CHAPTER –I

INTRODUCTION

1.1 Background of the Study

Stock Market is the place where shares of listed companies are traded or transferred from one hand to another at a fair price through the organized brokerage system. Share or stock market is a major component of the securities market. Stock market is a medium through which corporate sectors mobilizes funds to productive projects by issuing shares in the market.

There are two types of securities market i.e. primary and secondary market. The 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. The secondary market is a place where outstanding securities are bought and sold. The secondary is a market for old securities i.e. the securities which have already been listed in the stock market. There is a close relationship between the primary and secondary markets. Principally stock market refers to the secondary market for the new issues. In secondary market to make transactions, primary role is performed by the brokers, in exchange they receive commissions. Therefore, they are the backbone of stock market growth and its smooth functioning. The major function of the stock is to provide ready and continuous market for purchases and sales of securities at a competitive price there by imparting future market ability and liquidity future to them. Thus, it is a medium through which scattered saving and scared resources are transferred in to productive areas that ultimately help to the economic development and industrialization of the nation.

To maintain high liquidity in the stock market, the market has to be efficient in pricing the shares. In an efficient market, prices "fully reflect" available information. In this situation at every moment in time the actual prices of the

securities represent best estimate of its intrinsic value. This is Participants in the market would be dealing with fare prices of the security. In this condition, the investment decision problem of the general investor is greatly simplified because random selection of the stock with matches their portfolio risk class does not differ in its returns significantly from others. "In essence in a random walk market the security analysis problem of the average investor is greatly simplified*" (Fama, 1965:40).*

The most sensitive component for any economic of the world is the 'Capital Market'. It plays a vital role to direct the country's economic activities. So that it's smooth operation is significant in this free market world for making the economy of the country at easy.

The history of security market in only started with the floating of shares from Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. A few land marks regarding the capital market include the introduction of company act in 1951, the first issue of government band in 1964 and the establishment of securities exchange center Ltd. in 1976. The securities exchange center Ltd. was meant to facilitate and promote capital market and to broker, underwrite, manage public issue, create market for government bonds and other financial services. All this was, before it was converted in to the Nepal Stock Exchange in 1993 to further streaming capital market. Currently, Nepal Stock Exchange has the responsibility of imparting free marketability and liquidity to government and corporate securities by facilitating transaction in its trading floor through market intermediaries.

Nepal Stock Exchange (NEPSE) is a Joint Venture of GON, Nepal Rastra Bank, Nepal Industrial Development Corporation and Licensed Number who have invested in it. Licensed brokers at NEPSE trade the shares through "Open Out cry

system." Securities are conducted on the open action principle on the trading floor. The buying broker with the highest bid will post the price and his code number on the buying column. The market markers quote there bid and offer prices on their own board before the floor start. Once the bid and offer price match, contracts between the buying and selling broker are concluded at the floor.

These days the interest of investors is gradually fading away. Investors have been discouraged with the shares market running at the snails pace. There is no room for satisfaction for investors. Although country has adopted liberal market policies to revive the economy, it has not been applied in to concrete action in Nepalese context. Brokers have been reporting since long about Nepal Stock market position, however, no action has been taking from the government. There are some reasons why stock market is moving in a sluggish way. Some of them include weak management of companies, weak financial performances, lack of factual information, lack of knowledge of capital market etc.

Stock market is perhaps poorly understood among Nepalese investors. It development remains almost impossible unless the people accept it as a way of their life. For this first of all they have to know what stock market is, and how it functions. But such question is almost unanswered. Yet, the price formation system in NEPSE is not understood by most of them. As result, it is natural for the investor to seek investment opportunities in the field than securities. "The Nepalese stock market is characterized by a low trading volume, absence of professional brokers, early stage of growth, limited movement of share price, and limited information to investors."-Pradhan observer *(Pradhan, 1994:42)* describing Nepalese stock market. Therefore development of securities market is necessary to divert the funds towards productive sectors.

The development of a stock market depends legally on financial institution as well as the availability of a wide array of the financial institution. Therefore, stock market development of a country's financial sector helps in a long-term economic growth. Thus the activities of buying and selling of shares of the stock are extremely important for the allocation of capital within economics and it requires on in depth analysis.

1.2 Focus of the Study

Security prices play in channeling the flow of capital in to various industries and firms. The history of security prices both individual and aggregate has probably been must widely and intensively studied *(Aryal, 1995:5).*

The behavior of price series has been always a subject matter of controversial debate to the extreme extent among the academics of financial and economics circles. The behavior of past price variation in the general market for securities will or won't be meaningful information forecasting the future behavior of price variation.

The main focus of the study is to test whether the successive price changes of the securities are dependent or independent or changes of the securities are dependent or independent (whether there is significant difference between NEPSE Index before and after the various event or not .) There are various approaches to predict the successive price movement of stocks. Efficient market theories are one of the best approaches. However fundamental and technical approaches are also the best but the implication of efficient market is much more important in one hand while, in Nepalese context extensive study on this issue has not been found. Thus this study focuses on the stock market efficient and behavior of the stock market prices in Nepalese securities market.

1.3 Statement of the Problem

The capital market mobilizes the saving individual investor as investment in shares, debentures, bonds, mutual funds and other financial instruments, which in turn are deployed for productive purpose in various sectors of the economy which have potential to yield a higher return on their investment.

An efficient capital market is one where the stock price reflects or information related to it. The information is of almost importance to all the active investors in the secondary market to make their investment decision whether purchase of new shares or sale of exciting holdings. The information reflects the financial health and soundness of institution as well as its future prospect. The positive or negative spiral that is crated in the market through positive or negative dissemination of institutions information has a direct bearing on its share price.

Stock market in Nepal, till the recent past, had all the characteristics of an underdevelopment economy. It was characterized by the absence of professional promoters, underwriting agencies, market intermediaries, organized market, regularity bodies, and rules and regulation. However, after the restoration of democracy in 1990, a trend towards in organized stock market can be market with numerous developments in the Nepalese securities market, removing its earlier deficiencies.

Political instability and interference, Economic imbalances, ineffective implementation of liberal economic policy are the main problem in the Nepalese stock market. "The big challenge to international and domestic monitoring policies is to separate economics from the politics. Often, unfortunately, the politics dominates. So, one should try to build a structure that minimizes the impact of politics."*(Backer, 2002: 25).* Therefore, we try to reduce, if not eliminate the

impact of politics on economy our efforts must be directed towards creating environment for its development.

Due to the lack of proper government policy, post home-war in the country, the prices of securities especially common stocks have been rapidly declining. Low trading volume, absence of professional broker, early stage of growth, limited movement of share price, limited information to investors, price instability in the secondary market, lake of proper investment decision of the investors etc are the burning issue in Nepalese stock market. The government has not brought any package to reform the stock market that's why investors are losing confidence on the performance of share market mainly due to their experience of fraudulent and scandalous activities undertaken by a handful of market swindlers. There has been also more subtle problems involving misuse of insider information and growing tendency of frauds in securities transaction. Moreover credulous investors too are responsible for showing irresponsible behaviors due to the greed for quick gains form the market. The unhappy episodes have also emerged from wrong advice of the brokers. Thus, market disorders, price manipulation and fraudulent share market activities all taken together have resulted the present bearish market in the country. However the stock market in Nepal is in infancy stage. These problems can be solved only when the real determinants of stock price are diagnosed and identified. Thus the present study is carried out to analyze the behavior of stock market prices in Nepalese securities market and recommendation for the improvement in the development of Nepalese stock market.

The main research questions of the study are as follows:-

What are the sensitivities of NEPSE Index?

What is the impact of EPS, DPS and signaling factors that affect the market Price?

What is the stock market situation?

What are the major problems for securities Market?

What are the prospects of Commercial Bank, Finance and Insurance Companies?

1.4 Objective of the Study

The main objective of the study is to analyze and examine stock prices of the Nepalese securities market. However following specific objectives of the study have been set:

a) To study and analyze the trend of stock price and volume of stock traded in the Nepal Stock Exchange.
b) To examine and study the impact of the signaling factors, on the stock price.
c) To identify factor affecting stock price movement.

1.5 Hypothesis of the Study

The hypotheses of study are as follows:

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a) There is no significant difference between NEPSE Index before and after the Constitutional Election.
b) There is no significant difference between NEPSE Index before and after the formation of new government leading by Maoist.
c) There is no significant difference between NEPSE Index before and after raising the additional Capital gain tax.
d) There is no significant difference between NEPSE Index before and after formation of government leading by UML (without Maoist).

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a) There is a significant difference between NEPSE Index before and after the Constitutional Election.
b) There is a significant difference between NEPSE Index before and after formation of new government leading by Maoist.

c) There is a significant difference between NEPSE Index before and after the Capital gain tax & global crisis.
d) There is a significant difference between NEPSE Index before and after formation of government leading by UML (without Maoist).

1.6 Significance of the Study

The study of the behavior of stock market prices in Nepalese security market is very helpful to all the parties related to market. The significance of the study can be point out as follow:

a) The study helps to provide guideline to the interested investors in the market.
b) The study is helpful to the issue managers, stock brokers, securities dealers and the market makers of stock market in Nepal.
c) The study is helpful to the people who are curious to know about the price trend of the stock, volume of stock traded, listed of new companies in the secondary market (NEPSE) and the impact of signaling factors on NEPSE Index etc.
d) With respect to change in financial position of the study is helpful to know about the movement of share price of the corporate firm
e) The study is helpful how to operate smoothly of capital market and significance development to the country's economic activities.

1.7 Limitations of the Study

The study on the behavior of stock market price in Nepalese security markets have conducted on the following limitation and constraints:

- The research is based upon the data provided by NEPSE and those data are not verified by the expert.
- Common stock or ordinary shares are taken for the propose of the study.
- Time and financial constraints are also limitations of the study
- Stock price trend is seen only with the help of NEPSE Index.

1.8 Organization of the Study

This study is divided into five chapters. There are as follows:

Chapter- I Introduction

Introduction, mainly contain the background of the study, focus of the study, the statement of the problem, objective of the study, hypothesis of the study, limitation of the study.

Chapter- II Literature Review

Review of the literature, present the conceptual review of related studies which included different books, articles, journals, and previous thesis reports, various published and unpublished documents of the related organization and related and pertinent literature available.

Chapter III: Research Methodology

Research Methodology, deals with the carry out of the empirical tests. The study consist research design, sources of data, data gathering procedure, population sample, research variables and data processing procedure.

Chapter IV: Presentation and Analysis Of Data

Presentation and analysis of data, deals with presentation analysis and interpretation of data It consists testing of hypothesis and major finding of the research.

Chapter –V: Summary,Conclusionand & Recommendation

Finally the fifth chapter, summary, conclusion and recommendation; state the summary, conclusion, recommendation of the Thesis. This study can also offer several avenues for researcher in future to research in the field. The bibliography and appendices used in are incorporated at the end of the study.

CHAPTER- II

REVIEW OF LITERETURE

This basic ideas about the research study on the behavior of stock market price in Nepalese security market is drawn from the past research study, books, journals, articles and dissertation published in the national and international level. The literature review chapter includes:

2.1 Conceptual Review

The stock market, its growth and regulation is not so old in Nepalese security market. Currently most of the investment sectors are influencing from the worldwide globalization and liberalization. The incident in one corner of the world brings the changes in the whole world. For example we can take the terrorist attack on the world trade center of America (twin tower) on September 11, 2001 America's attack to Iraq etc., which are affected in the worldwide investment sectors.

2.1.1 Financial Market

A financial market (also known as security market) can be defined as a mechanism or forum for bringing together the buyers and sellers of financial assets in order to facilitate their trading accordance with the prescribed rules and regulations. Financial markets are the transmission mechanism between saver-lenders and borrower-spenders. They are connecting links between saving and investment. Through a wide variety of techniques, instruments and institutions, financial markets mobilize the savings of millions and channel them into the hands of borrower-spenders who need more funds than they have on hand. They are conduits through which those who do not spend all their income can lend their excess funds to those who want to spend more than their income.

Financial assets means financial investment or securities like common stocks, preferred stocks, mutual fund units, Government bonds, corporate debenture, marketable securities, negotiable instruments, promissory notes and so on. Entities demanding fund i.e. Government and business enterprises raise long term and short term capital to finance their capital investment by issuing securities like shares and bonds in the financial market. It provides a ready and continuous market for the purchase and sale of existing as well as newly issued securities at the competitive and fair prices, there by imparting free marketability and liquidity to such securities. Suppliers in the financial markets do not know where funds are being lent or invested. The two financial markets are the money market and the capital market. Transactions in short term debt instrument or marketable (bonds and stocks) are traded in capital market *(Gitman, 1988: 30)*.

2.1.2 Money Market

In contrast to the capital market, with long-term securities, the money market specializes in short-term instruments that almost by definition are highly liquid-that is, readily marketable, with little chance to loss.

The money market is created by a financial relationship between suppliers and demanders of short-term-funds (funds with maturities of one year or less). The money market exists because some individuals, businesses, governments and financial institutions have temporarily idle funds that they wish to put to some interest earning use. At the same time, other individuals, businesses, governments and financial institutions find themselves in need of seasonal or temporary financing. The money market brings together these suppliers and demanders of short term funds *(Gitman, 2000: 23).*

2.1.3 Capital Market

Capital market is the place where long-term lending and borrowing takes place. The primary instruments of the capital market are stock and bonds (equity and debts). Therefore, it includes both the new issue market and old market. Capital market is concerned with long-term finance. Widely it consists of series of channels through which the saving of the community are made available for industrial and commercial enterprises and authorities. It is concerned with that private saving, individual as well as corporate, that are turned into investment through new capital issue and also new public loan floated by government and semi-government bodies. In the capital market, demands for funds come from agriculture, industry, trade and government while the supply comes from individual or corporate saving, institutional investors and surplus of government.

The capital market is a financial relationship created by a number of institutions and arrangements that allows the suppliers and demanders of long term funds, funds within maturities of more than one year to make transactions. Included among long term funds are securities issue of business and government. The backbone of the capital market is formed by the various securities exchanges that provide a forum for debt and equity transactions. The smooth functioning of the capital market, which is enhanced through the activities of investment bankers, is important to the long run growth of business.

The capital market comprises two segments-the new issue market that is commonly known as the primary market and the secondary market where already issued securities are traded.

2.1.4 Securities Market

Securities are traded in a market called securities markets. Although, securities markets are concentrated in few locations, they refer more to mechanism, rather

than to place, designed to facilitate the exchange of securities by bringing buyers and sellers of securities together. In other words, people and organizations wanting to borrow money are brought together with those having surplus funds in the securities markets. Securities, such as equities, short and long term debt instruments, derivatives etc are the products that are traded in the markets, institutions such as investment bankers and security firms, securities issuing institutions such as government and corporate bodies and the participants of the securities markets. Securities markets' major function is to provide line between saving and investment thereby facilitating the creation of new wealth *(Baral, 1999: 8-9).*

Securities markets facilitate the exchange of financial assets by bringing together buyers and sellers of securities. They provide an effective way of raising money for commercial enterprises and at the same time provide an investment opportunity for individuals and institutions. Securities markets have both theoretical and practical perspectives. They provide value and significance to the financial assets. Practically, the activities of buying and selling securities on the securities markets are extremely important for the allocation of capital within economies. The securities markets serve as a reliable guide to the performance of companies, and thereby promoting efficiency *(Adhikari, 2004: 75).*

The development of a sound securities market with its constituent financial institution is one of the mechanisms which enable the efficient transformation of savings from the hands of surplus spending units to those of deficit spending ones who can use them move productivity and/or have loss/risk aversion.

The existence of markets for securities is of advantage to both issuers and investors. As to their benefit to issuers, securities market assists business and government in raising funds. In a society with private of the means of production

and distribution of goods and services, savings must be directed toward investment in industries where capital is must productive. Government must also be able to borrow for public improvements. Market mechanism market possible the transfer of funds from surplus to deficit sectors, efficiently and at low cost.

In the broadest term securities market can be classified into primary markets and secondary markets.

Primary Market

An important brokered investment market is the so-called primary market, where new issues of securities are offered to the public. In the primary market investment brokers act as brokers: they seek out investors to purchase securities directly from the issuing corporation *(Bodie, Kane and Marcus, 2002: 16).*

Securities available for the first time are offered through the primary securities markets. The issuer may be a brand-new company or one that has been in business for many, many years. The securities offered may be a new type for the issuer or additional amounts of a security used frequently in the past. The key is that these securities absorb new funds for the coffers of the issuer *(Fisher and Jordan, 2000: 19).*

All securities whether in the money or capital markets, are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefit from the dale of securities. Once the securities begin to trade among individual, business, government or financial institution, savers and investors, they become part of the secondary market.

The volume of new issues in the primary market, particularly of common stocks, is directly related to market conditions. When the market is high or rising, the number of new issues being offered to the public rises, and when the market is low or falling, the number declines *(Cheney and Moses, 1992: 65).*

Primary market transactions are normally effected through the issuance of short and long-term bonds and other debt instruments and through the issuance of common and preferred stocks.

Primary markets are distinguished by the flow of funds between the market participants. Instead of trading between investors as in the secondary markets, participants in the primary market buy their assets directly from the source of the asset. Once the assets or securities are sold in the primary market, they begin trading in the secondary market.

Secondary Market

Secondary markets are markets for existing assets, which are currently traded between investors. It is these markets that creates the price and allow for liquidity. If secondary markets did not exist, investors would have no place to sell their assets. Without liquidity, many people would not invest at all *(Gitman, 1988: 30).*

After securities are initially offered in the primary market, they are then traded from investor to investor in the secondary market. The role of secondary market is to provide with liquidity and their investments, enabling them to move quickly, and without substantial loss in market value, from security to cash and from one security to another. In buying and selling in the security market, trader will either trade in an organized exchange or in the over-the-counter market. Organized exchanges are centralized auction type markets, while the over-the-counter market

is an intricate network of security dealers that take positions in various securities and buy and sell from their own portfolios.

Organized security exchanges are tangible physical entities. Each of the larger ones occupies its own building, has a limited number of members and has an elected governing body- its board of governors. Members are said to have 'seats' on the exchange, although everybody stands up. These seats, which are bought and sold, give the holder the right to trade on the exchange *(Brigham, Gapanski and Ehrhardt, 1999: 123).*

An over-the-counter market is a way of trading securities that involves no organized exchanges. The broker dealers who engage in OTC common stock trades are linked by a network of telephones and computer terminals through which they deal directly with one another with customers. Thus prices are aimed at by a process which takes place over communication lines that span thousands of miles and allows investors to select between competing market-makers.

Each dealer maintains inventories of one or more securities and has a bid price for which he or she is willing to buy the stock to add to inventory and an asked price and which he or she is willing to sell the stock from inventory. There are two levels of prices: wholesale and retail. Retail prices are offered to individual investors who are usually executing orders through brokers. Wholesale prices are offered to other dealers who wish to make changes in their inventory positions.

2.1.5 Financial Intermediaries

Financial intermediaries, also known as financial institution, are organizations that issue financial claims against themselves (meaning that they sell financial assets representing claims on themselves in return for cash) and use the proceeds from this issuance to purchase primarily the financial assets of others *(Francis, 1993:9).*

Financial intermediaries provide an indirect method for corporations to acquire funds. Corporations obtain funds directly from the general public by the use of the primary market. Alternatively, they can obtain funds indirectly from the general public by using financial intermediaries. Here the corporation gives a security to the intermediaries in return for funds. In turn the intermediaries acquires funds by allowing the general public to maintain such investment as checking and saving account with it *(Sharpe, Alexander and Bailey, 2003: 10-11).*

The financial intermediaries simply transfer money and securities between firms and savers- they literally create new financial products. Since the intermediaries are generally large, they gain economies of scale in analyzing the creditworthiness of potential borrowers, in processing and collecting loans, and in pooling risks and thus helping individual savers diversify *(Brigham, Gapenski and Ehrhardt, 1999: 120).*

2.1.6 Types of Investors

According to the attitude of trading, the investors can be categories into following:

Conservative

Safety is extremely important to the conservative investor. The main objective of conservative investor is to preserve his capital and to earn an income.

Enterprising

An enterprising investor is not particularly worried on taking risks. His main objective are to earn income and capital appreciation.

Speculator

The speculative investor is a gambler. He takes risk to earn money or capital appreciation. He usually attempts to make as much as he can in as short time span as possible.

Investor can be further classified into the following categories according to the attitude they show in using the information.

Individual Investors

The average investor in securities is a part-timer, with neither the ability nor the time to evaluate a large (and often complex) flow of information. Most individual investors have a job apart from investing. Individuals have an opportunity cost in obtaining investment information, such as reading publication, tracking stocks prices and building files on securities. This opportunities cost is the time and resources forgone that could have been used in other endeavors.

Institutional Investors

Institutional investor, also known as financial institution or financial intermediary, are organization that issue financial claims against themselves meaning that they sell financial assets representing claims on themselves in return for cash and use the proceeds from this issuance to purchase primarily the financial assets of others.

The full time job of institutional investor is to value securities and manage portfolios. They may have staffs that are specialized by type of job. They have massive computer facilities and information banks. They can either purchase information from other specialists or build their own unique database. They can do what needs to be done in collecting and managing information. The institutional investors mostly show the rational attitude and they are of enterprising nature.

In Nepal, the Institutional investor base is very small to mobilize saving in a cost effective manner. There are six types of institutional investors prominent in both developed and emerging market economies. They are:

i. Government sponsored provident funds
ii. Collective investment fund
iii. Private pension fund
iv. Bank/trust institutions
v. Insurance companies and
vi. Venture capital firms.

2.1.7 Investment Alternatives

An investor has following investment alternatives in securities market.

Common Stock

Common stock certificates are legal documents. Each common stock certificates represents a share of ownership (or equity) in a company that is legally organized as a corporation. Sole proprietorships and partnerships are other popular forms of business organization, but they have no shares of common stock.

The founder of a corporation obtain a corporate from the state, have shares of common stock printed and sell the shares to as many different people as they wish in order to raise the capital to start the new business. Thus, common stock is always the first security issued by every new corporation. Bonds and preferred stock may be sold later to raise additional capital *(Francis, 1993: 37).*

On common stock, corporation commits to pay periodically whatever its board of directors deems appropriate as a cash dividend. Although the amount of cash dividends to be paid during the next year is subject to some uncertainty, it is relatively predictable *(Francis, 1993: 7).*

The common stockholders of a corporation are its residual owners, their claim to and assets come after creditors and preferred stockholders have been paid in full. As a result, a stockholder's return on investment is less certain than the return to a lender or to preferred stockholders. On the other hand, the return to a common stockholder is not bounded on the upside as are returns to the others *(Vanhorne, 1995: 25).*

Preferred Stock

Preferred stock is said be a 'hybrid' security because it has features of both common stocks and bonds. Preferred stock is preferred with respect to assets and dividends. In the event of liquidation, preferred stockholder have a claim on available assets before the common stockholders. Furthermore, preferred stockholders get their stated dividends before common stockholders can receive any dividends *(Fisher and Jordan, 2000: 11).*

Cash dividends are the most significant aspect of preferred stock. Preferred stockholders should expect to get more gains from dividends than from capital appreciation. The dividend paid is usually a stipulated percentage of par value or, for a stock with no par value, stated rupees amount. Since cash dividends usually do not increase, the prices of preferred stock do not increase either *(Francis, 1993: 47).*

Preferred stock is often considered a quasi-debt since, much like interest on debt; it yields a fixed periodic (dividend/payment). Of course as ownership preferred stock is unlike debt in that it has no maturity date. Because their claim on the firm's income is fixed and takes precedence over the claim of common stock holders, preferred stockholders are therefore not exposed to the same degree of risk as common stockholders. They are consequently not normally given the right to vote *(Gitman, 1988: 642).*

Bond/ Debenture

A bond is a promissory note that represents a long-term borrowings by issuers usually business firm or government agencies. It is a document that either creates a debt or acknowledges it, and any document, which fulfills either of these conditions, is debenture. Issuers promise to pay interest (conventionally called coupon rate) at a fixed rate periodically and the face value at the end of a specified period (bond maturity date) to the bondholders. The face value or par value usually set at $1000 for all commercial bonds. The different types of debentures are:

- Secured debenture
- Unsecured debenture
- Redeemable debenture
- Perpetual debenture
- Convertible debenture

Warrants

Warrant is a tradable and negotiable instrument and is also listed on the stock exchanges. Warrant gives a right to the holder to obtain equity shares specified in the warrant after the expiry of a certain period at a price not exceeding the cap price specified in the warrant. It comes in different forms,

- Bonds with warrants
- Preferred stocks with warrants

Beside these instruments there is other instrumental mix available to the investment bankers to provide to the primary market investors. But, these are beyond the scope of this manual to describe.

2.1.8 Stock Exchange

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

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

In the recent years, the authorities are increasingly recognizing the role of the stock exchange. Stock exchange is not and has at no time been the private concern of a few individuals. Nor have their activities been limited to the cyclical booms and slumps, which attracted so much popular attention. The stock exchange as the market for securities gives every body assess to a number of difference opportunities for capital investment. The function of stock exchange is to provide equal opportunities for many buyers and sellers of securities as possible. Form general economic point of view the stock exchange constitutes the core of capital market. It has put its finger on the pulse of the economy and gives the diagnoses to the public in the form of quotation.

This institution plays a notable part in the economic life of the country acting as a free market for securities, where prices are determined by demand and supply. The function of a stock exchange is not only to provide a market for securities but also assist in the raising funds for government and industries. Thus, free and active

markets in stocks and shares have become a prerequisite for the mobilization and distribution of a nation's savings as to support modern business.

2.1.9 Participant in the Stock Exchange

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

Dealers

Dealers trade solely for themselves and are prohibited from handling public orders. Since dealers have access on the floor and can own securities on their own name. They benefit from buying at low and selling at high prices. The benefit of the dealers to the market is that their buy and sells actions added up liquidity of the securities.

Market Makers

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

2.1.10 Theories of Stock Price Behavior

Broadly there are three schools of thought concerning the valuation of securities and their price behavior:

a) Technical analysis
b) Fundamental analysis
c) Efficient market analysis

2.1.10.1 Technical Analysis

Technical theory involves study of past volume and price data of the stocks to predict future price fluctuations. This approach studies various graphs and charts of the past shares prices and deduce from the analysis about future price movement. The chartist seeks to predict future movement by seeking to interpret past pattern on the assumption that "history tends to repeat itself."

Main assumptions of the technical theory are;

1. Price is determined by the interaction of demand and supply.
2. Demand and supply are governed by various factors, both rational and irrational.
3. Securities prices tend to move in trends that persist for an appreciable length of time, deposit minor fluctuations in the market.
4. The changes in trend caused by shifts in demand and supply are detectable in the analysis of past price and volume data and
5. The pattern tends to repeat itself *(Reiliy, 1986: 348).*

Technical analysis discerns past pattern or trends which they believe to repeat in 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 channel patterns. The technician usually attempts to predict short-term price movement and thus makes recommendations concerning the timing of purchase and sales of either specific stocks or groups of stocks *(Sharpe, Alexander and Bailey, 2003: 683).*

In general, tomorrow's stock price is influenced by today's price. The direction of price change is as important as the relative size of the changes, with the various tools; the technicians attempt to correctly catch changes in the various tools. The technicians attempt to correctly catch changes in trend and take advantages of them.

2.1.10.2 Fundamental Analysis Theory

Fundamental analysis theory claims that at any point of time an individual stock has an intrinsic value, which is equal to the present value of the future cash flows from the security discounted at appropriate risk, adjusted discount rate. The value of the common stock is simply the present value of all the future income which the owner of the share will receive *(Francis, 1993: 398).*

But in practice, first it is not known in advance what a stock's income will be in each future period, and second, it is not clear what the appropriate discount rate should be for a particular stock. So, fundamentalists attempt to reach best estimate of the intrinsic value of share by studying company's sales, profit, dividends, management competency, and numerous other economic and industrial factors, which determine its future income and prospect of the business opportunities *(Francis, 1993: 425).*

Whenever the stocks are priced over or under the true value of the stock, the recommendation of sales or purchases is called for after extensive analysis; the investor derives an estimate of the intrinsic value of the security, which is then compared to its market price. If the value exceeds the market price, the security should be acquired and vice versa *(Sharpe, Alexander and Bailey, 2003: 844).*

2.1.10.3 Efficient Market Theory

The term efficiency may be defined in various ways; a locative efficiency, operation efficiency, and information efficiency.

