test for NIDC Capital Market Co. Ltd.	84
Table 4.23	Run test for Annapurna Finance Co. Ltd.	85
Table 4.24	Run test for Himalayan General Insurance Co. Ltd.	86
Table 4.25	Run test for Soaltee Hotel Ltd.	87
Table 4.26	Run test for Unilever Ltd.	88
Table 4.27	Run test for Bishal Bazaar Co. Ltd.	89

Table 4.28	Status of Company through Stock Price Analysis	91
Table 4.29	Investor's awareness Analysis	92
Table 4.30	Influencing Factors Analysis	92
Table 4.31	Government Policy Analysis	93
Table 4.32	Effect of Global Recession Analysis	93
Table 4.33	Globalization of Nepalese Stock Market Analysis	94
Table 4.34	Investors Awareness Analysis	94
Table 4.35	Decision making Analysis	95
Table 4.36	Sector of Investment Analysis	95
Table 4.37	Investor's Interest Analysis	96

LIST OF FIGURES

Figure 4.1	NEPSE Index	58
Figure 4.2	NEPSE Index for 2005/06	59
Figure 4.3	NEPSE Index for 2006/07	60
Figure 4.4	NEPSE Index for 2007/08	61
Figure 4.5	NEPSE Index for 2008/09	62
Figure 4.6	NEPSE Index for 2009/10	63
Figure 4.7	Annual Trend Analysis from fiscal year 1998/99 to 2009/10	64
Figure 4.8	No of listed companies	66
Figure 4.9	No of Traded companies & volume of stock traded	67
Figure 4.10	Paid up value of listed companies	68
Figure 4.11	Annual Turnover of listed companies	69
Figure 4.12	Monthly Turnover of 2009/10	70
Figure 4.13	Market Capitalization of listed companies	71

ABBREVIATIONS

AFC	= Annapurna Finance Company
BBC	= Bishal Bazaar company
DPS	= Dividend per share
EBL	= Everest Bank Limited
EPS	= Earnings per share
HGI	= Himalayan General Insurance
MVPS	= Market value per share
NBL	= Nabil Bank Limited
NEPSE	= Nepal stock exchange ltd
NIDC	= NIDC Capital market
SCT	= Standard Chartered Bank
SDBL	= Siddhartha Development Bank Limited
SEBON	= Security board of Nepal
SHL	= Soaltee Hotel Limited
UL	= Unilever limited

CHAPTER ONE

INTRODUCTION

1.1 General Background

The business world is entirely different from the one in the past and changing every second. The entire world has become a global market. The business ideas are being more advanced and more complicated. Business firms are setting their goals globally and moved ahead to cope with the changing environment. The changing lifestyle has been challenging the business firms and also giving opportunities to produce thousands of goods and services to satisfy the changing needs of people. The societal needs have increased tremendously in quality as well as quantity. In one hand, markets for products and services have developed throughout the world and in another hand, the growing global competition have pressurized the business firms to foresee the future preference of the society than the present need.

A number of studies have been conducted on the stock market behavior in developed and big capital markets but their relevance is yet to be seen in the context of smaller and under-developed capital markets. The stock market behavior in smaller and under-developed capital markets is one of the important areas of the study in finance. Information on stock market behavior in such smaller and under-developed capital markets would help development of realistic theoretical models and formulation of relevant hypotheses for empirical testing in finance. Thus it is felt necessary to study stock market behavior in the context of smaller and under-developed capital markets.

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

an organization can be collected through the securities markets. Securities markets are the markets where financial assets are traded. Securities market facilitates the process of transferring from savers to investors. People requiring money is brought with those having surplus money in the securities markets. Securities markets facilitate the process of transferring funds from savers to investors. People requiring money is brought with those having surplus money in the securities markets. Securities markets are also known as mechanism created to facilitate the exchange of financial assets. Securities markets can be classified in several ways. Among them securities market can be classified as primary and secondary market. *Primary market* is a place where companies sell securities for the first time. In other words, 'new securities' are offered by the issuing company to the investing public. Thus the money flows from investors to the securities issuing companies. The *secondary market* is a place where outstanding securities are bought and sold. The secondary market is for 'old' securities i.e. the securities which have already been listed stock exchange. There is a close relationship between primary and secondary markets. Without effective secondary market, the primary market would fail, because investors subscribe to new issues only if they are hopeful of being able to sell at a profit at some time in the future. The role of secondary market is more in focus than that of primary market in securities market. It is mainly due to the fact that secondary market provides liquidity to the securities and ensures continuous price formation. The continuous price formation process reduces sudden jump in the price of the securities in the market.

Hence, Stock market is a major component of the securities market or capital market. Stock market is a medium through which corporate sector mobilizes funds to finance productive projects by issuing shares in the market. Similarly, stock market provides the best investment opportunity to the investors. Further, many profitable projects require a long-term venture capital to finance. Most investor tempts to provide risk and is reluctant to tie their saving not the long term commitment. Liquid stock market makes the investment less risky and

more attractive. It encourages savers to invest in the long-term projects because they can sell securities quickly and easily, if they want get back their saving before the project matures. At the same time, companies receive easy access to capital through new issuance of shares.

1.2 Statement of the Problem

The stock market is part and parcel of corporate development. Corporate business is a business organization established under company act consisting of billions of rupees of smaller stockholder and holder of debt certificates of small denomination. The investment in secondary stock market plays a significant role in financial sector of the nation's economy. Stock market being one of the prominent sources of economic development for nations is trying to attract its potential investors who are their biggest assets. But due to some relevant and irrelevant issues in security market a lots of hurdles can be seen and observed. Due to some limitation of sole trading and partnership like: unlimited liabilities uncertain future, difficult to transfer ownership, people thought about corporate firm collects its capital by issuing shares and debt certificates. The two types of shares are preference capital and equity share capital.

The magnitude of preference shares very small in corporate firm. Equity of ordinary share comprises the largest category of securities in corporate firm of Nepal, listed with the stock exchange. That is why this study will analyze the price determination of common stock of secondary market in Nepal. Corporate firms must have common equity to register. Common stock represents the ultimate ownership of firm in regard to the claim on assets and income. Common stocks are firstly marketed by the capital raising companies through primary capital market and later on these stocks are negotiable in secondary capital market. Capital market provides investor good investment opportunity with fair return and instant liquidity with minimum risk of loss it helps to mobilize financial resources for the investment in development project and thereby helps economic development of the nation. The stock market also

imparts liquidity to the securities holder. This offers to convert their securities into liquid cash before the maturity of the project. Furthermore they can invest their current income against their future income thereby achieve their time preference of consumption. The liquid market also promotes the primary issuances of share because investors participated in the issuance of share markets can get back the fund easily. The primary market is positively and high elastic with the stock price and liquidity in the secondary markets.

Among the various empirical contradictions to the Asset Pricing Model of Sharpe (1964), Linter (1981), and Black (1972), most prominent is the size effect of Banz (1981). He the finds that average returns on large stocks are lower while average returns on small stocks are higher. The positive relation between leverage and average return on US stocks and firm's book value of common equity to its market value is documented by Stattman (1980) and Rosenberg, Reid and Lanstein (1985). Similarly, Chan, Hamao and Lakonishok (1991) find the strong role of book-to-market equity in explaining the cross-section of average returns on Japanese stocks Basu (1983) also finds earning-price ration in explaining the cross-section of average returns on stocks. Again Ball (1978) finds that earnings-price relation is likely to be higher for stocks with higher risks and expected returns. Though there are these findings in the context of developed and big capital markets, their applicability is yet to be seen in the context of smaller under developed capital markets. This study therefore attempts to assess some of the cross section behavior of stock market similar to one as described above in the context of under developed capital market of Nepal. In an attempt to assess the stock market behavior in Nepal, it specifically examines the relationship of market equity, market value to book value, price earnings and dividends with liquidity, profitability, assets turnover and interest coverage.

This study deals with the following issues:

1. What is the occurring trend stock price during this study?

2. What could be the reasonable price paid for a stock in the secondary market?
3. What is the movement of NPPSE index?
4. How is the share price movement of listed companies in NEPSE?
5. What is the impact of price trend and volume of stock in NEPSE?
6. What is the listing rate of companies in Nepal Stock Exchange?
7. Do the investors see the price trend, volume of stock traded and, other views while making investment decision?
8. What is the impact of EPS, DPS, MVPS etc. on the share price trend and volume of transaction?

1.3 Objectives of the Study

The major objective of the study is to analyze the stock price movement in Nepal. The specific objectives are as follows:

1. To examine the relationship between stock price and volume.
2. To analyze the rate of growth of listed companies.
3. To assess the investors' views regarding the decision on stock investment.
4. To examine the major factors that affect stock price.
6. To analyze the trend in stock price.

1.4 Limitation of the Study

This report is held within the following limitations:

1. Research is based on the data of NEPSE office file.
2. Certain period data has been taken for the analysis; result is based on this data. This data is not verified.
3. Study is made on common stock.
4. The reality of the study fully depends on secondary sources of data and questionnaires filled by respondents.

5. Stock price trend is seen only with the help of NEPSE index of stocks during different months of five years of data available from NEPSE Ltd.
6. Stock exchange market is the focusing market within the securities market in Nepal.
7. This report covers the stock market behavior of listed companies in Nepal only.

1.5 Organization of the Study

This study will be presented on the following 5 chapters:

Chapter I: Introduction mainly contains the general background of the study, the statement of the problem, objectives of the study, limitation of the study, and organization of the study.

Chapter II: Review of the literature, presents the conceptual review of related studies which include different books, articles, journals and previous thesis reports, Various published and unpublished documents of the related organization and related pertinent literature available.

Chapter III: Research methodology, deals with the methodology used in the study. It deals with the nature of the data and method of collection and analysis. In this chapter different statistical and financial tool is used to tabulate and analyzed the data received from different sources.

Chapter IV: Presentation and Analysis of data, deals with the presentation and analysis of data collected during the study to find out actual quantitative fact about the NEPSE share behavior.

Chapter V: Summary, Conclusion, and Recommendation state the summary, conclusions and recommendation of the study. This study can also offer several avenues for researcher in future to research in this field. The bibliography and appendices used in are incorporated at the end of the study.

CHAPTER TWO

REVIEW OF LITERATURE

Review of literature is one of the important parts of the thesis.

2.1 Conceptual Review

The stock market is one of the forms of secondary market. It is a medium through which corporate sector mobilizes funds to financial productive projects by issuing shares in the market. Similarly, stock market provides the best investment opportunities to the investors. Thus, the effective collection of small amounts of savings and transferring funds into the competitive and efficient uses requires a well functioning capital market to facilitate the process. “In the absence of an efficient capital market, which attracts the funds the savers and channels them for the individual development, the savings which would otherwise have been available through capital markets are prone to remain dormant or leave the country or be deflected to less efficient uses.” (Mahat; 1981:30-31). The stock market also imparts liquidity to the security holders. This offers an opportunity for investors to invest in the long-term ventures, while market also enables them to convert their securities into liquid cash before the maturity of the projects. Further, stock market liquidity may influence economic development.

Many profitable projects require a long-term venture capital to finance. Most investors tend to avoid the risk and are often reluctant to tie their savings into the long-term commitments. Liquid stock market makes the investment less risky and more attractive. It encourages savers to invest in the long-term projects because they can sell the security quickly and easily if they want to get back their investments before the project matures. While at the same time, companies receive easy access to capital through new issuance of shares.

In order to allocate capital efficiently and to maintain a higher degree of liquidity in securities, the stock market should be efficient enough in pricing the shares solely by economic considerations based on publicly available information.

Among the many reviews, experts are the key parts themselves because the study is focused and neutralized till finishing the study. The growth of the stock market and its regulation is not so old in the context of Nepal. The investment sector is flourishing in recent years as other economic sectors. Today, most of the developed countries are boosting their economic activities by the help of their investment sectors. In the present context of the world, any type of global activities undertaken in any part of the world has influenced most of the investment sectors. The incidents in one corner of the world bring changes in the whole world's stock market. As for example, due to the September 11 terror attack in USA, USA attacked upon Iraq and due to this most of the investment sector's indexes are affected. Similarly, in Nepal due to the political instability, there is always fluctuation in stock prices.

2.1.1 Common Stock

A firm can collect funds required by issuing common stock. Common stock represents ownership interest in the corporation. The ownership capital generally referred to as equity, when issued to the public for subscriptions in the form of divisible units of equal value is termed as common stock. Unlike debt, once a corporation issues common stocks, generally it has no obligation to redeem the stocks by purchasing them from the investors. Usually, common stock is issued with a perpetual life. These stocks are subjected to issue and trading in primary and secondary markets. The original issue takes place in the primary market where it is generally issued with its face value and once the stock gets listed in the stock exchange, the trading starts to take place and this particular market is called the secondary market.

Stock is the ownership interest of a corporation. Each share of stock is a fraction of rights and a privilege that belongs to the owners of a business. A

stock certificate is evidence of that fractional; it is tangible, a certificate of title, to part of the company. Common stockholders of a corporation are its residual owners, their claim to income and assets comes after creditors and preferred stockholders have been paid in full. As a result, a stockholder's returns on investments are less certain than the return to lender or to preferred stockholder. On the other hand, the return to common stock holders not bounded on the upside, as are returns to the others. A share of common stock is can be authorized either with or without par value. The par value of stock is merely a stated figure in the corporate charter and is of title economic significance. A company should not issue stock at a price less than par value, because stockholders who bought stock for less par value would be liable for the difference between below the par price they paid and the par value. □(Van Horne, 1997)For the capital contributed by the shareholders by purchasing common stocks, they are entitled to dividends. The amount or rate of dividend is fixed by the company's board of directors. The common stock is, therefore, known as the variable income security. Being the owners of the company, the stockholders bear the risk of ownership; they are entitled to dividends after the claims of others have been satisfied. Similarly, when the company is wound, up, they can exercise their claim on assets after the claims of other suppliers of capital have been met.(Pandey,1995:905).The common stocks are issued by the firms to raise ownership capital and the investors buy them with the expectation that they receive a share of profit periodically.

The common stocks legally represent the equity of business firm and the holders are the owner who shares all the profits and losses of the business. They enjoy all earnings after meeting the obligations of interest on debts and dividends on preferred stocks. Thus, they enjoy all net benefits of the business by assuming the risk of losing their capital. (Pradhan, 1996:132, 133, &333) Therefore, Common stock is one of the important sources of capital of the capital structure of the joint stock company. There are mainly two parties 'trades the stock i.e.

1. Vendor or company
2. Buyer or stockholder

Vendor companies issues the equity share in the security market and purchasing companies purchase theirs 'stock to be an owner of the company. These kinds of issue may be in lump sum basis or installment basis.

2.1.2 Advantages of Common Stock to the Company

- a. **Permanent capital:** Equity shareholder provides the permanent capital to the company. There n are no obligation to return the money except at the time of liquidation of the company.
- b. **No obligation for dividend:** Equity shares do not impose an obligation to pay a fixed dividends are payable only if the company has adequate profit.
- c. **Sources of prestige:** The sale of common stock increases the creditworthiness of the firm. A company with substantial equity capital has a high credit standing. Creditors readily lend money to it because they regard equity capital as a safety shield.
- d. **Small denomination:** The face value of an equity share is generally low, i.e. Rs 100 equity shares have a wide appeal. The company can mobilize huge funds from investor belonging to different income groups.
- e. **No charge on assets:** For issuing equity on shares, the company do not required to mortgage or pledge its assets. The assets remain free of charge for borrowing money in future. (Sharma, 2002:23-25).
- f. **Better investors' attraction:** Common stock is often sold on better terms than debt. Stock appeals more and different groups of investors because it typically carries a higher expected total return (dividends plus capital gains) than preferred stock or debt.

2.1.3 Value of the Common Stock

There are mainly three kinds of value of the common stock:

- a. **Face value:** The face value of the stock is mentioned in article of association and memorandum book of the company. The face value does not charges until there is a stock split or other such initiative by the board of directors the par value of new issue is Rs.100, as directed by company act 1993.
- b. **Book value:** It represents the assets value per share entire obligation of the corporation is met. It is calculated by dividing the total common stock on the B/S by number of equity shares outstanding.
- c. **Market value:** This value is based on the market demand and supply. Market value is determined by the demand and supply factors and reflects the negotiation between investor and seller for the transaction the market value is influenced by many factors like economic and industry condition, expected earnings and dividends, speculations and other signaling effects like major events inside the country, governments stability.’

2.1.4 Types of Common Stock

- a. On the basis of meeting the special needs.
 - b. On the basis of their features.
- a. **On the basis of meeting the special needs:** Though, most firms have only one type of common stock, in some instances classified stock is used to meet the special needs of the company. Generally, when special classification of stock is used, one type is designed class A another class B and so on.

- iv. **Speculative stocks:** Stocks, which are viewed by investors with some speculative motives, are called speculative motives, are called speculative stocks.
- v. **Cyclical and defensive stocks:** Stocks, which are influenced by economic and industrial cycles, are called cyclical stocks whereas stocks which are less susceptible to economic cycles, are called defensive stocks.
- vi. **Small stocks:** Stocks depending upon the capitalization norms are generally known as small or even blue chip stocks.
- vii. **Treasury stocks:** If a corporation decides to buy back own stock, the acquired stocks are called treasury stocks. (Cheney and Mosses, 1995; 419-422) In Nepal, growth stocks, income stocks and speculative stocks are generally seen in practice enjoyed by the common shareholders.

2.1.5 Features of Common Stocks

Study of the key features of common stocks would be the important to find out the causes of stock price movement. Common stockholders are the true owner of the business firm. Common stockholders are the residual owner in the same that they received what is left after all other claims on the firm's income have been satisfied. The main positive consideration involve in equity ownership are income and control. Common stockholder has the right of:

- a. Innovation of controlling the firm
 - b. Preemptive rights
 - c. Other rights of common stockholder
 - d. Right to incomes and distribution of other sales
- a. **Innovation of controlling the firm:** Equity shareholders are the real owner of the firm. They can directly involve controlling the firm to progress it. They must be invited in the annual general meeting to the

company, that meeting they are provided the voting right to choose the best management team, i.e., board of director.

The common stockholders have voting right to choose the best management team, i.e. board of director. The common stockholders have voting rights to elect the board of directors, which in turn, elects the management committee. The stockholders also have other voting rights on issues, which have substantial effects on the corporations, on issues, which bring about change in their ownership percentage, any contract or financial arrangement.

- b. Preemptive rights:** The law grants the shareholders the right to purchase new shares in proportion of their current ownership. Thus the preemptive right entitles a stockholder to maintain his proportionate share ownership in the company. The stockholder's option to purchase, a stated number of new shares at a specified price during a given period, is called rights which can be exercised at a subscription price which is generally much below the current market price of shares. Preemptive right allows stockholders to maintain their proportionate ownership in the firm when new issues are made. Preemptive right permit existing shareholder to maintain their voting control and protect against the dilution of their ownership and earnings. We can take an example to clear this point, i.e. assume that 20,000share of common stock, each with a price, if Rs 10,00,000 an additional 10,000 share are sold at Rs. 40 a share, total to Rs.4,00,000. Thus the total market value is Rs.1400000. when total markets values is divided by the total number of share Rs. 45 per share $[(50+45)/2]$ is obtained.

