

CHAPTER I

INTRODUCTION

1.1 Background of the study

Investment is the most important process for the development of the economic system of the country. This has been the foremost concern of many countries of the world, including Nepal. Investment helps to accelerate overall system of the nation and with it, welfare of the nation and its people. Investment requires sound environment that is a combination of securities, market and intermediaries.

With the growth and expansion of banking and financial system, new and improved financial instruments services are introduced. A healthy economy is dependent on efficient transfers of funds from people who are net savers to the firms and individuals who need funds. Without efficient transfers, the economy simply cannot function. Obviously, the level of employment and productivity, hence our standard of living, would be much lower. Therefore, it is absolutely essential that our financial markets function efficiently, not only quickly, but also at a low cost.

Development of capital market in Nepal is linked with the establishment of commercial banks and financial institutions like NIDC. Market capitalization started in 1994 B.S. However, it failed to achieve its goal. In 2033 B.S., Nepal security trading center was established for smooth capitalization and enabling the new companies to exercise easily and freely. Through this center also, market capitalization process did not take off in an effective manner.

Identifying these problems, the government brought capital market development policies in 2049 B.S. with the pursuance of liberal economic policies. This helped to establish the stock exchange market and the ground for security market operation. With this policy, the market boomed for short period but could not last long. The scenario did not prove optimistic so far. Therefore, it is necessary to analyze trends and assess the strengths

and weaknesses of Nepal Stock Exchange Market. To meet this very end, the study has been initiated.

Securities Board of Nepal [SEBON], is a supreme body to regulate the Nepalese securities markets. It was established in 26 May 1993 under the provision of Securities Exchange Act, 1993. The objective of the board is to promote and protect the interest of investors by regulating the securities market. SEBON works under the Ministry of Finance [MoF]. SEBON also monitors, whether the activities carried out by the NEPSE are in accordance with the act or not.

NEPSE stands for Nepal Stock Exchange. NEPSE opened its trading floor on 13th Jan 1994 through licensed members. The Board of Directors of the NEPSE consist nine directors in accordance with Securities Exchange Act, 1983. Non-government and different institutional investors nominate six directors. Two of them from licensed members and the General Manager of the NEPSE is the Ex-officio Director of the Board. Nepal's capital market is very lean in providing investment alternatives to the investors. Another feature of the existing secondary market is that it is operating only in the corporate securities. Therefore, to expand the capital market and to provide various alternative investment avenues having different characteristics, appropriate legislative provision should be made.

With the establishment of democracy in 2007 B.S., the interim government was very busy in advising the measures to identify the sick industries and gave little attention to initiate the development of stock market until 2033 B.S., Security Exchange Center was established and operated by government. It was established with an objective of facilitating and promoting the growth of capital markets.

Before its conversion into stock exchange, it was only the capital market institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. In 1993 the center was converted into Nepal Stock Exchange [NEPSE] with the objective of imparting free market ability and providing liquidity to the government and corporate securities by facilitating transactions

in its trading floor through market intermediaries such as broker, market makers etc, and it is a non-profit organization, operating under Securities Exchange Act,1983.Nepal Government, Nepal Rastra Bank, NIDC and licensed members are the shareholders of the NEPSE.

1.1 Focus of the study

The main focus 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 into the strengths of the stock market.This will help to make the existence of the stock market more robust.

1.2 Statement of the problems

Development of capital market in general and stock market in particular is must for a sound industrial development of the country .Capital market institutions help to mobilize the surplus unit into the deficit units for productive investments. The capital market in Nepal is operating in an immature stage. Capital mobilization is the problem faced by every underdeveloped country and each is trying to raise funds from external sources because of limitation of self-financing. These days' people are interested in the stock market. They like to invest in the securities but they do not know which companies to choose and invest. There are so many questions regarding the stock market which people like to know. They should know about the stock market trend like NEPSE index, market capitalization, investment avenues, its rules and regulations, whether there is growth or not, what the prospects and problems are etc. So, this study tries to answer these questions basically on growth, problems and prospects of stock market.

Nepalese capital market is very small in comparison with other developed stock markets. There are a few numbers of brokers, limited numbers of listed companies, very few transactions. The stock market of Nepal has not flourished as it should and have not reached its full potential for many reasons. To detect the problems faced by the security market, there is a need considered important to study about the matter regarding security

market. Therefore, this study focuses on the growth, problems and prospects of Nepalese stock market.

Furthermore, by analyzing the performance of the stock market, the contribution of listed companies for the growth of the stock market can also be studied. This will help the stock market to decide on the necessary strategies, so that the contribution of the companies can be increased. This study tries to locate the answer for the following questions;

What is the current status of the security market in Nepal?

What are the growth prospects of NEPSE?

What are the problems and prospects of secondary market?

1.3 Objectives of the study

The basic objectives of this study are to explore the growth, problems and prospects of Nepalese Securities Market. The specific objectives of this study are:

- To examine the current status of security market in Nepal.
- To analyze the growth prospects of NEPSE.
- To evaluate the problems and prospects of secondary market

1.4 Significance of the Study

Stock market recognizes the situation of the economy. Stock markets have direct relation with the economic growth. In an underdeveloped country like Nepal, there is a great importance of industrialization in order to carry out the rapid development of the country. This study will be useful to the university students who are curious to know about the current status of Nepalese stock market, its growth, issues and challenges for the development of stock market. Similarly, this is expected to be useful for the policy makers associated with the development of capital markets so that they can make policies appropriate to the stock market which can be implemented in practice. This report mainly helps to the person and the institutions that are engaged or intend to build their career in the field of the security market. This is also important for the various parties and the probable investors who are interested in the stock market.

1.5 Limitation of the study

- Studies and references are extremely limited in the perspective of Nepalese capital market.
- The study covers the past and present state of stock market in Nepal hence does not make any projections about the future.
- 10 years (2001/02-2010/11) data has been used for this purpose.

1.6 organization of the study

This study has been broadly divided into five chapters, which are as follows:

Chapter-I - Introduction

Chapter-II -Literature Review

Chapter-III -Research Methodology

Chapter-IV -Presentation and Analysis of data

Chapter-V -Summary, Findings and Recommendations

Chapter one consists of background of the study, focus of the study, statement of the problem, objective of the study, significance of the study, limitation of the study and finally organization of the study.

Chapter two deals with review of literature which consists of conceptual framework, reviews of books, journals and review from thesis.

Chapter three deals with the research methodology which includes nature of research, nature and sources of data, data gathering procedures, and tools for analysis.

Chapter four attempts to analyze and evaluate the data with the help of analytical tools and interpret the result so obtain.

Chapter five sums up the result obtained through analysis and recommends suggestions.

CHAPTER II

Literature Review

In this chapter an attempt has been made to review of a basic literature pertaining to concept and role of NEPSE in the security market. The relevant literature and articles were reviewed from national and international publications as well as unpublished reports.

A. Conceptual Framework

2.1 Capital market

Capital market makes fund available for long term investments. The long term financial instruments are traded in the capital market, such as stock, bond, government securities etc. The maturity of the instruments traded in capital market is of more than one year period.

The capital market makes available the long- term credit and equity finance of the government and business sector. It makes long- term investment liquid. From it, the maturity preference of lender and borrower is adjusted. In the market the lender can immediately get cash in case of need and borrower also receives long-term credit. The capital market helps to distribute the ownership of business to many persons. Similarly, it also helps to re-distribute financial assets among firms and industries.

The World Bank defines capital market as- "The market in which long- term financial instruments such as equities and bonds are raised and traded."

The capital market consists of the various suppliers and users of long-term finance. As it is differentiated from money market which embraces short-term finance. The capital market serves as the link between suppliers and users of finance. It is a mechanism for the mobilization of public saving and canalizing them in productive investment. In this way, an important constituent of the capital market is the securities market. It has a wide term embracing the buyers and sellers of securities and all those agencies and institutions, which assist the sale, the resale of corporate securities (Gupta, 1978, p.325).