In general, markets are efficient when prices respond quickly to new information, when each successive trade is made at a price close to the preceding price, and when the market can absorb large amounts of securities or assents without changing the price significantly. The faster prices react to new information; the

close is price in each successive trade, and the greater amount of securities that can be sold without changing price. In order to markets to be efficient in this context, they must be liquid. A perfectly efficient market is one in which every securities price equals its investment value at all times.

In an efficient market a set of information is fully and immediately reflected in market prices that is each security sells for its fair value at all times. Thus, in an efficient market, investors should expect to make only normal profits and gain or normal rate of return on their investments. The forms of market efficiency are categorized into three types according to set of information reflected by security prices. A market would be described as having 'weak' form efficiency if it is impossible to make abnormal profits by using past prices to make decisions about when to buy and sell securities. Only previous prices of securities are available as information. A market is described as 'semi-strong' form efficiency, if all publicly available information is reflected by securities price. And a market would be described as having 'strong' form efficiency if all information, both public and private is well reflected through securities prices. No body could make abnormal profit by using private or inside information.

In an efficient market any new information is immediately and fully reflected in prices. Thus, in a perfectly efficient market price changes are close to random. In an efficient market a security's price will be a good estimate of its investment value, where investment value is the present value of the security's future prospects as estimated by well- informed and capable analysts.

The Primary role of the capital market is allocable of ownership of the economy's capital stock. In general terms, the ideal is a market in which prices provides accurate signals for resource allocation: that is a market in which firms can make production- investment decisions, and investors can choose among the securities

that represent ownership of firms' activities under the assumption that security prices at any time "fully reflect" all available information. A market in which prices always "fully reflect" available information is called 'efficient' *(Fama, 1970:383-417)*

In such a market a security's price will be a good estimate of its investment value, where investment value is the present value of the security's future prospects, as estimated by well-information and capable analysts, and can be thought of as the security's fair value thus a (perfectly) efficient market is one in which every security's price equal its investment value at all times. A market is said to be efficient if it is impossible to make abnormal profit by using a particular set of information to formulate buying and selling decision. In an efficient market, investor should except to make only normal profits and earn a normal rate of return on their investment. In such a market, any new information is immediately and fully reflected in prices. New information just that new, meaning a surprise. In a perfect efficient market, price changes are close to random*(Sharp, Aleander and Bailey, 1199:106).*

According to Robert C. Higgins, Analysis for Financial Management (3rd edition 1992)"Market efficient is a description of how price in competitive markets respond to new information. The arrival of new information to a competitive market can be likened to the arrival of a lamb chop-to a school of flesh-eating piranha, where investors are - plausibly enough - the piranha. The instant the lamb chop hits the water; there is turmoil as the fish devour the meat. Very soon the meat is gone, leaving only the worth less bone behind, and the water returns to normal. Similarly, when new information reaches a competitive market there is much turmoil as investors buy and sell securities in response to the news, causing prices to change. One prices adjust all that is left of the information is the worthless bone. No amount of gnawing on the bone will yield any more meat, and

on further study of old information will yield any more valuable intelligence". (www.investorhome.com)

When testes of the efficient markets hypothesis are carried out, securities markets are tested for varying degrees of efficiency. First, the weakly efficient market hypothesis is examined. The weakly efficient market hypothesis says that historical stock price and volume data for securities contain on information that can be used to earn a trading profit above what could be attained with a native buy- and hold investment strategy. This suggests that technical analysis is worthless. The stock market data support the hypothesis.

Also examined is the semi strong efficient market hypothesis, which says that markets are efficient enough for prices to reflect all publicity available information. Consequently, only a few insiders, trading on short run price changes, can earn a profit larger than what could be earned by using a native buy and hold strategy. Securities markets in the United States are probably semi strong efficient.

Finally the strong efficient market hypothesis is examined; it claims that no one can consistently earn a profit larger than what could be earned with a native buy- and - hold strategy. The reason given in that no one has monopolistic profit making are found that violate this hypotheses *(Fransis, 1983:464-465).*

Above three hypotheses are not mutually exclusive or the three hypotheses about pricing efficiency overlap. They differ only in the degree of market efficiency. Generally Efficiency Market Theory believes that the stock market price in the market is always comparative. It means stock prices is neither overvalued nor under valued that is stock prices is always correctly valued.

i) Theory of Weakly Efficient Market or Random Walk Hypothesis

The weak form asserts that all past market prices and data are fully reflected in securities prices. In other words, technical analysis is of no use. According to Eugene Fama, the weakly efficient hypothesis stipulates that historical price and volume data for securities contain no information which can be used to earn a trading profit above that could be attained with a native buy- and -hold investment strategy. These hypotheses suggest that technical analysis is well-recorded but worthless folklore *(Francis.1991: 543-544).* It believes that the current price of stocks already full reflect all the information contained in the historical sequences of prices. Therefore there is no benefit as far forecasting the future is concerned, in examining the historical sequence of prices. This weak from of efficient market hypothesis is also known as the random walk hypotheses.

The random walk theory asserts that prices movements will not follow any patterns or trends and that past prices movements cannot be used to predict future prices movements. Much of this subject can be traced to French mathematician Louis Bachelier whose Phd D dissertation titled. "The Theory of Speculation" (1990) included some remark insights and commentary. Bachelier came to the discussion that "The Mathematical expectation of the speculator is zero" and he described this condition as a "fair game" (www.investorhome.com) Random walk theory describes that the previous price changes in return are unless in predicting future price or return changes. Eguene Fama argued that "Random walk theory implies the future path of the price level of a security in no more predictable than the future path of a series of cumulated random numbers. The series of price changes has no memory i.e, the past cannot be used to predict the future in any meaningful way. The random walk theory statistically consists of separate assumption (i) price changes be independent random variable (ii) price changes to some probably distribution without specifying the particular shape or form of the distribution *(Fama,1965: 34).* Random walk theory model says that previous

prices changes of changes in return are useless in predicting future price of return changes. It means if we attempt to predict future price in absolute term using only historical price-changes 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 because, among other things, different investors evaluate the available information differently or have different insights value into future prospects of the firm, professional investors and astute non professional will seize upon the short term or random deviations from the intrinsic value, and though their active buying and selling of the stock in question will force the price back to its equilibrium position*(Fisher and Jorden, 1965 :553).*

Proponents of random walk recognize that in general, perfect independence assumption does not exist in real words. So, they argue that for practical purpose small degree of dependence does not violate random walk hypothesis as long as it cannot be used to forecast future to earn more than average market return. Random walk model is valid as ling as knowledge of the past behavior of the series of price change cannot be used to increase expected gains*(Fama, 2965:35)* Out of two hypothesis of the random walk theory independence of successive piece changes is strong and most important one to make theory valid. The second one is price changes conforms to some probability distribution but its shape of form of distribution need not be specified i.e., any distribution is consistent with the theory as long as it correctly characterizes the process generation the price changes *(Fama, 1965:36)* However the parameter of the distribution should be stationary but not so strongly imposed of independence hypothesis is hold true. However, still academic and research point of view *(Fama, 1965:41)*

Though, the subject of market efficiency has been much concerned area of study for the academic and researcher in recent times. The paradox of efficient market is that if every investor believed a market was efficient, then the market would not

be efficient because no one would analyze securities. In effect efficient markets depend on market participants who believe the market is inefficient and trade securities in an attempt to outperform the market. In reality, market are neither perfectly efficient not complete inefficient. All market are efficient to a certain extent, some more so than others. Rather than being an issue of black of white market efficiency is more a matter of shades of gray. In markets with substantial impairments of efficiency, more knowledgeable investors can strive to outperforms less knowledge ones. Government bond markets for instance, are considered to be extremely efficient. Most researcher consider large capitalization stocks to also be very efficient, while small capitalization stocks and international stocks are considered by some to be less efficient. Real estate and venture capital, which don't have fluid and continuous market, are considered to be less efficient because different participants may have varying amounts and quality if information.

Thus we can say Nepalese Security Market is an efficient market in terms of information as well as operations because of the less developed capital market in the world.

ii) 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 assists into which money can be invested. The investment further is more attractive to majority of individuals because it is also liquid in character. But what is the most influencing factor in determining the price of the stocks is interaction of demand and supply *(Doodha, 1962 :10)* in relation to the stocks is interaction forces of demand and supply, Ackerman pines that, " the price of a given stocks is determined exclusively by the two forces demand and supply, converting one such stock at a given time that the prices and volumes of its past transaction are

meaningful indication of profitable relationship is the most important, element determining the probable direction of price movement *(Ackerman 1980:10).*

These are the short conceptual framework about the theories of stock behavior. The share price is determined in the floor by the interaction of market forces 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 search 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 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, including changes in political conditions, such as war or administrative changes, changed in the weather and other natural conditions, such as war or administrative changes, changes in the weather and other natural condition, such as technological advance and the like. Market factors, or internal factors of the market, consisting of the market and supply and demand relations, may be cited as the third category that influences the stock when stock price is high because of business prosperity while understanding its value at the time of market decline. The relationships of supply- demand are reflected directly in the volume of transactions, but there is also considerable effect from the action 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 at 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 volume of investing population has grown up in aggregate. The tendency of rising 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 loosing 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 benefit from short -term purchase/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. There are various major problems observed in the market now-a day. *(Sharma, 1996:65-66)*

2.1.11 Investment Return and Risk

Each investment consist both return and risk for investment. The following are the types of return of investment.

2.1.11.1 Types of Investment Return

Holding Rate of Return

The investment return is defined as the after tax increase in value of the initial investment. The increase in value can come from two sources; a direct cash payment to investor or an increase in the market value of the investment relative to the original purchase price. Investors prefer to express returns as percentage.

Risk-free Rate of Return

It is the return, such as the return on treasury bills, which is a nominal and denoted by RF. It consists of a real rate of return and an inflation premium. In fact,

inflation is presented in the economy, which insists to include a premium in nominal RF rate. For instance, if real interest rate is 3% and anticipated inflation rate is 5%, the risk free rate should be approximately 8%.

Required Rate of Return

Consumption is forgone today; the investor is entitled to a rate of return that compensates for this deferred consumption. So, an investor must consider the real rate of return, expected inflation and risk. The investor expects to receive an increase in the goals purchased later, and assuming, for the moment, zero expected inflation and risk, the required rate could equal to the real rate of return, in which case it would represent the pure time value of money. The capital markets determine this rate based upon the supply of money to be invested, relative to the demand for borrowed money. Now if the investor expects that the prices of the goods to be consumed will have increased by the time the investment provide, a return, and then the investor will also require that the return be adjusted for those price increases of inflation in addition to the real return.

Expected Rate of Return

The expected rate of return is based upon the expected cash receipts (e.g. dividend or interest) over the holding period and the expected ending or selling price. The expected return is an unknown future return. Unless the rate of return is guaranteed, most investors recognize the several rates of return are possible. The investors summarize these possible rates of return into a single number called the expected rate of return. This return should be equal to or greater than the required rate or return for that investment.

2.1.11.2 Sources of Investment Risk

Each investment involves uncertainties that make the future investment return risky. Some of the sources of uncertainty that contribute to the investment risk are as follows:

Internal Rate Risk

It is defined as the potential variability of return caused by changes in the market interest rates. If the market interest rate rises, then the present value of investment will fall and vice versa. Moreover the present value moves inversely with changes in the market rate of interest. This interest rate risk affects the prices of bonds, stocks, real estate, gold and other investments as well.

Purchasing Power Risk

It is the variability of return an investor suffers because of inflation. When inflation takes place, financial assets (such as cash, stocks, bonds) may lose their ability to command the same amount of real power of the financial assets and increase investor's risk. So the real rate of return on financial assets may not adequately compensate the holder of financial assets for inflation.

Default Risk

It is that portion of the total risk of investment that results from changes in the financial integrity of the investment. The variability of return that investors experience as a result of changes in the credit worthiness of a firm in which they invested is their default risk. Investors' loss from default risk usually results from security prices falling as the financial integrity of a firm weaken-the losses are anticipatory losses.

Liquidity Risk

Liquidity risk is the portion of total variability of return of an asset which results from price discount given or sales commissions paid in order to sell the asset without delay. Perfectly liquid assets are highly marketable – either price discounts must be given or sales commissions must be paid. The more liquid an asset is, the larger the price discount or commission in which must be given up by the seller in order to affect a quick sale.

Call Ability Risk

Some bonds and preferred stocks are sold with a provision that allows the issuer to call them in for repurchase. Issuers like the provision because it allows them to purchase back outstanding preferred stocks or bonds with funds from a new issue if market rates drop below the level being paid on the outstanding securities. Investors should view the call provision as a threat that may deprive them of good investment at a time when their funds can only be reinvested at a lower yield.

Bull-bear Risk

Bull-bear market risk arises from the variability in market returns, resulting from alternating bull and bear market forces. When a security index rises fairly constantly from a low point, called a trough, for a period of time, the upward trend is called bull market. The bull market ends when the market index reaches a peak and starts a downward trend. The period during which the market declines to the next trough is called bear market.

Political Risk

Political risk arises from the exploitation of a politically weak group for the benefit of a politically strong group, with the effects of various groups to improve their relative positions increasing the variability of returns from the affected assets. Regardless of whether changes that cause political risk are sought by political or

by economic interests the resulting variability of return is called political risk if it is accomplished through legislative, judicial or administrative branches of the government

Market Risk

The market risk is known as systematic risk. It is related to the market as a whole and arises from the tendency of stock returns to fluctuate with the market returns. This portion of total risk arises from changes in market conditions such as changes in interest rate, impact of political issues, and turning point in the market.

2.1.12 Investment Prerequisite

Rules and regulations alone would not be able to protect the interest of investors. Investors themselves should be able to analyze and evaluate on the following aspects of the company.

Management

A company can be only good or bad, as its management. It is management that provides the main driving force behind corporate performance. So investor should evaluate the company's management. Companies run by traditional management and some foreign companies with so-called professional management's have poor record of performance. But the companies run by professional management are good whether this is national or foreign management. Full personnel details of the promoters and directors of the company will be on prospects. On the basis of these investors can evaluate the management of the company.

Size of the Company

Large companies generally offer better investment opportunities than the smaller one. This is so because large companies can use of economies of scale, which smaller companies cannot. The former are thus able to reduce costs, and establish

a clear competitive edge over smaller companies. Large companies, by virtue of their higher productions, generally occupy a stronger and more dominant position in the market. Since large companies normally generate larger surplus, as a result, investment in large companies is generally safer and more stable than in smaller companies. This does not mean smaller companies would not be able to have good performance. There is not any rule-of-thumb to identify small and large companies but equity capital may be the good basis of calculating large and small companies.

Growth of the Company

Growing companies provide excellent investment opportunities. As a company grows and expands, so will its profits. Growth does not come by accident; companies have to plan for growth. They have to identify growth product and areas and prepare details plans for implementation of expansion cum diversification projects.

Company's Environment

Companies are inextricably linked to their industrial, commercial and economic environments. Each and every company can't keep themselves all off from these environmental influences. In an advanced environment, even the most profitable and well-managed companies find the going rough, whereas a favorable environment usually gives a boost to even the most sluggish and mismanaged companies.

Inflation being a persistent and nation wide problem affects the working and performance of all companies. However, the nature and extend of its impact on each company varies considerably. Some companies are adversely affected by it, others are not able to cope with it effectively but actually thrive on it.

Retained Profit and Reserve

After deduction of all expenses including taxes, the net profits of the company are split into two parts- dividends and retained profit. Dividend is that portion of the profits which is distributed to shareholders, whereas retained earnings is the portion that is retained by the company and added to its reserves. The figures for retained profit and reserves of any company can be obtained by a cursory glance at its balance sheet and profit and loss account.

Retained profit is important because it not only increases the reserves of a company, but also provides the company with funds required for growth and expansion. All growth companies maintain a high level of retained profit. So if you are looking for a growth company to invest in, you should examine its retained profit figures. Companies that have no intention of expanding are not likely to retain large portion of their profits.

Reserves constitute the accumulated retained profits of a company. It is important to compare the size of a company's reserves with the size of its equity capital. This will indicate whether the company is in a position to issue bonus shares. As a rule, a company whose reserves are double the amount of its equity capital should be in a position to make a liberal bonus issue.

Retained profits also belong to the share holders. This is why reserves are often referred to as 'shareholders' fund. Therefore, any addition to the reserves of a company will normally lead to a corresponding increase in the price of the share. The higher the reserves, the greater will be the value of share. Retained profits may not directly come to the shareholders, but it benefits them by pushing up the price of their shares.

Book Value Per-Share

Book value per share indicates what each share of a company is worth according to the books of accounts of the company. The company's books of account maintain a record of what the company owns (assets), and what is owes to its creditors (liabilities). If the total liabilities of a company subtracted from its total assets then what is left belongs to the shareholders, called the 'shareholders funds'. If you divide shareholders' funds by the total number of equity shares issued by the company, the figure that you get will be the book value per share.

Book value is a historical record based on the original prices at which assets of the company were first purchased. It doesn't reflect the current market value of the assets of the company. Therefore, book value per share has limited usage as a guide for evaluating the market value of price of a company's shares. It can, at best, give a rough idea of what the shares should be worth.

Earning Per- Share

Earning per share is widely used investment ratio. It is the ratio between profit after tax and total number of equity shares issued. This ratio gives the earnings of a company on per share basis. EPS is the true indicator of the returns on the share investments. Therefore, it is a tool which is considered before making decision on investment in any of the shares.

Price/Earning Ratio

The price/earning (P/E) ratio, expresses the relationship between the market price of a company and its earnings per share. This ratio indicates the extent to which earnings of a share are covered by its price. This ratio is a reflection of the market's opinion of the earning capacity and future business prospects of a share. Companies, which enjoy the confidence of investors, and have a higher market standing, usually command high P/E ratios. Companies with P/E ratios would

offer the most attractive investment opportunities. This is not always true. Companies with high current earnings but dim future prospects often have low P/E ratios.

2.1.13 Security Market Issues

Businesses sell their securities in a capital market that channel millions of rupees from savers from to investors every year. Government should, therefore, undertake various legal procedures to ensure that these capital markets are fair and honest places where small savers and big professional investors alike can place their funds. In the absence of government regulations, scandalous activities like wash sales, cornering, pools and insider trading occurs. These activities can lead to market disorders and make investors withdraw their investment from security markets.

2.1.13.1 Wash Sales

A wash sale is essentially, no sale at all. In wash sales a seller of securities, immediately repurchases the securities. For example, if a person who owns some securities sells those securities to himself, this is a wash sale or a person may buy and sell the same quantity of some security in the same day at either the same or a different price; this, too, is a wash sale. The purpose of wash sale is to create a record of a sale. This may be done to establish a tax loss or to deceive some one into believing that a market price has changed. Wash sales could be used to create illusion of a fallen price. The dishonest investor could buy and sell his/her own shares with the help of broker (one who would not report the illegal activities). Investor first sells his own shares at prices below prevailing market price. The prices of these sales would be on public record and this would create the illusion that shares in the economy had fallen in price. Then the dishonest investor might be able to purchase shares at less than the market price from an innocent party

who owns shares but is unaware that the low prices from the wash sales were fraudulently generated.

2.1.13.2 Cornering of the Market

Cornering the market in some security or commodity occurs when an investors buys all that is for sale of that security or commodity. This person then owns the only source of supply and can raise the price. Price manipulator who obtains a 'Corner' on the market of some assets may then liquidate it at a high price for a capital gain. Thus, a manipulating speculator may corner a market in hope of trapping short-sellers. Short-seller must purchase the share at whatever prices the manipulator demand in order to make delivery on their short sales.

2.1.13.3 Churning

Churning is one of the forms of fraud made by brokers. It is a very common and also a very safe way for securities brokers to steal funds from their clients' accounts while escaping detection by all but the most watchful clients. Churning can occur when a client grants the securities broker blanket permission to trade the clients' account without seeking the clients' approval of every trade. Less obviously, it can occur when a broker feeds clients so-called 'hot-tips' (that is seemingly urgent advice to buy and sell). The clients buy and sell, and sales commissions are generated for brokers, without regard to whether or not the client gains from the transactions. This practice is called churning because it involves 'turning over' the client's account.

It is very difficult for a client who has been robbed by broker who churned the account to prove that churning occurred, if broker used some discretion. For example, if a broker merely plants the idea for fruitless trade by giving clients worthless options or hot tips, it is difficult for the client to even recognize that they have been victimized. Furthermore, if a broker does not churn too often any single

account of the numerous accounts that he or she handles, it if difficult to prove that churning occurred. There is, after all no law that makes a broker lease for unprofitable trades that a client may voluntarily undertake.

2.1.13.4 Pools

A pool is a formal or informal association of two or more persons with the objective of manipulating prices and profiting there from. A few manipulators may orally agree to operate as a pool, or a contract involving many members of the pool can be drawn up. Some members may provide capital, some may provide inside information, some may manage the pools' operations, or all members can participate in all these functions. Some pools even have had specialists from securities exchanges acting in collusion as hired managers or members of the pool. When the market price of pools' securities reached a high figure and was supported thereby strong demand, the pool would liquidate its holdings as quietly as possible.

2.1.13.5 Insider Trading

Insider trading occurs when an individual or organization buys or sells securities while knowingly in possession of some pieces of confidential information which is not generally known and which is likely, if made available to the general public, to materially affect the prices of these securities.

Insider can be distinguished as primary and secondary. Primary insider is a person who obtains inside information through being a director employee or shareholders of an issue of securities. The secondary insider is an individual with inside information through having access to the information by virtue of employment office or professional whether or not the relationship with an issuer. It includes professional advisors to the company, a civil servant of one of the regulatory bodies, a journalist etc.

Insider trading has been recognized as unfair trade practice throughout the world because the access to price sensitive information gives undue advantage to the insiders over the common investors who have no knowledge of it and are subjected to exploitation for lack of such information in buying and selling of the shares of concerned company. Thus it is termed as activity to the detriment of the common person who is uninformed investor. There is no denying the fact that because of insider trading a privileged section or class of operators on stock market always stood gain virtually making uninformed common investors "guinea pig" to leave high and dry after having been lured in the market by the sheer movement of index of shares prices.

2.2 Theoretical Concept Review

A capital market is a 'complex of institutions and mechanisms through which the savings of the people are mobilized and placed at the disposal of spending units like central government, state, local bodies, statutory corporations, etc. and business enterprises and individuals to meet their regular and planned development expenditure including that for setting up new ones. Such entities issue financial instrument like securities, shares, debenture, bonds etc., evidencing title or claims to capital and other resources owned by them, to the persons who place their savings at their disposal. *(Sharma, 1996:55)*

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

On basis for the determination of stock prices is a dividend. Dividends are strongly influenced by the earning power of the enterprises. There is a very close correlation between corporate earnings and dividends. Earning power, in turn is strongly influenced by changing economic trends, which are closely related to interest rates. In this way, the most fundamental factor in stock price fluctuations lies in changes in corporate earning, which together with interest rates and business cycle trends, contribute to making up the economic factors influencing stock price.

The next major influencing factors are non-economic factors, including charges in political condition such as war or administrative charges in the weather and other natural conditions and charges in cultural conditions, such as technological advances and the like.

Market factors or internal factors of the market consisting of the tone of the market and supply - demand relations, may be cited as the third category that influences the stock prices. The tone of the market is a phenomenon of excessive expectation which takes the form of over-estimating intrinsic value of stock when stock prices is high because of business prosperity while understanding its value at the time of market decline.

The relationship of supply-demand is 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 finance has not been introduced, so far, in Nepal.

The stock price fluctuations are influenced by the mixture of a wide variety of factors, centering upon the relational factors of dividends and corporate earning power. Since the stock Exchange opened in Nepal on January 1994, the price level rose sharply upward. The market index researched up to Rs.265. However, the initial show up could not sustain as the stock prices were supposed to be much beyond the backing of the fundamental of the company.

The buying and selling of securities takes place in the floor of Nepal stock exchange Limited. The transactions are carried out only though licensed brokers and market makers. However, brokers cannot transaction on behalf of their own account. Market makers are not allowed to do transaction on behalf of other investors. In the floor, trading is carried out on “Open Outcry System". Each broker representative should be present in the floor and participate though written bids and offers. The trading reports are published after the floor is closed.

Securities market in Nepal is witnessed a sharp growth during the past couple 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 loosing confidence of investors. There is poor liquidity of the stocks. A scarcity of floating stocks prevails in the market. Professionalism is still lacking in the service of 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-days *(Sharma, 1996: 63-66).* Capital plays a vital role in the economic development of a country. Being a capital deficient country, Nepal has to make every endeavor to mobilize available capital efficiently. Securities markets provide mobility of the scattered savings. Retails investors with limited capital fund also participate in the industrial development process of the country though their investment in the securities. However, both individuals and institutions are putting most of their saving into bank deposits and bullion markets because of the present state of the securities markets. Thus, long-term savings that should be invested in the securities markets are going into short-term investments. Presently, stock exchange facility is available only in Kathmandu valley. Hence, there is a scope of expanding this facility in order regions of the county. Privatization of public enterprises such as Nepal Telecommunication Corporation, Royal Nepal Airlines and other public enterprises using share sale mode of privatization as announced by GON in the budget speech of FY 2003/04 could provide a huge investment opportunity in the securities markets.

Development of the securities markets depends crucially on the quality of financial information. GON has established According Standard Board and Auditing Standard Board for improving accounting and auditing standards. These Boards have development some accounting and auditing standards to be implemented in the country. It is expected that the implementation of these standard would improve quality of financial information. Improved financial information would help to make informed investment decisions in the securities markets leading to efficient securities in the country.

The tenth five year plan (2002- 2007) has objectives such as developing and expanding securities market as an important source of long-term funds, increasing the depth and breadth of the market, modernization of the stock exchange etc. regarding the capital market development. Corporate and financial governance project, which presently is in the inception phase of its implementation, has the objectives of strengthening institutional capability of SEBO and CRO, modernizing NEPSE and establishing central depository system of securities. Successful implementation of these plans and projects could bring institutional investors into the markets, encourage the creation of new savings vehicles and lead individuals to invest more in corporate debt and equity *(Adhikari, 2003:78-79).*

The current downtrend in share market is not so easy to recover unless strong regulatory measures are not enforced. The honeymoon days of share market exist no more but there are still market players who have honeymoon days as they have built unlimited financial fortunes by sharp practices that went undetected during the period on the unfair trade practice would be one of the strong measures to receive the share market in future.

In order to curb the fraudulent practices and discourage the dissemination of misleading information in the current share market of Nepal, the regarding authorities must govern the activities in the share market. There should be immediate check on the unfair share trading practices. Wash sales should be discouraged by immediate action. Nepal Stock Exchange can be form a watch dog team be discouraged by immediate action. The present practice of share trading by mutual consent is a kind of was sales that should be discouraged as if creates distortion in the price determined by the market forces. Such action helps in avoiding factions name created by several different share brokers in share transaction and also to check on the creating and illusion of rising price.

Moreover, the challenge for the regarding authority is control on the hidden establishment of share market corners and pool by some market price manipulators. Surprise inspection and secret vigilance by a professional team (Without making known who are its members and advisors) can check on the functioning of the office of such price manipulators interested to corner a share market in the hope of trapping or squeezing short sellers. If found dishonest in share market dealings, and punishment depending upon the nature of offence.

At the same time, the concerned authority has to discourage the practice of churning by the brokers since it helps brokers to transaction to the clients. Moreover, it is a right time for the concerned authorities to develop transparent guidelines to have strict vigilance and control on misuse of insider information. Insiders should be debarred from leaking price sensitive information by imposing heavy penalties and punishment for breach of legal provision.

The revival of the share market requires minimum fulfillment of the responsibilities and accountabilities among company management to the shareholder - focused. Time has come for company management to respond to shareholders expectation of return from their investment in shares of companies Management should make it a habit to change attitude to think what is good for shareholders is good for company as a whole.