In this right, the stockholders are the first subjected to purchase of any new additional issues so that they do not lose their voting right control and there is protection in the value of the shares being diluted. These rights sustained by the use of rights offering.

c. **Other right of common stockholder:** The right of stockholders to common stock in a business firm are established by the law of the state in which the corporation is chartered and by the term of the charter granted the statute the right of common stockholder are as follows:

i. **Specific right of common stockholders**

- The right to sell and purchases the stock
- The right to inspect the corporate documents
- The right to vote in the manner prescribed by the corporate charter.
- The right to share residual assets of the corporation on dissolution.

ii. **Collective right of common stockholders**

- The right to adopt and among by laws
- The right to elect the directors of the corporation
- The right to authorize the sales of fixed assets
- The right to enter into merger
- The right to change the amount of authorized common stock.
- The right to issue preferred stock, common stock debenture and other securities.

d. **Right to incomes and distribution of other sales**

As a matter of fact, shareholders have no right to receive income distribution from the corporation. As a practice prevails, board of director declares cash dividends if enough financial resources are available. The dividends can be cash dividends, stock dividends, property dividends etc (Cheney and Mosses 1995). Rational and high moral character and accountable behaviors of institutions such as the government, Central Bank, stock exchange board, stock exchange; organized institutions for accumulating capital from the market, mediators in the form of manager for issuing security, creator of market, manager for investment security dealers such as brokers and investors in the

form of government bond holders, ordinary shareholders, preference shareholders, debenture holders ordinary mutual fund unit holders help to develop healthy capital market. (NPC, 1998)

Do accounting numbers such as income explain changes in a company's stock prices? The answer is yes. Evidence from research shows definite link between the new conveyed in net incomes is accompanied by positive price changes. Also, the more good or bad is net income, the greater is the accompanying stock prices reaction. Similar evidence exists for other summary financial statements numbers such as book value. Research also shows that many factors influence the relation between accounting numbers and stock prices. These includes company factors, such as risk, size, leverage and variability, which decrease the influence of numbers like net income on prices and factors, such as earning growth and persistence, which increase their impact. Analysis must recognize those influences impacting the relevance of accounting of numbers of security analysis.

Fundamental analysis research offers guidance in use of financial statement information for predicting future stock price changes. Evidence indicates financial statements help reveal the permanent and transitory portion of net income. Permanent portions are much more long lasting in their impact of stock price and commensurately of greater magnitude in their influencing on price". (Bernstein, Wild 1998)

2.1.6 Theories of Stock Price Movement

In the wide sense, there are three theories concerning the stock price behavior. Simply stock price fluctuation refers the movement of stock price in the secondary capital market, i.e., market value is more than book value, market value is less than book value and market value is more than book value due to the different internal and external factors. Market value can be changed. When we try to study of the Nepalese security market, it is necessary to study the other external factors of foreign country due to the globalization, liberation and

modernization, all the world has become within the boundary so effect of one area's movement automatically lies upon others. Theory is code of conduct of explanation process is pushed further from where is concrete theme can be obtained.

These theories are as follows:

1. Efficient Market Theory
2. Fundamental Market Theory
3. Technical Market Theory

1. Efficient Market Theory

The term efficiency can be defined in various ways allocate efficiency, operational efficiency and information's efficiency. When the finance literature speaks of market efficiency it is generally speaking exclusively about informational efficiency in pricing the stocks. A market is said to be informational efficient if the current market price instantaneously and fully reflects all relevant available information. The market value of a particular share may be under or overvalued. An efficient market is one where shares are always correctly priced and when it is not possible to outperform the market consistently.

The efficient market theory contends that in a free and perfect competitive market stock price is always reflect all the available information and adjust instantaneously every influx of new information. In an effective market, only price change that would occur is those, which from new information? "an initial and very important premise of an efficient market is that there are large numbers of knowledgeable and profit maximizing independent buyers and sellers, new information is generated randomly and the investors adjust the information rapidly". (Really, 1986)

Therefore if market is efficient, it uses all available information to it in setting price. The measure of efficiency involved from the notion of perfect

competition, which assumes free and instantly available information, rational investors with no tax and transaction costs.

The requirements for a securities market to be an efficient market are:

- Price must be efficient so that new investors and better products will cause a firm's securities price to rise and cause investors to want to supply capital to the firm.
- Information must be discussed freely and quickly across the nation also all investors can react to new information.
- Transactions cost such as sales commissions on securities are ignored.
- Taxes are assumed to have no noticeable effect on investment policy.
- Every investor is allowed to borrow or lend at the same rate.
- Investors must be rational and able to recognize efficient assets so that they will want to invest money where it is needed most. (i.e., in the assets with relatively high returns) (Bhalla, 1983)

This constitutes the world of the efficient market theory or more popularly the capital assets pricing model.

As efficient market is concerned with the pricing mechanism of securities market, it has two dimension of price adjustment. One is the type of information reacting to and another is the speed and quality of adjustment of security to the information. As any random infusion of information instantaneously or lags that are profitable. Pricing not only should be instantaneous, but also should discount accuracy of information so that the price fluctuates closely around its intrinsic value. So Keane rightly pointed out, " It would be clearly an add interpretation as an efficiency if a doubling in price the price of a share were regarded as an efficient reaction to new information, simply because the movement was instantaneous, if information in fact warranted a substantial reduction in price□. (Keane, 1983)

Agreeing with this, Francis and Taylor noted .Market efficiency refers to the ability of financial asset to quickly adjust and reflect all information that

irrelevant to value in its price. (Francis, 1986) Therefore, it assumes that any given time the market correctly prices all securities. The result, or so the theory advocates, is that securities cannot be overpriced or under priced for a long enough period to profit there from.

(i) **Levels of market efficiency:** There are three levels of market efficiency depending upon types of information set impounded into the price. In other words, the forms of markets are determined on the basis of how publicly available information is reflected in the market price of shares. The statements that price reflect all available information represents the highest order of market efficiency. As Fama suggested, it is useful to distinguish three level of market efficiency.

- **Weak-form efficiency:** If the pricing into the stock market has reflected all information found in the record of past prices and volume it is considered as weak form efficiency and participation of technical analysis approach in the market become futile.
- **Semi-strong-form efficiency:** - If current prices of stocks reflect not only all information found in the record of past prices and volume but also other publicly available information the market is semi strongly efficient. In that the market even fundamental analysis of published accounting information has no value, because participants would have discounted it accurately and instantaneously when they are disclosed.
- **Strong-form efficiency:** - The market where stock prices fully reflect all the available relevant information public as well as private, it is considered that the market held strong form of efficiency. In this market insider information cannot beat the market because no single participant has monopolistic access to that kind of information.

These three levels of efficiency described above are not indifferent to each other but they are serially higher order in degrees of market efficiency. If the market is semi-strongly efficient, it must be efficient in weak sense also because the past price data is one form of published information, which must have been impounded in the price. If the market is not efficient in a weak sense, the past price information could be contained in past prices has not been reflected fully into the current prices. Similarly, for the market to be strongly efficient it must also be efficient at the semi-strong and weak levels, otherwise prices are not reflecting all relevant information.

(ii) Theory of weakly efficient market or random walk hypothesis: “The weak form of efficient market hypothesis stipulates that historical price and volume data for securities contain no information which can be used to earn a trading profit above what could be attained with a native buy-and-hold investment strategy” (Francis; 1986:543). “Sense if share prices fully reflect the information implied by all prior price movements. Price movements in effects are totally independent of previous movements, implying the absence of any price patterns with prophetic significance.” (Keane; 1983:10) The weak form of “Efficient Market Hypothesis” (EMH) is popularly known as the random walk theory. Random walk theory describes whether past price can predict future price. Fama argued, “random walk theory implies the future path of price level of a security is no more predictable than the path of series of cumulated random numbers. The series of price changes has no memory, that is, the past cannot be used to predict the future in any meaningful way,” (Fama; 1965:34) It means, that the current Size and direction of price change are independent and unbiased outcome of previous price changes. Put it differently, prices appeared to follow a random walk, implying that successive price changed is independent of one another.

Random walk model says that previous price changes or changes in return are useless in predicting future price or return changes. It means if we attempt to predict future price in absolute term using only historical price change information, we will not be successful i.e., successive price changes are independent. This independence implies that prices at any time will on the average reflect the intrinsic value of the security. If a stock's price deviates from its intrinsic value because among other things, different investors evaluate the available information differently or have different insights into future prospects of firm, professional investors and astute non professional will seize upon the short-term of random deviations from the intrinsic value and through their active buying and selling of the stock in question will force the price back to its equilibrium position. Finally, the efficient market theory holds that since price reflects all available information and since information arrives in a random fashion, there is little to be gained by any type of analysis whether fundamental or technical. It assumes that every piece of information has been collected and processed by thousands of investor and this information (both old and new) is correctly reflected in the price. Returns cannot be increased by studying historical data, either fundamental or technical, since data will have no effect on future prices.” (Fischer and Jordan; 2000:553)

Though the subject of market efficiency has been much concerned area of the study for the academicians and researchers in recent times, “the advocates of the efficient market theory are attached by an equally eloquent opposing camp which argues that the stock market is neither competitive nor efficient. The critics contend that one or more of the following factors cast their shadow over the efficiency and competitiveness of the stock market.” (Chandra; 1994:589)

Information inadequacy: Information is neither freely available nor rapidly transmitted to all the participants in the stock market. In addition, there is a calculated attempt by many companies to circulate “misinformation”.

Limited information processing capabilities: Human information processing capabilities are sharply limited. As Nobel Laureate Herbert Simon observed: “Every human organism lives in an environment which generates millions of new bits of information every second, but the bottleneck of perceptual apparatus certainly does not admit more than a thousand bits per second and possible much less.”

Irrational behaviors: In theory, it is generally assumed that investor rationality will ensure a close correspondence between market prices and intrinsic value. In practice, this may not be true. As J.M. Keynes argued: In point of fact all sorts of consideration enter into the market valuations which are in no way relevant to the prospective yield? L.C. Gupta made a similar observation: “our findings suggest that the markets evaluation process work haphazardly almost like a blind man firing a gun. The market seems to function largely on a ‘hit –or – miss’ basis rather than on the basis of informed beliefs about the long-term prospects of individual enterprises.” (Gupta; 1981:20)

Monopolistic influence: In theory, the market is regarded as highly competitive. No single buyer or seller is supposed to have undue influence over price. In practice, powerful institutions and big operators wield great influence over the market. The monopolistic power enjoyed by them diminishes the competitiveness of the market.

Finally, due to these challenges posed by the critics of efficient market theory, there are many factors to point the finger at its reality validity and authenticity. This appears to be truer like relatively less developed capital market of Nepal. Nepalese capital market is yet to be efficient in terms of information as well as operations.

2. Fundamental Analysis Theory

Generally Fundamental analysis theories refer the formula and principle. According to the technical analyst, fundamental analysis is idealist part of

analysis. So it is not perfect and market principle of analysis of stock price movement.

Fundamental analysis approach involves working to analyze different factors such as economic influences, industry factors, governmental actions, firm's financial statement, its competitor and pertinent company information like product demand, earnings, dividends and management in order to calculate an intrinsic value for firm's securities. The analyst who believes on fundamental facts to determine the intrinsic value of stock is popularly known as fundamental analyst or fundamentalist.

“The value of common stock is simply the present value of all the future income which the owner of the share will receive.” (Francis; 1986:398) And the actual price should reflect intrinsic value of the stock i.e., good anticipation of cash flows and capitalization rate corresponding to future time period. But in practice, first, it is not known in advance what the appropriate discount rate should be for a particular stock. Therefore fundamentalists estimate their intrinsic value by studying in details all matters that are relevant to company. “The study would involve examining its sales earnings, profit margins, dividends, management proficiency, industrial and business outlook, labour competence any factor that would have a bearing on its performance in the future”. (Raghu; 1991:167) Fundamentalists forecast stock price on the basis of economic industry and company statistic. The principal decision variable ultimately takes form of earning and value with a risk-returns framework based upon earning power and the economic environment. “Fundamental analysts delve into companies' earnings, their management, economic outlook, firm's competitor's market conditions and many other factors.” (Francis; 1986:398)

The objective of fundamental security analysis is to appraise the intrinsic value of a security. The intrinsic value is the true economic work of financial asset. “The fundamentalists maintain that any points of time every stock has an intrinsic value which should in principle be equal to the present value of the

future stream of income from the stock discounted at an appropriate risk related rate of interest” (Ballad; 1983:283) Therefore the actual price of security is considered to be a function of a set of anticipation. Price changes as anticipation changes which in turn change, as a result of new information. In other words, a new piece of news is released, securities’ intrinsic values will change, and the securities’ market prices will adjust towards the new values. On the basis of such a study fundamentalists project a company ought future profits and earning capacity with reasonable accuracy what the price of a company’s share to be. This estimated price is termed as intrinsic value. The intrinsic value of the stock is generally away from its present market value. Thus there is difference or gap between them. Fundamentalist reaches and investment decision by comparing this value with current market value, it is believed that price will rise. In this situation, fundamentalists will acquire shares as this difference presents them with an opportunity to make a profit. Alternatively, if the intrinsic value is lower than the market value, the share is overpriced and is an indication to the fundamentalists to sell. Following this rule, they believe, above average return can be attained, and given that market are inefficient in pricing the shares. Therefore “The fundamental analysts work to find new information before other investors so they can get into a position to profit from price changes they anticipate.” (Francis; 1986:603)

“Fundamental analysis uses different models like Top-Down versus Bottom-up forecasting, probabilistic forecasting, econometric models, financial statement analysis etc. to estimate the value of security” (Sharpe, Alexander and Bailey; 2001:850-853)

Therefore the fundamental analyst reaches and investment decision on the basis of these analytical tools. Though fundamental analysis approach is used by many security analysts or prospective investors to make a judgment of the stock’s value with a risk-return framework based upon earning power and the economic environment, it is hard and time consuming work. As stated by

Raghu Palat, some of the limitations of fundamental analysis approach are as follows (Raghu; 1991:168)

- The approach though sound and based on basic financial figures does suffer from drawbacks and to make this approach work effectively one must be aware of them.
- It tends to ignore market behavior and assumes that the market will act rationally. The market seldom does prices flare or drop on the flimsiest of reasons.
- The entire fundamental approach is based on a rational scientific analysis of data. The market is rarely rational.
- The information and analysis itself may be incorrect.
- Many companies, with the help of creative/innovative accounting and accounting cosmetics disguise real earnings.
- The fundamentalists' estimate of intrinsic value may be incorrect. This is not only possible but also more probable than not as he has to often forecast growth, profit and other factors without having in his grasp all the facts.
- The fundamentalists may not fully understand the economy or the industries, as there are several external factors.
- There is also the possibility always that the market may not move in the manner a fundamentalist expects and conversely towards the intrinsic value.
- It is also difficult to determine corporate action.

In short, the fundamental approach works exceedingly well in determining the intrinsic value of a company. It is not such an effective tool in determining future price movements and hence it is not very dependable for short-term profits. "By nature the fundamentalist is conservative in approach and is generally unwilling to take a quick loss he would rather adopt a buy and hold policy." (Yahasway; 1992:155) Therefore fundamental analysis allows the

analyst to forecast holding period yield and riskiness of achieving that yield, but these figures alone do not necessarily prompt a buy or sell action.

3. Technical Analysis Theory

Technical analysis is one of the important theory of price determination and interpretation of the stock. This is the modern and practical method to analyze the price fluctuation in the security market. Technical analysis is based on the widely accepted premise that securities price are determined by the supply and demand of securities. Among many tools, technical analysis is one tool is designed to measure demand and supply. Typically, technical analysis record historical financial data on charts, study these charts in an effort to find meaningful pattern and use these patterns to predict future prices. Some charting techniques are used to predict the movements of single security. Some are used to predict the movements of a market index and some are used to predict both the action of individual securities and market action. “The technician believes the forces of supply and demand are reflected in patterns of price and volume of trading. By examination of these patterns, he predicts whether prices are moving higher or lower, and even by how much.” (Fischer and Jordan; 2000:510)

Therefore, the patterns or trend in prices is the basis of technical analysis. Various charts are prepared to determine trends and to determine whether prices are likely to rise or fall. Technicians tend to look backward. “The technician usually attempts to predict short-term price movements and thus makes recommendations concerning the timing of purchases and sales of either specific stock or groups of stocks (such as industries) or stocks in general. It is sometimes said that fundamental analysis is designed to answer the question “what?” and technical analysis to answer the question “when?” (Sharpe, Alexander and Bailey; 2001:844)

Technical analysts discern past pattern or trends, which they believe to repeat in the future and recommend for the timely holding and disposing mechanism,

which is profitable. Or that recommend for short-term speculation based on its forecast of profitable pattern. Technical analysts use different kinds of tools and technique to determine and forecast the stock price on the basis of past data and information. This technique is based on the fundamental technique. Technical analysis is easier, faster, more result oriented and more market oriented philosophy than fundamental analysis. Some important technique of technical analysis is studied below: -

- The Dow Theory
- Charts
- Contrary opinion
- Confidence index
- Breadth of market
- Relative theories
- Moving Average

(i) **The Dow Theory:** It is one of the oldest and famous techniques which were founded by Charles Dow who was editor of 'The wall street journal'. The Dow Theory is used to predict reversals and trends in the market as a whole or for individual securities. According to Dow, the market is always considered as having three movements, all going at the same time. The first is the narrow movement from day to day; the second is the short swing, running from two weeks; the third is the main movement from at least four years.

(ii) **Charts:** Technical analysis uses three basic types of charts- line chart, bar chart and point & figure charts. Line charts are used to connect successive day's closing price. Bar charts are used to spoon the distance from the day's highest price to the day's lowest price. A small cross on the bar makes the closing price. Point and figure charts are made on X & Y are more complex than line and bar charts. PFCS are used not only to detect reversal in trends but also to make price forecasts, called price targets.

- (iii) **Contrary opinion:** Contrary opinion refers the opposite thinking of others. It assumes that the so called man in the street is usually wrong and that it is therefore advantageous to pursue strategies opposite to his thinking two different theories of contrary opinion are: -
- The odd-lot theory.
 - Short sales.
- (iv) **The confidence index:** “Confidence index is the ration of high-grade bond yields to low grade bond yields. When bond investors grow more confident about the economy, they shift their holdings from high grade to lower-grade bonds in order to obtain the high yields offered by the risk or bond”. (Francis; 1983:447)
- (v) **Breadth of market:** It is this kind of technique of finding the breadth of market that is used to measure the underlying strength of market advance or decline.
- (vi) **Relative Strength:** Relative strength is formulated to show that those securities which have continued to stable historically in the past, will give an investor a higher return because the security has stability and is able to withstand both the depression and peak periods. According to the analysts, the investor should make a choice of investing in those securities, which have constant strength in the market. This can be done by comparing the prices of those securities which rise and fall faster than the other securities. The relative strength can be calculated by measuring the rate of return of the securities by classifying the securities, by finding out the high average return of securities and by using the ratio analysis.
- (vii) **Moving average:** “Moving average is used by technicians who focus on the moving average of price. The moving average is used to provide a smoothed, stable reference point against which daily fluctuations can be

gauged. Moving average analysis is used to for individual securities and market indexes.

The technical analysts estimate prices instead of values. They largely ignore the fundamental facts such as the firms' risks and earnings growth rates in favor of concentration on various barometers of supply and demand that they have devised.