The market where the transaction of long-term finance is made is called capital market. The funds collected in this market are made available for long-term investment. Hence, capital market is long-term credit market. (Joshi & Dongol, 2000, p.67)

These days, the role of capital market has been increasing as to mobilize the savings of the nation and canalize them into useful activities. The main function of the capital market is to deal in long-term financial instruments. It mobilizes long-term resources from the savers and makes available to the investors. The capital market is the heart of modern economy. The capital market is inevitable for the economic development of the country. The main suppliers of capital market are commercial bank, development bank, provident fund, pension fund, insurance company, investment trust, saving and loan association and mutual saving bank, and the demanders are households, businesses and government.

2.1.1 Securities Market

Security, in general, is a piece of paper representing the investor's right to certain prospects and property and the conditions under which he/she may exercise these rights. The piece of paper serving as an evidence of property right is called security, e.g., share, bond, commercial paper, preferred stock, Treasury bill etc. It may be transferred to other investors and with it, will go all its rights and conditions. Moreover, the security is a legal representation of the rights to receive prospective future benefits under stated conditions (Bhattarai, 2004, p.1)

Nepal Stock Exchange has defined the securities market as the place where a large volume of financial securities (shares, bonds, debentures etc) is traded according to prescribed rules. (Investor's Guide, 1978, p.11).

Securities market is the mechanism for trading of securities and it should strictly be regulated to stop the malpractices and develop efficiently. Securities Board Nepal (SEBON), is supreme body to regulate the Nepalese securities market. The objective of

the board is to promote and protect the interest of investors by regulating the securities market. (Bhattarai, 2004, p.40)

So far as securities market is concerned, it is important constituent of capital market. It has a wide term embracing the buyers and sellers of securities and all the agencies and institutions that assist the sale and resale of corporate securities. (Vaidya, 2001, p.97-99)

The existence of markets for securities is of advantage to both issuers and investors. As to their benefits to issuers, securities market assists business and government in raising funds. In a society with private ownership of the means of production and distribution of goods and services, savings must be directed towards investment in industries where capital is most productive. Government must also be able to borrow for public improvements. Market mechanism makes possible the transfer of funds from surplus to deficit sectors, efficiently and at low cost. (Fisher & Jordan, 2000, p.17)

Functions performed by securities market:

- One of the most valuable functions performed by a securities market is to maintain active trading. It facilitates for immediate buying and selling of securities by the investors. It provides liquidity to the assets.
- It also facilitates the price discovery process. It is possible through demand and supply of securities from the investors.
- It aids to new financing indirectly providing to resale the securities.

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

i. Primary Market

The market for securities is called primary market. The financial market transfers the funds from savers to investors through the primary market. Hence, the transactions of the securities issued for the first time take place in the market. The main function of the primary market is to finance the capital available to make new investment in building,

equipment, stock of necessary goods. The investment bankers perform the role of an expert in issuing new securities. The bankers make available advice to the business firm regarding the nature of security maturity, interest rate and underwrite the issue of securities. The commercial banks are not directly involved in this market. Usually, the business firm make private placement of securities. (Joshi & Dongol, 2000, p.52)

The primary securities market includes all transactions that results in the accumulation of financial capital by firms, government, or individuals to be used in consumption or real capital investment. The participants in this process are many and varied, but an important segment, includes the money brokers who acts as a middleman in the process of exchanging securities for fund. These brokers provide invaluable services. The principal is to assist in pooling of the funds by the certain of security forms that will appeal to ultimate investors. (Nancy & Richardson, 1984, p.147)

Primary markets are market in which corporations raise funds or new capital by issuing new securities. (Weston & Brigham, 1996, p.31)

Primary market transactions are normally affected through the issuance of short and long term bonds and other debt instruments and through the issuance of common and preferred stock. (Nancy & Richardson, 1984, p.146)

Primary markets are distinguished by the flow of funds between the market participants. Instead of trading between investors as in secondary market, participants in the primary market buy their assets directly from the source of asset. Once the assets or securities are sold in the primary market, they begin trading in secondary market. (Hirt&Stanley, 1983, p.25)

Primary market is the place where corporation and government issue new securities. All securities whether in money or capital markets are initially issued in primary market. This is the only market in which the company and government is indirectly involved in the transaction and receives direct benefits from issue that is; the company actually receives the proceeds the sale of securities. Primary market is used to denote the market

for the original sale of securities by an issuer to the public. The issuer receives cash and may be invested in productive assets or retirement of debt. (Bhattarai, 2004, p.6)

ii. Secondary Market

Secondary markets are market in which existing, already outstanding securities are traded among investors. Secondary markets also exist for mortgages, various other types of loans, and other financial assets. (Weston & Brigham, 1996, p.31)

The market where second-hand securities issued earlier are traded is known as secondary market. The stock markets exchange is an example of secondary market. The secondary market can be subdivided into two types: (a)Registered stock exchange: this type of market is registered in the government agency. It buys securities of large firms for the general public. (b) Over- the counter market: the market where the securities of the companies not listed in the stock exchange are traded is called over the counter market. The transaction of such securities is made by intermediaries and authorized dealer. (Joshi & Dongol, 2000, p.68)

Secondary markets are market for existing assets which are currently traded between investors. It is this market that creates the price and allow for liquidity. If secondary market did not exist, investors would have no place to sell their assets. Without liquidity, many people would not invest at all. (Hirt&Stanley, 1983, p.25)

The organized security exchanges are tangible physical entities. Each of the larger ones occupies its own building, has specifically designated members, and has an elected governing body-its board of governors. Like other markets, security exchanges facilitate communication between buyers and sellers. The exchange members will sell orders offer the shares for sale, and they are bid for by the members with buy orders, Thus, the exchanges operate as auction markets. (Weston & Brigham, 1996, p.39)

If a security is not traded on an organized exchange, it is said to be traded over the counter. In contrast to the organized security exchanges, the over- the-counter market is intangible organization that consists of a network of brokers and dealers around the

country. Today, the over-the –counter market is defined to include all facilities that are needed to conduct security transaction not conducted on the organized exchanges. (Weston &Brigham, 1996, p.40)

If investors could not resell securities readily, they would be hesitant to acquire them and such reluctance would reduce the total quality of funds available to finance industry and government. Those who own securities must be assured of a fast, fair and orderly and openly system of purchase and sale at known prices (Fisher & Jordan, 2000, p.18)

The Securities Board was constituted in 1993 under section 1 of the Securities Exchange Act 1993. Its main objective is to provide essential policy direction for systematic and regular exchange of securities and develop competitive stock exchange market by protecting and promoting the interest of the investors. Nepal Stock Exchange is a trading (operation) institution, whereas Securities Board is the regulatory body. Before the board came into existence, the Securities Exchange Centre carried on both the functions. Though any corporate body serious to carry the transaction of securities can submit application to the Board for the obtaining the license, till now Nepal Stock Exchange Ltd., alone is presenting the secondary market in the country.

2.1.2 Trading Procedure of Securities

Regarding the investor's investment decision criteria, there will be the factors to be considered or simply one can say there are the basic principles to be followed while investing in shares. Several procedures and facts need to be taken into account before buying and selling of securities. They are as follows;

i. Placement of order:

The investor must submit written buy and sale orders to the brokers to conduct the trading of proposed securities in prescribed formats.

ii. Points to be included in the order:

The buy and sale orders of the investors must contain the name of securities, its type, quantity value (i.e. fixed/maximum/minimum of as deemed appropriate by the brokers) and the validity of the order in prescribed formats.

iii. Obtaining receipt for the registration orders:

The investors must obtain receipt against the deposit of orders in which the broker members must state date, time and registration number.

iv. To obtain notification for the purchase and sale of securities:

After the transaction as per the orders are done the brokers must acknowledge the clients either on the same or next day in prescribed format.

v. To submit either purchase value or certificates:

The investors after getting the notification from the brokers must submit total amount required, in case of purchase and certificate of securities, in case of sale within five working days from the date of transactions.