Immediate measures lies giving attention to shareholders' grievance like timely condition of annual general meeting improving the quality, standard and coverage of reporting, developing minimum return on investment strategy and encourage to work together with shareholders by management. It is important that whatever suggestions given by shareholders in annual general meeting should be followed by company management to have better linkage and satisfactory relationship with shareholders. Action plan should be developed with clear cut and transparent

strategy to achieve given target rate of return by linking with company's dividend policy. Operational efficiency and profitability of companies should be improved to regain the shareholders' confidence so that they will have automatic demand for shares of companies and thereby raise the share price. Management has to change philosophy of running company affairs that it is only by maximizing shareholder's wealth that it can act as the trusted agent of shareholders to serve their interest best. Voting by present should be encouraged to have true representative of shareholders in company's board and voting proxy device should be discouraged as far as possible.

Investors and shareholders should be self-conscious to protect their rights by demanding timely from companies. Shareholders can form their committee to work together with management to serve their purpose. This will help in developing understanding between shareholders and company management to tackle the problems by mutual and workshops should be managed by the self-initiation and active involvement of shareholders to draw the attention of the company management and concerned authorities to explore practical ways and means of restoring shareholder organization has to be redefined and revitalized its role in protecting shareholder's rights.

In its early start, share market proved highly optimistic within a period of six months due to favorable of better and prospective return by company management, active role of brokers and markets, relaxation of control on the operations of stock exchange by the concerned authorities and growing condition of investors. There has been a remarkable rise in NEPSE index. But later on, there has been a continuous government, poor performance of companies, unfair share market practices and loss of investor's confidence in share market. As a result of these unfavorable developments, share market entered an era of worst bearish trend resulting from tremendous fall in NEPSE index. In order to revive the

downtrend in share market, various reformative measures are urgently necessary to curb on unfair share market, practice through the development of comprehensive and transparent stock exchange guidelines through by the concerned authorities. The existing company management has to reorient its positive attitude towards investors and shareholders by improving the quality of timely reporting and providing the expected return to win the losing confidence shareholders. Investors should be self- continuous in the selection of brokers for trading in securities and organize themselves to be achieving to protest their rights. All these will help in the revival of share market to make in active by attracting the investing public. *(Shrestha, 1996 10-13)*

There are many loopholes in our Stock Exchange Act. Investors feel insecure here. A few years back there was a company called Nimrod Pharmaceutical Company that floated in shares, but where are they now? Similarly, it has been more than a year that Bansbari Leather has allotted its shares, but why didn't the company list its shares in the market? Necon Air Ltd issued the share to the public but now the company is just like a closed.

It has been five years that Gorakhkali Rubber Udhyog hasn't called for its AGM. Government remained silent in all these cases. This is why the general public as well as the institutional buyers are not feeling secures in investing in stock market. *(Agrawal.2002:25).*

Investment in share has traditionally been done by the rating the institutional on the basis of price earning ration or dividend. Hardly do investors compare current assets with current liabilities or take a look at the debt equity ratio. Unless investors begin analyzing the intricate financial details of corporate institutions before making investment decision, the market cannot develop smoothly.

Share investment has traditionally been guided the investors returns. Most earning of investors has been in the form of dividend rather then capital gains, though high dividend are often seen, in corporate finance theory as wasteful use of scares capital. With the commercial bank becoming the only potential investment destination, with other stock market participants hardly making profit and even if they did failing to meet investor's expectations, demand for share of commercial banks outpaced supply and their prices boomed.

Now the latest slums in the secondary market, despite a pretty good performance by commercial banks, make it more apparent that investment in the past was done on him. Even officials at the stock exchange and the securities board. Refuting investor's allegations of the market manipulation and insider's trading of last February discreetly claimed that the Nepalese stock market is in a nascent stage. And that, investment are made more on an impulse, rather than through market study and credit rating *(Sharma 2001 :25).*

Share trading scandal formed the headline of major dailies of Nepal a few days ago. The news was that some of the staffs of Nepal Merchant Banking and Finance Ltd. (NMB), the share register of Standard Chartered Bank Nepal Ltd., were involved in unauthorized sale of shares of investors not present in the country. They were also alleged of cheating such shareholders of their dividend. As a share registrar the company's duties were to update the shareholders' information, distribution the benefits provided by the client company to the latter's shareholders and to verify the signature of the shareholder at the time of ownership transfer of shares. But the staff forgets the signature of the shareholders and to claim themselves the dividend allotted to such shareholders, when this scandal was reported by the media. NMB blamed one of its staffs and registered a forgery case in the District Police Office Kathmandu. The accused is still learning to be in the policy custody. As stated in the news, though some other staffs also

were involved in this scandal, NMB has registered the case against only one of its staff. Another of the NMB staff accused this scandal to have escaped out of the country.

If such types scandals, whether they are reported by the media or not, are repeated frequently and no attempts at made to rectify and to punish the guilty, there is no doubt that sooner or later the capital market will loose the investors.

A close study of this case brings the deficiencies of our market to the forefront. The major deficiencies are obviously lack of professionalism among the market participants and lack of interest in compliance. The issuer company cannot escape from its responsibility simply by blaming the registrar. It must satisfy those investors whose shares have been stolen. The share registrars are found to be careless and a question can be raised on their professionalism and honesty. The stock broker has also made a mistake by executing the shares trading without identifying the client and thus violating the codes of conduct for stockholders issued by Securities board (SEBO), the regulator of the capital market in Nepal. As the code clearly states that broker complied with code. Also the regulators are equally responsible as they are not effectively monitoring the activities of securities business person and taking legal action their name compliance under the prevailing rules and regulation.

As the capital market of Nepal is still in the infant stage the regulatory system and regularize the securities trading still has deficiencies. This leave scope for anyone to take unfair benefit from the market at the cost of ordinary investors are found to be irrational and concerned with short term gains. In this scenario, we can not expect perfect behavior from all the market participants. The major problems seen in the system are duality and ambiguities in the regulations, inadequate legal provision to control the market. Lack of adequate market infrastructure, lack of

clear demarcation of duties of the market participants, poor compliance and lack of clear legal provision for taking action to address the noncompliance cases.

In its Annual report for the fiscal year 2001/02, SEBO states that it has made some attempts to address the issues through issuance of guidelines directives and discloser formats to the market participants, code of conduct for the stock brokers etc. It has also prepared a draft for the new securities exchange act which was presented to the ministry of finance in 1980 to initiate the necessary legislative process. However, it is still to be enacted by the parliament Event though SEBON has made attempts to solve the market and deficiencies existing in the system. Taking necessary support from the government should take the required step to better coordinate the market participants to develop a healthy capital market in the country. Moreover it is important to discipline the market participants and educate them of their moral duty to comply and make other comply with the prevailing rules and regulation. Only this can create the atmosphere where scandals like this one are not repeated *(Business Age, April 2003: 44).*

Share marketplace plays a fundamental role in channeling economy of an individual and corporate region. On that account, it is a prolific zone of country's financial system. In other words, share market is an important component of financial sector that provides and facilitates and ordinary exchange. If we can't move with the universal expansion we should at least consider the regional components. Establishing Credit Rating Agency (CRA) and Central Depositary System (CDS) of securities in another challenge. The ADB has clearly state in its report that CRA and CDS are essential for the successful operation of the capital market *(The Rising Nepal, Jan 20, 2003).*

Since 31 March 2008 NEPSE has started a different mechanism for the trading of promoters' shares of the listed financial institutions after their locking period is

completed. For the first trading, the price of a promoters' share of a company that has a positive net worth could not be less than half of five times its net worth per share or half of the current market price of the ordinary share, whichever is low. Similarly, in the case of company that has a negative net worth, the first trading price couldn't be below half of the current market price of the ordinary share. Till now promoter shares of 31 financial institutions has been traded at NEPSE floor as per given mechanism *(NEPSE News /Monthly market Statistics and Review (SEBON 2008).*

Both the government and corporate bonds have been listed but they were not traded at all in the secondary market during the review period. Listing of government bonds reached 12 amounting Rs.13.15 billion and corporate bonds amounting Rs.4.85 million has been listed on NEPSE till the end of the FY 2007/08. A low number of individual investors and a income tax differential on interest for individuals and the corporate were the major reasons for a minimal transaction of specially government bonds.

Knowingly or knowingly, investors invest the Nepalese's share market. According to the Damru Ballav Ghimire , people who little bit know the share market by 8.5 million. Out up them 0.8 million people invest the securities market in Nepal. The Share market in Nepal is optimistic. Ghimire advice to the responsible persons most be aware the securities market. He indicated to the Babu Ram Bhattrai who spoke to the share market is 'Juwa Ghar'/Casino while he was Finance Minister of Nepal *(Business Journal 14 April 2009)* .

Investors invest/purchase the securities in securities market in short term prospective. They want to receive the cash dividend, shares dividend, right shares from the companies. At the fiscal year ended, investors buy the securities to pay as per demand. Demand is higher then supply, so market price of the share is higher

then higher every day. After completion of fiscal year, companies declared the dividend and right shares. Government may not be interrupt the market and response to the investor in time to time. (*Economic Post National Daily, 27 May 2009).*

2.3 Legal Framework & Improvements for Security Trading

2.3.1 Legal Framework of Security Trading

The increasing trend of patterns and scale of investment is creating more gaps between management and ownership. Because of this, it cannot be denied that promoters, managerial staffs and employees may involve in fraudulent and manipulation. Such fraudulent activities may cause great crash in the capital market as well. In order to avoid fraud and cheating, the effective legal framework is to be developed.

The legal framework of Nepalese capital market comprises a number of acts, laws, regulations and Guidelines. Prominent of them are:

- Company Act, 1997
- Securities Exchange Act, 1983
- Securities Exchange Regulation, 1993
- Membership of Stock Exchange and Transaction Bye-laws, 1998
- Securities Listing Bye-laws, 1996
- Issue Management Guidelines, 1997
- Securities Allotment Guidelines, 1994
- Securities Registration and Issue approval Guidelines, 2000

2.3.1.1 Review of GON Policies, Programs and Regulations

Securities Board of Nepal (SEBON)

SEBO was established as an apex regulation of the securities market in Nepal by GON on June 7 1993, under the securities Exchange Act 1983. The main objective

of SEBO is to regularize and manage the securities market and protect investor's rights.

As per the securities rules and regulations, following are the major function of SEBO:

- Frame policies and programmers required in securities market and advice GON in this aspect.
- Register securities and grant issue approval.
- Provided License to corporate bodies to operate stock exchange business.
- Provide license to operate securities business.
- Supervise and monitor stock exchange and securities business persons.
- Conduct research, study and awareness programmers regarding securities market.

A board composed of seven members including a chairman governs SEBO. The board has representative from various institutions of the government as well as private sector. The chairman of SEBO is appointed by GON for the tenure of four years. Other members of the Board including representatives one each from Ministry of Finance, Ministry of Law, Justice and Parliamentary Affairs, Ministry of Commerce and Supplies, Nepal Rastra Bank (the center bank), Federation of Nepalese Chamber of Commerce and Industries and Nepal Chartered Accountant's Association.

SEBO, in order to implement its policies and programs effectively, has two department's six divisions and ten sections in its organizations structure. Each department in held by deputy director and each division by officer. Presently, there are 25 staffs in SEBO *(www.sebonp.com*)

Market-halt Rule Revised

NEPSE has set a new rule for a market-halt from 25 August 2008. Instead of the previous point-based system, NEPSE has taken a percentage-based system for a smooth operation of the market. As the old system is a fixed point-based system, it didn't accommodate change in the index. Hence, the market trading halt policy needed the change. Now, market trading will halt for 15 minutes during the first hour of trading if the NEPSE index changes by three per cent upward or downward from previous day's index.. Also, if the index change by four percent either way after the market reopens the market will halt for 30 minutes. Similarly, if the NEPSE index changes five per cent upwards or downwards, the market will close for the day, according to the new rule. It is expected that the new policy will stabilize the secondary market and help it grow smoothly. A year earlier NEPSE brought a market halt policy based on points. Earlier, the growth of 15, 20 and 25 points were the base markers for market halt.

NEPSE Unveils Float Indices

After the publication of the Sensitive Index in January 2007, NEPSE has started two new indices—the NEPSE Float Index and the Sensitive Float Index—in order to give a more realistic picture of shares trading from 15 September 2008.

The new indices are based on the transactions of shares issued to the general public only. The Float Index reflects transactions of public-held shares of all listed companies, while the Sensitive Float Index reflects transactions of public-held shares of companies under Category 'A'. Out of 147 listed companies, 71 companies are listed under category 'A'. For calculation of these indices 24 August 2008 has been chosen as a base period.

NEPSE all equity share price Index, or NEPSE Index, includes promoters' shares while calculating market capitalization, even though they are not traded in the

market. The Float Index categorically excludes such non-tradable shares. It is calculated by taking into account the number of shares issued through IPO and their closing prices.

Likewise, the Sensitive Float Index is calculated by taking into account the number of IPO-issued shares of Category 'A' companies and their closing prices at the end of the day. A Free-fl oat index reflects the market trends more rationally as it takes into consideration only those shares that are available for trading in the market. Free-fl oat market capitalization is defined as the proportion of total shares issued by the company that is readily available for trading in the market. It is essentially the total outstanding shares, less the promoters' holding and other shares with a lock-in period. The Float Index is supposed to boost investors' confidence as it reflects the real market. The Float-index excludes promoters' holding, government holding, strategic holding and other locked-in shares that will not come to the market for trading in the normal course.

Securities Registration and Issuance Regulation

Security Board of Nepal (SEBON) introduced Securities Registration and Issuance Regulation on 12 Nov 2008. The regulation aims to properly manage the market. Four additional regulations are already in place to regulate the stock market. The new regulation allows companies to issue shares at a premium price. Companies earning good profits may sell their shares at a premium, which will be set as per their net asset per share. A company which wants to issue shares will have to sell at least 30 percent shares against its issued capital for the general people from now on. The regulation also allows companies to sell their shares through letters and electronic media after its annual general meeting takes a decision in this regard. As per the new regulation, all shares of a company will have to be registered with SEBON. Earlier, only ordinary shares were required to be registered with SEBON.

Companies listed with SEBON and the stock exchange will have to submit their financial details to the board every three months.

Directives on Ownership Transfer

NEPSE issued directives to regularize the ownership transfer mechanism of shares and the signature verification of shareholders on 14 November 2008. Taking into consideration the repeated complaints about delay in the ownership transfer of shares and irregularities in signature verification, NEPSE had issued the directives to all listed companies and member brokers. The directives allow NEPSE to suspend shares transactions of companies that do not abide by the rule and also suspend brokers from daily transactions. The directives calls for companies to strictly follow the rules while verifying signature of shareholders. The directives came into effect on 16 November 2008.

Rights Shares Renounce Bylaws

NEPSE has submitted Rights Shares Renounce Bylaws, 2065, to Securities Board of Nepal (SEBON) for the board's approval in July 2008.

The by-laws are expected to pave the way for rights share renounce and start a derivative market. Investors can maximize their wealth whereas companies can collect a desired capital for their expansion. One of the important features of the bye-laws is that companies issuing rights shares can issue right shares' slip after three days of the declaration. However, the buyer who buys a slip can not sell it to others. As per the provision, the stipulated time for the transaction of right shares is 35 days. But if the company increases the validity of the share, the stipulated time increases accordingly. On behalf of their clients broker can also help buy or sell such right shares' slip like general shares. Investors who want to buy or sell right shares slips have to register an application at NEPSE through brokers. However, buying and selling of right shares' slips can't be carried out by the same

broker. The agreed amount and the required transaction fee for NEPSE and SEBON have to be submitted on the next day of transaction (T+1) and should be sent to the concerned companies within two days (T+2).

New Formula for the Base Price Calculation of Capital Gain Tax

As per the decision of the Government of Nepal, NEPSE issued a new formula to calculate the base price of capital gain tax on 8 December 2008. Now onwards, capital gain tax will be calculated on the basis of base price. The base price will be calculated after taking the average of book close price every time a company issues rights or bonus shares with the ratio of bonus and rights shares issued. The provision is expected to end the current deadlock and confusion with regards to the base price and will be smoothen the market. This rule is applicable to all listed companies. For companies that are not listed, the capital gain tax will be calculated according to the company registrar's office or Over the Counter (OTC) market.

2.3.1.2 GON Policies and Programmes

GON after adopting liberalization economic policy has been initiating different programmers for the organized development of securities market. In this context, during the period of Eighth Five Year Plan (1992- 1997), some infrastructures regarding the securities market regulation were prepared. In the Ninth Five Year Plan 1997-2002), efforts were made to develop an organized and credible market. While implementing the programmers of Ninth Five Year Plan, GON/N through the budget speech of 2000/01, announced the programmes to amend Securities Exchange Act initiate necessary steps to bring wider participation in the stock exchange Act and make its operation more transparent. Similarly, the budget speech has also included the programme to take legal action against those listed companies, not publishing and submitting their audited financial statements of last two years. Accordingly, 25 companies were de- listed for not publishing their

financial statements and not paying annual listing fees to the stock exchange. However, other programmes like amendment of securities Exchange Act, standardizing stock exchange etc., which were perceived to be more important for the securities market development, could not move a head concretely.

In the fiscal year 2001/02, GON came with the 10 th Five Year Plan (2002- 2007), which among others also includes various programmes for securities market development. The objective of the securities market development programme is to increase public ownership in the development projects operated by private sector and promote industries by supplying financial resources though securities as well as increase employment opportunities and fulfill the capital requirements to the development projects operated by GON, government enterprise and municipalities issuing debenture in the securities market thereby reducing foreign loan. To meet these objectives, it has taken the policy of modernizing stock exchange, strengthening the regulatory system of the securities market, widening the participation of the stock exchange and making as important sources of long term financial growth by increasing its depth and breadth. It has incorporated the programmes of making public issue effective, enhancing regulatory capability of SEBON, making the securities trading process standard and credible, interest, expanding the securities market services nationwide and improving the compliance and improving the compliance and integrity of the market*(www.sebonp.com.)*

Interaction Programs with Stakeholders

Nepal Stock Exchange Limited (NEPSE) organized two interaction programs with stakeholders on current issues related to the secondary market. The first program, held on 14 November 2008, was on ownership transfer mechanism of shares and signature verification of shareholders. NEPSE conducted this program taking into account the repeated complaints about delay in the transfer of ownership of shares

and irregularities in signature verification. Company secretaries, Stock brokers and investors participated in the program. Speaking at the program General Manager of NEPSE Mr. Rewat Bahadur Karki emphasized on coordination among the stakeholders to minimize the problem. He urged the companies to abide by rule provisioned in the Company Act. The Company Act has called for the companies to transfer ownership in 15 days after the application for ownership transfer is received. Mr Karki warned that NEPSE wouldn't allow companies that do not abide by the rule to trade their shares in the market. Mr. Binaya Regmi, Chairman of Nepal Institute of Company Secretaries; Mr. Anjan Raj Poudel, General Secretary of Nepal Stock Brokers Association and others also shared their view on the topic.

NEPSE organized the second program on 21 November to get feedback from investors on proposed Security Trading and Settlement Bylaws. The program began with a welcome speech by Mr. Rewat Bahadur Karki. He highlighted the need of new bylaws while Mr. Pramod Bhattarai, Deputy General Manager of NEPSE, presented a paper on the topic and representatives from Nepal Stock Investors' Association, National Investor's Protection Forum, Nepal Investor Forum and General Investors Association Nepal commented on it.

2.3.1.3 Institutional Arrangements for Investors' Protection

To enhance an efficient capital market, it should be systematic as well as regulated. The systematic and regulated market is enhanced with effective legal provision and enforcement of those regulations from regulatory institutions.

Security Board (SEBO/N) established under Security Exchange Act, 1983 (second amendment has emerged as prime regulatory institution of Nepalese capital market. SEBO/N has the mandate to register the public issue and provide the authority to securities of corporation. Besides this, there is Nepal Stock Exchange

(NEPSE) in order to enhance secondary market of securities trading in Nepal. It lists securities to trade and regulates listed companies and secondary market intermediaries.

Registrar of Companies (ROC) is also an institution, which has to regulate registered companies under Company Act. It is the administrator and enforcement agency for Company Act. Nepal Rastra Bank stood as regulator of Banks and Finance Companies. Insurance Board is also in existence to regulate Insurance companies. These all institutions form institutional arrangement for investors' protection in Nepal.

2.3.1.4 Trading of Promoters' Shares

Since 31 March 2008 NEPSE has started a different mechanism for the trading of promoters' shares of the listed financial institutions after their locking period is completed. For the first trading, the price of a promoters' share of a company that has a positive net worth could not be less than half of five times its net worth per share or half of the current market price of the ordinary share, whichever is low. Similarly, in the case of company that has a negative net worth, the first trading price couldn't be below half of the current market price of the ordinary share. Till now promoter shares of 31 financial institutions has been traded at NEPSE floor as per given mechanism.(*Source: NEPSE News | Monthly market Statistics and Review)*

2.3.2 Historical Background of Capital Market in Nepal

The history of capital market in Nepal dates back to the era of Rana Prime Minister Juddha Samsher when Gunjaman Singh, the first secretary at the Nepalese Embassy in England returned backs to the Kathmandu and set up the 'Industrial Council'. The council drafted the company act and Nepal Bank act for the first time in 1992 B.S. The first public floatation of shares in the securities

market was initiated by Biratnagar Jute Mills Ltd. in 1993 B.S. There were very few companies in Nepal issuing shares to the general public until another Company Act came into operation in 2007 B. S. Many industries including jute, sugar, match textile, chemical and furniture were established in Nepal and disappeared because of many reasons. For many years after 2006 B. S. Nepal passed through a trauma of series of political instability. During the Panchayat Regime (2017-2046), the economy was based on central planning and most of the industries were opened in the public sector. Various control measures were adopted providing with difficult rules and regulations required registering companies and thus private sectors was eventually discouraged. There were only two Financial Institutions, Nepal Industrial Development Corporation and Agriculture Development Bank, in existence to finance industrial and agricultural projects along with the two domestic commercial banks. The government approach during this period was to expand banking services to remote villages of nation in order to encourage agriculture production, small-scale industries and service sector in the economy. Corporate industries involving huge capital investment were opened in the public sector. No industrial environment was created in the country to set up corporate undertaking in the private sector.

The non security market of Nepal came under regulatory framework when Nepal Rastra Bank established in 2012 B. S. Prior to this, Nepal Bank. Ltd. was the only financial institution operating under Nepal Bank Ltd. Act 1993 B.S. Another commercial bank, Rastriya Banijya Bank was established under Rastriya Banijya Bank Act 2022 B.S. in the public Sector. A single commercial act was enacted in 2030 B. S. to consolidate the functioning of all the commercial banks under one legal umbrella. Also finance companies act and development bank act came in 2041 B. S. and 2052 B. S. respectively. At present the country has 15 commercial banks including joint venture Banks, 8 development banks including Agriculture Development Bank and Nepal Industrial Development Corporation and 50 finance

companies operating in financial market. Besides, there are 13 insurance companies including deposit and credit Guarantee Corporation and other non-depository institutions like employee provident fund and citizen investment trust collecting huge amounts of fund from the public in different forms and nature providing long-term funds to the people for various purposes.

In this way, institutional development of securities market in Nepal started from the year 2033 B. S. when Security Exchange Centre was established under the Company Act with the joint capital contribution of Nepal Rastra Bank and Nepal Industrial Development Corporation. The industrial policy of the government also encouraged the promotion of securities activities in Nepal.

The concept of stock market in Nepal is very new. The history of securities market began with the flotation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. At that time, the participation on the ownership structure of the corporate sectors was restricted mostly to Rana family. Consequently, the expansion of the capital market to the desired level had been restricted. No significant attempts had been made in four five year plans to reform to capital market. Introduction of the Company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange Center Ltd. in 1976 were other significant development relating to capital markets. Initially, the SEC limited function for trading the government bonds and national savings certificates only. Thus, the SEC served to promote the primary and secondary market for government and corporate securities from the fiscal year 1984/85. Although, the growth of stock market is high relative to the growth of the economy, the share of the corporate sectors in their national economy is still very low due to the negligible size of the corporate sectors.

Securities Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering underwriting, managing public issue, market making for government bonds and other financial services.

Nepal Government, under a program initiated to reform capital markets converted Securities Exchange Center into Nepal Stock Exchange in 1993. Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Security Exchange Act, 1983.

The basic objective of NEPSE is to impart free marketability and liquidity to the government and co-operate securities by facilitating transactions in its trading floor through member, market intermediaries such as broker, market makers etc. NEPSE opened its trading on 13th January 1994

2.3.2.1 Policy and Program in 10th Plan

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

a) Objectives

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

b) Quantitative Goals

- To increase number of investors investing in share capital of corporate bodies to at least 3 percent of total population.
- To rise at least Rs.5000 million for the corporate bodies through primary market of securities.
- To increase the amount of securities trading to at least Rs. 1000 million.
- To increase the value of total market capitalization to at least 15 percent of total GDP.
- To list additional 40 corporate bodies in the stock exchange.

d) Strategies

- Modernization the stock exchange.
- Making the securities market regulatory in the stock exchange.

e) Policies and working Modalities

- Modernization of stock exchange (Related to strategy 1)
- To make corporate sector dynamic and broad based and a develop effective and investor friendly role of securities market regulators.
- To increase allocation and operational efficiency of securities markets.
- To make securities market mechanism fully transparent and credible.
- Effective securities market regulatory system (Related to strategy 2)
- To develop and expand securities market as an important source of long term funds.
- To increase depth & breadth of securities market.

2.3.2.2 Historical Background of Nepal Stock Exchange (NEPSE)

Securities Exchange Centre (SEC) was established in the year 1978 with an objective of facilitating and promoting the growth of capital market. HMG/N

converted SEC into Nepal Stock Exchange (NEPSE) in the year 1993 under capital market reform program. Before the conversion, the centre was the only institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. The basic objective of NEPSE now is to impart free marketability and liquidity to securities by facilitating transaction through market intermediaries like broker and market makers. NEPSE is the only stock exchange in the country. It is jointly owned by Nepal Government, NRB, NIDC and members of stock exchange. The securities Exchange Act, Securities Exchange Regulation, and NEPSE's own Memorandum of Articles of Association have empowered NEPSE to promulgate various bye-laws. Accordingly, under the provision of section 35' sub-section (2) of the Securities Exchange Act, NEPSE has made securities listing bye-laws, 1996 and membership of stock exchange and transaction bye-laws, 1998. It has to submit reports regarding its operation; brokers and listed companies to SEBO/N. NEPSE opened its trading floor on the 13th of January, 1994 through licensed members. Currently, number of listed companies to it are 136.

NEPSE is the facilitator and regulator of secondary capital market. It is involved in the securities transaction, which was issued already and opened for the transaction. In this context, it can also play the role of protector of investors. Though it has not been vested with any judicial proceeding jurisdiction but can make mandatory for furnishing the disclosures and can issue any directives and orders for its members with the intention of investor's protection. The stock exchange can initiate disciplinary proceedings and if necessary, can penalize the defaulting members by way warning, fine and suspension of their transaction and status for the purpose of protecting the investors.

2.3.2.3 Present Status of Stock Market in Nepal

Equity market has shown impressive recovery from the sharp fall in 1994 with lag effect elongated till late 1998. At present, it has been performing more strongly than in the earlier years. The improvement in the equity market has been attributed to various factors including good prospect of corporate earnings and broader household participation in the stock market. Investors not only rely on the statements of the brokers, but they also have a concern over the financial information of the concerned company. Therefore the shares of companies with better prospects of dividend, capital increment and growth have normally higher prices in the stock market. At present, the stock market in Nepal has witnessed its strength surprisingly, and this has raised hopes for sustained growth of corporate undertaking.

Stock market in Nepal has been growing gradually both in terms of turnover as well as the capital investment. From 16 listed companies in 1986 they grew to 135 in 2006. During this period, their paid up capital surged up from Rs. 341 million to Rs 20008.55 million. Numbers of listed companies are increased by eightfold, whereas the paid up capital went up by 586.53 times. Market capitalization of listed shares has been rising continuously, except with a few cases of volatility. It has reached Rs. 96813.74 million in 2006 from Rs. 548 million in 1986. The ratio of market capitalization to paid up value increased from 1.6 times in 1986 to 4.83 times in 2006. Though the annual turnover is much volatile, it has reached to Rs. 3.45 billion in 2006 from Rs. 10.1 million in 1986.