The premise here is that prices move in trends and that a trend is likely to continue than reverse. It is noteworthy to mention here the quotation of Veteran scientist and inventor, Benjamin Franklin that "Show me the man who does not believe in history and I will show you a fool." Technical analysts believe in the history and that history repeats itself. Consequently all their reductions and charts are based on history. Past figure and trends are used to predict the future.

"Technical analysts maintain that the price of a share at any time (Present price) is the balance struck by buyers and sellers at a point in time price movements take place on account of changes in buying and selling pressures. This occurs in account of diverse internal and external factors (profits, political environment, predictions and the likes). Prices stabilize when equilibrium between buyers and sellers is achieved. They believe that a record of price movements over a period of time in the past. As the whole theory is based on the assumptions that history repeats itself, the human nature does not change and that man is likely to repeat his patterns of past movements will repeat themselves in the future." (Raghu; 1991:172)

According to Edwards and Magee the basic assumptions underlying technical analysis are as under, (Edward and Magee 1958:86)

- Market value is determined solely by interaction of supply and demand.
- Demand and supply are governed by many rational and irrational factors.
- Changes in trend are caused by shifts in supply and demand.

- In disregard of minor fluctuations in the stock market, share price tend to move in trends, which persist for an appreciable length of time.
- Shifts in supply and demand, no matters why they occurs can be detected sooner or later in charts of market action.
- Some chart patterns tend to repeat themselves.

In essence, technical analysis believes that past patterns of market action will recur in the future and can therefore be used for prediction purposes.

- **Market prices of shares as the output of the demand and supply interaction:** Stocks and shares mostly traded in the securities market are one of the asset into which money can be invested. The investment further is more attractive to a majority of individuals because it is also liquid in character. But what is the most influencing factor in determining the price of the stock is interaction of demand and supply. (Doodha, 1962:10) In relation to the interacting forces of demand and supply, Ackerman opines that, Price of a given stock is determined exclusively by the two forces demand and supply. Converting one such stock at a given time that the price and volumes of its past transaction are meaningful indication of profitable relationship of future supply and demand pressure, it is likely to encounter in the market that such relationship is the most important element determining the probable direction of price movement. (Ackerman 1980:10)

These are the short conceptual frameworks about the theories of stock price behavior.

“The share price is determined in the floor by interaction of market factors i.e. demand and supply. The price is determined by the point of equilibrium between supply and demand, the shifting of this balance results in incessant adjusting of price in research of the ever-changing new equilibrium. Then market price moves upward and downward. There are many reasons that causes the stock price fluctuation, major of them are economic, non-economic and

market factors. One basis for the determination of stock prices is dividends. Dividends are strongly influenced by the earning power of the enterprises. There is very close correlation between corporate earnings and dividends. Earning power, in turn, is strongly influenced by the interest rates in this way, the most fundamental factor in stock price fluctuations lies in changes in corporate earnings, which together with interest rates and business cycle trends, contribute to making up the economic factors influencing stock price. The next influencing factors are non-economic factors, including changes in the political conditions, such as war or administrative changes, changes in the weather and other natural conditions and changes in cultural conditions, such as technological advance and the like, market factors, or internal factors of the market, consisting of the tone of market and supply-demand relations, may be cited as the third category that influences the stock prices. The tone of the market is a form of over-estimating the intrinsic value of stock when stock price is high because of business prosperity while underestimating its value at the time of market decline. The relationships of supply and demand are reflected directly in the volume of transactions, but there is also considerable effect from the actions of institutional investors, margin transactions, etc. although margin transactions increase purchases when stock price is going up. Once the price begins to fall they become a selling factor and accelerate price decline. The practice of margin in finance has not been introduced, so far, in Nepal. (Sharma, 1996:63-64)

“Securities market in Nepal is witnessed a sharp growth during the past couples of years. The volume of trading has increased. The size of the market has been widened. The number of investing population has grown up in aggregate. The tendency of raising capital from general public is rising. Most importantly the market consciousness has been developed so that investors have begun to think about risks, return and availability or timely corporate information regarding the investment. The market seems losing confidence of investors. There is poor liquidity for the stocks. A scarcity of floating stocks prevails in the market.

Professionalism is still lacking in the service on investors and investment management. A system of preponderance of speculative trading is guessed to be prevailed, where the primary motive is to derive benefit from short-term price fluctuations. It appears that a very small fraction of transaction represents purchases/sales by genuine investors. The rest are driven mainly by the speculative motive. The corporate sector is still reluctant on disseminating information timely the kinds of securities trading in the market are confined only to ordinary and preference shares. These are various major problems observed in the market now a- days.” (Sharma; 1996: 65-66)

2.2 Review of Major Studies

In 1896, Furstenberg and Jeon concluded that the study on crash of October 1978 using the daily data of four major world's stock market and excluded that the price of stock before and after the critical crisis like war, political situation can move the stock markets together simultaneously because the correlation between two situations rise from 0.2 to 0.4. The study also explains that the economic variables, such as interest rates, exchanges rates. Oil prices and so on are also factors that fluctuates the price of stock and result on the stock price movements (Furstenberg & Jeon. 1989: 168-169).

In 1937, Ule Clarity that the broadening of the market for a security has effect upon its Price movements and in case of these affects the brokers and speculators have discounted this price making influence before the securities are formally traded on the national exchanges. He concerns itself with the effect of the broadening of the market upon securities prices during period of divergence. During these periods of study he found that the amplitude of the price changes in stock markets can move price of stock and in term of price discount for broker and speculators, the effect would take place after the issue has been formally traded on the broads (Ule. 1937: 364-369).

Fama, Jensen and Roll examined the effect of stock split on security prices. A number of prior studies had suggested that stock increased the value of the

firm. This was distributing too many because stock splits simply involve changing the percentage ownership of any shareholder or asset or earning of the company. They argued that stock split might be associated with other fundamental changes and effects that researches were attributing to stock splits these other phenomena (Fama, et. Al, 1969: 1-21). In 1966, Benjamin king examined monthly price changes from 1927 of 63 stocks and concluded that the stock market prices follow random walk models. The estimated average serial correlation coefficient was 0.08, which is close to zero (King 1966:36-190).

Niederhoffer and Osborne have examined the correlation between the prices changes from transaction to transaction. Most interestingly they found that a reversal in price change (a decline followed by an increase) was to three times as likely as a continuation of same price change (Niederhoffer and Osborne, 1966:897-916).

In 1971, Rao and Mukherjee applied spectral method to test random walk model share price behavior. They examine weekly average share prices of Aluminum Company's share for the sixteen years from 11951 to 1970 and supported the random walk hypothesis (Rao and Mukharjee, 1989).

In another study, in 1978 Gupta concluded that the random walk model appeared to be an appropriate model to describe share price behavior (Gupta, 1979:51-75).

Global Financial Crisis and Nepal share market

Nepal stock market can be the base for the establishment of —New Nepal. It can play a vital role in generation, diversification and utilization of the funds needed for the development of the country. After the restoration of peace and declaration of republication of Nepal two years ago, Nepalese Share market was in bullish trend. But short after the regulation introduced by the new government on recent budget, the share market took a bearish trend which

might seem as if the ongoing global financial crisis have affected the Nepalese share market. Before the drastic political change in Nepal, it has been adopted the *bazaarmukhi arthaniti* which is in favor for the development of share market. But soon after the change in government on 065 Bhadra, investors were not sure on continuation of same market policy. Due to which the share market slowly go down to the bearish trend which further fall with the start of global financial crisis (after the American investment bank layman brother declare they bankrupt). Also the recent budget from new government of Nepal has taken the policy which affect directly to the financial sector which has ultimately affect negatively in Nepalese share market.

NEPSE sensex was in 1004 points on the day of announcement of the budget which reached 918 points after one month. It has reached 811 on Kartik 24 which is 193 points less than Asoj 3. But this decline in NEPSE is not due to the global financial crisis but due to our own internal reasons. As the downfall of NEPSE and global financial crisis has occurred in the same time, it just looks like the effect of global financial crisis on Nepalese stock market which is not possible. There are some reasons behind the fact that the global financial crisis would not directly affect Nepalese stock market which are:

- Due to the unchangeable of Nepalese currency (Nepali Rupaiya KO punji khata pariwartata navayekole or there is no capital account of Nepalese Rupees), Nepalese cannot investment in foreign land and also there is no provision of foreigner investing in Nepal stock market.
- Nepalese share market has not reached at the extreme modernization as the global share markets and it has no transaction with global share market. Neither any of Nepalese company is not listed on global market nor is any company listed in global market listed in our own stock market.
- The listed company of Nepal Stock exchange has no business transaction with America or European countries which have been hit

hard by this crisis. Therefore there is no such negative or positive affect of global market in Nepalese market. The listed company on NEPSE is based on internal market only (some listed banks might have invested their foreign currency on those countries which might have effect them in normally, but this might be a negligible effect)

- Some of the Nepalese carpet and garments export companies might have been adversely affected but as these companies are private or small cottage industries, they are not listed in stock market.
- During the most bearish trend occurring in global stock market, Nepalese stock index has increased which also shows that the global financial crisis do not affect Nepalese stock market. For e.g. NEPSE index increased by 32 points during the 4 days, Sep 28 to Oct 4, the peak of global financial downfall.

Therefore, it is clear that Nepalese market hasn't been affected by external market. Except some psychological and indirect effect, some of the nominal effect can be seen such as in export, remittance, tourism, foreign aid (in these area also, the revaluation of dollar with Nepalese currency has not shown any drastic change). Our market has been negatively affected by internal policies and reasons. Such as:

- The budget of fiscal year 064-065 has increased personal capital gain tax by 50%. Now it is 15% by 10% earlier which have reduced the profit from share investment.
- Announcement made by budget about the issue of Nepal Telecom's share (that plays an important role in Nepal share market) in secondary market. Due to which the supply of share is expected to be double which led to price decrease.
- Most of the banks and financial institute declares the dividend and also issue right share that because open ranges which affect the share price of some high profile banks. In other side, Nepalese share market follows the downfall as the government passed the regulation to declare the

income source for share investment also as in housing and real estate investment. The NEPSE index has been decreased to 811 points on Kartik 24 after the regulations have passed.

This is all due to the non-impact of negative effect of global financial crisis in Nepal. There was a scarcity of liquidity in rest of the world which is not the problem of Nepal. It is also showed by the excessive application received on the issue of Treasury bill recently.

Therefore, the Nepalese share market is not affected by the crisis and does not need to be panic. Though the reasons behind the crisis should be properly analyzed and precaution has to be taken for the future.

The global financial crisis is said to be occurred due to globalization and *udarbadi Nitti*. As Nepal share market have no relation with global market, it is safe till now. But behind this reason, the process of improvement of Nepalese share market should not be hampered. If the process of improvement and modernization is hampered, it would be a huge loss for our nation. The major challenge of the Nepalese share market is to establish central deposit system for electrical transfer of share ownership to increase brokers to make share market more competitive and modern so that the investors are benefited. Therefore, for the development of Nepalese financial market, government should bring a solid and clear policy as soon as possible. (Karki, Director of NEPSE, Kantipur Daily, and Wednesday, November 12, 2008).

2.3 Review of Nepalese Studies

There are few studies on market prices of Nepal compared to the capital market elsewhere in the world. Some of the available studies are reviewed here. There are very few independent study can be found in the topics of finance. Specifically, it is rare in the case of this research topic, risk and return analysis. However, here are two independent studies, which are related to the Nepalese stock market and about shareholder democracy. Even though these studies

were carried out before more than 5 years, these can give intellectual ground in our domestic stock market and its dimension. Because such types of studies in this subject matter it is not available recently. A study on the stock market behavior in Nepal concluded the following (Pradhan 1993):

- Large stock have large P/E ratio; large ratios of market value to book value of equity and smaller dividends. P/E ratios and dividend ratios are more variable for smaller stocks where as market value to book value of equity is more variable for large stocks.
- Large stocks also have lower liquidity, higher leverage lower profitability, lower assets turnover and lower interest coverage stocks.
- Smaller dividends, lower profitability, lower assets turnover and lower interest coverage for large stocks may be attributed to the fact that most of large stocks are at their initial stage of operation, dividend ratios are more variable for stocks with smaller market value to book value.
- Stocks with large market value to book ratios have lower liquidity, higher leverage, lower earning, lower turnover and lower interest coverage. However, liquidity and leverage are more variable for stocks with larger market value to book value ratios while earnings, assets turnover and interest coverage are more variable for stocks with smaller market value to book value. Ratios.
- Stocks with large P/E ratios have large market value to book value of equity and smaller dividend ratios. However, ok book value of equity and dividends are more variable for smaller stocks than large stocks.
- Stocks with large P/E ratios have lower liquidity, higher leverage, lower profitability, lower assets turnover and lower interest coverage. However, liquidity, leverage, earning turnover and interest coverage are all more variable for stocks with smaller P/E ratios are comparing too large to large ones.
- Stocks paying higher dividends have higher liquidity, lower leverage, higher earning and higher turnover and higher interest coverage.

However liquidity and leverage ratios are more variable for the stocks paying lower dividends while earnings, assets turnover and interest coverage is more variable for the stocks paying higher dividends.

A study on 'shareholders' democracy and AGM feedback analyzed the situation of common stocks in Nepal (Shrestha) though the size of the shareholder population in Nepal has been growing constantly, the government seems to have not taken initiative in formulating the separate ACT, which protects the shareholders right. However the need of separate ACT regarding the protection of shareholders right is questioned.

The company and other ACTS relating to financial and industrial sectors have provisioned rights of the shareholders as:

- Voting right
- Participation in General Meeting
- Right of getting information
- Electing as board of director
- Participation on the profit and loss of the company
- Transferring shares
- Proxy representation
- The collective rights of the shareholders are ;
- Amend the internal bylaws
- Authorized the sales of assets
- Enter into merger
- Change amount of Authorized capital

Some public limited companies have floated the shares to the general public without having shareholders representation in the board. There are many such companies which conduct the AGM just to fulfill their desire and do not consider the voice of majority of the shareholders. Similarly, management involvement and government intervention in the board election have brought a greater set back in the voting rights of the shareholders". Shrestha argued

further to safeguard the investors' interest. "The encouraging and growing confidence of shareholders of prospectus□, this helps to satisfy a minimum standard of faith on investment in shares through relying on pros and cons of prospectus. It is therefore, important to dispose everything in prospectus, which could reasonably influence the mind of the prudent investors. Various annual general meeting held by different public limited companies reveal a greater gap between disclosures made in prospectus and the actual results, which were reported. In this context the expression of disclosure philosophy and investigation of frauds in prospectus need to be reconciled to check and growing problems in the development of the capital market in Nepal.

As reviewed above Nepalese market in emerging and even in very initial stage. Study conducted previously in Nepal was not in specific issues but in broader sense. To educate and motivate the potential investors several analysis in specific subject matters are needed. This will be helpful to understand dimension gradually and this will increase the rationality in investors decision and hence the market efficiency as well.

A study on "The movement of stock price analysis of joint venture commercial banks□, (Poudel: 2005) analyzed that the main objectives' are to examine the movement of stock price in relation to Nepal joint ventures commercial banks are either dependent or independent to historical prices stocks, To evaluate return and risk proportion of investments on stock of joint ventures commercial banks, To categorize the nature of stock tendency in relation to price stability, To study group wise overall behavior of NEPSE index and To recommend for the improvement of stock market in Nepal. He found that the trade off relationship exists between the risks and return i.e. higher the risk higher the return and vice versa. There isn't an extreme relationship exists between MVPS with EPS and DPS.

The variation of MC highly depends up on the PC and investment made by the banks. P-E ratio explains the investors' attitude of paying.

Investors are not much aware of risk and return portfolio of the investment. They are added their funds on the basis of assumption and expectations rather than analysis. A risk aversion investor prefers secured and safe return by bearing of less risk; whereas a risk taking investor would like bearing of additional risk to maximize his return.

The stocks of all sampled companies are under priced since their expected rate of returns is higher than the respective required rate of returns. Since the stocks are under priced therefore it is better to buy and hold the stock. He also concludes that the NEPSE index is highly influenced by government policies, programs and the mode of its implementation.

Regarding this, it observed that conversion of securities into NEPSE and the establishment of SEBON in 1993, which reflects government policy to reform the capital market and foreign investment under the extended structural adjustment (ESAP), introducing of modern open out- cry system, liberalization policy have inspired and motivated the investors to do investment in securities. As a result, share prices significantly increased to a peak in the initial periods.

A study on “Stock Price Movement of Listed Companies on Securities Market of Nepal” (Pathak: 2006),analyzed that the main objectives to examine the trends of NEPSE and the stock market situation in Nepal, dissecting the variable that may or may not relevant to stock price movement and to examine the impact of signaling effect on stock price movement. The study has concluded by not exalting government with its poor policy making, regularities. The investor are not rational and yet to aware. Stock price is positively moved by the signaling factors and dividend of company as well as profit of the company and vice versa. Studying the annual tends of analysis of Nepalese stock market, she has found that stock price trend is decreasing from earlier year as smoothly by from two year, price of stock is decreasing as rapidly taking the decision as long period but forecast of experts may be correct because of system wise decreasing trend. In her another finding, respondent

answered that bullish trend of the stock price movement is suitable Nepalese securities market.

Focus on the signaling effects on the price behavior, researcher has taken variables like Royal Palace Massacre, State of Economy and Asoj 18 Movement. For the statistic measures only arithmetic mean of indices are used to interrupted data. For the test of hypothesis paired t-test is used as statistical tools to test null hypothesis. A limited study period is chosen for information. The period of three and half year is selected for study. Moreover the sufficient data has not been found for the study. Therefore the study is based on the limited observation. During the primary data collection, concerned parties were unwilling to response to the researcher. Thus, there are numerous limitations; effort of making concrete report has been lacked somehow.

A study on “Trend of Stock Price Movement in NEPSE” (Khanal: 2008), concluded that the stock market price movement in Nepal stock market. It shows how the market price of share are related to the earning per share, dividend per share, price earning, and market to book value, leverage, size and turnover, in which direction. The study is based on pooled cross sectional data of 20 Sample Company whose stocks are listed in the Nepal stock exchange and traded in the stock market. There is no single financial indicator that has dominant role to determine MPS. The same financial indicator that has significant role in the fixation o MPS for one company is not significant for another company. The degree if interrelationship of MPS with different financial indicators varies from one company to another. There is no uniformity in the relationship of MPS with various financial indicators is not significant in most of the cases.

The result revealed the followings:

- From the analysis of the trend of the volume of the share traded under study, it was seen that the price of the stock was volatile i.e. the share price of banking with income trends.

- After studying the moving average of price index, it indicate that the price of the stock in NEPSE doesn't fluctuate due the political or other economic factors but depends on the limited investors, broker and other factors who are ' concerned with trading system in the context of Nepal.
- The company, who has high rate of fluctuation of MPS, while trading in the share market, has more stock price movements in the NEPSE.
- In context of Nepal, the stock markets are inefficient market that impact new information into security prices instantaneously.
- The movements of share price in Nepalese market can be analyzed as the mix behavior of the both technical and fundamentals analysis. Hence, we conclude that the Nepalese stock market is not efficient enough to determine MPS in accordance with the respective financial performance and to make the investors aware about investment risk. The inefficiency of stock market follows from the violation of the necessary conditions for an efficient market with a developed financial system and also implies financial and institutional imperfections. This leads to the conclusion that financial policies and regulations such as those concerning liberalization, deregulation and privatization have generated a perceived inconsistency, and a tendency to produce instability. The implication is that the benefits of a well functioning stock market are not being realized in the economy. Indeed, the weak-form inefficiency of the stock market demonstrated in this study is most likely caused by a combination of the lack of its development and the implication of policy choices. It is necessary to gain more insights into the operation and characteristics of the stock market of Thailand in terms of its efficiency and the valuation processes to make an informed assessment of the empirical characteristics of the Thai financial market.