In case of sale, the concerned seller must handover to the brokers the share certificates along with signed documents (transfer deeds, bond deeds) and buying investors must submit the total required amount. Brokers have those documents to the stock exchange. It is the duty of stock exchange to cross verify the certificate with the amount deposited.

vi. Commission of the broker:

The commission for his/her services ranges from 0.4 to 1 percent based on volume of trading.

vii. To receive the amount of share certificates:

The brokers have to submit the amount and share certificates within 5 working days from the date of transactions and they will be eligible to get payment and certificate on 8th day. On the 6th day stock exchange will do the crossing of documents and prepares bill and makes payment to the brokers on 7th day. If both the amount and number of shares and the company matched with each other, the amount will be transferred to the selling brokers account and certificate along with documents will be handover to the buying brokers. It is the investor who has to make decision whether to send those documents to the concerned company for the name transfer or to register it as blank transfer for the resale purpose.

viii. The tenure for the blank transfer:

The decision needs to be executed through the broker. If the investors make decision to register the purchased securities as blank transferred, it will be wise to continue this decision before the closure of fiscal year or before the book closure whichever is earlier. In order to send it to the concerned company, the investor must fill all the required forms, which are signed by the selling brokers and need to handover to the concerned brokers. The investors himself cannot send those documents for transfer.

ix. Receiving and making payment through cheque:

The investors must make payments or received payments from brokers either by bank transfer or through cheque.

x. Trading of the shares of the same company can take place at different prices:

The investors must be aware that shares of the same company can be traded at different prices or the buying and selling prices of the same company can be different from one transaction to another transaction. If the investors are in doubt regarding the purchase and sale of their securities, they can contact to the concerned authority of stock exchange with notification receipts.

xi. To be careful in risks involved in securities transaction:

Investing in securities is not gambling. The investors must be aware of certain principle to cope with the existing risk involved in trading and investing in securities. So, before making investment decisions, the investors must consult financial statements of the concerned company and price study. The speculators may create rumors in the market and if investors run after that it will be his fault but not of the brokers. The fund as well as the investment decision is of investors. So the investment decision will be productive also supportive to the market.

xii. Compensation from the deposits of the brokers:

Each and every broker has to submit the bank guarantee and cash deposits in the stock exchange. The stock exchange will make payments if stock exchange identifies any fraud committed by and also in case of default of the brokers or any case of like nature. If the deposited amount becomes short, the investors himself recover the balance from brokers.

xiii. Transaction based on mutual faith and trust:

It is the mutual faith and trust between the brokers and investors whether to do transactions without getting certificate or amount in advance. But as short sale and forward trading are not permitted once the transactions are done according to the orders, the documents and amount need to be deposited in any case. But if the client is new to the brokers they can ask certain amount in advance or also the share certificate along with signed and verified order in advance.

xiv. Investors if have any doubt can contact to the concerned authority for finding the reality:

The investors can contact the concerned authority of the stock exchange if they have any doubt and can clarify at any time after the transaction is completed.

xv. To have knowledge about trading, clearing and settlement procedures:

The complete knowledge about trading, clearing and settlement procedures for the investors is essential. If they do not have knowledge, the investors may be in dilemma. Hence, to obtain the information about these procedures either with the brokers or from published materials to stock exchange is the right of the investors.

xvi. Duty and rights of the investors:

If the problem exists while making investments it is the right and duty of the investors to inform the stock exchange authority. It is the right of the investors to get problem solved and is also their duty to make other investors aware about the existed problems. Hence, the investors should feel free to contact the concerned authority of stock exchange with any problem either with listed companies or brokers. (Subedi, 2003, p.85)

2.2 Participants in the Stock Exchange

The participants of stock exchange includes Stock broker, Security dealer(primary market and secondary market), Market makers, Issue managers etc.

2.2.1 Stock broker

A stock broker, as a member of stock exchange and sub-broker as any person who acts on behalf of stockbroker as an agent or otherwise assisting in buying selling or dealing in securities through such brokers. (Bhatta, 1997, p.23)

Any individual, a firm or company desiring to engage in the business of buying or selling securities and in other related activities in the capacity of only an intermediary for clients without purchasing securities directly in its own name is granted membership as a broker. If a broker wishes to purchase securities for himself or in his own name, he can do through other broker by giving advance notice to the stock exchange. The brokers

require to be registered with the securities board to perform securities dealing. A broker seeking registration with the Board has to apply through the stock exchange.

2.2.2 Security Dealer

Dealers trade solely for themselves and are prohibited from Handling 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 sales actions add up liquidity of the securities.

More than 57brokers and 1 dealers have registered in NEPSE. A dealer in the particular security issue must maintain firm bid and differing prices and must stand ready to buy and sell(for his own account) a given number of units at quoted price. Usually the minimum quantity for which a given bid or ask quote is assumed to be valid in base on the securities normal trading unit.

On the basis of the functions relating to transaction in securities, the security dealers are classified into two types of members:

i.Security dealer(Primary market)

The security dealer (primary market) is the dealer who provides pre- issue and post issue services for the sales management of securities which are being newly issued by a corporate body through a public issue or the circular method, underwrite the purchase of unsold issue shares, or performs other related functions.

ii.Securitydealer(secondary market)

The security dealer specializes in buying and selling securities,i.e.;securities issued by government and public bodies like NIDC, Citizenship fund and credit development Banks etc and they act mainly as a jobber and prepare to take risk inherent in the easy sale of securities to meet current requirements. The market is an over the counter (OTC) market and each purchase and sale has to be separately negotiated. The market, therefore tends to be restricted.

The security dealers (secondary dealers) are the dealers who deal in securities through brokers in the name of the investors or in his own name with the objectives of managing investment in securities presented at the stock exchange for transaction in his own name or by concluding investment management contracts according to the current law. (CEDA,1997,p.19)

2.2.3 Market makers

Someone who works on the stock market buying and selling stocks and shares is the stock maker. Market makers are firms that maintain a firm bid and offer price in a given security by standing ready to buy and sell at publicly-quoted prices. Market makers process orders for their own customers. Market makers also will buy securities from issuers for resale to customers or other broker/dealer.

The market maker is any company or corporate body which deals in securities at the Stock Exchange in its own name or under its name on the basis of pledge to provide liquidity to the securities issued by government as well as to the securities listed at the Stock Exchange by concluding necessary contracts with the concerned corporate bodies or to the securities of at least three corporate bodies, and not to let to occur improper instability in the prices of such securities, shall be granted membership as a securities market maker.

With the change in legal provision, out of six market makers, five market makers so far registered with the Nepal Stock Exchange have left the business of market making and confined their activities as dealer in primary market (new issue market) and as dealers in secondary market, they did not operate as market maker. At present, there is purely only one market maker, Nepal Share Market. Similarly, there is only one company dealing as primary dealer and market maker, which is known as Nepal Merchant Banking and Finance. Nowadays there is no market maker operating in the market. (CEDA,1997,p.20)

2.2.4 Issue manager

Issue manager carry out the functions related to public issuance of securities on behalf of the issuing company. Issue managers are required to submit their annual report including profit and loss account, balance sheet, cash flow statements and securities trading report to SEBON within four months of the expiry of the fiscal year.

2.3 Nepal Stock Exchange (NEPSE)

NEPSE was established in 1993 with objective of initiating floor trading imparting fair exchange, maintaining market liquidity of listed shares and facilitating the market makers.

Government of Nepal under a program initiated to reform the capital market, and converted security exchange Centre into Nepal Stock Exchange (NEPSE) in 1993.