There was bearish tendency in stock market since 1994. Share prices of most of the companies had gone down. The NEPSE Index fell to 163.4 in 1998 from 226 in 1994. However since 1998 onwards, stock market began to revive. As compared to the preceding year, market capitalization went up by 57.76 percent to Rs. 96813.74 million at 2006; whereas paid up market capital had gone up by

19.30 percent to Rs. 20008.55 million. The paid up and market capitalization in the previous year were Rs. 16771.85 million and Rs. 61365.89 million respectively. The NEPSE Index moved up to 217 at mid July 1999 from 163 at mid July 1998. It was 360.70 at mid July 2000. It has reached 386.83 till mid July 2006.

The data for the year 2006 reveals that commercial banks occupy the topmost position in terms of annual turnover, market capitalization and NEPSE Index. Manufacturing and processing companies occupy second rank in terms of market capitalization and NEPSE Index; however they rank third in annual turnover. Insurance and finance group jointly holds second position in terms of annual turnover and third position in terms of market capitalization and NEPSE Index. Throughout the year, it has witnessed a continuous sharp rise in the price index except few cases. The NEPSE Index started with 300.05 in August 2005/06 increased to 386.83 till July 2006.

In the FY 2007/08 the Security Board of Nepal (SEBON) granted permission to 71 companies for mobilization of Rs.11.56 billion while 33 companies got approval to mobilize Rs. 2.75 billion in the preceding year. The number of capital mobilizing companies and amount of capital mobilization has risen by 132.25 percent and 320.36 percent respectively.

The Nepalese stock market continued to expand in the FY 2007/08 too. With the restoration of peace and a subsequent boost in investors' confidence, major indicators of the share market grew tremendously. Almost all the major indicators of the secondary market like amount of shares traded, number of listed shares, the number of transactions, annual turnover, total market capitalization of listed shares, market capitalization and GDP ratio, turnover to market capitalization and the GDP ratios all increased in the review period.

Since 24 August 2007 trading is being done through the Automated Trading System (ATS), a fully automated screen-based trading system. The introduction of the ATS, extension of trading hours and listing of new companies has contributed to a substantial increase in trading activities. The total transactions of shares in terms of value increased by 172 percent to Rs. 22.82 billion in the FY 2007/08, while it was Rs. 8.36 billion last year. Similarly, the number of transactions increased by 25.1 percent to 15.08 hundred thousand, and it was 12.05 hundred thousand last year. The number of shares traded during the year increased by 17.2 percent to 136, whereas it was 116 a year before. Likewise, the number of ordinary shares traded during the review period was 28599.77 million, which is a 57.6 percent increase from previous year. The daily average turnover recorded in the review year was Rs. 97.11 million; the turnover was Rs. 78.22 million last year. Similarly, the market opened for 235 days this year, three days more than last year.

In the total turnover, the commercial banking group's overall domination continued as before because of a better performance of commercial banks. Almost all commercial banks have posted profit in the review period in which the turnover of the commercial banking group was Rs.5.56 billions. However, in total composition of turnover share of commercial bank declined slightly compared to 63 percent in the review year which occupied 65 percent in the FY 2006/07. The Hydropower group came second on the basis of annual turnover. This group's turnover was Rs. 3.19 billion, which accounts for 15 percent of the total transaction. In the same way, finance companies occupied 10 percent and development banks 9 percent.

2.4 Review of Related Studies

There are many dissertations written by various researches in past years. Among them some dissertation are reviewed here for analysis of literature.

Mr. Mukti Aryal has conducted a research on *'The General Behavior of Stock Market Prices*'. The prime objective of the study was to find the laws of price fluctuation in the stock market. However, the specific objectives of the study were as follows:

- To discuss theoretically the movements of stock market prices as predicated by the random walk model.
- To develop the empirical probability distribution of successive price change of an individual common stock and a stock market as a whole.
- To examine whether the successive price changes of stocks market are independent to each other or not.

The general behavior of twenty one security price on Nepal stock exchange (NSE) is remarkably for to that mainly the assumption of independence as predictable by random walk model of security (speculative) price behavior. Thus, the model of such kind has been refuted at least for Nepal stock market operation. Here this projection of hypothesis makes clear that the knowledge of past now become useful in predicting the future movements of stock market prices, than investors, on the floor of exchange of securities can make higher expected profits in the future based solely on those historical price series under certain systematic trading scheme (ie market average return) of the general market for securities. Therefore anomaly of weak form tests of significant market hypothesis has an important implication bearing interpreting behavior of security price variations in the past and in performing future research in this field. If broadly speaking the implications with respect to conclusion derived by the study are of two natures: statistical & economic.

Government actions, companies development that causes abrupt price changes, ultimately the value of standard deviations for individual price changes has been higher consequently platykurtic character of distribution observed i.e, too few relative frequencies are contained near to mean of the price changes in the central bell all the relative frequencies are concentrated within higher limits of standard deviations form the mean of the price changes.

Finally, with respect to distribution of price changes, from the investor point of view, the sole interest is in the shape of distribution, that is the only information needs to make meaningful investment decisions.(Aryal 1995:100-105)

Mr. Sadakar Timilsina (1997) has conducted research *'Dividend and Stock Price*'. The study was carried out by the data for 16 enterprises form 1990 to 1994.

- To test the different between dividends per share and stock prices.
- To determine the impact of dividend policy on stock price.
- To identify whether it is possible to increase the market value of the stock changing dividend policy or payout ratio.

To explain the price behavior, the study used simultaneous equation model as developed by friend and Puckett (1994)

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

- Though there were above mentioned studies in the content of Nepal, it has overcome necessary to find out whether there are still valid.

Mr. Bharat Prasad Bhatta has also conducted research on the topic *"Dynamics of Stock Market in Nepal"* the objective of the research were as follows.

- To analyze the trend of the Nepalese stock market.
- To diagnose and compare sector-wise financial status of the stock in Nepalese stock market.
- To analyze the market share price of Nepalese stock market.
- To find out the impact of secondary on primary market and vice versa.
- To recommend for the improvement of stock market in Nepal.

The stock market and economic activities move in similarly direction.The influence each other. The development of the former is reflected in the later. The stock market rises and mobilizes the invest-able resources to finance the long-term large projects in the economy. The stock market, therefore can be regarded as a heart of economy.

The investors are interested to invest their resources in the shares of corporate sector through the stock market in the Nepalese economy. It is necessary to develop the entrepreneurship and encourage the entrepreneurs to start the productive venture as soon as possible. Management capability of the entrepreneurs is key for better performance of the firms. Government should launch programs to enhance management capability of the entrepreneurs, which may contribute to rise from the investment.

Development of the manufacturing sector is the backbone of an economy, which in turn, assists to foster banking, finance and insurance sectors. Unfortunately, the

manufacturing sector does not have a good performance in Nepalese economy. Almost all firms in this sector have a sustained loss.

Mr. Bachhu Ram Dahal (2002), conducted a research on *"Stock Market Behavior of Listed Joint Stock Companies in Nepal"*" The study aims to find out the behavior of stock market in Nepal on the basis of secondary as well as primary data.

- To study and analyze stock price trend and volume of stock trade on the secondary market.
- To study and analyze companies & maintenance of listed companies in Nepal Stock Exchange Ltd.
- To study and analyze the investors views regarding the decision on stock investment.
- To study and examine the signaling factors impact on stock price with the help of NEPSE index.
- To suggest the abstract result to the interested parties related to stock market.

He concludes that signaling factors plays major role for fluctuating NEPSE index. The study was verified by taking major seven events. Royal massacre, September 11 attack, state of emergency, Prime Minister visit USA, parliament dissolve and king's visit to India.

- Most of the investors were asked for their preference of investment sectors major portion of them said that they were attached with banking sectors for investment.
- It was found that investors in the stock market take the investment decision on the basis of market price of shares.
- Investment process and its other factors like NEPSE index, price trend and investments facilitators are not doing their work in systematic way.

- On analyzing pared -test for signaling factors with reference to major seven events it was found that signaling effect had played major role in fluctuation of stock. (Dahal, 2002:68-69)

Mr. Gurudatta Paudel (2003), conducted a research on *"The Movement of Stock Price (Analysis of Joint Venture Commercial Banks")***.** Eight joint venture commercial banks are taken as a simple bank on this study.

- To examine the movement of stock market price in relation to Nepal joint ventures commercial banks are either dependent or independent to historical prices of stock.
- To evaluate return and risk proportion of investment on stock of joint venture commercial banks.
- To categorized the nature of stock tendency in relation to price stability.
- To study group wise overall behavior of NEPSE.
- To recommend for the improvement of stock market in Nepal.
- Trade of relationship exist between the risk and return i.e, higher the risk higher the return and vice versa.
- There isn't an extreme relationship exists between MPPS with EPS and DPS.
- The variation of MC highly depends up on the PC and invest made by banks.
- Investors are not much aware of risk and return portfolio of the investment.
- The stocks of all sampled companies are under priced since their expected rate of returns is higher than the respective require rate of returns. Since, the stocks are under priced therefore it is better to buy and sold the stock.

He also concludes that the NEPSE index is highly influenced by the government policies, program and the mode of its implementation. Regarding this, it observed that conversion of SEC into NEPSE and the establishment of SEBON in 1993, which reflects government policy to reform the capital market and foreign investment under the extended structure adjustment (ESAP), introducing of

modern open-out cry system, liberalization policy have inspired and motivated the increasing to do investment in securities. As a result, share prices significantly increased to a peak in the initial periods.(*Paudel, 2003:123-125)*

Mr. Dilip Raj Baral (2003), conducted on *"Stock Price Movement in Nepalese Securities Market"* The main objectives and findings of his studies are as follows:

- To study and analyze stock price and volume.
- To study and analyze the rate of newly listed companies and maintenance of already listed companies in NEPSE.
- To study and analyze the investment views regarding the decision on stock investment.
- To suggest the finding of the study to the interested parties related to stock investment.
- To study and examine the signaling factors impact on stock price with the help of NEPSE index.
- Most of the respondents were asked about the major influencing factor of stock price movement, they said that company's dividend affect the stock price.
- Founding to the respondents bullish trend of the stock price movement is suitable for Nepalese Securities market.
- Most of the investors were asked for their preference of investment sector major portion of ten said that they were attaching with income.
- According to the major problem of respondents, international environment direct moves the price of stock market.
- According to the major portion of respondents of Nepalese stock market, it were found that Government's policy is not clear and perfect in Nepalese stock price market.
- According to the field survey in the Nepalese stock market, it was found that investors are not aware about investment.

- On analyzing the multiple bar diagram to find out the stock price leading companies in stock market. It was found that manufacturing and processing companies and insurance companies are price leading in the study period (*Baral, 2003:117-119, Poush 2058 to Mangsir 2059).*

2.5 Research Gap

There have been several researches done before in the topic stock market and stock market prices. All of those researches have many useful finding and their own limitation.

Study on the behavior of stock market was only started from Mr. Pradhan in 1993. But at that time the capital market in Nepal is very small. Aryal conducted the study in 1995 in Share price behavior base on twenty one sample stocks. The time period was only eight months from the beginning day of organized stock market for eight months period. Now it is out of date. Till date market has experienced many ups and downs. Likewise Timilsina 1997 had conducted research on dividend and stock price and the study was carried out by the date for 16 enterprises from 1990 to 1994. On his study he used the equation models as developed by Friend and Puckett (1964), which was out of dated. Timilsina's study was based on 45 observations. The number of companies included in the sample was only 16 which were quite low. Studied on dividend conducted in the context of Nepal are based on secondary data only.

Bhatta 1997 has conducted research on the topic Dynamics of stock market in Nepal. He only used secondary data and also unable to test with the suitable hypothesis with the recent phenomenon. Shrestha in 1999 carried out a study based on data of randomly selected thirty stocks out of all listed securities mostly started from the commencing day of organized trading system on NEPSE. His study covers the period from 13 th January 1994 to Mid July 1998. However, this

study remains silent to say whether the trading with the help of past information could earn profit in both bull and bear market. Likewise, Gurung 1999 studied on share price behavior of listed companies in Nepal and he was unable to test the suitable hypothesis on this study.

Mr. Dhanl,(2002), has conducted a research on stock market behavior of listed joint stock companies in Nepal. He showed the monthly trend analysis of listed companies but unable to show the annual trend analysis. He also uses of t-test for King Visit to U.S and Prime Minister Visit to India. I think the visit of King's and PM's does not effect in Nepalese stock market. Likewise Mr. Paudel 2003 studied in the listed joint venture commercial banks in NEPSE and only took eight joint venture commercial banks as sample which was quite low and his study is confined to the technical approach. As Baral 2003 conducted a research on stock price movement in Nepalese securities market and he only use the t-test of past data or he was unable to test with the recent phenomenon of that time. Thus the current study is a supplement to overcome the weakness and limitation of previous studies.

These researches are helpful in different areas. The findings of previous researches are equally important. The main focuses of the research will be to analyze the performance, growth, and downfalls of the stock market. This will help to analyze whether the stock market is in increasing trend or in decreasing trend. By, analyzing these aspects, focuses can be set on the weakness. So, that in future these weaknesses can be turned in to the strength of the stock market. This will help to make the existence of the stock market more robust. Further more, by being able to point out the weakness; more investors can be made to contribute for the growth of stock market.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Human nature is always curious to learn, understand or investigate the phenomenon raising the questions like why, how, what, when etc. The knowledge has something to do with knowing. Knowing may be through acquaintance or through the descriptions of the characteristics of certain things. The things with which we can be acquainted are the thing of which we are directly aware. Direct awareness may come though perception and sensation.

Research is essentials a systematic inquiry seeking facts through objectives verifiable methods in order to discover the relationship among them and to deduce from them broad principles or laws. It is really a method of critical redefining problems formulating hypothesis or suggested solution. Collecting, organizing and evaluating data, making deduction and making conclusions to determine whether they fit the formulated hypothesis. Thus the term 'Research' refers to a critical, careful and exhaustive investigation or inquiry or examination or experimentation having as its aim the revision of accepted conclusions, in the light of newly discovered facts.

This research methodology chapter includes research design, nature of data, data gathering procedure, population and sample and data procession procedures.

3.2 Research Design

A research design is a plan, structure, and strategy to obtain the objectives of the study. The research is based on the secondary as well as primary data and information. Hence, the explanatory or descriptive as well as analytical research

design has been used. The variables related with the performance of the company, market information and relevant subjects are included in the study.

3.3 Population and Sample

All the companies listed in the stock exchange were considered as the total population. Out of them, 6 companies that were in existence and doing share transaction in NEPSE were considered as the sample for the study. The companies were categorized into eight groups as done by the stock exchange.

Table 3.1

Total Population & Sample

S.N	Types of the Listed Companies	Total Population	Sample Considered
1	Commercial Banks	17	2
2	Manufacturing and Processing	18	-
3	Trading	4	-
4	Finance	55	2
5	Insurance	17	2
6	Hotel	4	-
7	Others	1	-
8	Development Banks	23	-
9	Mutual Fund	1	-
	Total	**142**	**6**

Source: Trading Report NEPSE 2007/08

3.4 Sources of Data

This study is based on secondary sources data, however; some primary data has been collected from discussion with the stakeholders, experts, auditors, economists, personal views, informal interviews, observation and other similar process.

Secondary data have been basically collected from various publications of Ministry of Finance, Nepal Rastra Bank, SEBON, and NEPSE. The sources of Secondary data have been collection from Economic Survey 2007/08, Macro Economic Indicators and Monetary Policy 2008, Nepal Rastra Bank Annual Report 2008, SEBON Annual, Quarterly and monthly Bulletin, NEPSE Report from 2004/05 to 2008/09, Magazine, Business Age, Economic Post, Aviyan, Daily Newspaper, Kantipur, The Kathmandu Post, The Himalayan Times, Books and Articles, Website etc.

3.5 Data Processing Procedure

Data collection from secondary sources were analyzed by using statistical tools like monthly trend analysis, bar diagram, collection coefficient analysis and paired t- test

3.6 Research Variable

Major market behavior tools such as NEPSE index, impact of signaling factors on stock price, volume of stock traded, rate of listing of new companies in stock exchange and maintenance of them in stock exchange.

For analyzing signaling factors impact on NEPSE index with signaling factors the following major events are analyzed.

- Completion of Constitutional election
- Formation of Maoist Government
- Additional Capital gain tax
- Formation of New Non Maoist Government

3.7 Tools Used

Simple percentages were used as an arithmetical tool or interpret data. Paired t-test was used as statistical tool to test null hypothesis. For the test of hypothesis

number of observation 10 NEPSE index before and after four major events were considered. Other statistical procedures used to analyze the data are as follows.

i) Karl person's Coefficient of Correlation

It is statistical tool for measuring the intensity or magnitude of liner relationship between the two variables series Karl Person's measure, know as Personian correlation coefficient between two variables (series) X and Y, usually denoted by 'r' (X,Y) or simply 'r' can be obtained as:

$$\text{Corrélation Coefficient(r)} = \frac{N\sum XY - \sum X \sum Y}{\sqrt{\sum X_2 - (\sum X)_2}\sqrt{\sum N Y_{2-(\sum Y_2)}}}$$

Where,

N= Number of observation in series X and Y

$\sum \mathbf{X}$= Sum of observation in series X

$\sum \mathbf{Y}$ = Sum of observation in series Y

$\sum \boldsymbol{x_2}$= Sum of square observation in seriesX

$\sum \boldsymbol{Y_2}$ = Sum of Square observatio in series Y

$\sum$XY= Sum of the product of observation in series X and Y

The value of correlation coefficient 'r' lies between -1 to 1 i.e, $-1 \leq r \geq 1$.

If r= 1 there is perfect positive relationship

If r =-1 there is perfect negative relationship

If r = 0, there is no correlation at all

i) Probable Error (P.E) or Correlation Coefficient

Probable error of the correlation coefficient denoted by PE us the measure of listing the reliability of the computed value of the correlation coefficient 'r'. The probable error (P E) is defined by

$$PE = .06745 \times \frac{1-r^2}{\sqrt{n}}$$

Where,

r = Correlation Coefficient

n = Number of Pairs of observation

If r ≤ PE, the value of 'r ' is not significant matter

If r ≥P E the value of r is significant i.e. correlation is significant

iii) Test of Hypothesis

$$t = \frac{d}{\frac{s}{\sqrt{n}}}$$

Where,

t = paired t- test

s = standard error

n = number of observations

d = difference between two data

Where standard error (s) can be calculated by using following formulae:

$$S = \frac{1}{n-1}\left[\sum d^2 - \frac{\left(\sum d^2\right)^2}{n}\right]$$

iv) Regression Analysis to Forecast the future Market Price

Market price and EPS by using the Correlation equation:-

Y = a + bx

Where,

$\sum Y = na + b\sum$……(i)

$\sum xy = a\sum x + b\sum x^2$……(ii)

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter deals with the systematic presentation and interpretation of statistics, evidence and facts to clarify the research works. Analysis is based on the data obtained both from primary and secondary sources. Primary source includes mainly the responses to questionnaires and personal interviews with experts, officer of SEBO, NEPSE and other resourceful persons. Similarly the secondary source includes available annual reports of sample companies, publications of SEBO/N, NEPSE and websites. Appropriate statistical tools have been used in order to derive actual results from the analysis of data. The analyzed data and result are presented clearly and simultaneously using tables and graphs. This is the key chapter as it helps in achieving the objectives of the study as mentioned in the first chapter.

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

As stand earlier in the methodology section, this study consists of secondary data. Secondary data have been collected particularly form monthly and annual trading report of Nepal Stock Exchange. Date collections from the secondary sources are also tested with sophisticated statistical tools. Data presentation analysis reveals performance of securities during the year 2006/007 to 2008/09 as per reliable data.

The main purpose of this chapter is to examine the price trend of different joint stock company with the help of NEPSE index. The study also aims to analyze the number of stock traded during ten years of 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 2007/08 to 2008/09. Similarly the study also focuses on the study that the listing rate of different corporate bodies in Nepal Stock Exchange (NEPSE).

Price is the major element in the stock market analysis. For analyzing stock market behavior the price trend can be used. By seeing the NEPSE index trend one can conclude its nature in different aspects, e.g. trend of price in different period.

Similarly, the number of stock traded is also accounted for seeing 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 to generalize the facts of the information.

4.2 NEPSE Index

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

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

better performance of companies and vice versa. Thus the NEPSE index shows the behavior of stock prices in the capital market.

The computation formula for price index is as follows:

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

$$P01 = \frac{\sum P_1 \times Q_1}{\sum P_o \times Q_o}$$

Where,

Po_1 = NEPSE price index

P_1 = Today's Stock Price

Q_1 = Listed Shares (i.e, no of shares outstanding)

Q_0 = Base listed shares

4.3 Presentation and Analysis of Primary

Primary data plays the vital role to make the research task meaningful as well as concretively. The study has followed secondary data as supporting base which has been taken from previous researches, studies, report library search & other related documents. In the course of availing first hand data to justify the study on the topic primarily, interview and questionnaire method have been made applicable.

i) Questionnaire Analysis

On of the important methods of primary data collection is questionnaire method. Under this method, important questions are set and provided to the related parties to take theirs opinion about the stock market.

A number of questions were put up by means of 50 copies of questionnaire. Categorically, the question raised through this means were of three types

- Yes /No questions

- Multiple choice question
- Scaling questions

When asked about the interest to invest in securities, 41% of respondent showed their interest towards investment in securities. While 59% of respondent believe apart from stock market there are other many sectors that are profitable to invest than security market. Respondent who showed their interest in shares, believe that if analyzed correctly, stock investment has many opportunities. On the other hand, who don't believe in investment in shares have view that it has great risk as nobody knows when company's shares will go down.

According to the response regarding accessing information before investment, Media plays great role to spread knowledge about stock market as 58% of respondent said that major source of information is media. Similarly, friend group is also a source of information as 15% people get information from their friend, colleague, neighbour and relatives. Only 6% respondent said they get information about shares of companies from brokers. 21% people stated that they get information from other sources.

When asked about awareness of people about primary issue before they apply for the shares of a particular company, most of the people said they know about primary issue of shares, about 72% of respondent replied yes. 23% think that they are unaware, and 5% of them think that they know little about primary issue and primary market before they apply for the shares.

When enquired about base they rely on before investing in shares, 52% said that they refer to newspaper and magazines before making decision whether invest in particular company's share or not. 30% of people said that they still believe on

rumor and whim. Very few people refer to company's prospects before they invest in shares. This percentage is only 8. About 10% of people rely on other sources.

Taking to awareness of people, it is a significant change in awareness of people towards stock market. Yet before, many people used to believe on whim and rumor and they suffered from huge losses. Now this percentage has gone down and now people refer to newspaper, magazines and company's prospect and analyze them before making decision to invest in shares.

When asked on why people invest in shares, 22% of them thought it is for stock dividend/ bonus shares, 27% thought it is for cash dividend, 40% thought it is for capital gain as prices would go up and 15% that there are no better alternatives for investment.

When asked about which sector better opportunities for investment have, 65% of people think that financial sector is the good sector while 35% thought that it is non financial sector. Among them who choose financial sector as better sector responded banking, finance and insurance are suitable for investment. Likewise, respondents, who choose non-financial sectors as better sector responded hotel, trading and manufacturing and processing company are suitable for investment.

When asked how do you analyze that financial sector will continue their good performance in future as well, 72% of people replied that they guess by analyzing past trends, only 10% of people said they use investment tools to analyze this and 18% respondent replied other sources.

When asked about growth of stock market in Nepal, 63% of respondents said it is growing slowly, 31% of them said that it is under developed, 6% said it is growingly rapidly and non of the respondent replied it is well developed.

55% of respondents are satisfied with the growth trend. According to them, it is increasing gradually. 45 % said no. Comparing the similar market elsewhere, it is growing sometimes very slowly sometimes very fast.

The existing problem could be resolved only when general people understand how market works, analyze the fluctuation of price and take decisions accordingly. They need to understand that keeping the shares may not be the best alternative that they have. More information needs to be provided to potential investors, and what factors they need to consider before investing their money in the share market.

When asked about the things that investors look for to invest in stock market, 35% of respondent said they look for corporate image as the prime factor. 40% of them thought future return is the motivating for to invest in security market. 20% of people thought management team can play great role in company's performance. 5% of people opted for others.

When asked about what you would do if you have some money, 35% of people responded they will invest that money in shares. 45% of them responded they will place that money in bank account of a bank. 20% think that they will invest that money in other sources. People who choose stock investment as better alternative think that they can get advantage of price appreciation of share along with cash dividend and bonus shares. Similarly, they think that they can maintain liquidity as well. People who don't like stock investment defend themselves by saying it are riskier one, they can get the money as interest by placing their money in banks account and there is very little chance of default.

This shows that people are still unaware about stock market. Pace of investor's awareness about stock market is slow. They don't know the advantage that they can get from stock investment. If rightly analyzed, people not only get the advantage of dividend but also get capital gain by price appreciation of shares.

When asked about motivating factor of investment in shares, 20% of people said company's performance is the motivating factor to invest in shares. 62% of people think possibility of price rise is motivating factor, 13% people think that it is liquidity and 5% people support only for experience.

4.4 Presentation and Analysis Secondary Data

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

4.4.1 Monthly Trend Analysis

One of the suitable techniques for analyzing price trend in monthly basis. For this purpose NEPSE index of three years are taken during the different months of year 2006/07 to 2008/09. Tabular as well as graphical measures are considered for resenting and analyzing the data in table -4.1, 4.2 & 4.3 as follows:

Table 4.1

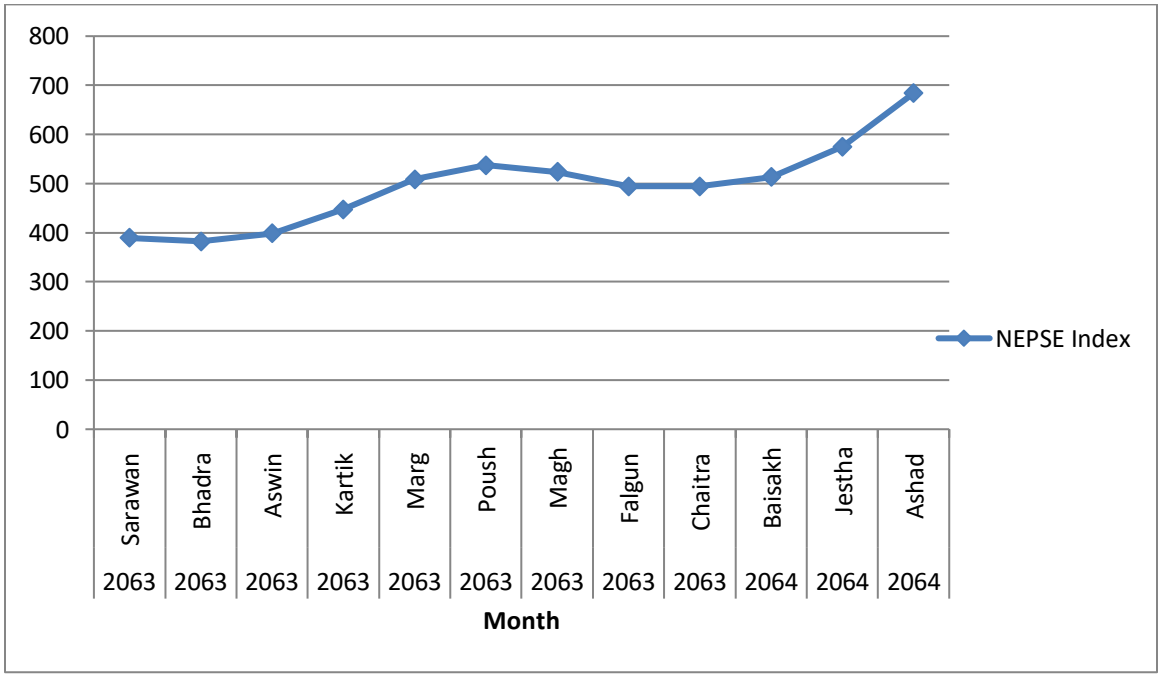
Closing NEPSE Index of different Months for the Year 2063/064 (2006/07)

Year	Months	NEPSE Index
2063	Sarawan	389.23
2063	Bhadra	382.56
2063	Aswin	398.44
2063	Kartik	447.43
2063	Marg	508.58
2063	Poush	537.09
2063	Magh	523.94
2063	Falgun	494.06
2063	Chaitra	494.59
2064	Baisakh	513.45
2064	Jestha	575.04
2064	Ashad	683.95

Source: www.nepalstock.com(Trading Report NEPSE 2006/07

Figure 4.1

Closing NEPSE Index of different Months for the Year 2063/064 (2006/07)



Above table No 4.1 and Figure 4.1 show the NEPSE index from Sharawan to Ashad 2063/64. Taking base month of Sarawan, NEPSE index trend shows the decreasing trend till Aswin. The trend is in increasing from Aswin to Ashad. After Chaitra the NEPSE Index is rapidly high up to Ashad end or 16 July 2007. The stock market opened with NEPSE index 386.83 points at the beginning of the FY 2006/07 and end 683.95 points during the year. It was recorded high of 683.95 on 16 July 2007, and low of 355.60 on 3 August 2006. During the previous year it beat the record of 545.82 set in FY 2000/01.