A study on “Stock Price Movement in Nepalese Securities Markets” (Shrestha: 2009) concludes that there is a gap between the theory and practice of investment in Nepalese stock market due to the lack of proper analysis of stock market for the smooth operation of the secondary market. Stock market was not properly analyzed for smooth operation of secondary market. Various measures of stock market development indicate that the stock market in Nepal is in developing stage and has shown little impact on the overall national economy. Small market size has made it vulnerable to manipulation and price rigging. Though, some investors tend to avoid stock market because they do not have options to invest in securities according to their risk-return preference. Similarly firms shun it because stock market is less reliable source of raising funds for them. Due to this financial system in Nepal has remained basically bank dominated. The market seems gaining to some extent the confidence of investors. There is poor liquidity for the stocks. A scarcity of floating stock prevails in the market. Professionalism is still lacking in the service of investors and investment management. A system of preponderance of speculation trading is guessed to be prevailed where the primary motive is to derive benefit from short term price fluctuations. It appears that a very small fraction of transaction represents purchases/sales by genuine investors. The rest are driven mainly by the speculative motive. The corporate sector is still reluctant on disseminating information timely. The kind of securities trading in the market is confined only to ordinary and preference shares. These are various major problems observed in the market nowadays.

2.4 Research Gap Analysis

Although some very valuable researches in the field of stock market have been done so far, there is still a great deal of opportunity remained for researchers in the field in this area to explore and identify new facts and figures about the immature stock market of Nepal. The above studies are performed by different researcher; their weakness is also mentioned there. This study will analyze the stock price determinants of common stock in secondary market of Nepal.

Usually the price of common stock in primary market is par value but in secondary market it may be in any price. The price of common stock is largely influenced by different market related factors. Therefore here the studies made upon the various related factors that are major are caused of fluctuation of stock price in secondary market.

Most of the studies on share price behavior conducted in the context of Nepal were based on secondary sources of information only. No study has been conducted on price fluctuation of stock price by using share brokers and individual investors as primary sources of information. There was a need to conduct a survey with the share brokers and individual investors who are the major stakeholders of the stock market, in order to find out more subjective facts on share price behavior, which cannot be testes through the use of the primary source of information.

The earlier studies were done only in theoretical manner regardless of what the real market is going through while this study is analyzing the real market scenario like the impact of capital gain in the market or the impact of global recession on the Nepalese Security market. This study is also analyzing the various reasons on the fluctuation of price trend. This study also tends to give some measures that should be taken by related parties to develop the Stock Market. The earlier studies were based on randomly selected sample stocks while this study is based on fully paid up and actively traded equity shares related to all the sectors that are listed in NEPSE. During the study period, there were 236 working days in NEPSE where all of the sample stocks have traded at least 200 plus days. Moreover, the earlier studies were conducted when the organized stock market was at the initial stage without adjusting necessary information, while this present study is based on the data eleven years of establishment of organized stock market i.e. NEPSE which adjusted necessary information in the price series of the stocks. Thus, the earlier studies on share price behavior needed to be updated and validated because of the many changes taking place in the stock market in Nepal. Therefore, it is

necessary to test the validity of these studies and their applicability in our context. The study uses technical method and statistical methods like run test, multiple regression for analyzing stock price behavior. Only few of studies used the verity of testing methods as use by this research to analyze the stock price movements. More than that, some few studies are concerned about the financial indicators like EPS & DPS which are the most influencing factors for the MVPS. So this study try to analyze the relationship of these factors with MVPS of selected companies as well as it also tries to show influencing factors on market price of the stock.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is systematic way of conducting the research in an effective and practical so that it calls explain how the research is done. Therefore this chapter aims to present basic frame work of the research work. This chapter refers to the overall Research design nature of data, data gathering procedure and methodology for the analysis of data. This study covers quantitative methodology and also uses the descriptive part based on both technical and logical aspect. This Research tries to perform a well-designed Descriptive and Analytical quantitative research in a very clear and direct way using both financial, statistical and some specific economic tools as required by the study. Detail research methods are described in the following headings.

3.2 Research Design

Research design is the conceptual structure within which research is conducted. It includes in outline of what the researcher wants to do from writing the objectives to its operational implication to the final analysis of data. It facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible. This research is based on secondary data. It covers the trading period of Sample Company of 2009/10. So far as such type of research have already been done but here I have tried to find out how the trend of volume of share traded, market capitalization of sample company, and share index in NEPSE is going on within this limited period by using some tools of the financial, statistical and some of the convectional approach theory of share price. This research is analytical is as well as descriptive.

3.3 Population and Sample

All companies listed with NEPSE are considered to be the population of the study and the sample are selected who has listed till the FY 2009/10. For this purpose of the study, 10 companies, out of the total listed companies, are taken as samples. The companies whose shares were transacted in the fiscal year 2009/10 had been used as a main basis for the selection of the companies for the study. The required number of companies from each sector had been selected randomly by giving the first priority to the company having highest market price of share fluctuation and later to the lowest market price of share to see the share price movement in the stock market of Nepal (NEPSE). Some companies in the financial, manufacturing and trading sector did not submitted their corporate disclosure to the office of SEBON or were not in existence during the study period. So, the priority had been shifted to other financial and insurance companies, which had performing till the fiscal year 2009/10. The number of sample companies taken in the study is presented in Table-3.1.

Table-3.1
Total Population, Sample and Sample percentage

S.N.	Types of the listed companies	Total population	Sample Considered	%
1.	Commercial Banks	23	3	13.04
2.	Development Banks	40	1	2.5
3.	Finance companies	62	2	3.23
4.	Insurance companies	19	1	5.26
5.	Manufacturing & Processing	18	1	5.56
6.	Trading companies	4	1	25
7.	Hotels	4	1	25
8.	Others	6	0	0
	Total	176	10	100.0

Table-3.2

Samples considered for the study

S .no	Name of Company	Sector of Sample
1	Standard chartered Bank	Commercial Bank
2	Nabil Bank Ltd	Commercial Bank
3	Everest Bank Ltd	Commercial Bank
4	Siddhartha Dev. Bank Ltd	Development Bank
5	NIDC Capital market Ltd	Finance Company
6	Annapurna Finance Co. Ltd	Finance Company
7	Himalayan Gen. Insurance co. Ltd	Insurance Company
8	Soaltee Hotel Ltd	Hotel
9	Unilever Ltd	Manufacturing & processing
10	Bishal Bazaar Co. Ltd	Trading

3.4 Sources and Collection of Data

The study is based on primary as well as secondary data. The secondary data have been collected from the Government publications, such as 'SEBON' report, Journal and other related articles published through the office of SEBON and website of it. Most of the data were taken from trading reports NEPSE and these were collected in the floor of SEBON office so as to compute the relationship of the different financial ratios like DPS, EPS, Net worth, MVPS, PE ratio etc and which are required for the study.

3.5 Tools for Data Analysis

On the basis of secondary and primary data collected from the trading report, published books journal and informal discussion, and questionnaire with different financial and non- financial expert, investors, brokers mid staff as well as officers of NEPSE and SEBON were done so that the effective analysis of the data could be done in an effective manner. Both financial and statistical tools were used to perform the descriptive and quantitative analysis as required by the study. The different tools used in the study are as follows:

(I) Index Number

According to Horace Secrist Index numbers are a series of numbers by which changes in the magnitude of phenomena are measured from time to time or place to place. Index number are indicators which reflects the relatives changes in the level of a certain phenomenon in any given period called current year with respect to its values in some fixed period called the base year selected for comparison. Index numbers are statistical devices designed to measure the relative change in the level of a phenomenon (variable or a group of variable) with respect to time, geographical location or other features such as income, profession etc. In other words index number are specialized average, rates, ratios, percentages which give the general level of magnitude of a group of distinct but revealed variable in two or more situations. The formulae used for the calculation of index are as follows:

$$\text{Each day's index} = \frac{\text{Each day's total Market Value}}{\text{Base day's Total Market Value}} \times 100$$

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

Where,

P_{01} = NEPSE Price Index

P_1 = Today's Stock Price

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

Q_0 = Base Listed Shares.

(II) Run Test Analysis

Statistical test based on the theory of runs ignore absolute values in a time series and observe only their signs. That is, they are essentially concerned with the direction of changes in a given time series. Thus for the present purposes, Run can be defined as sequence of price changes of different sign. In given share price series, there are three types of price changes in a series i.e., positive,

negative, and no change, thus implying three types of runs. Therefore, a plus run of length r is defined as a sequence of positive price changes preceded and succeeded by either negative or zero price change (Eugene F. Fama. Cl p74). Likewise, a run of length r of minus and no-change sign can be defined as sequence of r consecutive price changes of the same sign followed and preceded performed by comparing the actual number of runs with the expected number of runs on the assumption that price changes are independent. If the actual (observed) runs are not significantly different from the expected number of runs then it is concluded that successive price changes are independent. In the contrary, if these differences were significant, the price changes would be dependent. Run test is a non-parametric test that ignores the magnitude of price changes and observes only direction of changes in a given time series.

Run test for randomness

A run is defined as a succession of identical symbols. The total number of runs in any given size sample is random or not. Very few runs would be an indication of a pattern or a trend. Too many runs would also cast doubt about the randomness of the sample. For example, in an experiment of 10 tosses of a coin. If we got the sequence such as HHHHH TTTTT, making 2 runs or on the other hand, if we got HTHTHTHTHT, which is 10 runs, then both these outcomes would not be considered as random.

The concept of '+' or '-' also gives us the direction of change from an established standard. For example, if we wanted to know whether the stock market price changes are random in nature, or whether there is a trend or a pattern, this could give us a very good idea. Let us assume that for given 10 consecutive months, the stock market index was increasing every month compared to the previous month. So that a trend would be established such that there would be only 1 run consisting of 10 +s, accordingly, a '+' would be considered a change from an established value in one direction and '-' would be considered a change in other direction. Now, if the samples are small in size,

so that n_1 and n_2 are less or equals to 20 each, then we can test the null hypothesis that the occurrences of pluses or minuses are random by comparing our value of 'r' given in the appropriate table at a predetermined level of significance. If there were too few runs so that the value of 'r' is small, the null hypothesis would be rejected. Similarly, if there were too many runs so that the value of 'r' is large, the null hypothesis would be rejected. Hence, the value of 'r' must be compared with less than as well as more than critical values of 'r'.

(III) Correlation Coefficient

The Greek letter 'rho' denotes the correlation coefficient between return on two securities. The correlation coefficient is defined as the covariance between the dependent and independent variables, divided by the product of their standard deviations. When assets have zero correlation with each other, they are unrelated in anyway and have zero variance. Positive correlation implies positive covariance.

$$\text{Correlation (r)} = \frac{\sum(X-\bar{X})(Y-\bar{Y})}{\sqrt{(X-\bar{X})^2} \sqrt{(Y-\bar{Y})^2}}$$

The correlation (r) rescales the covariance to facilitate comparison with corresponding values or other pairs of random variables. It always lies between '-1' and '+1'. A value of '-1' represent negative correlation and a value '+1' represent perfect positive correlation.

(IV) Coefficient of Determination

The coefficient of determination is the way to measure the contribution of independent variables in predicting the dependent variables. It is more appropriate while verifying the results than the correlation coefficient and computed by square of correlation coefficient as mentioned above.

$$r \times r = R \text{ square}$$

(V) Coefficient of multiple determination in terms of explained, unexplained and total variation

The coefficient of multiple determinations, denoted by R square, and it explains the proportion or percentage of total variation in the dependent variable explained by the explanatory variables. In regression analysis, the total variation on dependent variable is decomposed into due to explanatory variable used in the regression called explained variation and other is variation due to error called unexplained variation. The total variation is also called total sum of squares due to (TSS), the explained sum of squares is also called sum of squares due to regression (SSR) and unexplained variation is also called sum of squares due to errors (SSE). Thus, we write

Total variation = Explained variation + unexplained variation

$$TSS = SSR + SSE$$

The coefficient of multiple determinations is defined as

$$R \text{ square} = \frac{\text{Explained variation}}{\text{Total variation}}$$

$$R \text{ square} = \frac{SSR}{TSS}$$

(VI) Regression Analysis

The term 'Regression' literally means 'stepping back towards the average'; The English biometrician sir Francis Galton (1822-1911) in report of his research on heredity first gave the concept of regression.

Multiple regression analysis is an extension of simple regression in that sense two or more independent variables are used to predict the value of a dependent variable, that is instead of one variable are used to predict the value of a dependent variable.

Multiple regression equation is an equation for estimating the value of dependent variable from two or more independent variables. More precisely, it

is a mathematical relationship between one dependent variable and two or more independent variables.

The attempt are made to show how the market price per share (MVPS) affect with the dependent and independent variables of the share price like earning per share (EPS), and dividend per share (DPS).

The estimated equation is,

$$MVPS = a + b_1EPS + b_2DPS$$

Notes:

Description of the mathematical and financial terms used in analysis:

MVPS = market value per share i.e. closing price of the share is on last date of the fiscal year.

EPS = Earnings per share

DPS = Dividend per share

Index = NEPSE Index of the fiscal year

Data collected from secondary sources were analyze by using tools like monthly trend analysis, run test analysis, bar diagram, multiple bar diagram, pie-chart, multiple regression analysis and paired t-test. Data collected from questionnaire were in raw form. They were classified and tabulated in the required form. Simple arithmetic percentage tools were used for analysis. Major findings were based on the analysis and interpretation of data.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

Data presentation and is the one of the significant part of the research work. In this section, the study attempt to find out the proof from the mathematical calculation for the theoretical statement. Once the study is completed successful to prove, the statement, if would, of course, be the concrete and substantial.

The fundamental objectives of this chapter are to analyzed and elucidate the collected the data conversion of unprocessed data to an understandable presentation. Hence, this chapter presents the analysis and interpretation of the data related to stock prices, NEPSE market index volumes of share traded etc.

As mentioned earlier in the research methodology section, this study consists both primary as well as secondary data. Secondary data have been collected particularly form monthly and annual trading report of Nepal Stock exchange. Similarly, data collected from primary sources (Interview and Questionnaire method) have been analyzed under the heading of survey that helps to collect information on investment behaviors of investors. However, primary data collection doesn't fully satisfy the need of research work on this topic. As a consequence, the study completely relied on secondary sources of data. Data collected from the secondary sources are also tested with sophisticated statistical tools. Data presentation and analysis reveals performance of securities during 2005/06 to 2009/10.

The main purpose of this chapter is to examine the price trend of different joint stock company with the of NEPSE index. These studies also aim to analyze the number of stocks traded during 5 years of time period of different joint stock companies. In the same way the study try to check the impact of signaling effect on fluctuation of stock price with the help of different major events

during the year 2005/06 to 2009/10. Similarly the study also focuses on the study that the listing rate of different corporate bodies in Nepal stock exchange (NEPSE). The study also wants to explore investors attitude by taking primary data with field survey filled by different interested with stock mkt. is considered.

Price is the major elements in the stock market analysis. For analyzing stock market price fluctuation, the price trend can be used. By NEPSE index trend one can conclude its nature in different aspects. E.g., trend of price in different periods. Similarly, the number of stock traded is also accounted to see the pattern of volume traded in stock market. In other hand the rate of listing new joint stock companies in Nepal stock exchange (NEPSE) is another important factor to see the growth of joint stock companies in the development of Nepalese stock market. Analysis has been classified different segments to generalize the facts of information.

Finally this chapter analyses the investment attitudes as well as investment patterns of investors in stock exchange, effect of signaling elements in NEPSE index with the help of hypothesis test, using questionnaire method etc.

4.2 Presentation and Analysis of Secondary Data

This section provides analysis and interpretation of secondary data. Thus, this part is exclusively devoted for the analysis of common stocks of different companies through price trends, signaling factors impact on NEPSE index with the help of NEPSE index provided by stock exchange centre, volume of stock traded, rate of listing of new companies in secondary market and maintenance of them in NEPSE is considered. For doing such presentation, statistical tools such as regression analysis, bar diagram, pie chart, and t-spastics are used.

4.2.1 Number of Companies Delisted from the Stock Exchange

According to Stock Exchange Act, 1983 there is provision of delisting the companies which are unable to disclose the documents regarding annual

general meeting, audit report, and unable to pay the annual fees of listing in NEPSE up to two years can be deleted from NEPSE. Due to these provisions, NEPSE started to delist the companies from the year 2001/02. NEPSE has deleted 25 companies from its list in 2001/02 due to which the no. of listed companies was only 96 from 115 in that particular year. In fiscal year 2003/04, NEPSE has delisted 1 company i.e. Nepal bank ltd. In the year 2006/07 it delisted 12 companies, in the year 2007/08 it delisted 5 companies where as in the year 2009 it had delisted 47 companies which didn't comply with the legal requirements. At present there are 176 companies listed in NEPSE.

(Source: www.nepalstock.com)

4.2.2 Statistical Analysis

Under this sub-unit statistical tools trend analysis including graphical analysis, bar diagrams, pie- chart and hypothesis test are done for analysis.

4.2.3 NEPSE index

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

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

The computation formula for price index is as follows:

$$\text{Each day's index} = \frac{\text{Each day's total Market Value}}{\text{Base day's Total Market Value}} \times 100$$

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

Where,

P_{01} = NEPSE Price Index

P_1 = Today's Stock Price

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

Q_0 = Base Listed Shares.