The history of securities market began with the flotation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd in 1937. Introduction of the Company Act in 1964, the first issuance of government bond in 1964 and the establishment of Securities Exchange Centre Ltd in 1976 were other significant development relating to capital markets. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries such as broker and market makers. The trading floor was opened on 13th Jan '94 through the licensed members. Government of Nepal, NRB, NIDC, and licensed members (brokers and market makers) are the shareholders of the stock exchange.

The Board of directors of NEPSE consists of 6 directors in accordance with Securities Act, 2006. 2 directors are nominated by Government including chairman, 2 members from Rastra Bank, 1 from NIDC and 1 is nominated by BOD as expert in capital market.

The authorized capital of the Exchange is Rs.50 million. Of this Rs.20.89 million is subscribed by Government of Nepal and balance by NRB, NIDC, and licensed member. In the stock Exchange, there is an active bidding and two way auction trading takes

place. The bargains that are struck are the fairest price determined by the basic laws of supply and demand. The stock exchange participate to insure continuity of the price and liquidity to the investors. (Pant,2003,p.23)

The major function of stock market is to provide ready and continuous market for trading of the securities at a competing market for the trading of securities at a competing price. Among all the economical and financial markets,the stock price is pivotal institute to the financial system of the country's economy to finance long term capital for the corporate place for making investment and contributing to an efficient management of the economy regarding their performance.

The stock exchange ensures liquidity and allocates capital among firms by determining prices that reflects the true investment value of a company's stock. It provides an important allocation function by canalizing the funds to those who can make the best use of them presumably, the most productively.

Listing is one of the regular and continuous functions of the NEPSE. The transaction of securities cannot be made without listing. The listed securities will be traded through the licensed members, So it is the responsibilities of stock exchange to manage the trading floor smoothly in a regulated manner.

Government of Nepal can ask several advisory assistances with the Nepal Stock Exchange regarding the development of the capital market and the necessary activities that are to be conducted. In this situation, it is the duty of stock exchange and its officials to provide the best advices to the best of their knowledge.

2.2.3 Trading procedure of NEPSE

NEPSE has adopted "open out-cry" system. It means transaction of securities are conducted on the open auction principle on the trading floor. The buying broker with the highest bid will post the price and his code number on the buying column, while the selling broker with the lowest offer will post the price and code number on the selling

column on the quotation board. The market maker quotes their bid and offer price on their own board before the floor starts. Once the bid and offer price match, contracts between the buying and selling brokers or between the brokers and market makers are concluded on the floor.

NEPSE has fixed the board lot of Rs.10 shares if the face value is Rs.100. The transaction on regular trading should be done on at least one board lot. The transaction of less than 10 shares are permitted only on odd lot trading hours. The opening price of any day shall not be more or less than 10% of the previous trading day's closing price.

With regard to settlement, NEPSE has adopted a T+3 systems, which means the settlement of transaction, should be done within 3 days following the transaction day. Settlement will be carried out on the basis of paper versus payment.

The rate of brokerage commission on equity transaction ranges from 1% to 1.5% depending on the traded amount. The rate of brokerage commission on debenture ranges from 0.4% to 0.75%.

2.4 Security Board of Nepal(SEBON)

The Security Board of Nepal(SEBON) was established in 26 May 1993 under the provision of Securities Exchange Act 1983(first amendment 2040 B.S). Under the present act, the SEBON is responsible for the supervision of NEPSE. The Board has companies of seven board members representing several governmental and private bodies for the operation and management of the board.

SEBON was established with the objective of promoting and protecting the interest of investors by regulating the securities market. It plays the regulatory role and also responsible for the development of securities market in the country.

The Governing Board of SEBON is composed of seven members including one full time chairman appointed by government for tenure of four years. Other members of the

Board include joint secretary of Ministry of Law, Justice and parliamentary Affairs, representative of NRB, representative of Chartered Accountant of Nepal, representative of Federation of Nepalese Chambers of Commerce, member appointed by the government on recommendation of SEBON from among the experts management of securities market, development of capital market, financial or economic sector.

The major sources of financing of SEBON are the government grant, transaction commission from the stock registration and renewal of stock of intermediaries and the income from mobilization of its revolving fund.

2.4.1 Functions of SEBON

The major objectives of SEBON is to regulate the securities market and protect investor's interest. As per the securities related Act, the major functions of SEBON are as follows:

- To offer advice to government on matters connected with the development of the capital market.
- To register the securities of corporate bodies established with the authority to make a public issue.
- To regulate and systematize the issue, transfer, sale and exchange of registered securities.
- To supervise and monitor the functions and activities of stock exchange.
- To inspect whether or not any stock exchange is executing its functions and activities in accordance or the rules and bye-laws framed under this ordinance, or to suspend or cancel the license of those which is not found to be doing so.
- To grant permission to operate collective investment schemes and investment fund programs, monitor them.
- To systematize or make transparent the act of acquiring the ownership of a company or gaining management by purchasing its shares in a single lot or in different lots.
- To establish coordination and exchange cooperation with the appropriate agencies in order to solve matters concerning securities or companies.

- To discharge or make arrangements for discharging such functions as are necessary for securities and the capital market.

2.5 Need of Securities Market to the Less Developed Countries

The economic development demands the regular flow of funds and the flow is possible only through the proper financial system. If the appropriate system is not developed nobody rely and cannot mobilize the required funds. A sound financial system consists of different financial intermediaries as well as the market itself. The role of these intermediaries is very vital to the economic development.

The process of industrialization is the continuous process. The development of the nation depends upon the number of companies incorporated. But the incorporation of industries requires huge mobilization of funds. In earlier days, the common practice was to mobilize only the domestic savings. But present era is considered as the era of globalization and capital market is so dynamic that it encourages and assists to mobilize not only the domestic but international funds too. In order to achieve this target, government must be aware of the need of the developed capital market and it must amend all the relevant acts, rules and regulations.

The securities that are published either through primary or secondary market if sold at high prices, the difference between the sale price and buy price represents the capital gain. The amount of capital gain is subject to tax. So the existence of effective and efficient market is highly essential.

Once more and more companies are established in the country, government will be able to collect more revenue taxing in different ways like sales tax, income tax, VAT, dividend tax, custom duty etc. Collecting more revenue from established business, the government will be able to launch different development activities in the country. Besides this, the government also can establish the business in which general public are

not interested due to long gestation period and also due to the requirement of huge investment.

Underdeveloped countries generally come across a situation where entrepreneurs do not find sources or productive investment while savers invest their money in real assets or relatively low social productivity. The financial institutions remedy such a situation by soliciting the resources from savers by offering them a variety of financial securities differentiated in maturity, yield provide them to the most efficient users.

People in underdeveloped countries generally prefer to accumulate their savings in the form of precious metal, jewelries etc. the capital mobilization has to encounter this habit. This may be due to the lack of knowledge, illiteracy, unwillingness to take risks etc. Thus, the securities market, in Nepalese context, by retrospection its track record has got rejuvenation in term of market capitalization at present. Though the market development has not gone parallel with its Asian and African counterparts and categorized as least developed stock market.