Table 4.2

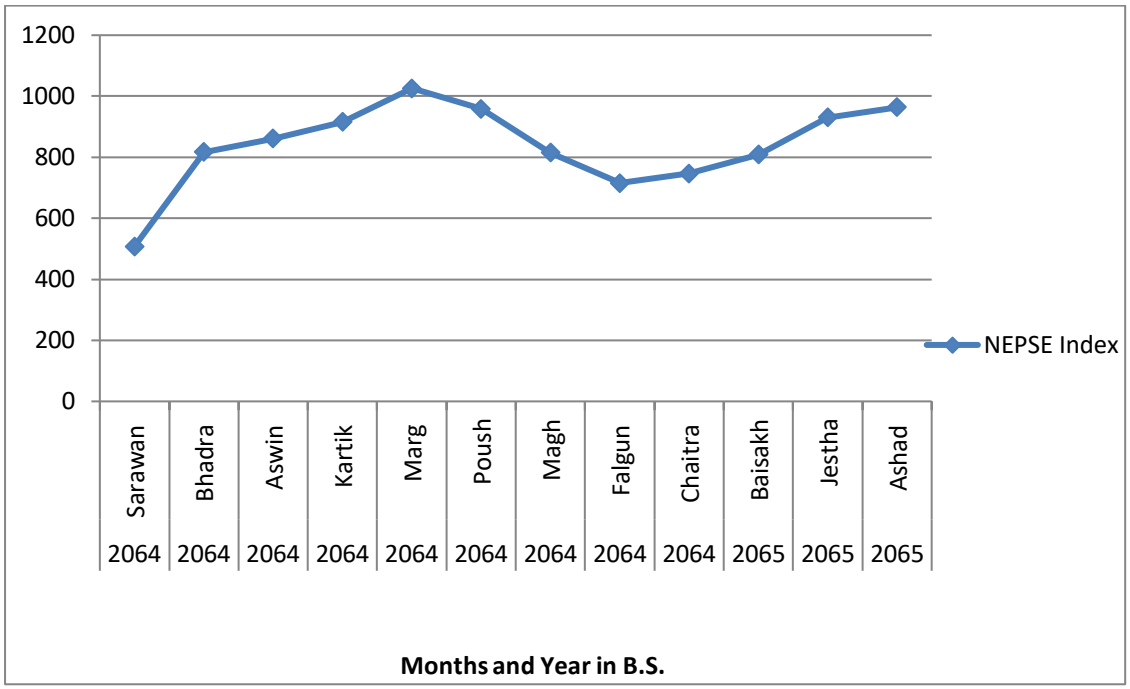
Closing NEPSE Index of different Months for the Year 2064/065 (2007/08)

Year	Months	NEPSE Index
2064	Sarawan	507.96
2064	Bhadra	817.08
2064	Aswin	861.37
2064	Kartik	915.38
2064	Marg	1025.91
2064	Poush	958.91
2064	Magh	814.43
2064	Falgun	714.76
2064	Chaitra	746.69
2065	Baisakh	808.26
2065	Jestha	930.65
2065	Ashad	963.36

Source: www.nepalstock.com(Trading Report NEPSE 2007/08

Figure No. 4.2

Closing NEPSE Index of different Months for the Year 2064/065 (2007/08)



The stock market opened with the NEPSE index of 683.95 points at the beginning of the FY 2007/08 and ended with 963.36 points during the year. NEPSE index is increased by 40.9 percent than previous year. It reached the high of 1064.09 on 17 December 2007 and the low of 677.98on 18 July 2008. Of the NEPSE Index, banking sub-index went up by 181.39 points to 985.65 (which is also the highest point) during the year. The banking sub-index measures the transactions of companies listed under commercial bank group. It touched the lowest point of 759.67 on 31 July August 2007. The twelve-month standard deviation stood at 110.8 in mid-July 2008 compared to 87.4 a year ago, reflecting an increased volatility in the stock market. The sensitive index, unveiled from 1 January 2007, which shows the share price movement of the companies categorized under Class A reached 253.72 point at the end of the fiscal year registering a rise of 44.9 points. It recorded the low of 172.19 on 30 July 2007 and the high of 275.21 on 19 December 2007.

During the period, the trading of equities rose by about 57.60% Percent to Rs.28,600 thousand, while market capitalization and the NEPSE index recoded a sharp rise of 96.59 percent and 40.85 percent respectively. Similarly, market indicators have registered a significant growth in Mid July 2008. However the monthly data has shown a sharp decline in Mid Feb - March 2008. The performance of the primary market was encouraging during the twelve months of the fiscal year compared with the performance in the same period in 2006/07.

The above table and graph shows the NEPSE Index from Sharawan to Ashad 2064/65. Taking base month Shrawan the index of this year was in fluctuation trend. Base in end of FY 2006/07 the NEPSE Index is 683.95 then after in the end of Sarawan or beginning of FY 2007/08, the NEPSE Index is decreasing by 175.99 point which is 507.96. After Sarawan the NEPSE index is rapidly increase till mid December 2007, that point is 1025.91 that is the annually high NEPSE index in the FY 2007/08. After Mid December the NEPSE index is decreasing to Falgun(Mid March 2008) then after go up ward till Ashad end or mid July 2008.

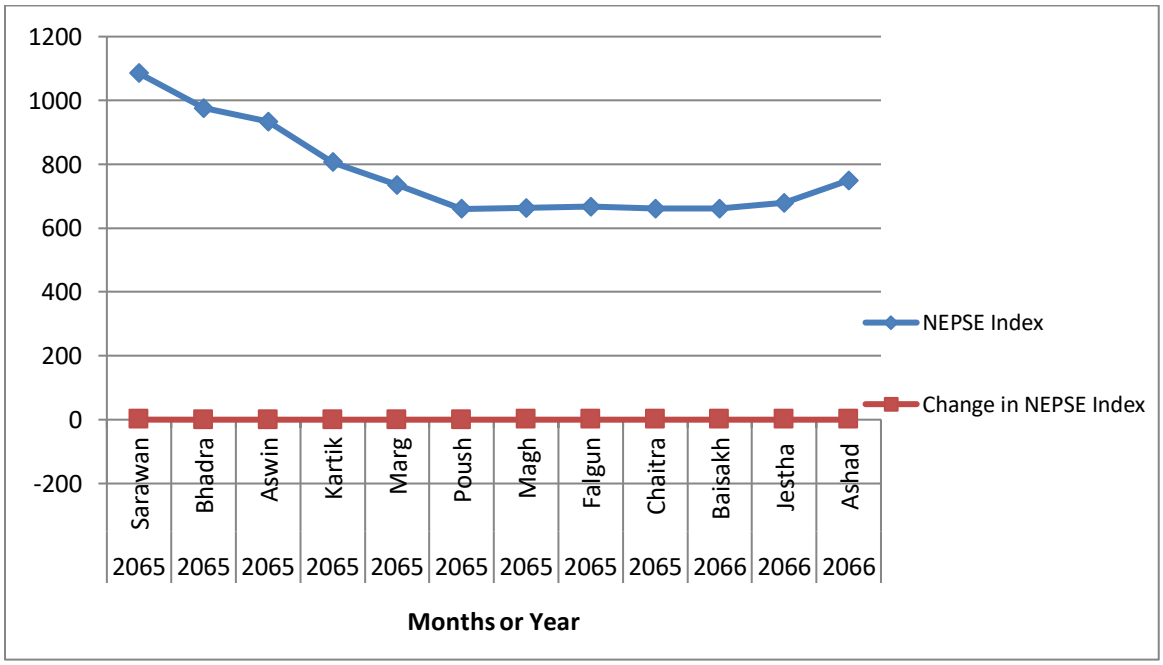
Table 4.3

NEPSE Index (Closing) of different Months For the Year 2065/066 (2008/09)

Fiscal Year	Months	NEPSE Index	Change in NEPSE Index
2065	Sarawan	1084.76	13%
2065	Bhadra	976.07	-10%
2065	Aswin	933.97	-4%
2065	Kartik	806.9	-14%
2065	Marg	734.85	-9%
2065	Poush	659.81	-10%
2065	Magh	663.2	1%
2065	Falgun	667.2	1%
2065	Chaitra	661.27	-1%
2066	Baisakh	660.96	0%
2066	Jestha	678.74	3%
2066	Ashad	749.10	10%

Source: www.nepalstock.com(Trading Report NEPSE 2007/08

Figure No. 4.3
NEPSE INDEX for the Year 2008/2009



The table and figure shows the stock market opened with the NEPSE index of 1084.76 points at the beginning of the FY 2008/09 and ended with 749.10 points during the year. On this F/Y 2008/09 NEPSE index decreased by 29.43 percent than previous year. It reached the high of 1084.76 on Sarawan and the low of 660.96 on Baishak 2066.The signaling factors shows a decreasing trend in the NEPSE Index. (Refer to annex No. III).

4.4.2 Annual Trend Analysis

One of the suitable techniques for analyzing price trend is annual trend analysis. For this propose NEPSE index of fifteen years are taken during the different years from 1994/95 to 2008/2009. Tabular as well as graphical measures are considered for presenting and analyzing the data in table 4.4 as follows:

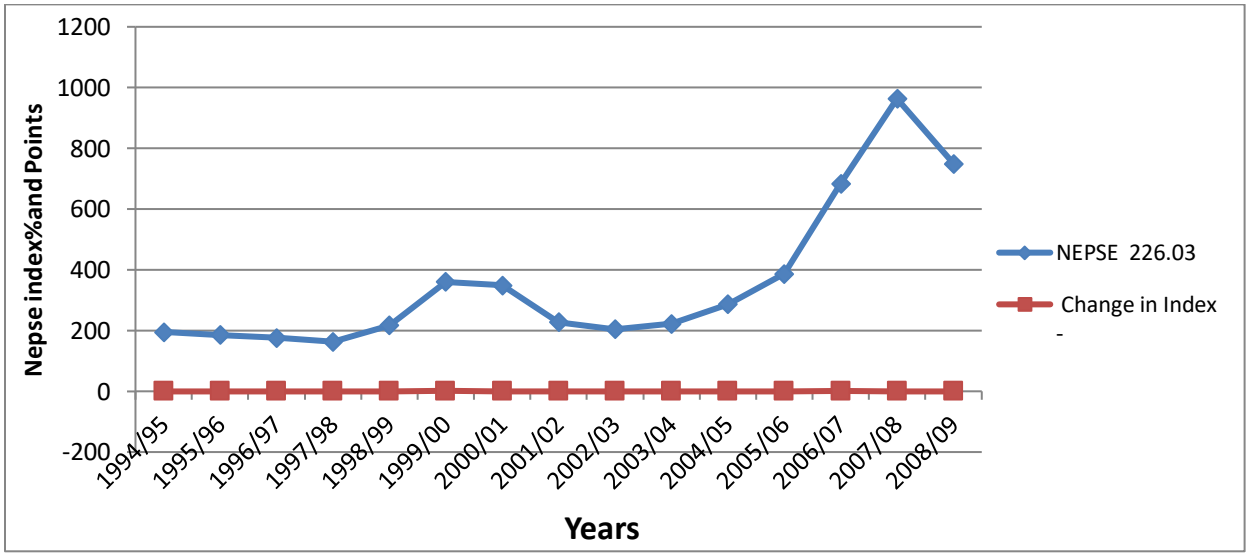
Table 4.4

Closing NEPSE Index of different Year (1993/94 to 2008/09)

Year	NEPSE	Change in Index
1993/94	226.03	-
1994/95	195.48	-13.52%
1995/96	185.61	-5.05%
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	204.86	-9.97%
2003/04	222.04	8.39%
2004/05	286.67	29.11%
2005/06	386.67	34.93%
2006/07	683.95	127.71%
2007/08	963.36	40.85%
2008/09	749.10	-22.24%

Source: www.nepalstock.com (Trading NEPSE Report)

Figure 4.4
Yearly NEPSE Index



Due to whopping increment in the share prices of banks, financial institutions, Hydropower companies and development banks, NEPSE index almost double over the year. Restoration of peace, improvement in listed companies' financial performance and most importantly the Center Bank's direction dated 26 March 2007, to double paid up capital for banks and financial institution, contributed to remarkable increment in share prices and subsequently the stock market indices.

The Sensitive index, unveiled from 1 January 2007 which shows the price movement of the companies categorized under Class A reached 175.08 point(which is also a highest point sensitive index touched at the end of year registering a rise of 75.08 point. It was recorded low to 98.21 on 14 September, 2006

NEPSE opened it's trading on 13th January 1994 through licensed members. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Dev Corporation, license members the shareholder of NEPSE trading (*NEPSE, 2002/03:1*). In the beginning of the NEPSE trading or in 1993/94 the NEPSE point was 226.03 which had highest NEPSE index up to 1998/99.

The above table and figure shows that price trend during the different fiscal year are not constant Taking base year 1996/97, it showed that the price trend from the fiscal year 1996/97 is in decreasing trend. From 1997/98 to 1999/2000 it is in increasing trend and from 2000/01 to 2002/03 it is decreasing trend and thereafter it is increasing trend. The table and graph shows that there are ups and down in NEPSE index or in price trend in different years from the fiscal year 1999/00 to 2008/09. The NEPSE index of 1084.76 points at the beginning of the FY 2008/09 and ended with 749.10 points during the year. On F/Y 2008/09 NEPSE index is comparatively decreased by 29.43 percent than previous year 2007/08.

4.4.3 Number of Companies De-listed from the Stock Exchange

According to stock Exchange Act, 1983 there is provision of delisting the companies which are notable to disclose the documents regarding annual general meeting, audit report, and unable to pay the annual fees of listing in NEPSE up to two year can be deleted form NEPSE. Due to these provisions NEPSE has deleted 25 companies from its lies in the fiscal year 2001/002 that's way the number of listed companies 2001/002 was only 96 from 115 in the year 2000/01. NEPSE has started such type of activities for the fist time in its history. The names of companies that are deleted from NEPSE are given in table -4.5.

The number of listed companies in the FY 2007/08 reached 148 with the listing of 13 new companies. However, the number of listed companies at the fiscal year came down to 142 with the delisting of five companies and merger of two. De-listed companies have been either already closed or have not held annual general meeting or have not audited their results for more than two years. Altogether 0.17 million unit shares amounting Rs.174.91 million have been de-listed during the year. At the FY 2006/07 there were 135 listed companies.

4.4.4 Listed Companies in Stock Exchange

Table 4.5

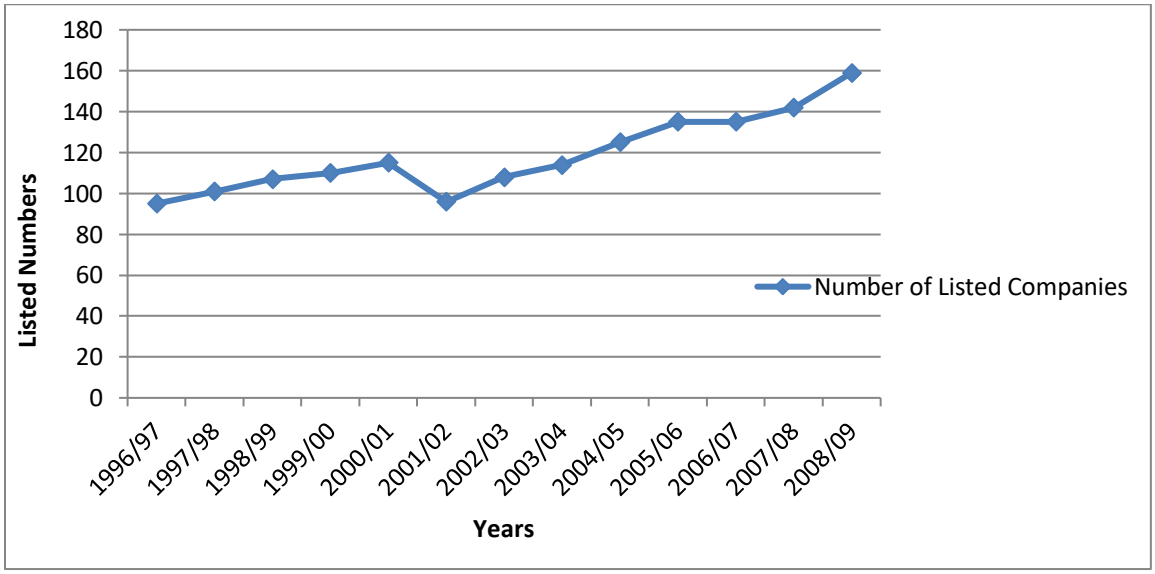
Listed Companies in Stock Exchange

Year	Number of Listed Companies	(Percentage) increasing/Decreasing
1996/97	95	6.74%
1997/98	101	6.31%
1998/99	107	5.94%
1999/00	110	2.8%
2000/01	115	4.55%
2001/02	96	-16.52%
2002/03	108	12.5%
2003/04	114	5.56%
2004/05	125	9.65%
2005/06	135	8%
2006/07	135	0%
2007/08	142	5.19%
2008/09	159	11.97%

Source: NEPSE Annual Report of Different F/Y

Figure 4.5

Listed Companies in NEPSE



The table and figure shows the number if listed companies in Nepal stock Exchange (NEPSE) Ltd. from the fiscal year 1996/97 to 2007/2008. The table clearly shoes that the no. of listed companies are increasing in every fiscal year except 2001/02 because of the no closure of necessary information correctly and timely as per Nepal Stock Exchange rules.

4.4.5 Volume of Stock Traded in Secondary Market

Even though the number of listed companies is in increasing trend, the no. of transacting companies is not in satisfactory increasing trend. Table 4.6 shows that the volume of stock traded is in decreasing trend in some years and it is increasing in some extent. Similarly volume of transacting companies is in negligible increasing trend.

Table 4.6

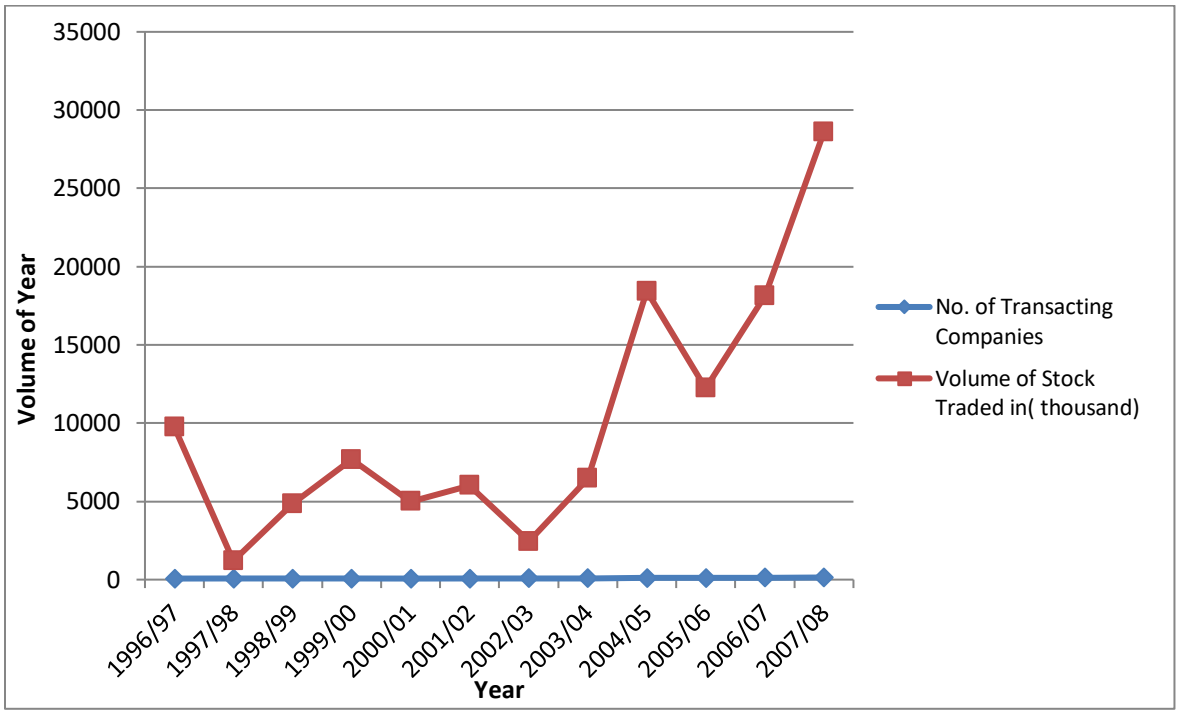
No of Transacted Companies Volume of Stock Traded and Price

Year	No. of Transacting Companies	Volume of Stock Traded in(thousand)
1996/97	67	9743
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	18434
2005/06	110	12222
2006/07	116	18147
2007/08	136	28600

Source: www.nepalstock.com & NEPSE Annual Report of different fiscal Years.

Figure 4.6

Volume of Stock Trade



At the ending of FY 1996/97, number of transacting companies is 67 and volume of stock traded in 9743 ('000). Based in the fiscal year 1996/97, number of transacting companies is constant situation up to FY 2001/02 but volume of stock traded is rapidly decline up to 2003/04 than 1996/97. Number of transacting companies is increasing trend from FY 2001/02 to 2007/08 by 11, 12, 10, 8, 6 & 20 for every one year different respectively. Volume of stock traded is increasing trend from FY 2006/07. In the present situation number of transacting companies and volume of stock traded is satisfactory in security market in Nepal.

4.4.6 Turnover, Market Capitalization & Paid Up Value

i) Turnover Value of Listed Companies (2064/65)/ (16 July 2007 to 15 July 2008)

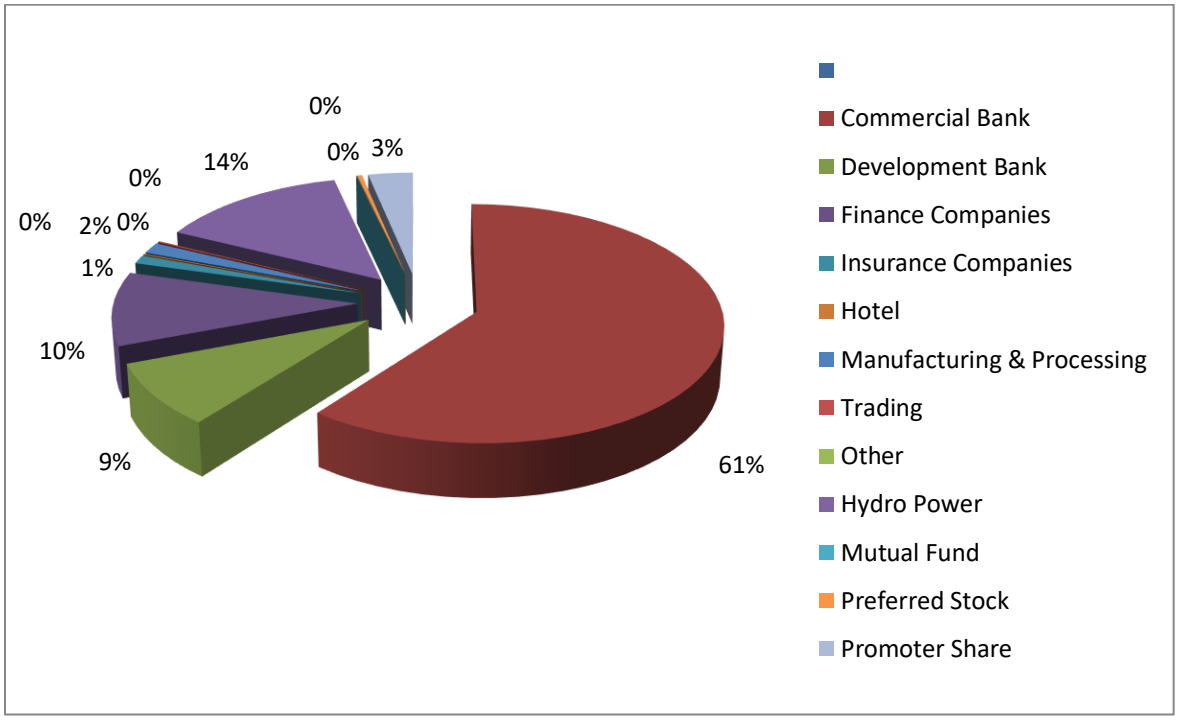
Table 4.7

Turnover Value of Listed Companies (2064/65)/ (16 July 2007 to 15 July 2008)

S.N	Sector	Traded Amount (Rs. in Million	Percentage (%)
1	Commercial Bank	13822.14	60.57
2	Development Bank	1981.05	8.68
3	Finance Companies	2307.53	10.11
4	Insurance Companies	264.86	1.16
5	Hotel	27.67	0.12
6	Manufacturing & Processing	343.44	1.50
7	Trading	33.65	0.15
8	Other	0.29	0.00
9	Hydro Power	3199.94	14.02
10	Mutual Fund	6.09	0.03
11	Preferred Stock	81.15	0.36
12	Promoter Share	752.95	3.30
	Total Turnover	**22,820.76**	**100**

Source: NEPSE Annual Report 2064/65

Figure No. 4.7
Turnover Value of Listed Companies (2064/65)/ (16 July 2007 to 15 July 2008)



The paid up value of listed securities in the end of fiscal year 2007/08 is Rs.29465.00 million. The turnover value or traded value of listed companies of fiscal year 2007/08 is Rs.22820.76 million. The commercial banks have the highest traded value in percentage 61% of all listed companies. There are some similarities in percentage of Hydro Power, Finance Companies & Development Bank in Nepalese Securities Market in 14%, 10% & 9% respectively. The lowest traded value of other companies Rs.0.29 million. It showed that the performance of commercial bank are better than others companies.

ii) Market Capitalization of Listed Companies (2064/65)

Table 4.8

Market Capitalization (16 July 2007 to 15 July 2008)

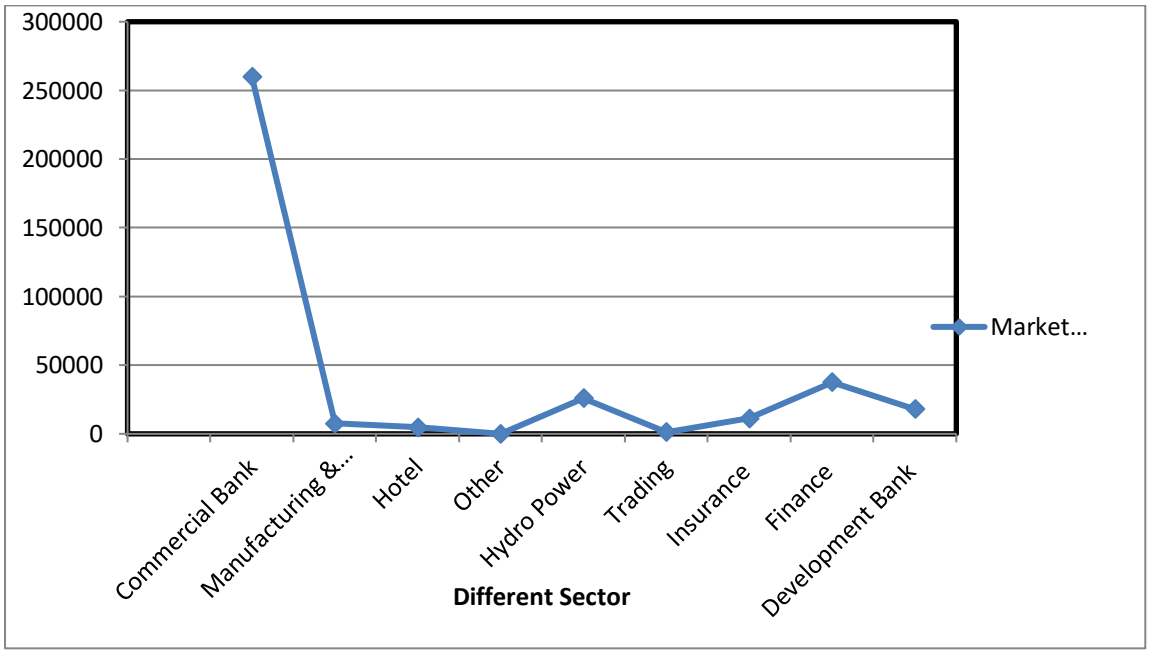
(Rs. in Million)

S.N	Sector	Market Capitalization	Percentage (%)
1	Commercial Bank	259955.25	71%
2	Manufacturing & Processing	7516.87	2%
3	Hotel	4809.65	1%
4	Other	18.67	0%
5	Hydro Power	25863.26	7%
6	Trading	1170.23	0%
7	Insurance	11241.4	3%
8	Finance	37674.43	10%
9	Development Bank	17997.77	5%
	Total Amount	**366247.53**	**100%**

Source: NEPSE Annual Report 2064/65

Figure No. 4.8

Market Capitalization of Securities



The above table & graph shows the market capitalization of listed shares almost double to Rs 366,247.53 million during the fiscal year 2007/08. The Central bank's directive to increase the capital base of banks and financial institution has a major impact on the market value of listed shares. Most of the companies open to issue bonus and right shares to increase their capital base, which attracted lots of investors. In terms of market capitalization of the commercial bank sector again dominated the stock market. The market capitalization of the commercial banking group touched Rs 259,955.25 million in this year, which is 71 percent of the total market capitalization. Hydropower companies, finance companies, insurance companies, development banks, manufacturing and processing, hotel occupied 7 percent, 10 percent, 3 percent, 5 percent, 2 percent and 1 percent of the total market capitalization whereas other and trading each occupied less than 1 percent.