Table 4.1
NEPSE Index

Year	NEPSE Index	%age Change In Index
1995/96	185.61	---
1996/97	176.31	-5.01
1997/98	163.35	-7.35
1998/99	216.92	32.79
1999/00	360.70	66.28
2000/01	348.43	-3.40
2001/02	227.54	-34.70
2002/03	204.87	-9.97
2003/04	222.04	8.39
2004/05	286.67	29.11
2005/06	386.83	34.94
2006/07	683.95	76.81
2007/08	963.40	40.86
2008/09	749.10	-22.24
2009/10	477.73	-36.23

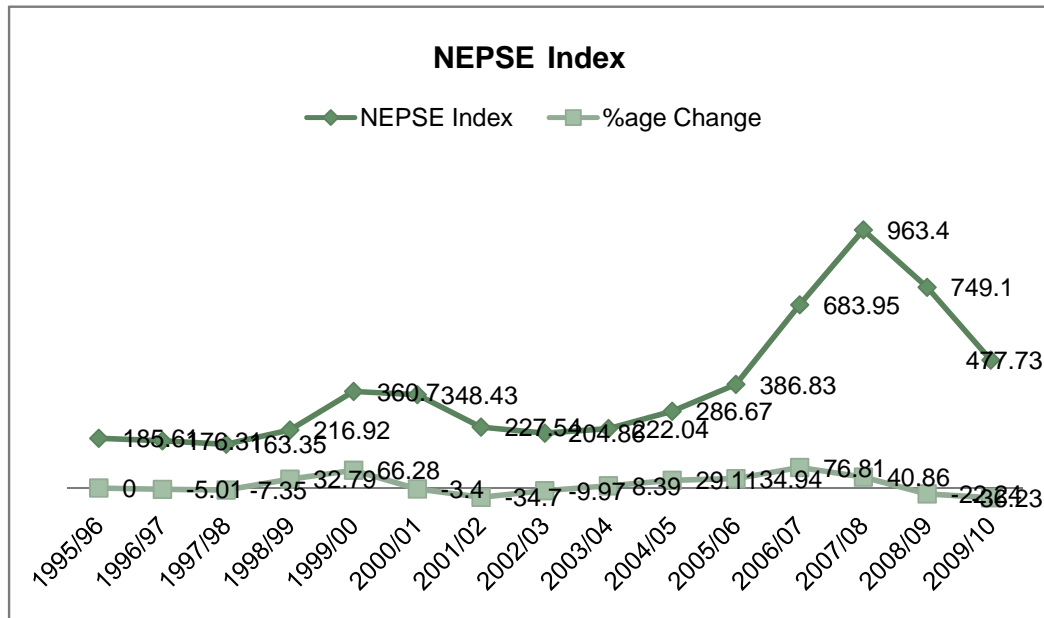


Figure 4.1

The NEPSE index was highest in the year with 963.40 points and it is lowest in the year 19997/98 with 163.35 points. From the NEPSE index table we can see that the highest percentage change in index in the year 2006/07 with 76.31% of increment than the previous year which means that even though NEPSE index point is highest in the year 2007/08 & the percentage change is lower than the past year. The total percentage change in NEPSE index is negative that is - 36.23.

4.2.4 Monthly Trend Analysis

One of trend suitable techniques for analyzing price trend is monthly trend analysis. For this purpose NEPSE index of 5 year is taken during the different months of year from 2005/06 to 2009/10. Tabular as well as graphical measures are considered for presenting and analyzing the data in the table as follows.

Table 4.2
NEPSE Index for 05/06

Months	Price Index	Months	Price Index
August	300.05	February	317.79
September	293.35	March	339.79
October	297.34	April	334.77
November	302.39	May	385.89
December	303.12	June	372.01
January	305.50	July	386.83

(Source: NEPSE Trading Report 2005/06)

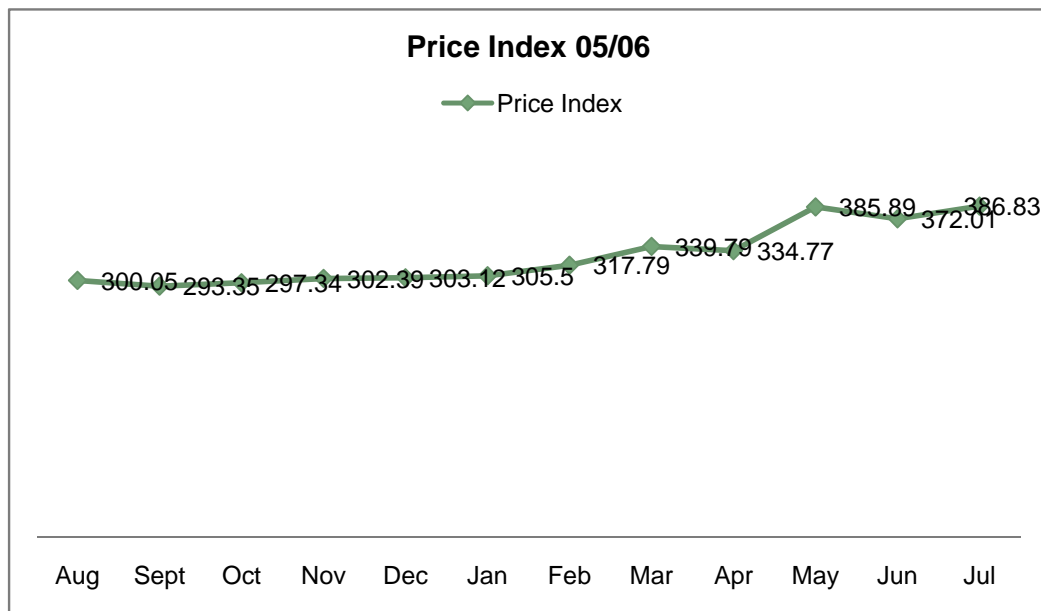


Figure 4.2

Above graph shows the NEPSE index from the August to July 2005/06. Taking base month as August, NEPSE index shows the decreasing trend in the month September and October than onward increasing trend till the month of March where the index slightly decrease and it again increased in the month of April 2006. From the investment point of view, increasing trend is better than decreasing trend. In lump sum, NEPSE index represent the increasing trend all over the fiscal year 2005/06.

Table 4.3
NEPSE Index for 06/07

Months	Price Index	Months	Price Index
August	389.23	February	523.94
September	382.56	March	494.06
October	398.44	April	494.59
November	447.43	May	513.45
December	508.58	June	575.04
January	537.09	July	683.95

(Source: NEPSE Trading Report 2006/07)

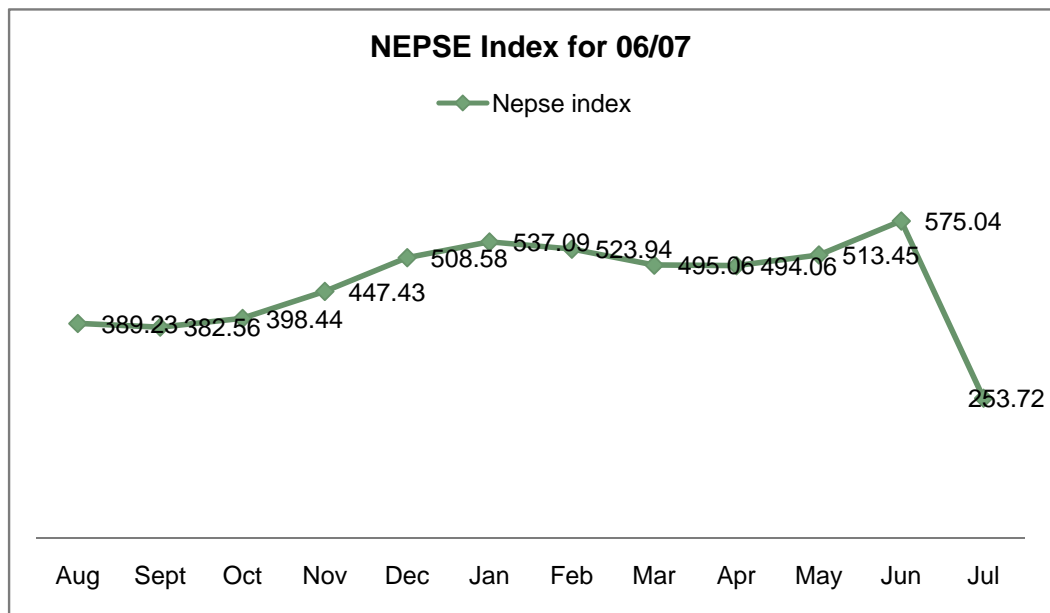


Figure 4.3

Above graph shows the NEPSE index from the August to July 2006/07. Taking base month as August, NEPSE index shows the increasing trend from the month of September till the month of January and decreased onwards till month of April. After the month of April, it rises slightly till the month of June 2007 and decreased onwards. From the investment point of view, increasing trend is better than decreasing trend. In lump sum, NEPSE index represent the increasing trend all over the fiscal year 2006/07.

Table 4.4
NEPSE Index for 2007/08

Months	Price Index	Months	Price Index
August	118.47	February	209.58
September	210.94	March	184.64
October	225.82	April	194.09
November	239.82	May	212.14
December	265.05	June	243.48
January	248.77	July	253.72

(Source NEPSE Trading Report 2007/08)

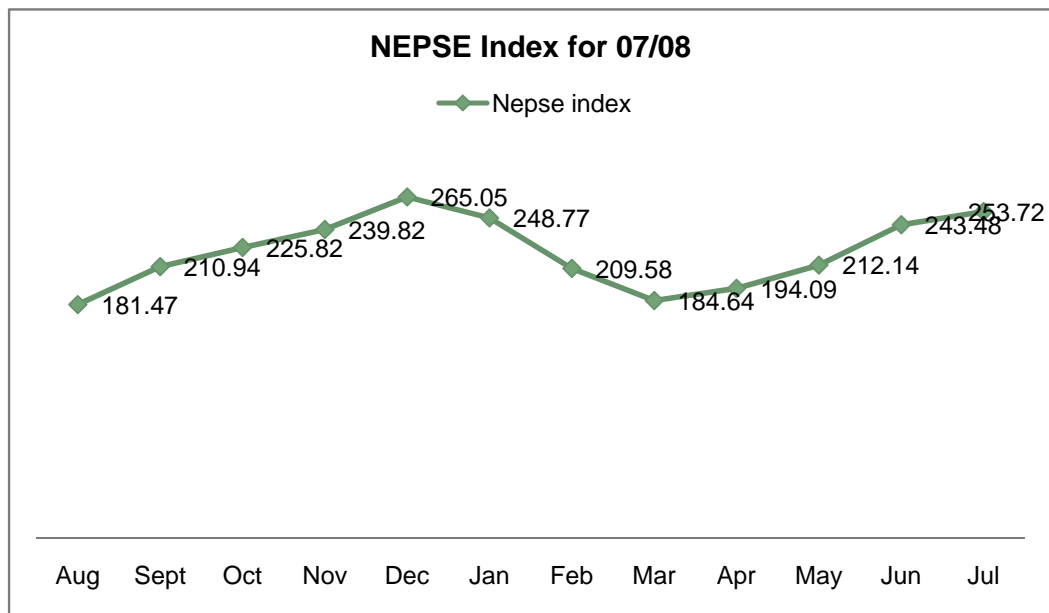


Figure 4.4

Above graph shows the NEPSE index from the August to July 2007/08. Taking base month as August, NEPSE index shows the increasing trend from the month of August till the month of December and shows the decreasing trend after the month of December till the month of March. After the month of March, it rises slowly till the month of July 2008. From the investment point of view, increasing trend is better than decreasing trend. In lump sum, NEPSE index represent the increasing trend all over the fiscal year 2007/08.

Table 4.5
NEPSE Index for 2008/09

Months	Price Index	Months	Price Index
August	1084.76	February	663.52
September	976.01	March	667.2
October	933.97	April	661.27
November	806.9	May	660.96
December	734.85	June	678.74
January	659.81	July	749.10

(Source NEPSE Trading Report 2008/09)

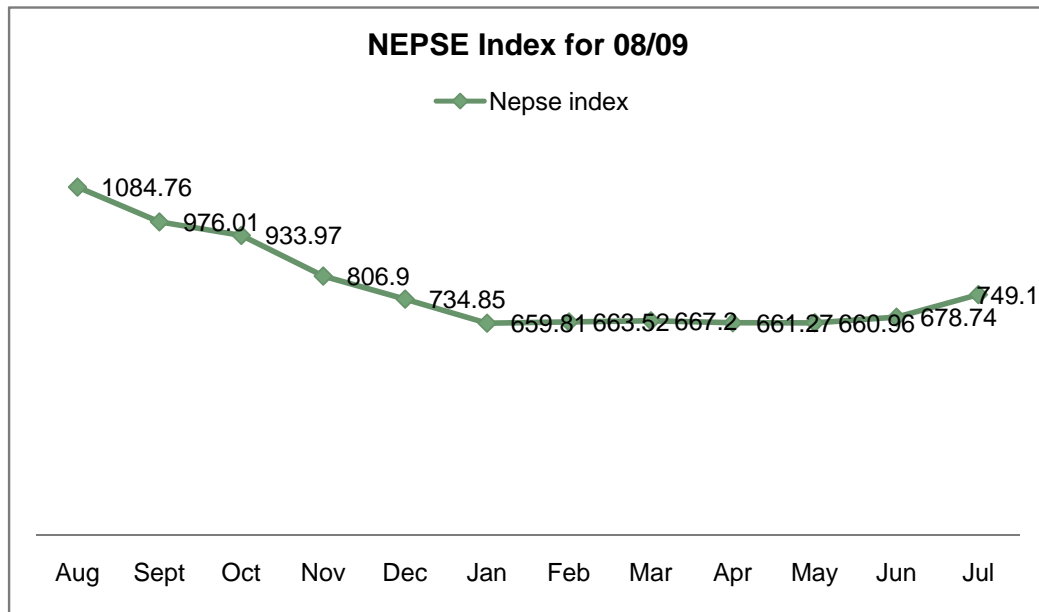


Figure 4.5

Above graph shows the NEPSE index from the August to July 2008/09. Taking base month as August, NEPSE index shows the decreasing trend from the month of August till the month of January and increases thereafter till March. After the month of March, it decreases slowly up to the month of May and then it again decreases till July 2009. From the investment point of view, increasing trend is better than decreasing trend. In lump sum, NEPSE index represent the random trend all over the fiscal year 2008/09.

Table 4.6
NEPSE Index for 2009/10

Months	Price Index	Months	Price Index
August	729.95	February	528.89
September	628.34	March	486.25
October	609.55	April	481.19
November	566.94	May	457.81
December	548.61	June	476.69
January	530.96	July	477.73

(Source: NEPSE Trading Report 2009/10)

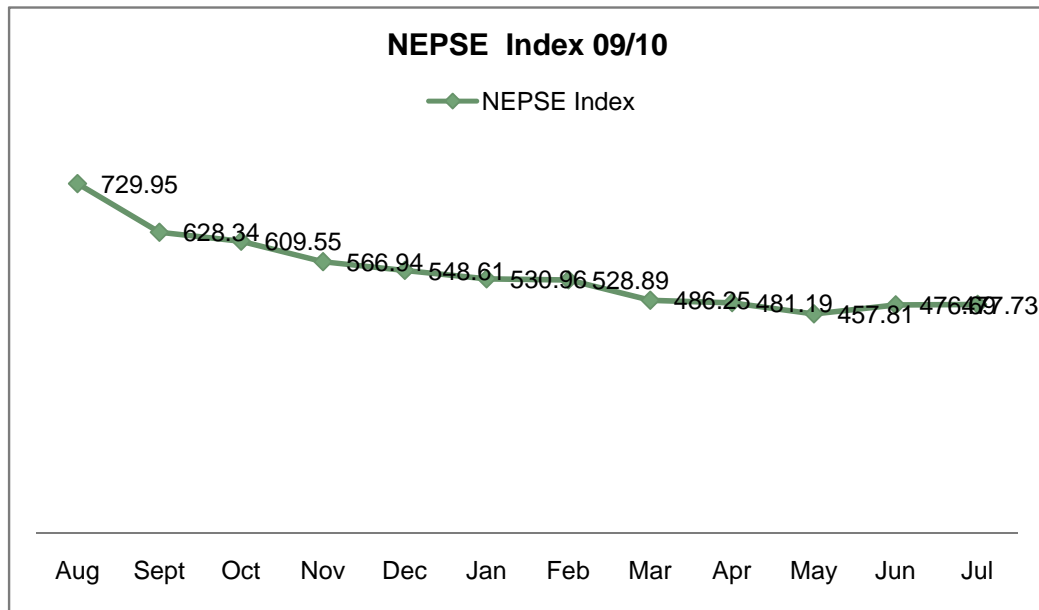


Figure 4.6

Above graph shows the NEPSE index from the August to July 2009/10. Taking base month as August, NEPSE index shows the decreasing trend from the month of August till the month of June 2010 and increases onwards. From the investment point of view, increasing trend is better than decreasing trend. In lump sum, NEPSE index represent the decreasing trend all over the fiscal year 2009/10.

4.2.5 Annual Trend Analysis

One of the suitable techniques for analyzing price trend is annual trend NEPSE of Index of 10 years is taken during the different years from 1999/00 to 2009/10. Tabular as well as Graphical measures are considered for presenting and analyzing the data in table as follows:

Table 4.7
NEPSE Index for 1998/99 to 2009/10

Year	NEPSE Index	Year	NEPSE Index
1998/99	216.92	2004/05	286.67
1999/00	360.70	2005/06	386.83
2000/01	348.43	2006/07	683.95
2001/02	227.54	2007/08	963.40
2002/03	204.86	2008/09	749.10
2003/04	222.04	2009/10	477.73

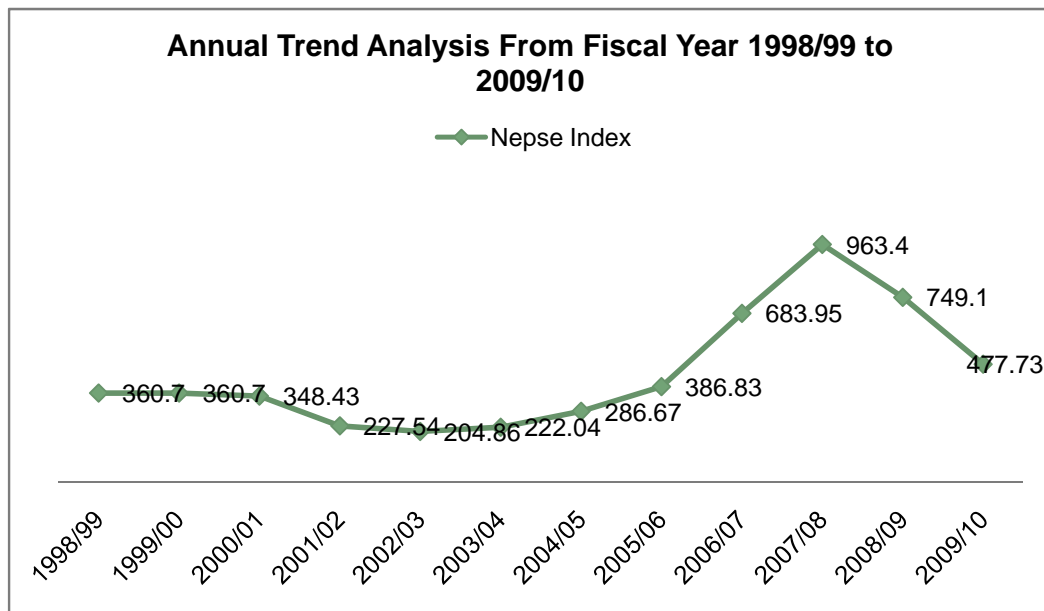


Figure 4.7

The above table shows that price during the different fiscal years are not constant. Taking base year as 1998/99 it shows that the price trend is in increasing trend till the year 2000/01 and it decreases thereafter till 2002/03. Then again it increases till 2006/07 with steep rise in the year 2006/07 that continues in the year 2007/08 also and similarly it again decreases till 2009/10. Thus the table and graph shows that there are ups and downs in NEPSE index or in price trend in different years from the fiscal year 1998/99 to 2009/10.

4.2.6 Number of Listed Companies in NEPSE

The table 4.8 shows the number of listed companies in Nepal Stock Exchange Ltd. From the Fiscal year 1996/97 to 2009/10. The table clearly shows that the number of listed companies is increasing in every fiscal year except 2001/02 because of non disclosure of necessary information correctly and timely. The number of listed companies in NEPSE is 176 in the Fiscal year 2009/10.