2.6 Problems of Secondary Market

In Nepal, the market is at early stage of development. It is important that the govt. create the right policy environment to facilitate the creation of a critical mass of financial instruments, issues and investors. Until now, the stock market development in Nepal has not reached its full potential for much reason, which are as below:

a. Political Instability

The establishment of parliamentary democracy in 1990 opened the way for sweeping economic reform and a program of great scope was carried out between 1991 to 1994 . This embraced policies on finance, foreign and domestic trade and investment. industry and foreign exchange and start to privatization. A change of government then led to privatization and set back macro economic stabilization, Thus, political instability

changes the investor's expectations about the prospects for the economy in a certain environment.

b. Investment of saving in Bank Deposits and Govt. Securities

In Nepal, the stock market is new and the investors do not properly understand the risk and reward of investing in the stock market because of this individuals and institutions are putting their savings in to bank deposits and fixed interest govt. securities, Thus, long term saving (stock market) are going into short- term instruments.

c. Lack of Money and Bond Market

The development of a money and bond market in Nepal is essential in order to have a critical mass of financial instruments that is needed for economically viable securities market. The development of money market in commercial paper and other negotiable debt instruments would provide an alternative source of funding for the private sector and would foster greater competition in the financial sector.

d. Institutional Framework

The secondary market in the country was not well developed and is still in creeping stage. It had licensed two types of members such as market makers and member brokers. As the amended Securities Act separated the role of a market maker to work as an issue manager, the member ceased to play this role. Besides this, the directives issued by NRB limited the investment percentage of the finance companies that are involved in these activities, and then it further reduces their participation. This is special job to be offered to stabilize the unnecessary movements of the market. It requires holding certain number of shares because they have offloaded the shares to achieve the market. But different institutions have put the maximum ceiling to hold the shares. Actually, the ceiling put by the companies is not sufficient to do this activity. The additional fund requirement became problematic and commercial banks do not provide any loan against their portfolio. So, they ceased to be a market maker.

e. Trading procedure

NEPSE has started open outcry system for operation of secondary transaction for listed securities. This system has its own merits and demerits. Most of the foreign countries have already been shifted from this system to electronic system. This experience has shown that the volume of transactions has tremendously increased due to the increased participants to earn capital gain with more accuracy and other facilities. Nepal is still unable to afford this type of system.

f. Netting

In the process of making transaction, the brokers make both the purchase and sale of securities on behalf of their clients. They receive money from their clients and have to pay to their clients. In this case, they have to deposit the total amount required and also receive the total payment from NEPSE. Here, NEPSE has adopted the paper versus payment system. As the volume of the transaction goes on increasing creates more jobs to the NEPSE people. In this situation, there are possibilities of being fraud and errors and delay in making payments. This sort of problem can be minimized by netting and automation.

g. Manpower Development

The stock exchange can be operated effectively and efficiently only through the skilled manpower. The knowledge of the manpower can be developed only through the recruitment of the well-educated and trained manpower. Such recruited manpower must allow to participating in national and international training and seminar. In our context, NEPSE is not able to afford to provide international seminars and it has to look towards the government. but government is not allocating any opportunities to provide training to the employees of the organization. They are getting just on the job training and brushing up the knowledge of the employees.

h. De-listing of Securities

Each and every public limited company must enlist its securities to make them eligible for trading. Such listed company must furnish different types of information including the price affecting information under the securities exchange act. Besides this, the listed company must pay the annual fee regularly. If the company doesn't furnish annual fee including the different information to the stock exchange, it can be de-listed according to the securities exchange act. The securities of such companies are not allowed to trade. It means investors will be sufferers. So the liquidity of the company is hampered. This is because we do not have over the counter market, where the de-listed securities can be traded. But in the absence of this market, they will be illiquid, So, this became the problem for the development of the market. However, OTC market has just been introduced and activated with the recent NBL's share transaction.

i. Cooperation

Cooperation as we know is one of the major activities of the management for the success of an organization and different activities there on. But the sense of cooperation is lacking in NEPSE. Actually saying, there must be keen cooperation among SEBON, NRB, GOVT., and other related organization including staffs of the NEPSE.

2.7 Impact of Stock Exchange on Economic Growth

The economic development demands the regular flow of funds and the flow of fund is possible only through the proper financial system. If the appropriate system is not developed, no body rely and cannot mobilize the required funds. A sound financial system consists of different financial intermediaries as well as the market itself. The role of these intermediaries is very vital to the economic development. Therefore, the channelization of funds required for the economic development is possible through sound financial system.

The development of economic activities is very crucial and difficult task. It requires a huge amount of fund because entire activities of financial system need to be developed. The former securities exchange center from the very beginning of its incorporation initiated to develop the financial system within the country. Securities exchange center (SEC) from its beginning to till the conversion into NEPSE managed 26 issues of 25 companies. After the conversion of SEC into NEPSE, the task of capital market is specialized and the issue management tasks is started to be done by the licensed institutes.

Stock market impacts on economic growth by the creation of liquidity. Since, there is liquidity and less risk of loss in financial instruments, the savers are stimulated to invest in stock, bonds etc. Such investment yields returns. In case of need, cash can be received by selling such securities promptly in the secondary market, on account of which it is easier for the capital market to mobilize resources.

Along with the reinstatement of parliament, new avenues have opened for the business sectors. There is also the possibility of more investment opportunities. Of late, the public has become more aware and interested in the capital market. The growth of stock market is undoubtedly, related the growth of overall economy. But unscrupulous activities are said to be affecting the share bazar. Some professional investors are applying for more shares by illegally using photocopies of others citizenship. Such malpractices must be stopped at once. Adopting the computerized system for transactions, will increase the number of shares brokers. Increase in trading time will also help in substantial development of the capital market. All the shareholders must come together and solve the problem confronting this sector.

2.8 Present Status of Stock Market in Nepal

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 207 in 2011. During this period, their paid up capital surged up from Rs.341 million to Rs. 100238

million. Number of listed companies increased by 12.93 times, whereas the paid up capital went up 293.95 times. Market capitalization of listed shares has been rising continuously, except with a few cases volatility. It has reached Rs.323484.34 million in 2011 from Rs.548 million in 1986. The ratio of market capitalization to paid up value increased from 1.6 times in 3.22 times in 2011. Though the annual turnover is much volatile, it has reached to the highest level of Rs. 10.27 billion in 2011/12 from Rs.10.1 million in 1986.

The data for the year 2011 reveals that commercial banks occupy the topmost position in term of annual turnover, market capitalization and NEPSE index. Development bank occupies second rank. Finance companies in third position and insurance companies in the fourth position. Throughout the year, it has witnessed a continuous sharp- rise in the price index except few cases. The NEPSE index started with 435.70 in august 2010 to 362.85 in July 2011 with a decline of 24.04% than that of the last fiscal year index of 177.73 points.

Market liquidity or ability to buy and sell securities easily also is indicated by two measures. One is total value of shares traded on the stock exchange divided by GDP. The second measure of liquidity is the turnover ratio, the value of total shares divided by market capitalization. Thus, turnover by capturing trading relative to the size of the stock market complements the total value ratio, which compares trading the size of the economy (World Bank, 1995.p.120)

During fiscal year (FY) 2005/2006, the Nepalese economy recorded poorest real sector performance since FY 2001/2002 mainly due to the unfavorable weather situation and acceleration of Maoist insurgency. Real gross domestic product (GDP) (at 1994/95 producers' prices) is estimated to have registered a lowest growth of 1.9% in FY 2005/2006 compared to that of previous three fiscal years. However in the current fiscal year, real GDP is estimated to have improved marginally to be 4.2% whereas the GDP of 2011 and 2010 is 3.5% and 4.6% respectively.

As the Nepali stock market gets modernized with some reforms to bring in stability in share prices and develop it as a barometer of the economy within a free market system, a Sensitive Index (Sensex) has been introduced in the NEPSE. The new sensitive index, like in other countries, would inform investors about the price movement in shares of companies which are categorized under the NEPSE Sensex. The new index would help disseminate reliable information to investors and bring stable growth in the stock market.

Though the number of shares listed has steadily gone up along with the number of listed companies, market capitalization could not pull itself up as share prices are dismally low. (The Himalayan Times, March 27 '011)

The open out-cry system is being replaced through automation to expand stock market transactions and cut down on possible risks. The long-awaited objective of the government. and pro-market reformists has been finally met after the trading of development bonds worth Rs. 4.95 billion on the stock market. Once the trading of development bonds takes hold in the stock market, it will boost liquidity and the borrowing cost of the govt. will go down. The transaction of development bonds is a new kind of instrument in the stock market issued by the govt. It will boost capital market by being a 'risk free' instrument. The market maker of development bonds has already reached three firms that include Ace Finance company Ltd, Nepal Shares Market and Finance Ltd, Nepal Merchant Banking and Finance Ltd.