Table 4.9

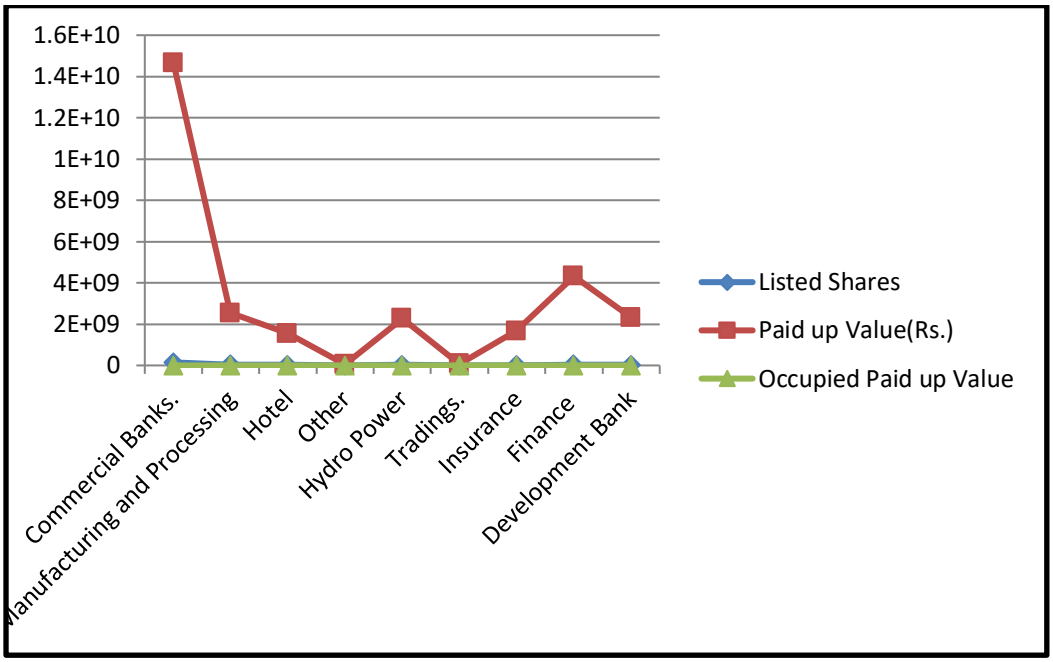
Paid up Value of Listed Securities F/Y 2007/08

Sectors	**Listed Shares**	**Paid up Value(Rs.)**	**Occupied Paid up Value**
Commercial Banks.	146672751	14667275100	50%
Manufacturing and Processing	43206235	2539735950	9%
Hotel	23356270	1552880170	5%
Other	491285	49128500	0%
Hydro Power	22686577	2268657700	8%
Tradings.	830177	78467700	0%
Insurance	16696983	1669698300	6%
Finance	43172762	4317276200	15%
Development Bank	24018802	2322680200	8%
Total Amount	**321131842**	**29465799820**	**100%**

Source: NEPSE Annual Report 2064/65

Figure 4.9

Paid up Value of Listed Companies



During the year, a total and figure show, million units of ordinary shares amounting Rs. 749.40 million, 38.45 million unities of rights shares amounting Rs.384.56 million, 18.69 million units bonus shares amounting Rs.1869.73 million were listed for trading. Without government and corporate bonds reached 321.13 million listed securities, units in the F/Y 2007/08. This is an increase of 31.9 percent, from 243.50 million units in the previous year. The paid up value of listed shares reached Rs.29465.79 million during the year which rose by 35.50 percent over the previous year. The total listed shares 321.13 million in F/Y 2007/08.

4.4.7 Sensitive Indicators of Securities Market

Table 4.10

Securities Markets Indicators

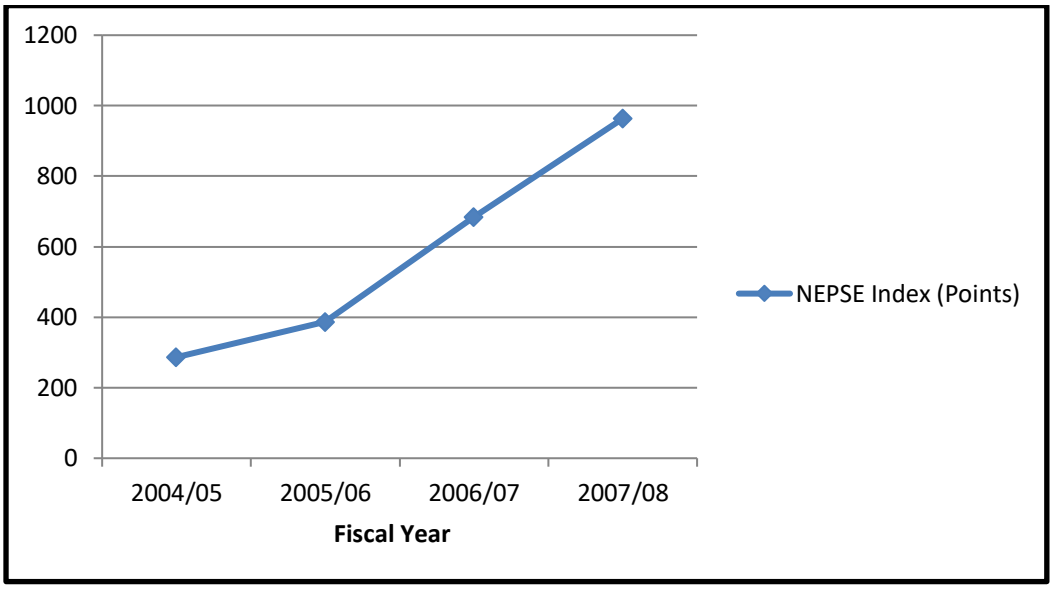
Rs. in Million

Market Indicator	Fiscal Year			
	2004/05	2005/06	2006/07	2007/08
Number of Public Issue	14	29	34	64
Amount of Public Issue	1626.80	2443.30	2295.50	10668.20
Number of Listed Companies	125	135	135	142
Paid up Value of Listed Companies	16771.80	19958.00	21798.80	29465.00
Number of Listed Securities (,000)	194673.00	226540.00	243504.00	321131.00
Turnover	4507.70	3451.40	8360.10	22820.76
Market Day	236	228	232	235
No of Traded Companies	102	110	116	136
Number of Trade Shares(,000)	18433.55	12221.93	18147.25	28600.00
Number of Transactions (,000)	106246	97374	120510	150800
Market Capitalization	61365.90	96763.70	186301.30	366247.56
% of Turnover on Market Capitalization	7.35	3.57	4.48	6.23
% of Market Capitalization on Nominal GDP at market Price	12.06	16.03	29.8	44.3
NEPSE Index (Points)	286.67	386.83	683.95	963.36

Sources Economic Surveys, 2006/07, 2007/08 and trading report of NEPSE 2006/07, 2007/08

Figure 4.10

NEPSE Index Indicator



A total 64 public Limited Companies raised funds amounting to Rs.10,668.20 million by floating securities in the fiscal year 2007/08. In the fiscal year 2006/07, a total of 34 Public Limited companies have raised funds amounting Rs.2295.5 million.

In the fiscal year 2007/08, the total number of listed companies remained 142 as equal to 135 listed companies in the fiscal year 2006/07 due to the listing of additional 12 companies and delisting of 12 listed companies. In the fiscal year 2007/08, the turnover increased by 173.45 percent to be Rs.22,820.76 million as compared to turnover of Rs. 8,360.10 million in fiscal year 2006/07.

With the steep increase in market capitalization, its ratio to GDP went up to 44.3 percent this year. It is a notable increment over previous year's 29.8 percent level. In term of market capitalization the commercial bank sector dominated the stock market. The NEPSE index for different FY 2004/05, 2005/06, 2006/07, 2007/08 had 286.67, 386.83, 683.95, and 963.36 respectively. There was a decrease in the

NEPSE index from 963.36 in the year 2007/08 to 749.10 in the year 2008/09. (Refer to table no.4.4 for the decreasing NEPSE index point). We can analyze that the market price depends upon the vision of the newly formed government toward the economy sector, especially regarding the investments in shares.

4.4.8 Closing Market Price of Selected Companies

i) Closing Market Prices of Selected Commercial Banks

The closing market price of the selected banks i.e, Himalayan Bank Limited and Nabil Bank Limited are presented in the tabular and graphical form as follows:

Table 4.11

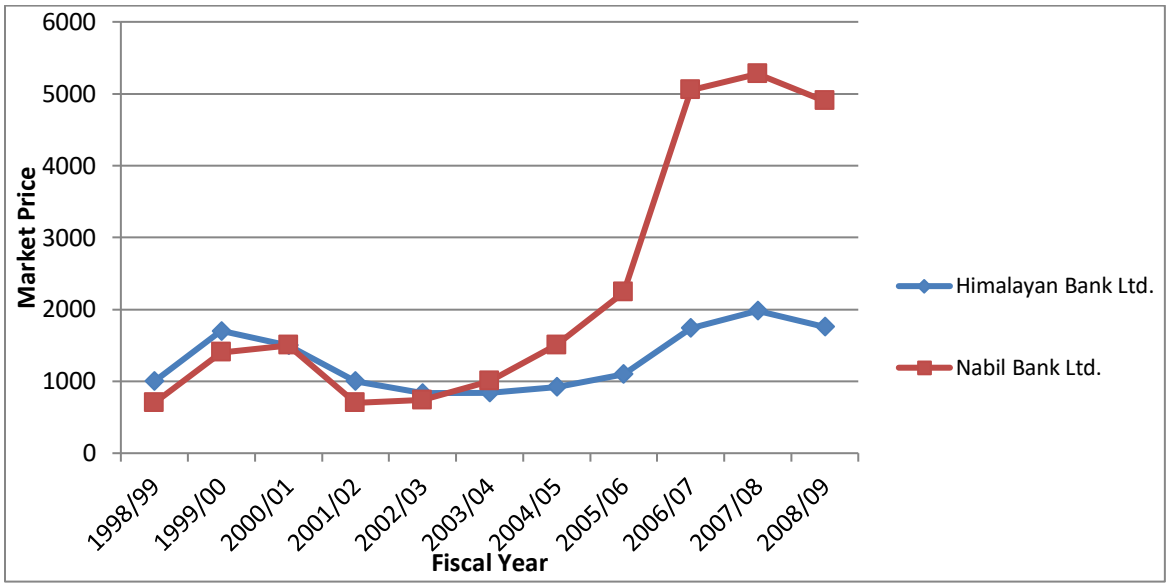
Closing Market Value of Selected Banks

Fiscal Year	Himalayan Bank Ltd.	Nabil Bank Ltd.
1998/99	1000	700
1999/00	1700	1400
2000/01	1500	1500
2001/02	1000	700
2002/03	836	740
2003/04	840	1000
2004/05	920	1505
2005/06	1100	2240
2006/07	1740	5050
2007/08	1980	5275
2008/09	1760	4899

Source: Annual Report of Himalayan Bank & Nabil Bank Ltd/www.himalayanbank.com, www.nabilbank.com

Figure No. 4.11

Closing Market Value of Selected Banks



From the above table we can conclude that the market price of both the banks was in an increasing trend from the fiscal year 1998/99 to 2000/01. The market price of the Himalayan Bank Limited decreased slightly in the fiscal year 2001/02 to 2004/05 , after that there was an increasing trend in both the banks' market price fiscal year 2004/05 to 2007/08. In the fiscal year 2002/03 the lowest price of Himalayan Bank was Rs.836 similarly in the fiscal year 2001/02 the lowest price of the Nabil Bank was Rs.740. There was an increasing trend in the market value of both the banks in the fiscal year 2002/03 to 2007/08 but in the fiscal year 2008/09 there was a decrease in the market value of both the banks.

ii) Closing Market Price of Selected Finance Companies

The closing market prices of the selected company's i.e, National Finance & Kathmandu Finance Company Ltd. are presented in the tabular & graphical form as follows:

Table 4.12

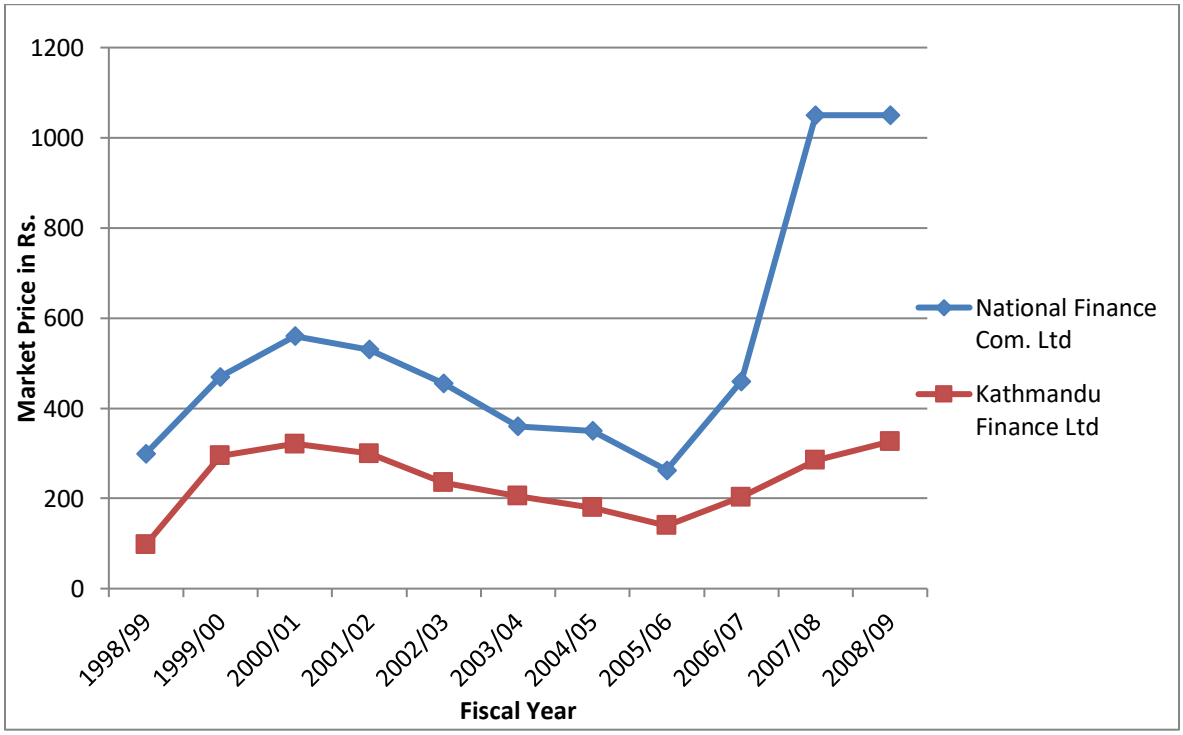
Closing Market Price of Selected Finance Companies

Fiscal Year	National Finance Com. Ltd	Kathmandu Finance Ltd
1998/99	300	98
1999/00	470	295
2000/01	560	321
2001/02	530	300
2002/03	455	235
2003/04	360	205
2004/05	350	180
2005/06	263	140
2006/07	460	203
2007/08	1050	285
2008/09	1050	326

Source: Annual Report of National Finance & Kathmandu Finance Ltd.

Figure 4.12

Market Price of Selected Companies



From the above table and figure show, we can concluded that the market prices of both finance companies were in an increasing trend from the fiscal year 1998/99 to 2000/01 after that there was a slight decrease in the market price of both companies up to 2005/06. In fiscal year 2006/07, 2007/08 & 2008/09 both the finance companies had an increasing trend in the market price.

iii) Closing Market Price of Selected Insurance Companies

The closing market prices of the selected insurance Companies i.e, Everest Insurance & Sagarmatha Insurance Company Ltd. are presented in the tabular and graphical form as follows:

Table 4.13

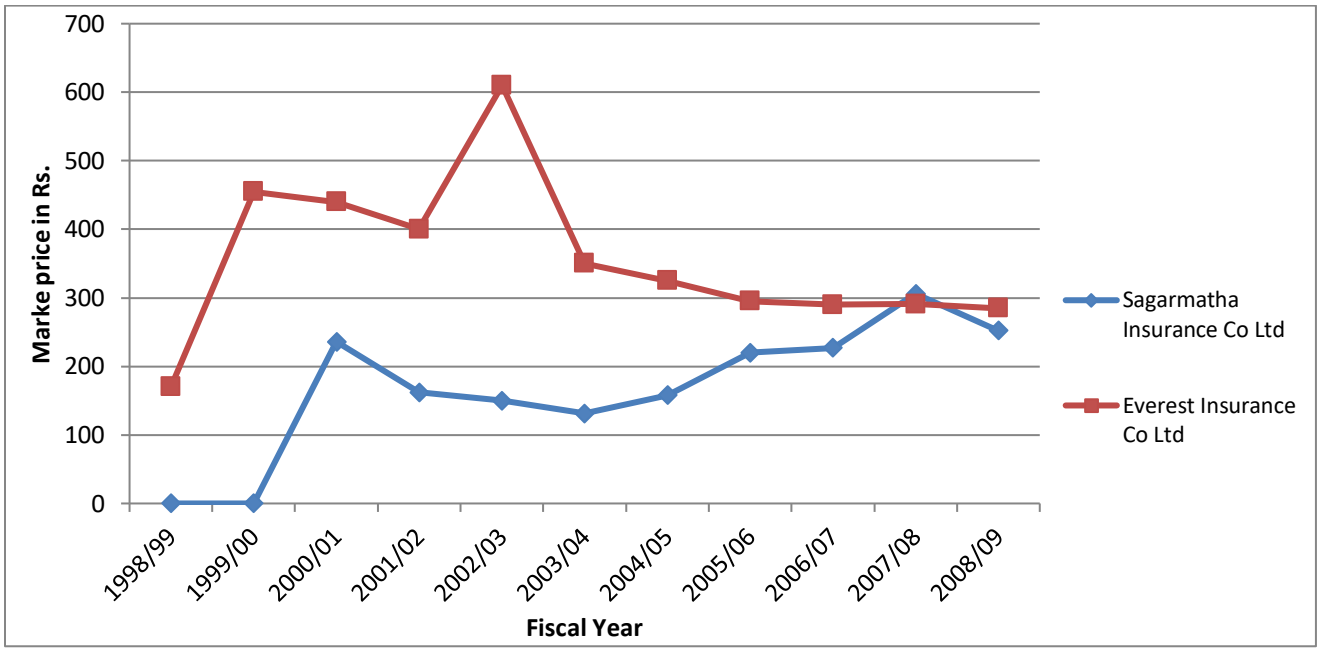
Closing Market Value of Selected Insurance Companies

Fiscal Year	Sagarmatha Insurance Co Ltd	Everest Insurance Co Ltd
1998/99	0	170
1999/00	0	455
2000/01	236	440
2001/02	162	400
2002/03	150	610
2003/04	131	350
2004/05	158	325
2005/06	220	295
2006/07	227	290
2007/08	306	291
2008/09	252	285

Source Annual Report of Sagarmatha & Everest Insurance Co. Ltd.

Figure No. 4.13

Market Price of Selected Insurance Co.



The above table & diagram shows the market value of Everest Insurance Company Ltd. was highly fluctuated from the fiscal year 1998/99 to 2008/09 in increasing and decreasing trend.

Sagarmatha Insurance Company Ltd. had not listed the shares up to 1999/00. There was a high market value i.e Rs.236 in the fiscal year 2000/01 then after decreasing trend upto 2006/07 i.e Rs.227. In fiscal year 2007/08 the market price is in increasing trend i.e Rs.306. The Insurance Companies could not play the vital role in NEPSE index.

IV) Top Ten Companies on the Basis of Traded Amount

Table 4.14

Top Ten Companies on the Basis of Traded Amount(Mid July 2007 to Mid July 2008

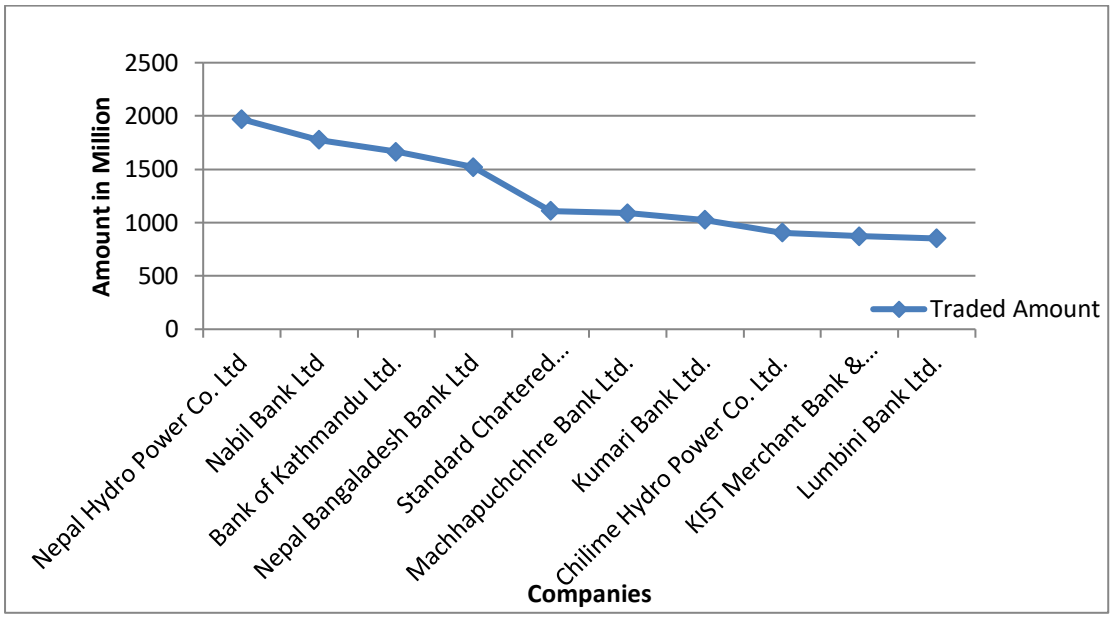
Rs in Million

S.N	Name of the Companies	Traded Amount
1	Nepal Hydro Power Co. Ltd	1969.85
2	Nabil Bank Ltd	1777.02
3	Bank of Kathmandu Ltd.	1663.84
4	Nepal Bangaladesh Bank Ltd	1519.69
5	Standard Chartered Bank(Nepal) Ltd.	1110.8
6	Machhapuchchhre Bank Ltd.	1089.68
7	Kumari Bank Ltd.	1024.18
8	Chilime Hydro Power Co. Ltd.	905.43
9	KIST Merchant Bank & Finance Ltd.	871.03
10	Lumbini Bank Ltd.	851.33

Source: Annual Report of NEPSE(2007/08)

Figure No. 4.14

Trade Amount of Top Ten Companies



The above table No 4.14 and Figure No 4.14 shows that Nepal Hydro Power Company Ltd. has higher trade amount in the securities market. Commercial banks has occupies the higher value in totality. But in individual analysis Nepal Hydro Power Cop. Ltd. occupies the higher trade value Rs.1969.85 million. In the beginning of fiscal year 2006/07 Hydro Power Companies developed the good hydro power project in different prospects, so the investors invested in buying and selling of shares of the Hydro power company as it had the highest market price as well as the highest trade in shares. This diagram shows that investors invest in the most potential company.

V) Top Ten Companies on the Basis of Share Traded

Table 4.15

Top Ten Companies on the Basis of Share Traded (Mid July 2007 to Mid July 2008)

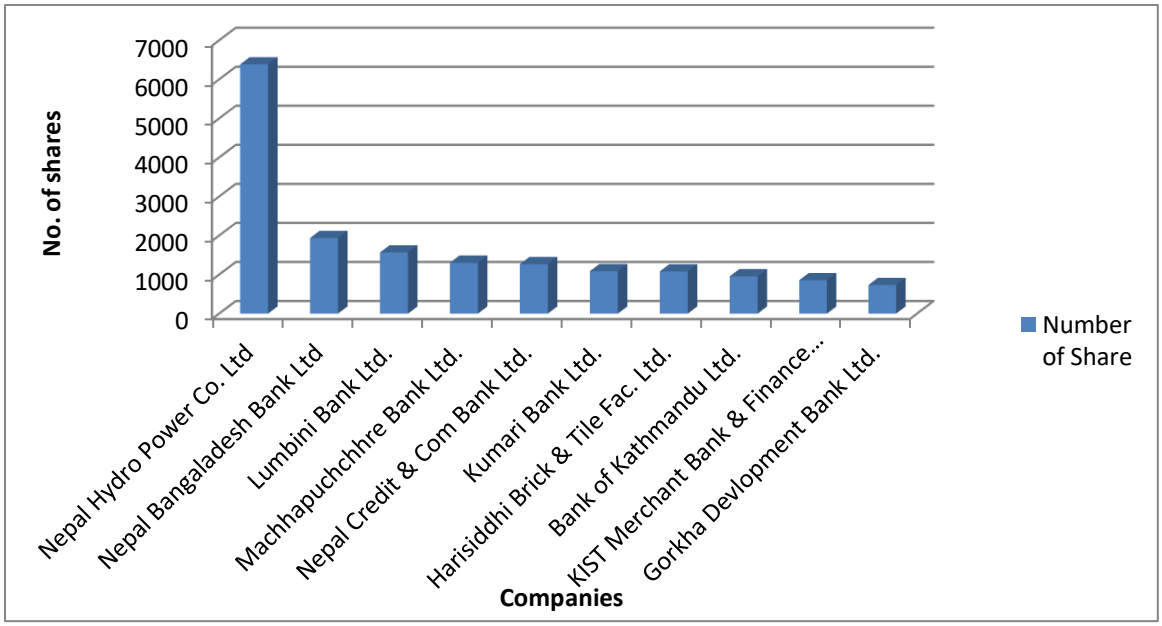
Rs. in '000

S.N	Name of the Companies	Number of Share
1	Nepal Hydro Power Co. Ltd	6384
2	Nepal Bangaladesh Bank Ltd	1936
3	Lumbini Bank Ltd.	1567
4	Machhapuchchhre Bank Ltd.	1304
5	Nepal Credit & Com Bank Ltd.	1269
6	Kumari Bank Ltd.	1087
7	Harisiddhi Brick & Tile Fac. Ltd.	1082
8	Bank of Kathmandu Ltd.	956
9	KIST Merchant Bank & Finance Ltd.	855
10	Gorkha Devlopment Bank Ltd.	733

Source: Annual NEPSE Report

Figure No. 4.15

Top Ten Companies on the Basis of Share Traded



The above table and figure shows that the similarity of hydro power companies value in Table 4.14. It shows that Nepal Hydro Power Cop. Ltd has transacted in medium market price but in higher quantities 6384 ('000) thousand. We can analyze that the top ten companies traded shares in secondary market and traded amount is similar or occupies top ten then those companies performance is cooperatively positive. Those companies who have higher traded shares but not occupied the top ten positions in traded amount their performance is not considered to be good for investors, for example Harisiddhi Brick & Tile Fac. Ltd. occupies 1082 thousand shares but not occupied a top ten position (Refer to the table 4.14). Another thing is that companies who occupies top ten positions (in traded amount in table 4.14) but not seen in table 4.15 for e.g as Nabil Bank Ltd, Standard Chartered Bank and Chilime Hydro Power Cop. Ltd's performance is positive.