Table 4.8
Number of listed companies in NEPSE

Fiscal Year	No of Listed Companies	Percentage Increasing/Decreasing
1996/97	95	6.74
1997/98	101	6.31
1998/99	107	5.94
1999/00	110	2.80
2000/01	115	4.55
2001/02	96	-16.52
2002/03	108	12.50
2003/04	114	5.56
2004/05	125	9.65
2005/06	135	8.00
2006/07	135	0.00
2007/08	142	5.19
2008/09	159	11.97
2009/10	176	10.69

(Source: [www.Nepalstock exchange.com](http://www.Nepalstockexchange.com))

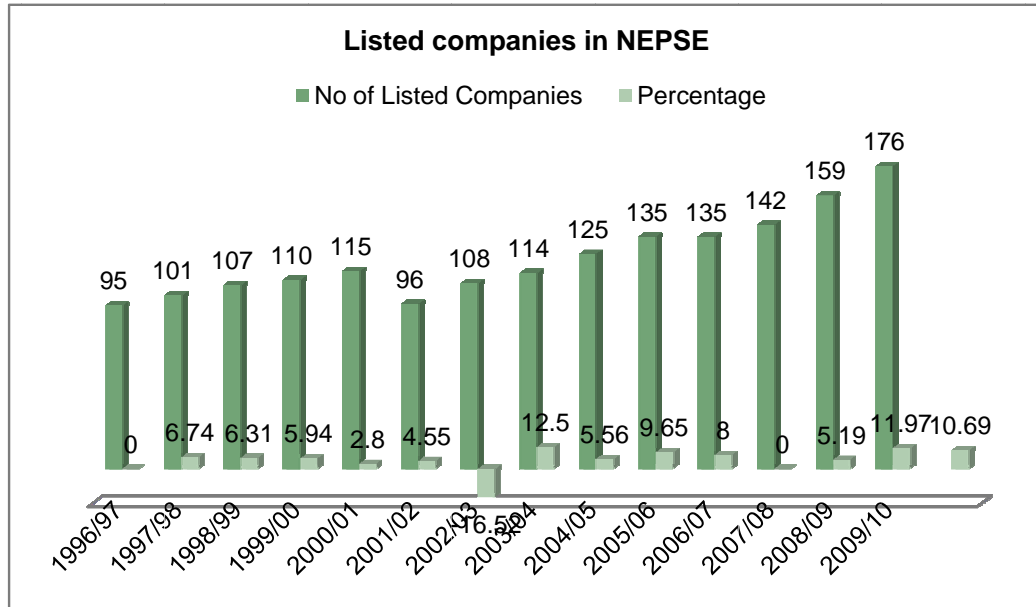


Figure 4.8

4.2.7 Number of Traded Companies and Volume Stock Traded

Even though the number of listed companies is in increasing trend, the no. of transacting companies is not satisfactory increasing trend. Table 4.9 shows that the volume of stock traded is in decreasing trend in the year 1997/98 and it had increased in some extent in the year 1998/99 but from 2004/05 it has increased in great extent. Similarly volume of trading companies is also in increasing trend.

Table 4.9
Number of traded companies and volume of stock traded

Fiscal Year	No of Traded Companies	Volume Stock Traded'000'
1996/97	67	9443
1997/98	68	1195
1998/99	69	4857
1999/00	69	7674
2000/01	67	4989
2001/02	69	6005
2002/03	80	2428
2003/04	92	6468
2004/05	102	18433
2005/06	110	12221
2006/07	116	18147
2007/08	130	28599.3
2008/09	137	26069.68
2009/10	176	22951.35

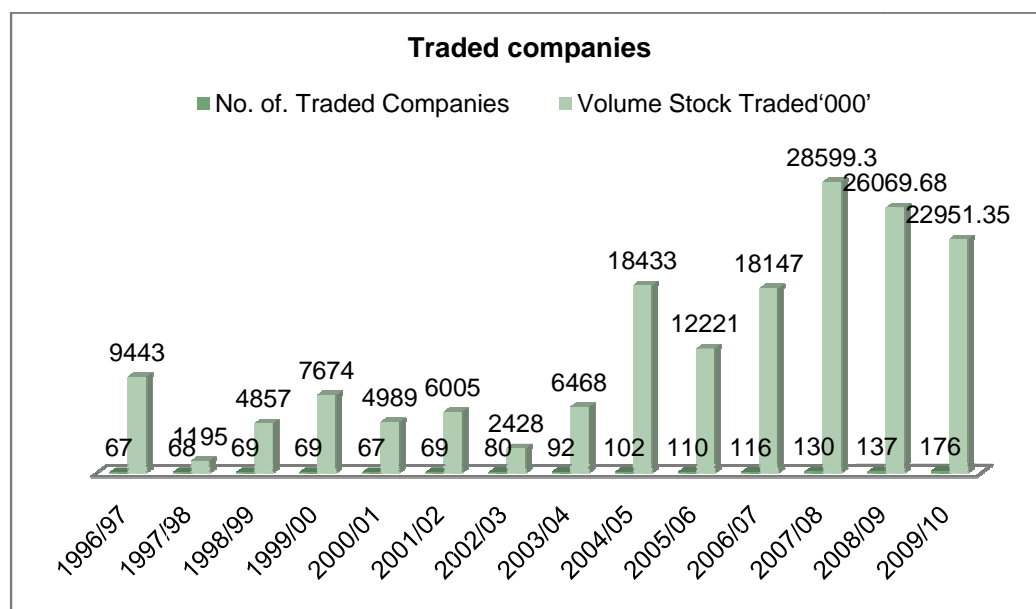


Figure 4.9

4.2.8 Paid-up Value of Listed Securities

The total paid-up value of the listed securities by the end of the fiscal year 2009/10 reached to Rs.79356.73 million which was Rs.61140.39million in the fiscal year 2008/09. The total paid-up value of the listed securities by the end of the fiscal year 2008/09 is presented in table 4.10

Table 4.10
Paid Up Value of listed companies

S.N.	Sector	Paid Up Value (Rs. In Millions)	Percentage
1.	Commercial Bank	32900.64	41.46
2.	Development Bank	10027.14	12.64
3.	Finance Company	11466.39	14.45
4.	Insurance Company	2432.94	3.07
5.	Hotels	1580.71	1.99
6	Manufacturing & Processing Company	2539.74	3.20
7.	Trading	82.18	0.10
8.	Others	18326.98	23.09
Total		79356.73	100.00

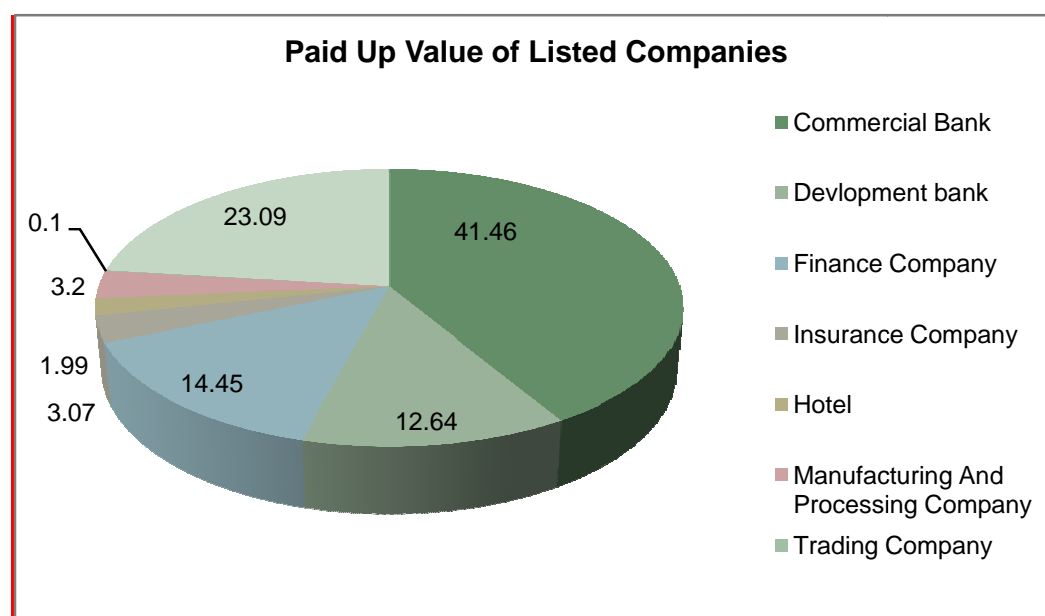


Figure 4.10

4.2.9 Annual Turnover of Listed Companies

The total amount of turnover of Securities traded in the fiscal year 2009/10 is Rs.11851.11 million which was Rs.21681.14 million in the Fiscal year 2008/09. The detail of Sector wise turnover is presented in table 4.11.

Table 4.11

(Rs. In millions)

S.N	Sector	Amount	Percentage (%)
1	Commercial Bank	7196.24	60.72
2	Development Bank	1323.53	11.17
3	Finance company	1263.94	10.66
4	Insurance Company	183.47	1.55
5	Hotel	10.15	0.08
6	Manufacturing & Processing Company	37.74	0.32
7	Trading Company	35.43	0.30
8	Other Company	1800.61	15.19
Total		11851.11	100.00

**Amount of preferred share & mutual fund, promoter share, government and corporate debenture also included.*

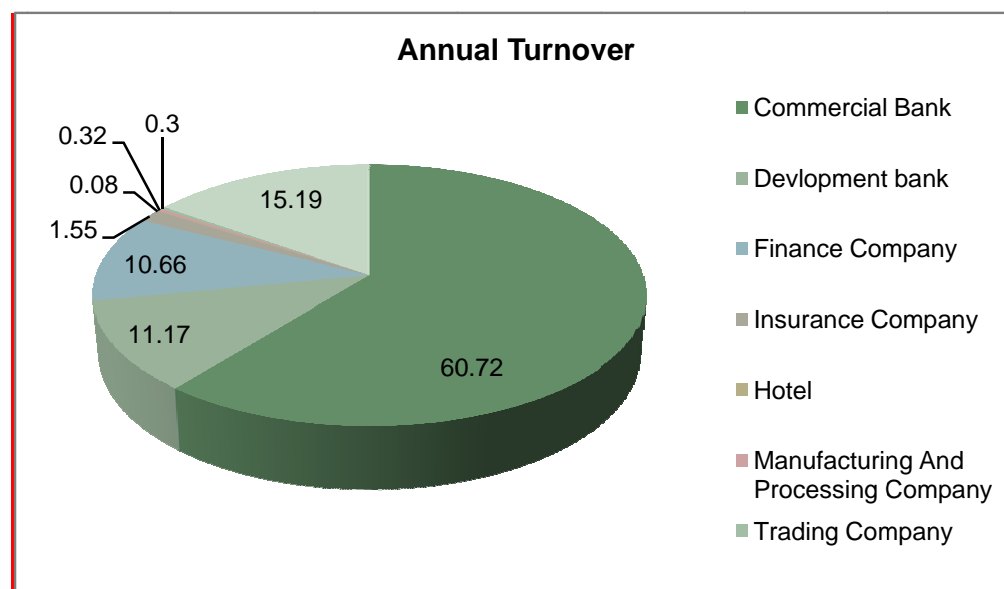


Figure 4.11

Monthly turnover in the fiscal year is presented in chart 1. As the deal cancel is subtracted from the annual turnover diminished to Rs.798.71 million.

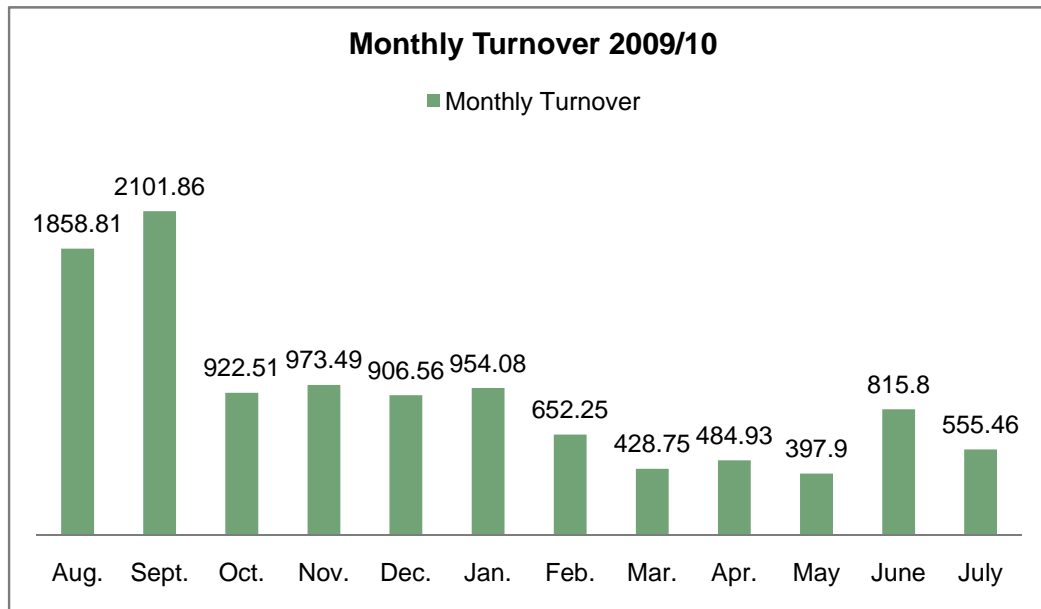


Figure 4.12

4.2.10 Market Capitalization of Listed Companies

By the end of the fiscal year 2009/10, the market capitalization of listed securities reached to Rs. 376871.37 million. The capitalization was Rs. 512939.07 million in the fiscal year 2008/09. The highest market capitalization recorded in the fiscal year 2009/10 was Rs.506036.7 million on July 20, 2009 and the lowest was Rs.314721.0 million on April 28, 2010. By the end of the fiscal year 2009/10, the percentage contribution of market capitalization on nominal GDP is estimate to be 31.86. The sector wise market capitalization in the fiscal year 2008/9 is presented in table.

Table 4.12

S.N	Sector	Market Capitalization	Percentage (%)
1	Commercial Bank	206282.52	54.74
2	Development Bank	27488.87	7.29
3	Finance company	29869.59	7.92
4	Insurance Company	9756.61	2.59
5	Hotel	5285.58	1.40
6	Manufacturing & Processing Company	7592.03	2.01
7	Trading Company	1617.51	0.43
8	Other Company	88978.67	23.61
Total		376871.37	100.00

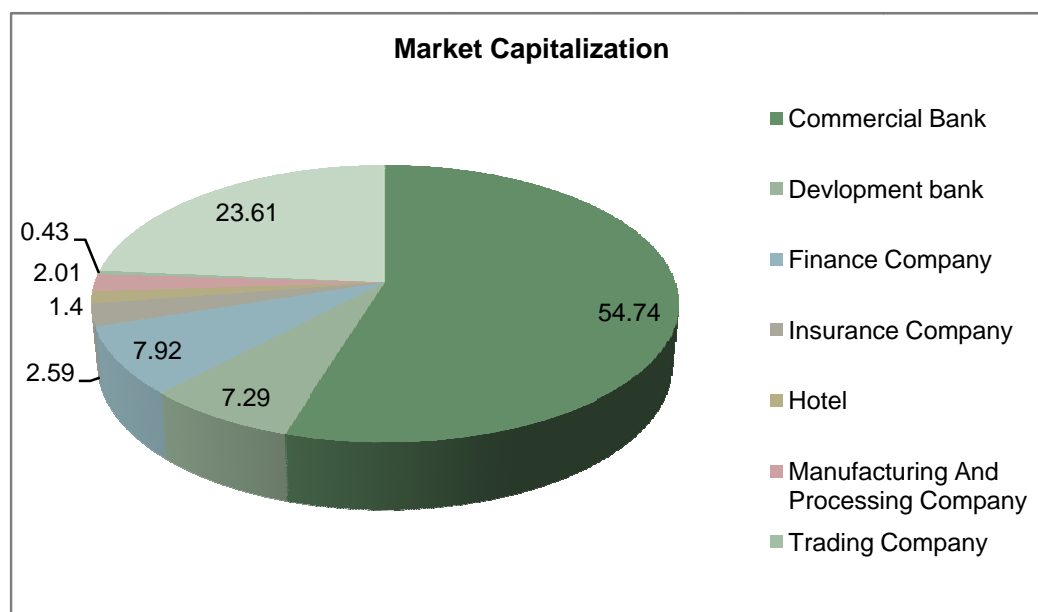


Figure 4.13

4.2.11 Financial Indicator

The financial indicators analyzed in this study are as under:

- Earnings per Share (EPS),
- Dividend per Share (DPS) and
- Market Value per Share (MVPS)

Financial indicators of some companies are given here to analyze. Financial indicators have been presented in tabular form. By individual form and their key indicator have been explored. Firstly it is tried to compare the correlation of different financial indicator (EPS and DPS) of a firm with the market price of share (MVPS) of the same firm. In this way this performance indicator (EPS and DPS) of ten firms from different industries sector are presented.

Earnings per share (EPS) of selected sampled companies

Years	2005/06	2006/07	2007/08	2008/09	2009/10
SCB	175.84	167.37	131.92	109.99	77.65
NBL	129.21	137.08	108.31	106.76	78.61
EBL	62.78	78.42	91.82	99.99	100.16
SDBL	6.25	25.50	15.79	5.46	7.54
NIDC	14.63	48.51	43.09	53.16	59.24
AFC	38.06	22.24	25.37	19.88	15.26
HGI	39.90	25.13	10.61	24.23	31.71
SHL	-2.13	-2.13	9.79	10.21	12.23
UL	258.67	285.72	363.99	482.29	432.20
BBC	102.24	95.38	55.29	60.24	80.25

Dividend per share (EPS) of selected sampled companies

Years Companies	2005/06	2006/07	2007/08	2008/09	2009/10
SCB	130	80	80	50	55
NBL	85	100	60	35	30
EBL	25	10	20	30	30
SDBL	10	0.79	10	5	6
NIDC	15	6	5	10	10
AFC	0.53	1.053	1.58	0.53	0
HGI	0	5.79	5.26	10	12.50
SHL	0	0	11.05	11.579	10.25
UL	250	275	325	325	325
BBC	100	20	50	10	20

Market value per share (MVPS) of selected sample companies

Years Companies	2005/06	2006/07	2007/08	2008/09	2009/10
SCB	3775	5910	6830	6010	3270
NBL	2240	5050	5275	4899	2384
EBL	1379	2430	3132	2455	1630
SDBL	100	310	1525	253	193
NIDC	208	600	901	1200	430
AFC	500	500	1480	970	217
HGI	215	300	345	285	234
SHL	57	126	236	207	229
UL	2500	3400	4100	4250	4149
BBC	2400	2575	2201	3264	3100

4.2.12 Correlation Coefficient Analysis

The correlation is a tool which is designed to measure the relationship between two or more variables and the correlation analysis measures the strength or

degree of linear relationships between two or more variables. If the change in the value of another variables, then we say that variables are correlated.