During the current fiscal year 2010/11, share market activities remained mixed the total turnover declined sharply by 43.75% while the market capitalization recorded also decline. Similarly, closing NEPSE Index this year decline substantially to 362.85 compare to the last year level. The sharp fall of total turnover was noticed due to primarily the higher base of last year.

The total turnover in fiscal year 2010/11 is Rs6665.18 million, registering a sharp decline of 43.75% from the last year record. Of this turnover, commercial banking sector's dominates all other sector's turnover. The total number of this

commercialbanking sector is Rs3431.82million, which is 51.49%. In the same way, Development bank have turnover of Rs. 813.24 million, which is 12.20% and occupies second position. Likewise, finance sector's turnover of Rs.630.70 million lies in the third rank, comprising 9.46% of total transaction. The insurance sector ranks in the fourth position occupying 5.66% of total transaction, registering its transaction worth of Rs.377.15 million.

The turnover of commercial bank and development bank sectors decline by 52.31 % and 38.53% respectively. However. the turnover of finance, trading and other sectors also decline by 50.1%, 21.93 % and 51.69% respectively. But the turnover of insurance, hotel and manufacturing and processing sector is increased by 105.56%, 1397.74%, 862% respectively. If we analyze the NEPSE index, it was 477.73 points in 2009/10, which went down to 362.85 points in 2010/11.

The number of listed securities in fiscal year 2010/11 is 1033674 million whereas such numbers were 821746 million and 637868 million in 2009/10 and 2008/09. It reveals that the number of securities increased by 25 78% in the year 2010/11 and 28.82% in 2009/10. If we analyze the securities in terms of their value, it was Rs.61140.39 million in the year 2008/09, Rs.79356.73 million in 2009/10 and Rs. 100238.85 million in 2010/11. It indicates the increase in amount by 29.79% in 2009/10 and 26.31%. in 2010/11. The number of listed companies increased by 31 (17.61 percent) to 207 in FY 2010/11 while this number had increased by 17 to 176 in FY 2009/10. Increase in the number of listed companies indicates increasing interest of public towards the establishment of companies in the country. Sector wise, the number of listed commercial banks remain constant to 23 in FY 2010/11 while the number of development bank increased by 21 in the fiscal year 2010/11. In the same way, the number of finance companies reached to 70 registering an increment of 8 companies.

Out of the 207 listed companies more than 85% of the transactions took place in the stock exchange related to the securities of the commercial banks and financial institutions. Present government is taking more seriousness to develop the securities market in the country. Currently, we are operating the exchange through manual basis.

There are no custodians. The government has given higher priority to strengthen the capital market and has launched Corporate Finance Project for the trading automation under the assistance of Asian Development Bank.

B. Review of Articles and Journals

Nepal Stock Exchange Pvt. Ltd. (NEPSE), in a bid to make share transactions in the stock market more competitive and transparent, has annulled the provisions of "matching transactions" and "blank transfer" effective from September 18, 2006. Shankar Man Singh, general manager of NEPSE, informed media persons that the decisions to revoke blank transfer and matching transaction was taken to stop the possibilities of fake transactions in the stock market. This is the first time; the NEPSE has taken this decision with new rules and regulation to control the manipulation of stock market by brokers. Similarly, NEPSE has implemented a circuit breaker system to control unpredictable share price hike, Karki said. It will ultimately help in developing the habit of analyzing stock market before investments are made by the general public. These market instruments are already in use to strengthen stock market, maintain transparency and enhancing the credibility of the market. The initiatives were taking following as announcement in the monetary policy by the Central Bank that affected the stock market greatly. NEPSE stopping the matching transaction of commercial bank's share, including the investors association (NSIA) has also welcomed NEPSE's new provision in the stock market in introducing transparency and controlling scandals in share transaction (THT, 2011 September 20)

The Nepal Stock Exchange Ltd.(NEPSE) has decline by 35.6% to 404.43 points in September 2011, according to the Central Bank. It stood at 628.34 points in the same period last year. Similarly, Sensitive index stood at 98.94 points in mid-September against 160.79 points in the same period last year. The boom in the stock market is just artificial as there is no added substance in the performance of the listed companies. The only new thing in the market has been the new Company Act which has necessitated banks and finance companies to increase their paid-up capital to Rs.800 million and make it mandatory on them to hold AGM. A possible reason for the hike in the share

price is various company having announced a number of 'rights and bonus' shares. In addition, time for AGM of many firms is also approaching, dangling the possibilities of new bin uses, market expert said. However, the market cannot spiral out of control due to the introduction of 'circuit breaker' in the stock exchange. Karki also said that manipulators are strongly rooted in the stock market and take advantage of such situation. "While observing the NEPSE index and Nepalese economic data, the stock market synchronizes with the fundamentals. The amount of rationality may differ from the developed market to the underdeveloped market like Nepal, but the trend of rationality has to be same". (THT,2012 August 14)

Investment in stock market has witnessed as unprecedented growth thanks to 'margin lending', a short term lending schemes from financial institutions for investment in shares. Banks, finance companies and cooperatives all are giving out collateral free loans with a minimum balance of five percent of the total amount required for investing in security market, especially for initial public offering (IPO). Such a lending has created an irresistible demand for shares that recent IPO's have reflected in the overwhelming response from investors. Recent IPO'S from Sanima commercial Bank Ltd. (SBL) and Gurkha Development Bank Ltd. (GDBL), both of which generates the largest response so far, is a testament that margin lending created a huge demand from investors. Banks and finance companies have increase their lending in stocks, as margin lending has found to a lucrative avenue for the investment. The ban in 'cross holding' between two companies has also resulted in a rise in margin lending, which has impacted both primary and secondary markets. Cross holding to a certain extent should be allowed to self-regulate the market. On one hand margin lending has facilitated investors who can now invest in shares with a small amount in hand. On the other hand, it has become a lucrative business for many banks, finance companies and cooperatives, as they charge interest of seven to twelve percent along with processing and service charge of 0.25 to oe percent of the total amount (THT,2007 January 27).

Till a couple of years ago, investors were allowed by NEPSE to observer the trading floor from a closed observation room, but it was stopped after the state of emergency

was first declared. As the investors repeatedly demanded the facility to know how the stock prices were moving inside the floor, NEPSE arranged priced changed announcement over a loud speaker but this was also stopped after some time. Then, the investors found window opened to the floor and they are using it only to observe the floor and thus influence the market. The most important reason why the NEPSE is reluctant to close the window is the profit motive of the stock exchange. The window is helping to increase the trading volume whereby the stock exchange too gets a higher commission income. If the window is closed, the trading volume may decrease and so will the NEPSE income (New Business Age, 2005 August, p.53).

The annual budget for the fiscal year 2004/05 has overlooked the importance of development in Nepali capital market. It again talked about increasing the efficiency of the stock market as was stated in the previous year's budget. But no new programs has been introduced to increase the efficiency of an old-aged open outcry and paper based system. The promise of the government to list the government bond in the stock exchange for the easy access to the general public has not yet been fulfilled (New Business Age, 2004 August, p.56).

History tends to repeat itself. The securities analysts, who analyze securities presenting the past data on the charts, graphs, figures etc. and forecasts whether the price will fall or rise, agree to this theory and say the share price once turned bearish definitely turn to be bullish sometimes in the future. These analysts assume that the market price is a function of demand and supply of stocks and commanding forces behind the demand might be various factors like political, economic, financial, national, international events as well as the information disclose by the companies. The various factors make the people either invest in the securities or disinvest. These decisions eventually result in the demand and supply of the stock to go up or down (New Business Age, 2004 September, p.59).