Table 4.16

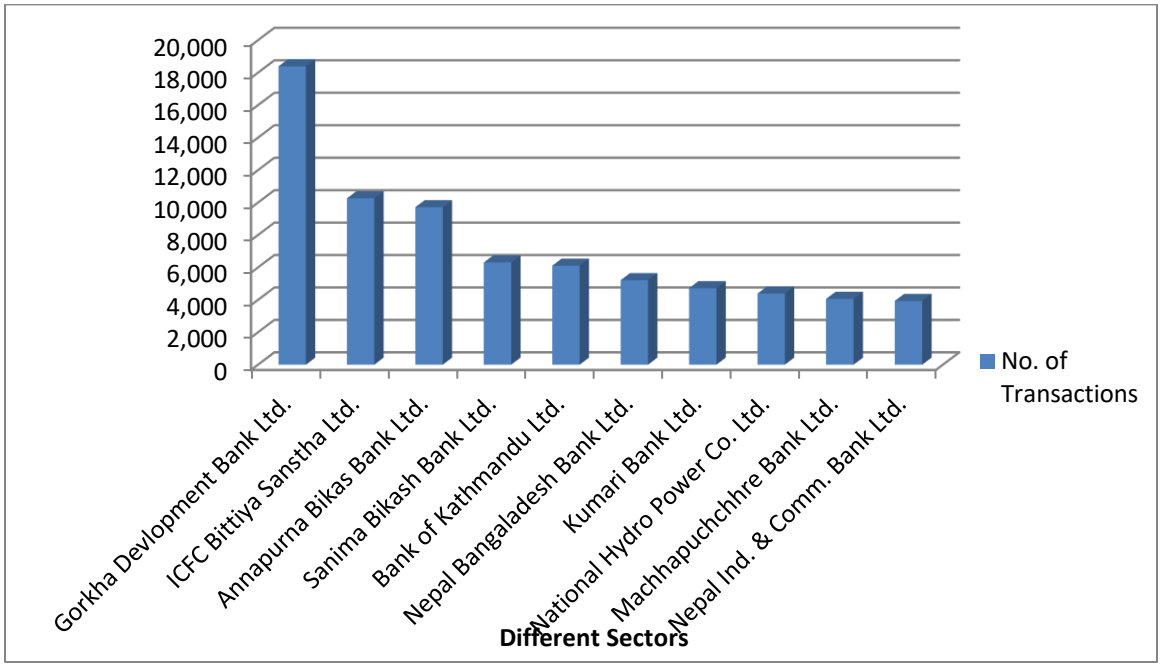
Vi Top Ten Companies on the Basis of Number of Transactions (Mid July 2007 to Mid July 2008)

S.N	Name of the Companies	No. of Transactions
1	Gorkha Devlopment Bank Ltd.	18,390
2	ICFC Bittiya Sanstha Ltd.	10,263
3	Annapurna Bikas Bank Ltd.	9,718
4	Sanima Bikash Bank Ltd.	6,305
5	Bank of Kathmandu Ltd.	6,106
6	Nepal Bangaladesh Bank Ltd.	5,216
7	Kumari Bank Ltd.	4,717
8	National Hydro Power Co. Ltd.	4,387
9	Machhapuchchhre Bank Ltd.	4,061
10	Nepal Ind. & Comm. Bank Ltd.	3,934

Source: Annual NEPSE Report

Figure No. 4.16

Top Ten Companies on the Basis of Number of Transactions



The table and figure shows that the number of transactions of top ten companies Gorkha Development Bank, occupied number 18390, but number of shares transacted was 733,000 (in table 4.15). 5th position of Bank of Kathmandu, 6th position Nepal Bangladesh Bank, 9th position of Machhapuchhare Bank Ltd, transacted 956,000, 1,936,000, & 1,304,000 shares respectively in secondary market. We can analyze that the company in the top ten have had a lower transaction than compared to banks who have had a lower ranking position in the top ten but have had a higher number of share transacted.

Table 4.17

Top Ten Companies on the Basis of Market Capitalization (Mid July 2007 to Mid July 2008)

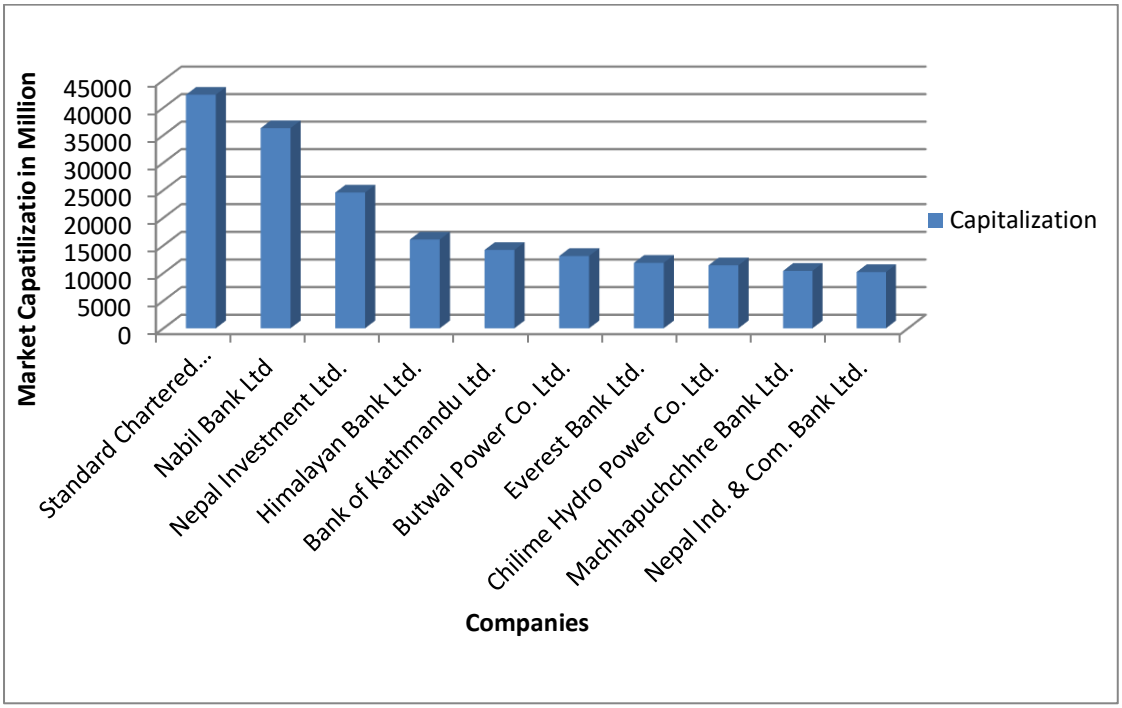
Rs in Million

S.N	Name of the Companies	Capitalization
1	Standard Chartered Bank(Nepal) Ltd.	42337.95
2	Nabil Bank Ltd	36259.98
3	Nepal Investment Ltd.	24564.54
4	Himalayan Bank Ltd.	16054.04
5	Bank of Kathmandu Ltd.	14173.82
6	Butwal Power Co. Ltd.	13080.91
7	Everest Bank Ltd.	11838.96
8	Chilime Hydro Power Co. Ltd.	11396.35
9	Machhapuchchhre Bank Ltd.	10393.89
10	Nepal Ind. & Com. Bank Ltd.	10169.28

Source: Annual NEPSE Report

Figure No.4.17

Top Ten Companies on the Basis of Market Capitalization (Mid July 2007 to Mid July 2008)



The above table and figure shows that the Standard Chartered Bank (Nepal) Ltd. and Nabil Bank had minimum number of transactions, minimum number of shares transacted in secondary market but holds the 1st and 2nd position of Market Capitalization because the market value of the share is high. Similarly Himalayan Bank ,Butwal Power Company, Everest Bank Ltd. hold top ten market capitalization with top ten minimum number of transacted & minimum numbers of shares. Nepal Investment Bank, , Bank of Kathmandu, Chilime Hydro Power Com. Ltd, Machhapuchhare Bank, Nepal Indu. & Commercial Bank hold the maximum number of transaction & their shares transacted, hold the top ten positions in market capitalization.

4.4.9 Performance of Sample Companies

Table 4.18

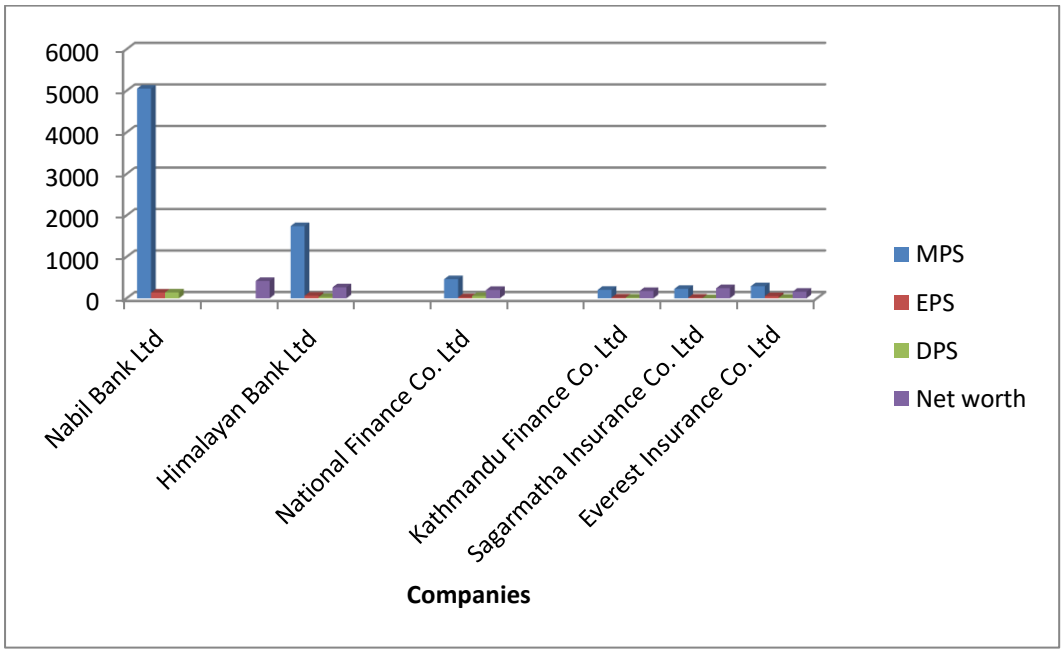
Performance of Sample Companies (Fiscal Year 2006/07)

S. N	Name of the Companies	MPS	EPS	DPS	Net worth
1	Nabil Bank Ltd	5050.00	137.08	140.00	418.00
2	Himalayan Bank Ltd	1740.00	60.66	30.00	264.74
3	National Finance Co. Ltd	460.00	25.36	55.00	199.89
4	Kathmandu Finance Co. Ltd	203.00	20.03	15.00	175.30
5	Sagarmatha Insurance Co. Ltd	227.00	14.71	0.00	242.89
6	Everest Insurance Co. Ltd	290.00	50.00	12.50	158.20

Sources: Annual Report and website

Figure No. 4.18

Performance of Sample Companies (Fiscal Year 2006/07



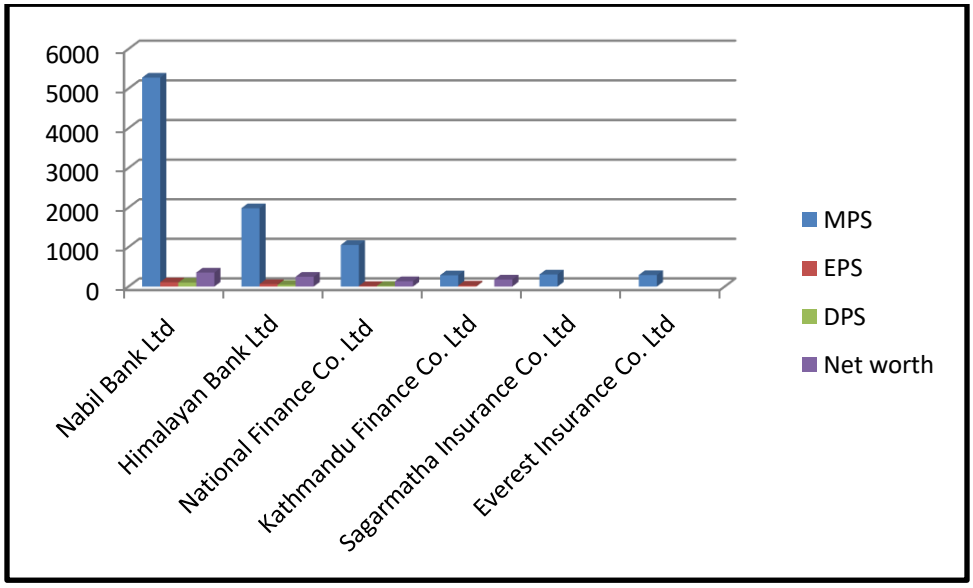
the above table and figure shows the different companies performance on the basis of market price, earning per share, and dividend per shares and companies net worth. Those companies whose net worth, EPS and DPS are comparatively high than those companies market price are higher than other companies. So, we can say that market price depends upon EPS, DPS and net worth. Nabil Bank, Himalayan Bank Ltd has the highest net worth, EPS and DPS directly affects the market price. In the other hand National Finance, Kathmandu Finance, Sagarmatha Insurance, Everest Insurance has lowest net worth, EPS and DPS that does not affect the investors positively.

Table 4.19
Companies Performance Analysis (Fiscal Year 2007/08)

S. N	Name of the Companies	MPS	EPS	DPS	Net worth
1	Nabil Bank Ltd	5275.00	108.31	100.00	354.00
2	Himalayan Bank Ltd	1980.00	62.74	45.00	247.9
3	National Finance Co. Ltd	1050.00	14.62	16.00	136.03
4	Kathmandu Finance Co. Ltd	285.00	25.57	-	178.02
5	Sagarmatha Insurance Co. Ltd	306.00	**	**	
6	Everest Insurance Co. Ltd	291.00	**	**	

** *Annual General Meeting not called*

Figure 4 .19
Companies Performance Analysis (Fiscal Year 2007/08)



The above table and figure shows the different companies performance on the basis of market price, earning per share, and dividend per shares and companies net worth in fiscal year 2007/08. Those companies whose net worth, EPS and DPS are comparatively higher, that companies market price also higher than other companies. So, we can say that market price depend upon EPS, DPS and net worth. Nabil Bank, Himalayan Bank Ltd has highest net worth, EPS and DPS, that

directly affected in market price. In the other hand Kathmandu Finance has lowest net worth, EPS and DPS and Sagarmatha Insurance, Everest Insurance Company has not declared the Annual General Meeting in time and not declared the EPS and DPS for investors. Such types of cases directly or indirectly affect the investors' attitude and market price.

4.4.10 Correlation Analysis of Selected Companies

A) Correlation between EPS and DPS

The correlation between EPS & DPS of the selected companies which are as follows:-

Table 4.20

Correlation between EPS and DPS of Himalayan Bank Ltd.

Fiscal Year	Year	EPS(X)	DPS	XY	X^2
1998/99	1	86.07	75	6,455.25	7,408.04
1999/00	2	53.07	50	2,653.50	2,816.42
2000/01	3	93.57	27.5	2,573.18	8,755.34
2001/02	4	60.26	35	2,109.10	3,631.27
2002/03	5	49.45	25	1,236.25	2,445.30
2003/04	6	49.05	20	981.00	2,405.90
2004/05	7	47.91	31.58	1,513.00	2,295.37
2005/06	8	59.24	35	2,073.40	3,509.38
2006/07	9	60.66	40	2,426.40	3,679.64
Total Amount		**559.28**	**339.08**	**22,021.07**	**36,946.66**

Source: Annual Report of Himalayan Bank

The correlation between EPS and DPS of Himalayan Bank Ltd has positive correlation i.e. r = 0.43 and probable error is 0.18, so the earning (EPS) and dividend (DPS) is positive. The bank performance is comparatively positive. That's why the Market price of the Himalayan Bank was Rs.1980.00 for FY 2007/08.

Table 4.21

Correlation between EPS and DPS of Nabil Bank Ltd

Fiscal Year	**Year**	**EPS(X)**	**DPS(Y)**	**XY**	**X^2**
1998/99	1	67.84	50	3392	4602.2656
1999/00	2	83.79	55	4608.45	7020.7641
2000/01	3	59.26	66.11	3917.6786	3511.7476
2001/02	4	55.25	30	1657.5	3052.5625
2002/03	5	84.66	50	4233	7167.3156
2003/04	6	92.61	65	6019.65	8576.6121
2004/05	7	105.49	70	7384.3	11128.14
2005/06	8	129.21	85	10982.85	16695.224
2006/07	9	137.08	140	19191.2	18790.926
Total Amount		**815.19**	**611.11**	**61386.6286**	**80545.558**

Source: Annual Report of Nabil Bank

The correlation between EPS and DPS of Nabil Bank Ltd has perfectly positivecorrelation i.e. r = 0.81 and probable error is 0.067, so the earning (EPS) and dividend (DPS) is positive. Investors want to invest in those banks who have higher performance .On the basis of higher performance the Market price of the Nabil Bank is high than others sample bank and financial institution, the market value was Rs 5275.00 in FY 2007/08.

Table 4.22

Correlation between EPS and DPS of Kathmandu Finance Co. Ltd

Fiscal Year	Year	EPS(X)	DPS(Y)	XY	X^2
1998/99	1	21.3	16	340.8	453.69
1999/00	2	31.25	20	625	976.5625
2000/01	3	37.55	23	863.65	1410.0025
2001/02	4	37.05	12	444.6	1372.7025
2002/03	5	33.85	50	1692.5	1145.8225
2003/04	6	2.77	0	0	7.6729
2004/05	7	19.97	10	199.7	398.8009
2005/06	8	26.3	10	263	691.69
2006/07	9	20.03	15	300.45	401.2009
Total Amount		**230.07**	**156**	**4729.7**	**6858.1447**

Source: Annual Report of Kathmandu Finance

The correlation between EPS and DPS of Kathmandu Finance Com. Ltd has positive correlation i.e. r = 0.60 and probable error is 0.14, so the earning (EPS) and dividend (DPS) is comparatively positive. The Finance performance is comparatively positive.

Table 4.23

Correlation between EPS and DPS of National Finance Co. Ltd

Fiscal Year	Year	EPS(X)	DPS(Y)	XY	X^2
1998/99	1	52.5	24	1,260.00	2,756.25
1999/00	2	63.94	28	1,790.32	4,088.32
2000/01	3	67.2	30	2,016.00	4,515.84
2001/02	4	55.7	20	1,114.00	3,102.49
2002/03	5	35.75	20	715.00	1,278.06
2003/04	6	42.15	21.05	887.26	1,776.62
2004/05	7	29.12	10.53	306.63	847.97
2005/06	8	17.37	10.53	182.91	301.72
2006/07	9	25.36	55	1,394.80	643.13
Total Amount		**389.09**	**219.11**	**9,666.92**	**19,310.41**

Source: Annual Report of National Finance Co. Ltd

The correlation between EPS and DPS of National Finance Co. Ltd has negative correlation i.e. r = -0.18 and probable error is 0.22, so the earning (EPS) and dividend (DPS) distribution process was not satisfactory because the company earning the large amount of profit distributed minimum dividend and vice verse, so the correlation is negative in mathematical term but the investors attitude is positive because there is a variance in the distribution of dividend and in the next fiscal year there may be an increase in the dividend so the company Market Price is Rs.1050.00 in FY 2007/08.

Table 4.24

Correlation between EPS and DPS of Sagarmatha Insurance Co. Ltd

Fiscal Year	Year	EPS(X)	DPS(Y)	XY	X^2
1998/99	1	0	0	0	0
1999/00	2	11.4	5	57	129.96
2000/01	3	14.27	7	99.89	203.6329
2001/02	4	17.14	8	137.12	293.7796
2002/03	5	20.39	10	203.9	415.7521
2003/04	6	24.26	0	0	588.5476
2004/05	7	28.03	0	0	785.6809
2005/06	8	30.13	40	1205.2	907.8169
2006/07	9	14.71	0	0	0
Total Amount		**145.62**	**70**	**1703.11**	**3325.17**

Source: Annual Report of National Finance Co. Ltd

The correlation coefficient of EPS and DPS of Sagarmatha Insurance Co. Ltd has positive correlation i.e. r = 0.51 and probable error is 0.17, so the earning (EPS) and dividend (DPS) is positive. The Insurance Company's performance is comparatively positive.

Table 4.25

Correlation between EPS and DPS of Everest Insurance Co. Ltd

Fiscal Year	Year	EPS(X)	DPS(Y)	XY	X^2
1998/99	1	31.5	15	472.5	992.25
1999/00	2	42.89	20	857.8	1839.5521
2000/01	3	60.77	20	1215.4	3692.9929
2001/02	4	0	0	0	0
2002/03	5	92.6	100	9260	8574.76
2003/04	6	67.78	0	0	4594.1284
2004/05	7	75.08	0	0	5637.0064
2005/06	8	13.94	0	0	194.3236
2006/07	9	50	12.5	625	2500
Total Amount		**434.56**	**167.5**	**12430.7**	**28025.013**

Source: Annual Report of Everest Insurance Co. Ltd

The correlation coefficient of EPS and DPS of Everest Insurance Co. Ltd has positive correlation i.e. r = 0.58 and probable error is 0.15, so the earning (EPS) and dividend (DPS) is positive in mathematical term. The Insurance Company's performance is comparatively positive. That's why the Market price of Everest Insurance Co. Ltd is Rs.291.00 for FY 2007/08.

Measurement of Correlation between EPS and DPS of Selected Companies

Table 4.26

Correlation of Selected Companies (EPS & DPS)

S. N	Name of the Company	Correlation (r)	Probable Error(P.E)	Test of Significant
1	Nabil Bank Ltd	0.84	0.07	Significant
2	Himalayan Bank Ltd	0.43	0.18	Significant
3	National Finance Co. Ltd	-0.18	0.22	Insignificant
4	Kathmandu Finance Co. Ltd	0.60	0.14	Significant
5	Sagarmatha Insurance Co. Ltd	0.51	0.16	Significant
6	Everest Insurance Co. Ltd	0.58	0.15	Significant

The correlation coefficient of EPS and DPS of Nabil Bank has perfectly positive Correlation but other companies other than National Finance Co Ltd have positive correlation. National Finance Co. Ltd has negative correlation i.e. r = -0.18 and probable error is 0.22, so the earning (EPS) and dividend (DPS) is insignificant because the company earned a large amount of profit, distribute minimum dividend and minimum earning, paid the maximum dividend so, the correlation coefficient is negative and probable error is so high but the investors attitude is positive that's why the company Market Price is Rs.1050.00 in FY 2007/08.

B) Correlation between MPS and DPS

Table 4.27

Correlation between MPS and DPS of Himalayan Bank Ltd

Fiscal Year	Year	DPS	Market Prices(Y)	XY	X^2	Y^2
1998/99	1	75.00	1,000.00	75,000.00	5,625.00	1,000,000.00
1999/00	2	50.00	1,700.00	85,000.00	2,500.00	2,890,000.00
2000/01	3	27.50	1,500.00	41,250.00	756.25	2,250,000.00
2001/02	4	35.00	1,000.00	35,000.00	1,225.00	1,000,000.00
2002/03	5	25.00	836.00	20,900.00	625.00	698,896.00
2003/04	6	20.00	840.00	16,800.00	400.00	705,600.00
2004/05	7	31.58	920.00	29,053.60	997.30	846,400.00
2005/06	8	35.00	1,100.00	38,500.00	1,225.00	1,210,000.00
2006/07	9	40.00	1,740.00	69,600.00	1,600.00	3,027,600.00
Total Amount		**339.08**	**10,636.00**	**411,103.60**	**14,953.55**	**13,628,496.00**

Source: Annual Report of HBL

The correlation coefficient of MPS and DPS of Himalayan Bank Ltd has positive correlation i.e. r = 0.22 and probable error is 0.21, so the market price (MPS) and dividend (DPS) is positive. The bank performance is comparatively positive. That's why the Market price of the Himalayan Bank is Rs.1980.00 for FY 2007/08.

II) Correlation between MPS and DPS of Nabil Bank Ltd.

Table 4.28
Correlation between MPS and DPS of Nabil Bank Ltd.

Fiscal Year	Year	DPS(Y)	Market Prices(Y)	XY	X^2	Y^2
1998/99	1	50.00	700.00	35,000.00	2,500.00	490,000.00
1999/00	2	55.00	1,400.00	77,000.00	3,025.00	1,960,000.00
2000/01	3	66.11	1,500.00	99,165.00	4,370.53	2,250,000.00
2001/02	4	30.00	700.00	21,000.00	9,00.00	490,000.00
2002/03	5	50.00	740.00	37,000.00	2,500.00	547,600.00
2003/04	6	65.00	1,000.00	65,000.00	4,225.00	1,000,000.00
2004/05	7	70.00	1,505.00	105,350.00	4,900.00	2,265,025.00
2005/06	8	85.00	2,240.00	190,400.00	7,225.00	5,017,600.00
2006/07	9	140.00	5,050.00	707,000.00	19,600.00	25,502,500.00
Total Amount		**611.11**	**14,835.00**	**1,336,915.00**	**49,245.53**	**39,522,725.00**

Source: Annual Report of Nabil Bank

The correlation coefficient of MPS and DPS of Nabil Bank Ltd has perfectly positive correlation i.e. r = 0.96 and probable error is 0.016, so the market price (MPS) and dividend (DPS) is perfectly positive. Investors want to invest in the shares for reputation, dividend, and to give leadership for the bank. That's why the Market price of the Nabil Bank was higher than other sample banks and financials institution, The Market price of the bank is Rs 5275.00 in FY 2007/08.

Table 4.29

Correlation between MPS and DPS of Kathmandu Finance Ltd

Fiscal Year	Year	DPS(Y)	Market Prices(Y)	XY	X^2	Y^2
1998/99	1	16.00	98.00	1,568.00	256.00	9,604.00
1999/00	2	20.00	295.00	5,900.00	400.00	87,025.00
2000/01	3	23.00	321.00	7,383.00	529.00	103,041.00
2001/02	4	12.00	300.00	3,600.00	144.00	90,000.00
2002/03	5	50.00	235.00	11,750.00	2,500.00	55,225.00
2003/04	6	-	205.00	-	-	42,025.00
2004/05	7	10.00	180.00	1,800.00	100.00	32,400.00
2005/06	8	10.00	140.00	1,400.00	100.00	19,600.00
2006/07	9	15.00	203.00	3,045.00	225.00	41,209.00
Total Amount		**156.00**	**1,977.00**	**36,446.00**	**4,254.00**	**480,129.00**

Source: Kathmandu Finance Ltd

The correlation coefficient of MPS and DPS of Kathmandu Finance Com. Ltd has positive correlation i.e. r = 0.26 and probable error is 0.21, so the market price (MPS) and dividend (DPS) is comparatively positive. The Finance performance is comparatively positive.

Table 4.30

Correlation between MPS and DPS of National Finance Ltd

Fiscal Year	Year	DPS(Y)	Market Prices(Y)	XY	X^2	Y^2
1998/99	1	24.00	300.00	7,200.00	576.00	90,000.00
1999/00	2	28.00	470.00	13,160.00	784.00	220,900.00
2000/01	3	30.00	560.00	16,800.00	900.00	313,600.00
2001/02	4	20.00	530.00	10,600.00	400.00	280,900.00
2002/03	5	20.00	455.00	9,100.00	400.00	207,025.00
2003/04	6	21.05	360.00	7,578.00	443.10	129,600.00
2004/05	7	10.53	350.00	3,685.50	110.88	122,500.00
2005/06	8	10.53	263.00	2,769.39	110.88	69,169.00
2006/07	9	55.00	460.00	25,300.00	3,025.00	211,600.00
Total Amount		**219.11**	**3,748.00**	**96,192.89**	**6,749.86**	**1,645,294.00**

Source: Annul Report of National Finance Ltd.