(i) Correlation Coefficient analysis between EPS and MVPS

The correlation coefficient between EPS and MVPS of selected sampled companies are as follows:

Table 4.13
Correlation Coefficient between EPS and MVPS

S.N	Name of company	Correlation coefficient (r)	Probable Error (PE)	Test of Significant
1	Standard Chartered Bank Ltd	0.20	0.29	Insignificant
2	Nabil Bank Ltd	0.29	0.28	Insignificant
3	Everest Bank Ltd	0.40	0.25	Insignificant
4	Siddhartha Dev .Bank Ltd	0.33	0.27	Insignificant
5	NIDC Capital Market Co. Ltd	0.53	0.22	Insignificant
6	Annapurna Finance Co. Ltd	0.09	0.30	Insignificant
7	Himalayan Gen. Insurance Co. Ltd	-0.97	0.30	Insignificant
8	Soaltee Hotel	0.93	0.04	Significant
9	Unilever Ltd	0.88	0.07	Significant
10	Bishal Bazaar Co. Ltd	-0.19	0.29	Insignificant

Above table showed the correlation coefficient between EPS and MVPS. The calculated correlation coefficient of all selected companies showed that there is negative relation between their EPS and MVPS. When tested the correlation coefficient with probable error the result of all selected companies are insignificant except Soaltee Hotel and Unilever Ltd because the value of 'r' is less than 6 times P.E whereas in case Soaltee Hotel and Unilever Ltd, the value 'r' is greater than 6 times.

(ii) Correlation coefficient analysis between DPS and MVPS

The correlation Coefficient between DPS and MVPS of the selected sampled companies are as follows:

Table 4.14
Correlation coefficient selected companies (DPS and MVPS)

S.N	Name of Company	Correlation Coefficient(r)	Probable Error(P.E)	Test of significant
1	Standard Chartered Bank Ltd	-0.24	0.25	Insignificant
2	Nabil Bank Ltd.	0.15	0.29	Insignificant
3	Everest Bank Ltd	-0.67	0.30	Insignificant
4	Siddhartha Bank Ltd	0.71	0.15	Insignificant
5	NIDC Capital Market Co. Ltd	-0.52	0.22	Insignificant
6	Annapurna Finance Co. Ltd	0.01	0.30	Insignificant
7	Himalayan Gen. Insurance Co. Ltd	0.073	0.30	Insignificant
8	Soaltee Hotel	0.78	0.11	Significant
9	Unilever Ltd	1.38	-0.28	Insignificant
10	Bishal Bazaar Co. Ltd	0.86	0.076	Significant

Above table showed the correlation coefficient between DPS and MVPS. The calculated correlation coefficient of all selected companies showed that there is negative relation between their DPS and MVPS. When tested the correlation coefficient with probable error the result of all selected companies are insignificant except Soaltee Hotel Ltd and Bishal Bazaar Co. Ltd because the value of 'r' is less than 6 times P.E whereas in case Soaltee Hotel Ltd and Bishal Bazaar Co. Ltd, the value 'r' is greater than 6 times.

4.2.13 Regression Analysis

The discussion of fundamental analysis has touched on numerous factors that a security analyst should consider in forming share market prices. The factors that affect to estimates the share price may be quantified and estimated econometrically using multiple regression analysis. In another word regression

analysis is a mathematical measure of the average relationship between the variables in terms of data.

General Form of a Model:

The following variables are the determinants of the share market price (denoted MVPS) which should be consider in finding the behavior:

(EPS)= Earnings per share

(DPS)= Dividend per share

A multiple correlation regression shown in equation can be used to show the relationship between the different factors using multiple regression analysis.

$$(MVPS = a+b_1EPS + b_2DPS)$$

Table 4.15

Earnings per share (EPS) of selected sampled companies

Years Companies	2005/06	2006/07	2007/08	2008/09	2009/10
SCB	175.84	167.37	131.92	109.99	77.65
NBL	129.21	137.08	108.31	106.76	78.61
EBL	62.78	78.42	91.82	99.99	100.16
SDBL	6.25	25.50	15.79	5.46	7.54
NIDC	14.63	48.51	43.09	53.16	59.24
AFC	38.06	22.24	25.37	19.88	15.26
HGI	39.90	25.13	10.61	24.23	31.71
SHL	-2.13	-2.13	9.79	10.21	12.23
UL	258.67	285.72	363.99	482.29	432.20
BBC	102.24	95.38	55.29	60.24	80.25
Total	825.99	883.22	855.89	972.21	894.85
Average	82.599	88.322	85.589	97.221	89.485

Table 4.16
Dividend Per share (DPS) of selected sample companies

Years Companies	2005/06	2006/07	2007/08	2008/09	2009/10
SCB	130	80	80	50	55
NBL	85	100	60	35	30
EBL	25	10	20	30	30
SDBL	10	0.79	10	5	6
NIDC	15	6	5	10	10
AFC	0.53	1.053	1.58	0.53	0
HGI	0	5.79	5.26	10	12.50
SHL	0	0	11.05	11.579	10.25
UL	250	275	325	325	325
BBC	100	20	50	10	20
Total	615.53	498.633	567.89	487.11	498.75
Average	61.553	49.8633	56.789	48.711	49.875

Table 4.17
Market value per share (MVPS) of selected sample companies

Years Companies	2005/06	2006/07	2007/08	2008/09	2009/10
SCB	3775	5910	6830	6010	3270
NBL	2240	5050	5275	4899	2384
EBL	1379	2430	3132	2455	1630
SDBL	100	310	1525	253	193
NIDC	208	600	901	1200	430
AFC	500	500	1480	970	217
HGI	215	300	345	285	234
SHL	57	126	236	207	229
UL	2500	3400	4100	4250	4149
BBC	2400	2575	2201	3264	3100
Total	13374	21191	26035	23793	15845
Average	1337.4	2119.1	2603.5	2379.3	1584.5

This section shows the regression of MVPS on EPS and DPS. The results are presented as under:

a	-729.69
b ₁	35.82
b ₂	-7.08
Total variation	1133831.272
Explained variation	205856.3421
Unexplained variation	927974.93
R square	0.1816

ANOVA TABLE

Source of variation	Sum of square	d. f	Mean sum of square	F. ratio
Explained variation	205856.3421	3-1	$\frac{205856.3421}{2} = 102928.171$	$F = \frac{102928.171}{463987.46} = 0.2218$
Unexplained variation	927974.93	5-2	$\frac{927974.93}{2} = 463987.46$	
Tabulated value of F. at 5% level of significant for 2 and 2 is 19.				

The above model shows that beta coefficient is positive for EPS and negative for DPS. Hence as if earning per share increases, market price per share is also likely to increase. However dividend per share has nothing to do with market price per share. There is no any indication that increase in dividend per share would lead to an increase in market price per share. Dividends have no effect on market price per share. This finding is consistent with MM hypothesis on dividend policy.

4.2.14 Run Test Analysis

The Run Test (Test of Randomness):

In recent years, several techniques have been developed to test the hypothesis that a sample is random or not among them, one sample run test is widely accepted technique for a non parametric test. A run test is used for testing the randomness of sequence of sample events on the basis of the order of sample events. The sequence or order of sample events may be defective and no defective events, rise and fall of stream or the run test for randomness is used whether the movement of market price of sample taken is random or not. This technique is based on the order or sequence on which the individual scores or observations originally were obtained.

A run test is defined as a succession of identical symbols, which are followed and preceded by different symbols or by no symbols at all. The Run test examines a series of price changes and designates each change as a '+', '-', or '0' as figure which obviously depicts the sequences of price changes and outcomes of different runs. Positive price changes is designated by '+', negative changes by '-', and no changes as '0'. A runs occurs when consecutive positive or consecutive price changes occurs more than once when the price changes then positive, negative and no changes of signs are appeared, the researchers then count the numbers of each sign, The number of positive sign denoted by n_1 , and number of negative sign denoted by n_2 . The n_1 positive movement and n_2 negative movement are calculated for each increase in price by denoting '+ve' and each decrease by '-ve' sign for each period. For this purpose, the tests have been done individually to each sample companies taking the month wise closing Market of the fiscal year 2009/10. The below run tests are based on the table of critical values of 'r'.

Table 4.18**Run test for standard chartered Bank Ltd**

Month	Market Price	Sign	Runs
Shrawan	6186	+	1
Bhadra	5235	-	2
Aswin	3680	-	
Kartik	3568	-	
Marga	3510	-	
Poush	3305	-	
Magh	3020	-	3
Falgun	3120	+	
Chaitra	2895	-	4
Baishak	2920	+	5
Jestha	3200	+	
Ashad	3279	+	

Here,

$$n_1 \text{ (number of +ve signs)} = 5$$

$$n_2 \text{ (number of -ve signs)} = 7$$

$$\text{Number of runs (r)} = 6$$

At alpha (α) = 0.05, we can test whether the market price movement is random or not. At the critical value of 'r' for $n_1 = 5$ and $n_2 = 7$ from the 'r' table, the critical value of 'r' found as 6. Hence, we can conclude that the market price movement of Standard Chartered Bank Ltd is random.

Table 4.19
Run test for Nabil Bank Ltd

Month	Market Price	Sign	Runs
Shrawan	4944	+	1
Bharda	2820	-	2
Aswin	2880	+	3
Kartik	2700	-	4
Marga	2590	-	
Poush	2600	+	5
Magh	2320	-	6
Falgun	2261	-	
Chaitra	2040	-	
Baishak	2200	+	7
Jestha	2300	+	
Ashad	2384	+	

Here,

$$n_1 \text{ (number of +ve signs)} = 6$$

$$n_2 \text{ (number of -ve signs)} = 6$$

$$\text{Number of runs (r)} = 7$$

At alpha (α) = 0.05, we can test whether the market price movement is random or not. At the critical value of 'r' for $n_1 = 6$ and $n_2 = 6$ from the 'r' table, the critical values of 'r' found as 7. Hence, we can conclude that the market price movement of Nabil Bank Ltd is random.

Table 4.20
Everest Bank Ltd

Month	Market Price	Sign	Runs
Shrawan	2650	+	1
Bharda	2290	-	2
Aswin	2390	+	3
Kartik	1747	-	4
Marga	1700	-	
Poush	1640	-	
Magh	1581	-	
Falgun	1550	-	
Chaitra	1449	-	
Baishak	1342	-	5
Jestha	1588	+	
Asha	1630	+	

Here,

$$n_1 \text{ (number of +ve signs)} = 4$$

$$n_2 \text{ (number of -ve signs)} = 8$$

$$\text{Number of runs (r)} = 5$$

At alpha (α) = 0.05, we can test whether the market price movement is random or not. At the critical value of 'r' for $n_1 = 4$ and $n_2 = 8$ from the 'r' table, the critical values of 'r' found as 5. Hence, we can conclude that the market price movement of Everest Bank Ltd is random.

Table 4.21**Siddhartha Development Bank Ltd**

Month	Market Price	Sign	Runs
Shrawan	275	+	1
Bharda	265	-	2
Aswin	250	-	
Kartik	280	+	3
Marga	231	-	4
Poush	231	0	
Magh	222	-	5
Falgun	226	+	6
Chaitra	204	-	7
Baishak	189	-	
Jestha	190	+	8
Ashad	193	+	

Here,

$$n_1 \text{ (number of +ve signs)} = 5$$

$$n_2 \text{ (number of -ve signs)} = 6$$

$$\text{Number of runs (r)} = 8$$

At alpha (α) = 0.05, we can test whether the market price movement is random or not. At the critical value of 'r' for $n_1 = 5$ and $n_2 = 6$ from the 'r' table, the critical value of 'r' found as 8. Hence, we can conclude that the market price movement of Siddhartha Development Bank Ltd is random.

Table 4.22
NIDC Capital Market Co. Ltd

Month	Market Price	Sign	Runs
Shrawan	810	+	1
Bharda	810	0	
Aswin	856	+	2
Kartik	775	-	3
Marga	775	0	
Poush	642	-	4
Magh	635	-	
Falgun	533	-	
Chaitra	431	-	
Baishak	414	-	
Jestha	462	+	5
Ashad	430	-	6

Here,

$$n_1 \text{ (number of +ve signs)} = 3$$

$$n_2 \text{ (number of -ve signs)} = 7$$

$$\text{Number of runs (r)} = 6$$

At alpha (α) = 0.05, we can test whether the market price movement is random or not. At the critical value of 'r' for $n_1 = 3$ and $n_2 = 7$ from the 'r' table, the critical value of 'r' found as 6. Hence, we can conclude that the market price movement NIDC Capital Market Co. Ltd is random.

Table 4.23
Annapurna Finance Co. Ltd

Month	Market Price	Sign	Runs
Shrawan	500	+	1
Bharda	481	-	2
Aswin	332	-	
Kartik	330	-	
Marga	337	+	3
Poush	375	+	
Magh	360	-	4
Falgun	308	-	
Chaitra	250	-	
Baishak	217	-	
Jestha	217	0	
Ashad	217	0	

Here,

$$n_1 \text{ (number of +ve signs)} = 3$$

$$n_2 \text{ (number of -ve signs)} = 7$$

$$\text{Number of runs (r)} = 4$$

At alpha (α) = 0.05, we can test whether the market price movement is random or not. At the critical value of 'r' for $n_1 = 3$ and $n_2 = 7$ from the 'r' table, the critical value of 'r' found as 4. Hence, we can conclude that the market price movement of Annapurna Finance Co. Ltd is random.

Table 4.24**Himalayan General Insurance Co. Ltd**

Month	Market Price	Sign	Runs
Shrawan	260	+	1
Bharda	260	0	
Aswin	241	-	2
Kartik	233	-	
Marga	230	-	
Poush	230	0	
Magh	230	0	
Falgun	230	0	
Chaitra	226	-	
Baishak	230	+	4
Jestha	234	0	
Ashad	234	0	

Here,

$$n_1 \text{ (number of +ve signs)} = 2$$

$$n_2 \text{ (number of -ve signs)} = 4$$

$$\text{Number of runs (r)} = 4$$

At alpha (α) = 0.05, we can test whether the market price movement is random or not. At the critical value of 'r' for $n_1 = 2$ and $n_2 = 4$ from the 'r' table, the critical values of 'r' found as 4. Hence, we can conclude that the market price movement of Himalayan General Insurance Co. Ltd is random.

Table 4.25
Soaltee Hotel Ltd

Month	Market Price	Sign	Runs
Shrawan	203	+	1
Bharda	207	+	
Aswin	211	+	
Kartik	197	-	2
Marga	197	0	
Poush	197	0	
Magh	197	0	
Falgun	197	0	
Chaitra	197	0	
Baishak	182	-	3
Jestha	236	+	4
Ashad	229	-	5

Here,

$$n_1 \text{ (number of +ve signs)} = 4$$

$$n_2 \text{ (number of -ve signs)} = 3$$

$$\text{Number of runs (r)} = 5$$

At alpha (α) = 0.05, we can test whether the market price movement is random or not. At the critical value of 'r' for $n_1 = 4$ and $n_2 = 6$ from the 'r' table, the critical values of 'r' found as 5. Hence, we can conclude that the market price movement Soaltee Hotel Ltd is random.

Table 4.26
Unilever Ltd

Month	Market Price	Sign	Runs
Shrawan	4261	+	1
Bharda	4346	+	
Aswin	4333	-	2
Kartik	4333	0	3
Marga	4333	0	
Poush	4333	0	
Magh	4320	-	4
Falgun	4277	-	
Chaitra	4234	-	
Baishak	4192	-	
Jestha	4149	-	
Ashad	4149	0	

Here,

$$n_1 \text{ (number of +ve signs)} = 2$$

$$n_2 \text{ (number of -ve signs)} = 6$$

$$\text{Number of runs (r)} = 4$$

At alpha (α) = 0.05, we can test whether the market price movement is random or not. At the critical value of 'r' for $n_1 = 2$ and $n_2 = 6$ from the 'r' table, the critical value of 'r' is 4. Hence, we can conclude that the market price movement of Unilever Ltd is random.

Table 4.27
Bishal Bazaar Co.ltd

Month	Market Price	Sign	Runs
Shrawan	3100	+	1
Bharda	2978	-	2
Aswin	2804	-	
Kartik	2917	+	3
Marga	2856	-	4
Poush	2855	-	
Magh	2800	-	
Falgun	2748	-	
Chaitra	3060	+	5
Baishak	3100	+	
Jestha	3100	0	
Ashad	3100	0	

Here,

$$n_1 \text{ (number of +ve signs)} = 4$$

$$n_2 \text{ (number of -ve signs)} = 6$$

$$\text{Number of runs (r)} = 5$$

At alpha (α) = 0.05, we can test whether the market price movement is random or not. At the critical value of 'r' for $n_1 = 4$ and $n_2 = 6$ from the 'r' table, the critical values of 'r' found as 5. Hence, we can conclude that the market price movement of Bishal Bazaar Co. Ltd is random.

4.3 Presentation and Analysis of Primary Data

Appendix-I reveals important information as to outlook of investment decision of investors. In the course of availing first hand data to justify the study on the topic primarily, interviews and questionnaire methods have been made applicable.

4.3.1 Interview with Experts

While taking interview with senior officials of NEPSE, while the periphery of investors awareness about investment decision, it was learnt that the reason behind frequently swing in the market price to the officials, of shares is due to lack of institutional investors who can properly analyze and study the market trends before making their investment decisions. According to the officials, Nepalese stock market is dominated by relating investors come forward to act in bullish trend. They emphasized that stability cannot be fully achieved unless rational and institutional investors come forward to participate in the secondary market. However, they agreed the fact that lately the investors have become more sensitive and professional at least in comparison to early nineties, when market was at the early stage. At the time of interview, the question has been asked about which method of analysis you adopt. Most of the experts replied that they used technical as well as fundamental analysis method of stock price behavior.

While conducting the interview it was seen that Nepalese Stock Exchange, investor and officials were at logged heads' over the cases of stock market slack, blaming each other or volatility of stocks prices. Though, they have different theories to offer over the price fluctuations, the efforts to improve the domestic stock market should be done from all the stakeholders.

4.3.2 Questionnaire Analysis

Another measures applied to information relevant to the topic is questionnaire method. A number of questions were put up by means of 50 copies of

questionnaire. Categorically, the questions raised through this means were of three types:

Yes/no questions

Multiple choice questions

Scaling questions

All the questionnaires were collected from the field survey. The questionnaire so collected is thus related to find out the opinion of investors on investment action for trading shares through secondary market. Their responses have been analyzed as follows:

(i) True status of company through stock price

When the investors were asked whether the stock price of any particular company shows its true status, 32% of them said yes it does, 36% of them said no and 32% of them said they don't know.

Table 4.28

Status of Company through Stock Price

S.N	Research Variable	No. of investors	% of investors
1	Yes	16	32%
2	No	18	36%
3	Don't know	16	32%
Total		50	100%

(Source: Field Survey)

(ii) Investor's awareness analysis

When questioned to the investor's weather they are aware and conscious about the movement of the price of any particular stock, most of them i.e. 28% of them said yes they are, 56% said they are not, and 16% of them said they don't know about this.

Table 4.29

Investor's awareness analysis

S.N	Research Variable	No. of investors	% of investors
1	Yes	14	28%
2	No	28	56%
3	Don't know	8	16%
Total		50	100%

(Source: *Field Survey*)

(iii) Influencing Factors Analysis

Regarding the major influencing factors for the decision of investment in any particular stock, 40% of the respondents said company's dividend is the major influencing factor said company's profit, 8% of them said the company's BOD, 30% of them said company's performance, 20% of them said company's profit and 2% of them said all the listed reason influence their decision.