The government has announced that beginning the new fiscal year 2005/06, companies listed in NEPSE will have to pay a 2% lower tax than applicable to similar other unlisted

companies. This is being done with the intention of motivating companies to go public and list their securities in the stock exchange. This reduction will increase the net profit after tax of the companies if they list their securities in the stock exchange. However, this reduction in the tax cannot be expected to affect the listing of the banks, finance companies and insurance companies because there are no new such companies which are unlisted. Those few that are unlisted are already prepared to go to the public and get listed (New Business Age, 2005 August 6)

C. Review of Thesis

In order to collect and study about the stock market, I went to central library (Kritipur) to make the study on Thesis, prepared by seniors in past. Similarly, I studied the thesis available in our college.

Surya Chandra Shrestha (1999) has conducted research on "Stock Price Behavior in Nepal". Shrestha had used autocorrelation and run test to detect the dependence among the stock price series.

The objective of the study was:

- To determine whether the sequence of price changes are consistent with the changes of the series of random numbers expected under the independent Bernoulli process.
- To examine the series correlation of the successive daily price changes of the individual stock.
- To determine the efficiency of the stock market through the theoretical model of efficient market hypothesis in the Nepalese stock market.
- To provide the feedback policy inputs towards institutional development of efficient market.

The major findings of his study were:

- The serial correlation coefficient of the log price changes of the 30 stocks for the sample period is significantly departed from zero. This implies that price changes of the past and present can be of much help to forecast future price changes. Therefore, there exists sufficient amount of opportunity for the sophisticated investors.
- The mean value of serial correlation coefficient are lower when the lag days are increased. So, the information of the past price changes have lower price to predict the future price changes for longer days.
- Some company's serial coefficient of the daily closing price changes on natural log for lag days from 1 to 15 are negligible while some other has most of the coefficient closer to zero. This means there exists no profitable trading rules to make greater profit than they would make under the naïve buy-and-hold strategy. To discuss theoretically the movements of the stock market price changes of an individual common stock market as a whole.
- in their speculation through the past price changes information. Therefore, to make return more than the market return on these stocks, acute fundamental and other analysis are required which accurately predict the appearance of the new information in the market that have impact on price and appropriate estimation of the value because of that information.
- There exists significant difference between actual numbers of runs for the series of daily closing price changes of the market. This test also verifies the fact that the price changes is not random or the price changes in the present and future stock market will not be independent from the price change of past and present respectively.

He analyzed 30 listed companies' stock price and found that the successive price changes were dependent, He finally concluded that NEPSE was not efficient in pricing shares even in its weak form.

MuktiAryal (1999) has conducted research on "The General Behavior of Stock Market". The objectives of this study were:

- To develop the empirical probability distribution of successive price changes of an individual common stock market as a whole.
- To examine whether the successive price changes of stock market are independent of each other or not.

The major findings of this study were:

- On the basis of run test and serial correlation, it seems that has independent assumption of walk model in the stock prices is rejected by the collected sample data of 21 companies at least as a description of price behavior of NEPSE. The stock price changes depend on each other.
- The random walk of security speculative price behavior has been refuted at least in the Nepalese context, which clarifies that the knowledge of the past becomes useful in predicting the future movements of stock market price.
- The securities in the past were incorrectly priced either over or under valued, as actual market price of securities do not reflect their intrinsic value.
- There exists frequent persistence than reaction in the general stock market climate because of the investor's irrational behavior that causes irrational movement of prices of stock.
- General stock market of Nepal for the initial period appeared to be inefficient in incorporating the possible appearance of information into the successive price changes. Therefore, the investing publics are not aware of the information available publicly, appropriately in adjusting with the actual market price.

He performed a test of weak form efficiency by examining whether the stock price behavior follows random walk or not. He concluded that the knowledge of past is useful in predicting the future movements of stock market prices.

RekhaPanta (2000) has conducted research on "Current problems and prospects of securitiesmarket in Nepal". The major findings of this study were:

- NEPSE does not have appropriate policies, memberships and fee structure to attract members outside the Kathmandu.
- In Nepal, the overall policy environment has not been conducive to the development of stock market. Therefore, it is difficult to develop more efficient secondary market, trading system for both equity and debt security.
- In Nepal, banks dominate primary market in government debt instrument. OTC trading is not permitted; therefore, secondary market is totally inactive.
- The development of stock market primarily depends on program and the implementation.
- Lack of necessary provision in the laws and regulation for the privatization and automations of stock exchange as well as for the establishment of central depository of securities (CDS).
- Restriction on foreign portfolio investment hindered market development.

She did not point out the transparency and openness of transaction and quality professional services are adequate. Corporate financial disclosure and improved legal, regulatory and supervisory framework are the urgent needs of Nepalese stock market

Rabindra Bhattarai (2002) has conducted the research on "Clearing and settlement system in Nepalese Securities Market". This study is based on the descriptive research design. Percentage, chi-square and rank correlation have been used to meet the objective of this study.

The objectives of this study were:

- To analyze the investor's awareness regarding the clearing and settlement system in Nepalese securities market.
- To study whether the present provisions are strictly followed or not.
- To point out suggestions to make the clearing and settlement more effective and convenient to the stake holders of securities market in Nepal.
- To study and analyze the present provisions regarding the clearing and settlement system in Nepalese security market.

- To find out the investors cost with in the clearing and settlement period.

The main findings of this study were:

- With respect to the investors awareness about process of transferring the title mentioned in the Company Act(1969), majority of the respondent stated that they were not aware and not satisfied with the current clearing and settlement system.
- Company Act (1996) does not clearly mention the time of transfer of title after the date of application received. It states only the time for giving information of refusal of the transfer of title. It also does not mention any provision of temporary transfer.
- With respect to the investors cost (annual) within the clearing and settlement period, majority of the respondent stated the investor lose 5-10% annual cost within this period.
- Settlement of trade within 5 working days after the trade and member who do not settle the transaction are not given to transact the share, majority of the respondent stated that all the trades are compared within the date of trade, all the transactions are settled within T+5, members who do not settle the transaction are not given to transact the share.
- Company Act (1996) is also the part of the regulation of the capital market. The development of the information technology and its adaptation in the securities market, the physical certificates are continuously dematerialized and titles are transferred electronically. The Company Act (1996) is completely silent about these aspects and adaptation of the modern technology.

Lok Raj Paneru (2003) has conducted research on " Stock Market and Economic Growth". Various related variables have been used for this purpose. The statistical technique of regression analysis has been used for this analysis.

The objectives of this study were:

- To evaluate the relationship between various indicators of the stock market development such as market capitalization, turnover, value traded and volatility

with the various indicators of economic growth such as the per capita income growth, saving mobilization, physical stock growth and productivity growth.

- To examine the role of stock market in the saving channelization and capital mobilization.
- To assess the significance of the stock market in the corporate expansion, capital stock growth, productivity growth and employment generation.

The major findings of his study were:

- Saving has positive but insignificant relation with traded. But it is negative, through significant relation with other stock market variables such as turnover and volatility is quite surprising and not consistent with the assumption.
- Size of the secondary market as measured by market capitalization, is also in constantly increasing trend. Through the increase in the size of the market is not very quick and fast, but keeping in mind the state of our economy, it is encouraging. The economy as measured by the GDP is also in increasing trend.
- The size of primary and well as secondary market has the positive influence on the overall size of the economy.
- The existence of the stock market is most likely to increase in the investment level and profit level of the firms which ultimately leads to use of better technology and more jobs for the people. The profit making firms also pay revenue to government which helps the government to increase their spending in the infrastructure development which further lubricate the process of economy growth.