The correlation coefficient of MPS and DPS of National Finance Co. Ltd has positive correlation i.e. r = 0.45 and probable error is 0.18, so the market price (MPS) and dividend (DPS) is satisfactory. That's why the company Market Price is Rs.1050.00 in FY 2007/08.

Table 4.31

V) Correlation between MPS and DPS of Sagarmatha Insurance Co. Ltd

Fiscal Year	Year	DPS(Y)	Market Prices(Y)	XY	X^2	Y^2
1998/99	1	-	-	-	-	-
1999/00	2	5.00	-	1,180.00	25.00	55,696.00
2000/01	3	7.00	236.00	1,134.00	49.00	26,244.00
2001/02	4	8.00	162.00	1,200.00	64.00	22,500.00
2002/03	5	10.00	150.00	1,310.00	100.00	17,161.00
2003/04	6	-	131.00	-	-	24,964.00
2004/05	7	-	158.00	-	-	51,529.00
2005/06	8	40.00	227.00	12,240.00	1,600.00	93,636.00
2006/07	9	14.71	306.00	20,152.70	216.38	1,876,900.00
Total Amount		**84.71**	**1,370.00**	**37,216.70**	**2,054.38**	**2,168,630.00**

Source: Annual Report of Sagarmatha Insurance Co. Ltd

The correlation coefficient of MPS and DPS of Sagarmatha Insurance Co. Ltd has positive correlation i.e. r = 0.49 and probable error is 0.17, so the market price (MPS) and dividend (DPS) is positive but not very high.

Table 4.32

Correlation between MPS and DPS of Everest Insurance Co. Ltd

Fiscal Year	Year	DPS(Y)	Market Prices(Y)	XY	X^2	Y^2
1998/99	1	15.00	170.00	2,550.00	225.00	28,900.00
1999/00	2	20.00	455.00	9,100.00	400.00	207,025.00
2000/01	3	20.00	440.00	8,800.00	400.00	193,600.00
2001/02	4	-	400.00	-	-	160,000.00
2002/03	5	100.00	610.00	61,000.00	10,000.00	372,100.00
2003/04	6	-	350.00	-	-	122,500.00
2004/05	7	15.00	325.00	4,875.00	225.00	105,625.00
2005/06	8	-	295.00	-	-	87,025.00
2006/07	9	12.50	290.00	3,625.00	156.25	84,100.00
Total Amount		**182.50**	**3,335.00**	**89,950.00**	**11,406.25**	**1,360,875.00**

Source:Annual Report Everest Insurance Co. Ltd

The correlation between MPS and DPS of Everest Insurance Co. Ltd has positive correlation i.e. r = 0.72 and probable error is 0.11, so the market price (MPS) and distribution of dividend (DPS) is perfectly positive. That's why the Market price of Everest Insurance Co. Ltd was Rs.291.00 for FY 2007/08.

Table 4.33

Correlation Coefficient of Selected Companies (DPS & MPS)

S. N	Name of the Company	Correlation Coefficient(r)	Probable Error(P.E)	Test of Significant
1	Nabil Bank Ltd	0.96	0.016	Significant
2	Himalayan Bank Ltd	0.22	0.21	Significant
3	National Finance Co. Ltd	0.45	0.18	Significant
4	Kathmandu Finance Co. Ltd	0.26	0.21	Significant
5	Sagarmatha Insurance Co. Ltd	0.49	0.17	Significant
6	Everest Insurance Co. Ltd	0.72	0.11	Significant

The correlation coefficient of DPS and MPS of Nabil Bank has perfectly positive Correlation but other companies have positive correlation and also significant. Market price is depending on the dividend per share of the companies. When the investors' attitude is positive they can buy the security to pay higher value. Higher the demands higher the market price and lower the demand lower the market price of the companies. In this case dividend is determining the market price.

4.2.11 Regression Analysis to forecast the Future Market Price of Selected Companies

Suppose the base year 1998/99 =1, 1999/2000 = 2, 2000/01= 3, 2001/02 = 4, 2002/03 =5, 2003/04 = 6 2004/05 =7, 2005/06 =8, 2006/07 =9 2007/08/ =10, 2008/09 =11 & 2009/010 =12 and we have to forecast the stock market prices of the fiscal year 2008/09 =11 & 2009/010 =12 by using market price and EPS by using the Correlation equation:-

$Y = a + bx$

Where,

$\sum Y = na + b\sum$ ---------- (i)

$\sum xy = a \sum x + b\sum X2$ ----------(ii)

By using above Correlation equation if the value of 'b' is positive the market price should increase in an average and if the value of 'b' is negative the market price should decreased in an average.

Table 4.34

Market Price Forecast for Himalayan Bank Ltd

Fiscal Year	Year	EPS(X)	Market Prices(Y)	XY	X^2
1998/99	1	86.07	1,000.00	86,070.00	7,408.04
1999/00	2	53.07	1,700.00	90,219.00	2,816.42
2000/01	3	93.57	1,500.00	140,355.00	8,755.34
2001/02	4	60.26	1,000.00	60,260.00	3,631.27
2002/03	5	49.45	836.00	41,340.20	2,445.30
2003/04	6	49.05	840.00	41,202.00	2,405.90
2004/05	7	47.91	920.00	44,077.20	2,295.37
2005/06	8	59.24	1,100.00	65,164.00	3,509.38
2006/07	9	60.66	1,740.00	105,548.40	3,679.64
2007/08	10	62.74	1980.00		
2008/09	11	*60.00	* 1,168.00		
2009/10	12	*70.00	* 1,229.00		
Total Amount		**559.28**	**10,636.00**	**674,235.80**	**36,946.67**

** Estimated Value*

By substituting the values of above regression equation the calculated value of 'b' becomes 6.065 and constant 'a' becomes 804.84. Slop 'b' 6.065 means the market price will be increased in an average that is the forecasted price & real market price of Himalayan Bank Ltd.for the 10^{th} year (2007/08) was Rs 1185 & 1980 respectively , for the 11^{th} year & 12^{th}, the EPS is assumed to be Rs.60 & Rs.70 and the market price will be Rs.1168 & Rs. 1229 respectively.

Table 4.35

Market Price Forecast for Nabil Bank Ltd

Fiscal Year	Year	EPS(X)	Market Prices(Y)	XY	X^2
1998/99	1	67.84	700.00	47,488.00	4,602.27
1999/00	2	83.79	1,400.00	117,306.00	7,020.76
2000/01	3	59.26	1,500.00	88,890.00	3,511.75
2001/02	4	55.25	700.00	38,675.00	3,052.56
2002/03	5	84.66	740.00	62,648.40	7,167.32
2003/04	6	92.61	1,000.00	92,610.00	8,576.61
2004/05	7	105.49	1,505.00	158,762.45	11,128.14
2005/06	8	129.21	2,240.00	289,430.40	16,695.22
2006/07	9	137.08	5,050.00	692,254.00	18,790.93
2007/08	10	108.31	5275		
2008/09	11	* 120	* 2721		
2009/10	12	* 95	* 1811		
Total Amount		**815.19**	**14,835.00**	**1,588,064.25**	**80,545.56**

** Estimated Value*

By substituting the values of above regression equation the calculated value of 'b' becomes 36.426 and constant 'a' becomes -1650.01. Slop 'b' 36.426 means the market price will be increased in an average that is the forecasted price for the 10^{th} year is Rs 2295, for the 11^{th} and 12^{th} year if the EPS is assumed to be Rs.120 & Rs.95 the market price will be Rs.2721 & Rs.1811 respectively but the actual market price of the Nabil Bank was Rs 5275 in FY 2007/08, there is too much difference between the forecasted value i.e Rs.2295. but the actual market price was Rs.5275 because EPS is not only the one factor for affecting the share price of the banks financial institutions.

Table 4.36

Market Price Forecast for Kathmandu Finance Ltd

Fiscal Year	Year	EPS(X)	Market Prices(Y)	XY	X^2
1998/99	1	21.30	98.00	2,087.40	453.69
1999/00	2	31.25	295.00	9,218.75	976.56
2000/01	3	37.55	321.00	12,053.55	1,410.00
2001/02	4	37.05	300.00	11,115.00	1,372.70
2002/03	5	33.85	235.00	7,954.75	1,145.82
2003/04	6		205.00		
2004/05	7	48.74	180.00	8,773.20	2,375.59
2005/06	8	26.30	140.00	3,682.00	691.69
2006/07	9	20.03	203.00	4,066.09	401.20
2007/08	10	25.57	285		
2008/09	11	* 30	* 217		
2009/10	12	* 20	* 188		
Total Amount		**256.07**	**1,977.00**	**58,950.74**	**8,827.26**

** Estimated Value*

By substituting the values of above regression equation the calculated value of 'b' becomes 2.86 and constant 'a' becomes 131. Slop 'b' 2.86 means the market price will decrease in an average that is the forecasted price of 10^{th} year is Rs 204 and for the 11^{th} year is Rs. 285. If the EPS is assume for 11^{th} and 12^{th} years to be Rs.30 & Rs.20 market price will be Rs.217 & Rs.188 respectively but the actual market price of the Kathmandu Finance Ltd. was Rs 285 in FY 2007/08, there is some difference between Rs.204 and Rs.285 because EPS is not only one factor for affecting the share price of the banks & financial institutions.

Table 4.37

Market Price Forecast for National Finance Ltd

Fiscal Year	Year	EPS(X)	Market Prices(Y)	XY	X^2
1998/99	1	52.50	300.00	15,750.00	2,756.25
1999/00	2	63.94	470.00	30,051.80	4,088.32
2000/01	3	67.20	560.00	37,632.00	4,515.84
2001/02	4	55.70	530.00	29,521.00	3,102.49
2002/03	5	35.73	455.00	16,257.15	1,276.63
2003/04	6	53.97	360.00	19,429.20	2,912.76
2004/05	7	54.36	350.00	19,026.00	2,955.01
2005/06	8	17.37	263.00	4,568.31	301.72
2006/07	9	25.36	460.00	11,665.60	643.13
2007/08	10	14.62	1050		
2008/09	11	* 30	* 377		
2009/10	12	* 50	*421		
Total Amount		**426.13**	**3,748.00**	**183,901.06**	**22,552.15**

**Estimated Value*

By substituting the values of above regression equation the calculated value of 'b' becomes 2.20 and constant 'a' becomes 275. Slop 'b' 2.20 means the market price will decrease in an average that is the forecasted price of the 10th year is Rs 346, for the 11th year is Rs. 377. If the EPS is Rs.30 & Rs.50 market price will be Rs.377 & Rs.421 respectively but the actual market price of the National Finance Ltd. was Rs 1050 in FY 2007/08, there is to much difference between Rs.346 and Rs.1050 because EPS is not only one factor for affecting the share price of the banks & financial institutions.

Table 4.38

Market Price Forecast for Sagarmatha Insurance Co. Ltd

Fiscal Year	Year	EPS(X)	Market Prices(Y)	XY	X^2
1998/99	1	-	-	-	-
1999/00	2	11.40	-	-	129.96
2000/01	3	14.27	236.00	3,367.72	203.63
2001/02	4	17.14	162.00	2,776.68	293.78
2002/03	5	20.39	150.00	3,058.50	415.75
2003/04	6	24.26	131.00	3,178.06	588.55
2004/05	7	28.03	158.00	4,428.74	785.68
2005/06	8	30.13	227.00	6,839.51	907.82
2006/07	9	14.71	306.00	4,501.26	216.38
2007/08	10	30	207		
2008/09	11	* 20	*142		
2009/10	12	*25	*175		
Total Amount		**160.33**	**1,370.00**	**28,150.47**	**3,541.55**

**Estimated Value*

By substituting the values of above regression equation the calculated value of 'b' becomes 6.54 and constant 'a' becomes 11.65. Slop 'b' 6.54 means the market price will decrease in an average that is the forecasted price of 10^{th} year is Rs.20 and for the 11^{th} year it is Rs 30 and for the 12^{th} year (2009/10) was Rs.25. The market price will be Rs.142, Rs.207 & Rs.175 respectively but the actual market price of the Sagarmatha Insurance Co. Ltd. was Rs.306 in FY 2007/08, there is difference between Rs.207 and Rs.306 because EPS is not only the one factor for affecting the share price of the banks & financial institutions.

Table 4.39

Market Price Forecast for Everest Insurance Co. Ltd

Fiscal Year	Year	EPS(X)	Market Prices(Y)	XY	X^2
1998/99	1	31.50	170.00	5,355.00	992.25
1999/00	2	42.89	455.00	19,514.95	1,839.55
2000/01	3	61.05	440.00	26,862.00	3,727.10
2001/02	4	65.20	400.00	26,080.00	4,251.04
2002/03	5	61.74	610.00	37,661.40	3,811.83
2003/04	6	57.22	350.00	20,027.00	3,274.13
2004/05	7	16.87	325.00	5,482.75	284.60
2005/06	8	13.94	295.00	4,112.30	194.32
2006/07	9	24.54	290.00	7,116.60	602.21
2007/08	10	*20	291	-	-
2008/09	11	*25	*325		
2009/10	12	*15	*275		
Total Amount		**374.95**	**3,335.00**	**152,212.00**	**18,977.03**

**Estimated Value*

By substituting the values of above regression equation the calculated value of 'b' becomes 1.98 and constant 'a' becomes 275. Slop 'b' 1.98 means the market price will increase in an average that is the forecasted price of the 10th year (2007/08) EPS is assume Rs.20 for the 11th year will be is Rs 25 and for the 12th year (2009/10) will be Rs.15, market price will be Rs.315, Rs.325 & Rs.275 respectively but the actual market price of the Everest Insurance Co. Ltd. was Rs.291 in FY 2007/08, there is some difference between Rs.315 and Rs.291.

Table 4.40
Comparative Analysis of Real Market Price and Forecasted Market Price of the Selected Companies

S.N	Name of the companies	EPS	DPS	Actual MPS	Forecasted MPS
1	Himalayan Bank Ltd	62.74	40	1980	1047
2	Nabil Bank Ltd.	108.31	100	5275	2295
3	Kathmandu Finance Ltd	25.57	-	285	179
4	National Finance Ltd.	14.62	16	1050	346
5	Sagarmatha Insurance Co. Ltd.	*30	*	306	207
6	Everest Insurance Co. Ltd.	*20	*	291	295

**AGM not called at the end of F/Y 2007/08*

The above Comparative Analysis table no. 4.40, there are not different analytical factors because of their market price are based on earning per shares and dividend per shares of the companies. The table shows that higher the EPS, DPS and higher the actual market price and also forecasted market price of all the companies. Those companies could not call the Annual General Meeting in time their EPS is not satisfactory so, their market price and forecasted market price is not high. Investors invest their money for productive sector or profit own sector, those companies who can not declare the AGM in time those companies performance could not be satisfactory. That's why Banking, Finance and Insurance sectors are categorically first, second and third in priority in all way & the investors' attitude are also based on the priority of the ranking.

Earning and dividend is not only the factor of the price movement in secondary market. There is various factor for affecting the Market price of secondary market i.e. companies net worth, companies management or owners, up to record of the SEBON, economic situation of the country/ world economic situation, relation to the Nepal Rastra Bank, loan loss provision, political changes, changes in rule and

regulation related to the NEPSE, renewal of the companies, advertisement, investment alternative, investors income, awareness of shares trading in secondary market etc are the factors of the measurement of the NEPSE Sensitivity index analysis.

We can only analyze the earning per share how it impresses the investors to buy and sell the securities to earn the benefits for trading securities in secondary market. We can say that 50% price may be up and down for companies EPS and DPS. Out of 50% price depends on other factors which is feasible and non feasible just like it is mentioned in the above paragraph.

4.2.12 Signaling Effect

Nepalese stock Market is not perfect and matured one. Lack of the knowledge in investors, lack of the proper government policy, manipulated activities of brokers and in unstable politics has directly affected the stock market. Sometimes, national and international signaling effects may be the price determining factor of Nepalese securities market. For seeing the signaling effect, we can use the pure statistical tools, i.e, paired test; impact of signaling effect on the NEPSE index can be analyzed with the help of the NEPSE index and t- test formulae. NEPSE index can be seen in the ***ANNEX*** I-IV

$$t = \frac{d}{\frac{s}{\sqrt{n}}}$$

Where,

t = paired t- test

s = standard error

n = number of observations

d = difference between two data

Where standard error (s) can be calculated by using following formulae:

$$S = \frac{1}{n-1}\left[\sum d^2 - \frac{\left(\sum d^2\right)}{n} \right.$$

Test of Hypothesis

The result obtained by sing t- test is presented as follows:

Table 4.41
Result from T- test

Events	**Table value at 9 d.f. at 5%**	**Calculated value at 9 d.f. at 5%**	**Remarks / Null Hypothesis**
Constitutional Election	2.26	7.70	Rejected
Government Changes (Leading By Maoist)	2.26	10.32	Rejected
Additional Capital gain tax	2.26	7.56	Rejected
Government Changes (leading by UML)	2.26	8.94	Rejected

From the above table it is clear that paired t- test tabulated value at 9 degree of freedom at 5% level of significance level is 2.26. While calculated values are higher than tabulated value of constitutional election, Government change (Leading by Maoist) & Capital gain tax, Government change (Leading by UML). So, null hypothesis is rejected and alternative hypothesis is accepted.

The paired t-test showed that at 5% level of significant and at 9 degree of freedom the null hypothesis is rejected. That means the Constitutional Election could be affected. There is positive symptom after completion of constitution election. The NEPSE index before and after the constitutional Election is gradually positive.

Annex- I

As Leadership change or Government change to make new Nepal/ Republican country of Nepal. When the behavior of NEPSE index was paired t- test, it showed that the government changes affect in NEPSE. So, null Hypothesis is rejected and alternative hypothesis is accepted. There is evidence that the government change has significantly decreased in the NEPSE index. **Annex- II**

Similarly another major event was Capital Gain Tax affect the NEPSE index in Negative impact. It brought about the decline in NEPSE. The table showed that the capital gain tax in rule and regulation of NEPSE activities directly affect the NEPSE index. So, Null hypothesis is rejected and alternative hypothesis is accepted. There is evidence that the policy directly affected the NEPSE is in decreasing trend. **Annex- III**

Another major event was Government Changing/Leading by UML without Moist affect the NEPSE index in positive impact. It brought about the increment in NEPSE. The Annex showed that the Government changes without Moist of NEPSE activities directly affect the NEPSE index positive. So, Null hypothesis is rejected and alternative hypothesis is accepted. There is evidence that Government changes affected the NEPSE in increasing trend. **Annex- IV**

4.3 Major Finding

- Paid up value indicates the actual amount of the investment in assets whereas market capitalization indicate the present value of the investment.
- The market price of the sample companies during the fiscal year 1996/97 to 2008/09 has been presented which shows the fluctuation of the prices.
- The calculated value of correlation coefficient showed that there is positive correlation between EPS & DPS of all sample companies except National Finance Company Ltd.

- The calculated value of correlation showed that there is positive correlation coefficient between EPS & MPS of all sample companies.
- When analyzing the Correlation analysis between EPS & Market price of the sample companies has positive Correlation coefficient 'b' which indicates that the forecasted price will be increase in an average.
- When analyzing secondary data it was found that the Nepalese stock market is in developing stage.
- Studying the annual trend analysis of Nepalese stock market, it was found that stock is increasing as crocodile & frog trend for 2003/04 to 2008/09. Taking the decision as long period, stock market is fluctuate trend. In FY 2008/09 the NEPSE index is slightly decreasing trend than previous year.
- On analyzing the price trend of two years NEPSE index in different months with help of monthly trend showed that the price trend of different months of the fiscal year 2006/07 & 2007/08 were in rapidly increasing trend.
- While analyzing the rate of listing of new companies showed that increasing trend from the fiscal year 1996/97 to the year 2000/01 but in the fiscal year 2001/02 the companies were decreased due to de-listed the 25 companies from the NEPSE and there after it was in increasing trend.
- Volume of stock trade in stock exchange during the study period was found in increasing trend except the fiscal 1997/98, 2000/01, 2002/03 & 2005/06.
- On analyzing paired t-test for signaling factors with reference to major four events it was found that signaling effects had played major role in fluctuation of the stock price.
- Number of transacting companies was found in increasing for every year.
- Studying the annual trend analysis of Nepalese Stock Market Price, it was found that stock price trend was in fluctuating trend in the different years.
- EPS and DPS not only the factor for price movement but also the other factor like political situation, global economic situation, companies' dividend, companies net worth, policies etc

- Political instability is the major component for affecting the sensitivity of Nepalese Security Market.
- Investor invest their money independently and bear gain/loss by themselves (reference signaling factor no –II). Government leading by Maoist declared that individual property will be nationalized. So that market price declined day by day in those days.

CHAPTER- V

SUMMARY, CONCLUSION & RECOMMENDATION

5.1 Summary

Security market refers the buying and selling price of the stock, bond share and debt. Capital market is the backbone of any economy, and Nepal is not exception. Under the capita market, stock market behavior has played the vital role to pull and push the proper economy balance of the country. So by promoting the stock market in sizeable economic sector gives raises the economic development by mobilizing swing in to 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 listing paid up value and market capitalization, closing market price of sampled companies, correlation coefficient analysis, Correlation analysis and signaling factors, have been analyzed.

The main objective of present research was to examine and study the price trend, with the help of NEPSE index, volume of stock traded, rate of listing of new companies on stock exchange and maintenance of them, analyze the paid up value and market capitalization, impact of signaling factors on NEPSE index, to find out the correlation between sampled companies, Correlation analysis and analyze the closing market prices of sampled companies. These are the important factors for stock market to analyze the sensitivity of stock market.

According to the nature and objective of the study secondary data has been used to meet the objective. Secondary data were collected from annual report of NEPSE index, daily newspapers, library search, newspaper & magazine, bulletin and other journals. Information was tabulated and presented as per the requirement of the study. From the analysis it was found that price trend is not in predictable trend

because of the various factors e.g. political situation, global economic situation, companies' dividend, companies net worth, policies etc. affected the stock price during the study period of different months of 2008/09.

Volume of stock traded was not in the same direction as the different years. Volumes of stocks traded during the fiscal year 1998/99 to 2007/08 were not in any order of increasing or decreasing. The trend of volume of stock traded was in fluctuating manner in these years. Similarly rate of listing of new companies were not in satisfactory condition as it was also in very few increase companies could not give the any type of result. The volumes of transacting companies are few of almost less than half during the period 1998/99 to 2007/08. Annual stock price trend from many years were in decreasing trend in the stock market. The paid up value and market capitalization of listed companies in NEPSE were satisfactory. These were positive correlation coefficient of the sampled when tested with EPS and DPS and also EPS & MPS.

Due to a whopping increment in the share prices of banks, financial institutions, hydropower companies and development banks, the NEPSE index increased notably over the year. The restoration of peace, an improvement in listed companies' financial performance and, most importantly, the central bank's direction, dated 26 March 2007, to double paid-up capital for banks and financial institutions contributed to a remarkable increment in share prices and subsequently the stock market indices. During the twelve months of the current fiscal year (FY 2007/08), all the major indicators of the secondary market have shown a substantial rise.

The Correlation analysis between EPS and market showed that all sample companies had positive Correlation coefficient 'b' which indicates that the price will be increased in an average. Similarly market price focus on the basis of

previous market price and earning per share of the selected financial institution an compared that.

Finally the study of Sensitivity of Stock Market in Nepal is a very useful subject matter if properly analysis for the development of stock market.

5.2 Conclusion

The shares of financial institutions of Nepal is heavily trade in the stock market, therefore the stock market plays a key role in determination of stock exchange indicators. This study tries empirical result of the investment on shares of the financial institutions.

Form the analysis it is found that common stock of sample financial institutions are depended on the financial preference of the Companies and national and Global environment of the economic sectors. However, the analyses are not exactly reflecting in the share price. This may be due to lake of analyses of all the factors which affecting the market price of the securities. The analysis suggests that the trend of NEPSE index is fluctuating trend for every time. Correlation between EPS & DPS, DPS& MPS of the companies is positive except National Finance Company because the company earning the large amount of profit distributed minimum dividend and vice verse, so the correlation is negative in mathematical term. The real market price of the companies and the forecasted market price/estimated value of the companies are different because EPS is not only one factor for affecting the share price of the financial institutions.

The restoration of peace, an improvement in listed companies' financial performance and, most importantly, the central bank's direction remarkable increment in NEPSE index other wise the NEPSE index is gradually decreasing trend.

EPS and DPS not only the factor for price movement but also the other factor like political situation, global economic situation, companies' dividend, companies net worth, policies etc are the major factors for affecting market price, specially political instability is the major component for affecting the sensitivity of Nepalese Security Market. Investor invest their money independently and bear gain/loss by themselves (reference signaling factor no –II). Government leading by Maoist declared that individual property will be nationalized. So that market price declined day by day in those days.

5.3 Recommendations

- NEPSE index plays major role for creating investment prosperity. So, for removing stock market difficulties such as transaction facilities should be managed in effective way by formulating investor's protection Act.
- 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.
- An independent analysis on the security offers in the capital market by professionals should be encouraged. Economic journalism is encourage to the society.
- Increase awareness the general public about the market, regarding nature of risk and return, through promotional campaigns, seminars, publications and programs in FM /TV etc.
- NEPSE can expand its services to the regional levels rather than just concentrating society in the valley. They should also replace the old and outdated open cry system with on-line trading system following international standards.

- Issuance of directives by regulatory authorities not to solicit unaccounted payments to the shareholders other the dividend.
- Discourage the possibilities of insider's trading through improved corporate governance and initiate strict corrective measures for compliance.
- Encourage active participation of other sectors of the economy besides banks, finance and insurance companies through the enforcement of good corporate governance.
- Independent rating agencies should be encouraged to establish here so that the potential investors will have a confident picture of the financial health and future prospects of organization/ instruments.
- On seeing the investment priority of investors majority of investors were found attached with banking/finance. So diversification of investment in other sector should be done by taking action towards the introducing manufacturing their activities should he removed from the list of Nepal Securities Exchange Ltd. So that the unproductive sectors give the productive results by running efficient way.
- The price fluctuation trend is not predictable by general investors to technician facilities should be realized by Nepal Stock Exchange Center Ltd., so that general investors should also get benefit from the Nepal Security Exchange Ltd.
- Signaling factors should be analyzed so that future movements of price can be predicted from the side of analyst and from the side of investors.
- The study of stock market behavior should be done in periodic manner of that proper results can be drawn for betterment of stock market from the side of NEPSE.
- Government of the nation should formulate proper and perfect rules, regulation, articles of association and code of conduct to develop the capital

market of the country. For this purpose national and international stock experts should hire to develop the system.

- Investors are the basic variable and backbone of the capital market after having awarded them, stock market development process is possible and meaningful.
- Foreign investors, individual as well as institutional investors, should encourage and promote to invest in the Nepalese stock market.
- Economic development of every largely country depends upon the industrial advancement of various types and classes industries. Government therefore should encourage and consider the industrial development in the country.
- NEPSE index plays major role for creating investment prosperity. So for removing stock market difficulties such as transaction facilities, investor's interest and investment facilities should be managed in effective way by formulating investor's protection Act.
- The listed companies data their performance appraisal their conduction of work, their productivity, their commitment to NEPSE should be updated and analyzed in time and again. If any company is found in works against NEPSE should immediately take action on it.
- The price fluctuation trend is not predictable by general investors, so technical facilities should be productive by Nepal Stock Exchange Ltd., so that general should also get benefit form the Nepal Security Exchange Center Ltd.
- Old manual method of securities trading should be substituted by computer base 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 techniques.

- 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, informing actual financial position of the company.
- The stock market lacks the existence of sophisticated investors, it is recommended to regulatory bodies to carry out program using various media and spot program to inform and attract the potential investors in investing its 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 stocks market is not merely casinos where players come to place bets. Stock market provide service 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 forecasts corporate investment even though much of this investment is financed through retained earnings, bank loans rather than equally issues.