Table 4.30

Influencing factors analysis

S.N	Research Variable	No. of investors	% of investors
1	Company's dividend	20	40%
2	Company's BOD	4	8%
3	Company's performance	15	30%
4	Company's profit	10	20%
5	Above all	1	2%
Total		50	100%

(Source: *Field Survey*)

Government Policy Analysis

Regarding adequacy of the government policy on stock market, 14 % of them said that they are adequate, 80% of the respondent said the policy is not adequate, and 6% of them replied they are unknown about the policy of government in the stock market.

Table 4.31

Government Policy Analysis

S.N	Research Variable	No. of investors	% of investors
1	Yes	7	14%
2	No	40	80%
3	Don't know	3	6%
Total		50	100%

(Source: Field Survey)

(v) Effect of global recession Analysis

When the investors were asked whether the ongoing global recession has hit the stock market, 14% of them said yes, 80% of them said no and 14% of them said yes it has.

Table 4.32

Effect of global recession Analysis

S.N	Research Variable	No. of investors	% of investors
1	Yes	7	14%
2	No	40	80%
3	Don't know	3	6%
Total		50	100%

(Source: Field Survey)

(vi) Globalization of Nepalese Stock Market analysis

Regarding the globalization of Nepalese stock market, 10% of respondent said yes, 20% of them said no, 20% of them said not yet, and 25% of them said they don't know.

Table 4.33

S.N.	Research Variable	No. of Investors	% of Investors
1	Yes	5	10%
2	No	10	20%
3	Not Yet	10	20%
4	Don't know	25	50%
Total		50	100%

(Source: Field Survey)

(vii) Investor's Awareness Analysis

Investor's were asked whether the unawareness of investors are giving benefits to limited persons in Nepal stock market, 14% of the respondent said yes, 80% of them said no and 6% of them said they don't know.

Table 4.34

Investor's Awareness Analysis

S.N	Research Variable	No. of investors	% of investors
1	Yes	7	14%
2	No	40	80%
3	Don't know	3	6%
Total		50	100%

(Source: Field Survey)

(viii) Decision Making Analysis

Regarding the decision to invest in shares in the secondary market, 44% of them replied that their basis of decision making is their own analysis, 50% of the investors replied that their basis of decision making is market price, only the minimal respondent i.e. 6% said they take decision on the basis of family advice, and none of respondent base their decision on rumors.

Table 4.35
Decision Making Analysis

S.N.	Research Variable	No. of Investors	% of Investors
1	Own Analysis	22	44%
2	Market price	25	50%
3	Family advice	3	6%
4	Rumors	0	0%
Total		50	100%

(Source: Field Survey)

(ix) Sector of Investment

Regarding the sectors of investment, the investors were asked which sector they prefer to invest, 76% of them said they prefer banking sector, 2% of them said manufacturing & processing, 4% of them said trading sector, and 18% of them said others that include hydro power.

Table 4.36
Sector of Investment Analysis

S.N.	Research Variable	No. of Investors	% of Investors
1	Banking Sector	38	76%
2	Manufacturing & processing	1	2%
3	Trading Sector	2	4%
4	Others	9	18%
Total		50	100%

(Source: Field Survey)

(x) Interest of Investors Analysis

Investors were asked for their interest on investment motives, 48% of the investors said income, 16% of them said social status, 18% of them said marketing and 20% of them said above all.

Table 4.37
Investors' interest Analysis

S.N.	Research Variable	No. of Investors	% of Investors
1	Income	24	48%
2	Social status	8	16%
3	Marketing	9	18%
4	Above all	10	20%
Total		50	100%

(Source: Field Survey)

xi) Analysis of free opinion of respondent

Out of 12 questions about stock market only 2 questions were arisen as open-end question. Thus, in relation to the narrative question number 11 & 12 on Appendix-1, only 60 % of the respondents replied the questions rest of the 40% of them shows no response.

So far as the investors' experience on investment problem is concerned, it was found quite astonished. Some key experience, which are considered to be worthy are cited here. Some investors expressed that due to nontransparent operation and delay in a disseminating the information regarding company's financial status and shares they were in dilemma whether to purchase or sell the shares. Some of them blamed that brokers in secondary market do not provide proper advice to the clients. Due to which they have to bear loses trading the stock. Most of the brokers perform the function in the capital market not for investors' sake but only to reap commission from investors. While some other stated that due to few numbers of analyst or firms that are involved in

forecasting market trends and future price of shares, they feel difficulty to take right investment decisions on right time. Likewise, it was acknowledged that some of the investors were reluctant to make further investment. It is also expensive in the secondary market since they had bitter experience for making transfer of ownership of shares.

In this way, a fraction of investors seemed to be apprehensive to sell the shares of that company which they bought from primary market. It is so because securities exchange act 1983 has laid down the provision of compulsory listing of securities before trading on the stock exchange. The shares they possessed are not listed in the Nepal Stock Exchange (NEPSE). Thus, their perplexity sounds like appropriate.

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

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

Moreover some prominent suggestions, the investors prescribed to include the confidences of investors for investing in the secondary market are as follows:

- The stock exchange should carry out periodic research & analysis and make public the findings, which they believed they believed would help them to make better investment decision.
- The securities board, an apex body for monitoring and regulating the Nepalese stock market regulatory regimes up to international standards.
- Investors should be provided with investment guidelines.
- The role of market players in the stock market should made effective in promoting the capital market on the country.

4.4 Major Findings

The major findings of study are as follows:

- On analyzing the primary data major portion of the investors would like to invest in banking sector.
- Investors have poor understanding & knowledge about stock market it was found when analyzing the primary data.
- Lacks of awareness in the investor are major problems in Nepalese security market.
- Most of the investor's do not think that the stock price shows the true financial position of the company.
- It was found that the investor do not believe that the ongoing global recession has hit the Nepalese Stock Market. Nepalese investors are not ready yet to take the local stock market internationally.
- Taking the interview with the experts of Nepalese Stock market, most of them follow the technical as well as fundamental analysis method of stock price movement.
- Most of the investor's interest was income. It was found that the investors' motive for owning shares of company is to receive the dividends from the shares.
- When investors were asked whether they faced any difficulties in the stock market, majority of them replied that they were facing difficulties in Nepalese stock market.

- It was found that investors in the stock market take the investment decisions on the basis of market price of shares.
- The market price of sample companies during the fiscal year 2005/06 to 2009/10 has been presented which shows the fluctuation of the prices.
- Paid up value indicated the actual amount of the investment in assets whereas market capitalization indicates the present value of the investment.
- The calculated value of correlation coefficient showed that there is negative correlation coefficient between EPS & DPS and EPS & MVPS of all the sampled companies except two companies.
- The calculation of multiple regression shows that there is not significant relationship between MVPS, EPS and DPS.
- The above regression table showed that there is positive relationship between EPS and MVPS i.e. while EPS increases MVPS is also likely to increase.
- Increase in DPS would not lead to increase in MVPS, i.e., DPS has no effect on market price per share.
- When analyzing the primary as well as secondary data it was also found that the government policy is not clear and adequate about Nepalese stock market.
- It was also found that the major influencing factors of the stock are earnings price per share.
- Number of traded companies and volume of stock traded are found to be in increasing trend for last several years.
- Studying the annual trend analysis of Nepalese stock market it was found that stock price trend was in fluctuating trend in the different years.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

This is the last chapter of the thesis which presents the summary, conclusion and recommendations. The study was concluded as per the prescribed model developed by the guide with the specific objectives of analyzing the share price movement of listed companies on securities market of the sample companies in NEPSE. Its empirical test has been presented in the fourth chapter. Summary refers the short form of whole study, conclusion draws from the analysis and recommendation suggests the improving to test the cause of stock price movement in Nepalese stock market. Generally, study is related with the price of secondary market. There are no any price movements in the primary stock but there are high price movements in the market secondary stock market. Due to exchange process were possible by only brokers and market makers. The various statistical tools and financial tools such as multiple regression analysis, correlation coefficient of determination, Run-test were adopted for analysis and interpretation of those collected data.

5.1 Summary

Securities market refers the buying and selling price of stock, bond share and debt. Capital market is the backbone of any economy, and Nepal is not an exception. Under the capital market, stock market has played the vital role to pull and push the proper economy balance of the country. So by promoting the stock market in sizeable economic sectors gives raises the economic development by mobilizing swing into productive sectors by making suitable investment for making suitable investment environment. Different elements like price trend of NEPSE index, volume of stock traded, rate of newly listed companies, and no. of securities business persons may create the favorable investment environment. The overview of the Nepalese stock market has been sketched before analyzing the result of the sample company selected from the

different sector of NEPSE. The recent position and performance of stock market in Nepal has been analyzed. The Nepalese stock market has not been able to gain strong economic position as expected due to market limitations like, limited number of buyer and sellers, rigid government policies, weak position of corporate sector etc.

The main objective of the present study was to examine and study the stock price trend, with the help of NEPSE index, volume of stock traded and number of traded companies, rate of listing of new companies on stock exchange, analyze the paid up value and market capitalization, to find out the correlation coefficient between sampled companies and analyze the closing market price of sample companies. These are the important factors for the stock market to analyze the behavior of the stock market prices.

According to the nature the study, primary as well as secondary data has been used to meet the objective. Secondary data were collected from annual report of NEPSE index, daily newspapers, library search, newspapers, magazine, bulletin and other journals. Secondary data of selected sample companies covering the period 2005/06 to 2009/10 are employed for this research which includes NEPSE index, volume of stock traded, number of traded companies, number of listed companies in NEPSE, paid-up capital and market capitalization, closing market price etc. The regression analysis, correlation coefficient, run test, F-test analysis were employed for the analysis of those collected data. Questionnaires were distributed and interviews were made to gather information. In formulation was tabulated and presented as per the requirement of the study.

Volume of stock traded was not in the same direction in the different years. Volumes of stock traded during the year 1996/97 to 2009/10 were not in any order of increasing & decreasing. The trend of volume of stock traded was in fluctuating manner in these years. The thing is to be noted is that the volume of stock traded has increased significantly during the past years 2009/10 which

indicates that the Nepalese investors are slowly coming forward to invest in stock. Similarly, rate of listing new companies were not in satisfactory condition as only few percentage of increment in the companies couldn't give any type of result. The volumes of transacting companies are also in fluctuating trend from the year 1996/97 to 2001/02 after which it is in increasing trend. Annual stock price has significant rise in recent couple of years than previous years. The paid off value and market capitalization of listed companies were to some extent increasing than the previous years. The maximum percentage of Nepalese stock market is occupied by banking sector.

5.2 Conclusion

The major conclusion of this study is follows:

- The study concludes that there is gap between the theory and practice of investment in Nepalese stock market due to the lack of proper analysis of stock market for the smooth operation of the secondary market.
- Stock market was not properly analyzed for smooth operation of secondary market. It shows gap between theory and practice of investment in Nepalese stock market.
- Various measures of stock market development indicate that the stock market in Nepal is in developing stage and has shown little impact on the overall national economy. Small market size has made it vulnerable to manipulation and price rigging. Some investors tend to avoid stock market because they do not have options to invest in securities according to their risk-return preference. Similarly firms shun it because stock market is less reliable source of raising funds for them. Due to this financial system in Nepal has remained basically bank dominated.
- The market seems gaining to some extent the confidence of investor. There is poor liquidity for the stock. A scarcity of floating stock prevails in the market. Professionalism is still lacking in the service of investors and investment management. A system of preponderance of speculation trading is guessed to be prevailed where the primary motive is to derive benefit from short term fluctuations. It appears that a very small fraction of transaction represents purchases/sales by genuine investors. The rest

are driven mainly by the speculative motive. The corporate is still reluctant on disseminating information timely. The kind of securities trading in the market is confined only to ordinary and preference shares. These are various majors problems observed in the market nowadays.

- Nepal stock Ltd. is analyzing stock market behavior in very few areas regarding the stock market. So experts should be recruited and analyzed market behavior in efficient way so that all parties interested with stock market can get benefit from this. This data analysis showed that Nepal stock Exchange is not providing facilities for general public and movement of stock trend in different periods and their cause are not explained.

The study is based on pooled sectional data of 10 Sample Company whose stocks are listed in the Nepal stock exchange and traded in the stock market. However it shows how the market price of share are related to the earning per share, dividend per share, market value per share, size and turnover, in which direction.

The result revealed the followings:

- The study shows the major influencing factors of the stock are earnings price per share.
- The calculated value of correlation coefficient showed that there is negative correlation coefficient between EPS & DPS and EPS & MVPS of all the sampled companies.
- After studying the regression analysis of financial indicators of sampled companies of table that there is positive relationship between EPS and MVPS i.e. while EPS increases MVPS is also likely to increase.
- Increase in DPS would not lead to increase in MVPS, i.e., DPS has no effect on market price per share.
- Paid up value indicated the actual amount of the investment in assets whereas market capitalization indicates the present value of the investment.
- Number of traded companies and volume of stock traded are found to be in increasing trend for last several years.
- Studying the annual trend analysis of Nepalese stock market it was found that stock price trend was in fluctuating trend in the different years.

- When analyzing the primary as well as secondary data it was also found that the government policy is not clear and adequate about Nepalese stock market.

Hence, we can conclude that the Nepalese stock market is in the developing stage. Finally, the study of stock market behavior is very useful subject matter if properly analyzes for the development of stock market.

5.3 Recommendations

Based on the analysis and major findings of this study, the following are the recommendations:

- Investors should analyze the intricate financial details of corporate before making investment decisions so that they can earn maximum gain with minimum risk which will also help stock market to develop smoothly.
- Investors should be aware about risk written and availability or timely corporate information about their investment.
- Investors should be very conscious and attentive to the speculative and manipulated practices prevailed in stock market and should not jump into the conclusion and make mistakes of buying or selling their stocks during the so-called bullish or bearish trend.
- The size of stock market is small in Nepal because of concentrated corporate or centralized system, so the share of the corporate sector is negligible as compared to the total investment in the economy, so government should promulgate suitable policies to foster the development of corporate on the economy.
- NEPSE and SEBON should strictly implement their plans and policies in the process of development of securities market in Nepal.
- For the development of security market in Nepal more institutional investors are investing in the shares of different companies.

- Investors should be encouraged to invest in non-banking sectors. For this, the non-banking companies should think about their policy regarding the dividends of their stocks.
- NEPSE, the only stock exchange of the country, is operating only in limited area outside the valley is not sufficient, so for the development of securities market in Nepal it is essential to expand it to the regional level. The single capital (security) market is not sufficient to collect big capital from the widespread communities throughout the Nepal. So there needs some regional as well as private security trading companies to open up.
- Generally, Nepalese investors are not aware about their investment scheme: therefore, they should be aware their investment scheme by properly analyzing risk and return. There seems the necessity of separate body to analyze strengths and weakness of public companies which should disclose right information and suggestions to public investors about investment risks. This will helps the investors to take proper investment decision at the right time to avoid or minimize the level of risks.
- NEPSE index plays major role for creating investment prosperity. So for removing stock market difficulties such as transacting facilities, investor's interest and investment facility should be managed in effective way by formulating investors' protection act.
- Approval process should be streamlined to make it easy and hassle free. If possible one window policy should be adopted in providing approval. NEPSE has to ensure that all companies share all relevant information on a timely basis so that the stock price reflects their company's status more accurately.
- Discourage the possibilities of insider's trading through corporate governance and initiate strict corrective measures for compliance. Encourage active participation of other sectors of the economy besides

banks, finance company and insurance through the enforcement of good corporate governance.

- Government of this nation formulate proper and perfect ruled, regulation, article of association and code of conduct to develop the capital market of nation. For this purpose national and international stock experts should hire to develop the system.
- Economy development of every largely country depends upon the industrial advancement of various types and classes industries. (Small industries, middle industries and large industries) and development of stock market, on the other hand depends upon the development of industries. Government therefore should encourage and consider the industries development in the country.
- The listed companies' data, their performance appraisal, their condition of work, their commitment to NEPSE should be updated and analyzed in time and again. If any company is found in doing works against NEPSE should immediately take action on it.
- The price fluctuation trend is not predictable by general investors, so technician facilitates should be provided by Nepal stock exchange ltd. , so that general investors should also get benefit from the Nepal security exchange center ltd.
- The study of stock market behavior should be done in periodic manner so that proper results can be drawn for betterment of stock market from the side of NEPSE.
- Current manual method of securities trading should be substituted by computer-based technology, which enhances the pace of trading activities.
- Investors should be provided with investment guidelines from news and media.
- The role of market players in the stock market should made effective in promoting capital market on the country by giving proper training and adopting changed environment with modern tools and technique.

- NEPSE should give more attention to market price i.e. it should have to conduct research, seminar and training and make the awareness about how to increase the companies' market price and how to show their performance in listing of NEPSE by updating their reports periodically, information actual financial position of the company.
- The stock market lacks the existence of sophisticated investors, it is recommended to regulatory bodies to carry out programs using various media and spot program to inform and attract the potential investors in investing into shares.
- The implementation of computer assisted trading system (CATS) in NEPSE trading floor was found to be very necessary since it was realized by many respondents of these sectors.

While much work remains to be done, a growing body of evidence suggests that stock market is not merely casinos where players come to place bets. Stock markets provide services to the non-financial economy that are crucial for long term economic development. The ability to trade securities easily may facilitate investment, promote the efficient suggests that stock market price encourages or at least strongly forecast corporate investment even though much of this investment is financed through retained earnings, bank loans rather than equally issues. Those experts who suggest investors to invest carefully when the NEPSE index is in bullish trend should also aware investors when the NEPSE is going down. There are millions of investors who are willing to buy shares from primary market but the number of investors willing to invest in secondary market are very few due to which stock market has been a playground for some limited players. Thus the government should come up with some solid policies regarding stock market so that the more and more investors come forward to invest, not only in financial sector but also in industrial sector which will lead Nepal Stock Market to the real height.

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d. Web Sites

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www.sebonp.com

Appendix – I
Questionnaire

1. Does the stock price show the true status of any company?
(i) Yes (ii) no (iii) don't know
2. Are the investors aware and conscious about the movement of the price of any particular stock?
(i) Yes (ii) No (iii) don't know
3. What factors make you decide to buy share of any particular company?
(i) Company's profit (ii) company's dividend
(iii) Company's performance (iv) Company's BOD
4. Do you think the government policies are adequate for the development of stock market?
(i) Yes (ii) no (iii) don't know
5. Do you think the ongoing global recession has/will hit the Nepalese stock market?
(i) Yes (ii) No (iii) don't know
6. Do you think the Nepalese stock market should go global?
(i) Yes (ii) no
(iii) Not yet (iv) don't know
7. Do you think the unawareness of investors is giving benefit to limited players in Nepal stock market?
(i) Yes (ii) no (iii) don't know
8. On which basis do you make the decision to invest in shares in the secondary market?
(i) Family Advice (ii) Rumors
(iii) Own analysis (iv) Market price
9. Which sector is the most secure from the investment point of view?
(i) Banking sector (ii) Hydro power sector
(iii) Manufacturing sector (iv) trading sector
(v) Others

10. For what purpose do you want to own shares of a company?
- (i) Social status
 - (ii) marketing
 - (iii) Income
 - (iv) above all
11. What are the difficulties facing by investors in Nepalese stock market?
- (i).....
 - (ii).....
 - (iii)
 - (iv).....
12. In your opinion, what are the majors to be taken for developing Nepalese secondary market?
- (i).....
 - (ii).....
 - (iii).....
 - (iv).....