The major part of his study is concerned with the testing of association of stock market with economic growth. To find the relationship between primary market activities and secondary market development, the amount of equity issuance approved in the primary market is compared with market capitalization, turnover and value traded. It is done to find some kind of relationship between primary and descriptive as well as analytical approach where descriptive approach will be utilized mainly for conceptualization of the problem and analytical approach will be followed mainly to analyze the effect and cause of price movement of various listed companies in NEPSE.

Devaki Pathak (2006) has conducted research on " Stock Price Movement of Listed Companies on Securities Market in Nepal". The proposed study was based on following objectives:

- To analyze the trend of the Nepalese stock market.
- To examine the stock market situation in Nepal.
- To analyze the related variable of the stock price movements.
- To examine and study the impact of the signaling factors and the stock price with the help of NEPSE index.

The major findings of his study were:

- On analyzing the trend of 4 years NEPSE index in different months with the help of monthly trend, showed that the index in the year 2000 was in increasing trend, 2001 was in decreasing trend, 2002 was sometime increasing and 2003 was in rapidly decreasing trend, we can say that there is negative correlation between 4 years.
- While analyzing the rate of listing new companies it was seen that there was increasing trend from the year 1994/95 to the year 2000/2001.
- Studying the sector-wise monthly analysis for one fiscal year (2002/03), it was found that there exists unsystematic activities of the Nepalese stock price.

DurgaRanaMagar (2008) has conducted research on " Growth and Problems of Stock Market". She has shown the growth and problems of stock market in descriptive manner with the help of tables and charts.

The objectives of this study were:

- To examine the current status of stock market.
- To find out the problems of Nepalese stock market.
- To develop the alternatives to solve the problems of stock market.

The major findings of this study were:

- Market capitalization was satisfactory till that period. However, growth of listed companies, number of issue managers and growth of annual turnover and growth of NEPSE index was not satisfactory.
- The investors were facing different problems and difficulties. So, it was conclusive that the major problems are lack of investment opportunities, lack of awareness, insufficient legal rules etc.
- The increase in the number of listed companies, increase in market turnover and liquidity and marketability were the main factors for the prospects of Nepalese Stock Market.
- The stock index at 2005/06 of around 386.83 had been satisfactory as compared to 227.54 of 2001/02. Listed companies were also slow to bring their securities in the market.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights the research methodology used for the study of "Growth, Problems and Prospects of Nepalese Stock Market". In this regard, this chapter explains not only the research methods but also considers the logic behind the methods.

3.2 Research Design

This research is based on secondary data and primary data analysis. Hence, the analytical and descriptive research design have been used to conduct the study of growth, problems and prospects of Nepalese stock market.

3.3 Population and Sample

The analysis of stock market, its growth, problems and prospects depend on the number of the company listed in Nepal Stock Exchange and major economic indicators are taken as total population. The companies that are in existence and doing share transactions in NEPSE and the factor that affects the present economic growth are considered as the sample of the study. The required data have been collected from the various sources; but mainly from the annual reports of security exchange board covering a period of 2001/02 to 2010/11. Therefore, all the companies listed in the stock exchange are taken for the study.

3.4 Sources of Data

The data have been collected from the central office of Nepal Stock Exchange (NEPSE), and Securities Board of Nepal. The main source of data is annual report of SEBON. Besides annual report, various bulletins and journals available and useful to the study are also taken into consideration. The research is based on both primary and secondary data.

Primary Data

The primary data are collected through questionnaire and informal interview of concerned persons like officers of SEBON and NEPSE, share brokers and investors. All together 40 copies of questionnaire were distributed to the persons and institution of which 87.5 percent of questionnaire has been collected during the study period. 10 questionnaires were distributed to the staff of SEBON of which seven were received. Share broker filled all 10 questionnaires. Investors also filled 10 questionnaires.

Secondary Data

The secondary data are collected from the annual report of the Security Board Nepal, different books from library, newspapers cuttings, company's magazines and unpublished thesis that are directly related to the financial performance and stock market would from secondary data for the purpose of this study. Significant information is also collected from various websites like www.sebon.com, www.nepalstockexchange.com, etc.

3.5 Data Analysis and Processing

The main purpose of analyzing the data is to change it from an unprocessed form to an understandable presentation. Method of analysis is applied as simple as possible. Results are presented in tabular form and clear interpretations on it are given simultaneously. This study is mostly based on the analysis of secondary and primary data with the help of different statistical tool like diagrammatic presentation and mean. The empirical result has been extracted in this study by using annual data of listed companies from 2000/01 to 2010/11. To draw the conclusion by analyzing the data, simple statistical tools will be used as follows;

Arithmetic Mean

An arithmetic mean is the value, which represents the group of values and gives an idea about the concentration of values in the central part of the distribution. An average gives us a point, which is most representative of the data. The value of arithmetic mean lies in between the two extreme observation of the entire data.

The value of AM is obtained by adding together all the items and by dividing this total by the number of items.

Mathematically,

Arithmetic Mean (AM) is given by, $\bar{X} = \frac{\sum X}{N}$

Where, \bar{X} = Arithmetic Mean

N = Number of Observations

Diagrams

Diagrams are visual aids which give a bird's eye view of a set of numerical data which show the information in a way that enables us to make comparison between two or more sets of data. In this study, this method is used to show the clear picture on growth of NEPSE index.

In this study, to show the performance of NEPSE in the Securities Market we have analyzed in the different headings, which are as follows;

- Analysis of yearly Volume and value of traded stock and NEPSE index.
- Analysis of paid up value.
- Analysis of turnover.
- Analysis of secondary market development.
- Market capitalization of listed stocks in NEPSE.
- Stock price index of Nepal Stock Market.

3.6 Limitation of the Methodology

The problem of unavailability of consistent data is one of the major limitation of the study and therefore, where not available provisional data have been used. The limitations of the statistical tools and techniques have been ignored.

Due to the time constraint the study has not Devine deeper in the some areas of the study, which needs further research.

The study combines the data of SEBON and NEPSE. So, few data may differ from the record of their company in the same topic of same year.

The method used in this study is simple and easy to understand as it uses only tables and charts. So that, the result may not be accurate.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

In this chapter, the relevant and available data and information from Nepal Stock Exchange (NEPSE), Security Board of Nepal (SEBON) and different articles are presented, analyzed and interpreted to find out the growth, problems and prospects of stock market in Nepal. The data is collected through primary and secondary sources. This chapter is divided into two parts, the first part deals with the presentation and analysis of secondary data and second part deals with presentation and analysis of primary data.

4.1 Presentation and Analysis of Secondary Data

This section deals with the presentation and analysis of the collected secondary data. This part of the chapter reveals the growth of Nepalese stock market in terms of yearly volume, value traded stock, NEPSE index, turnover, market capitalization etc.

4.1.1 Analysis of yearly volume and value traded stocks and NEPSE index

This deals with the amount of yearly volume of different listed companies along with traded stocks and NEPSE index.

(Rs. in million)

| Year | No. of companies | No of shares | Market Capitalization | Traded total turnover income'000' | Yearly NEPSE index'000' |
|-------------|-------------------------|---------------------|------------------------------|--|--------------------------------|
| 2001/02 | 69 | 6004 | 34704 | 1540.63 | 227.54 |
| 2002/03 | 80 | 2427 | 35240.40 | 575.8 | 204.86 |
| 2003/04 | 92 | 6468 | 41424.77 | 2144.3 | 222.04 |
| 2004/05 | 102 | 18433 | 61365.88 | 4507.7 | 286.67 |

| | | | | | |
|---------|-----|-------|-----------|----------|--------|
| 2005/06 | 110 | 12221 | 96763.74 | 3451.43 | 386.83 |
| 2006/07 | 116 | 18147 | 18630.13 | 8360.1 | 683.95 |
| 2007/08 | 136 | 28599 | 366247.5 | 22820.8 | 963.36 |
| 2008/09 | 170 | 30547 | 512939.07 | 21681.14 | 749.10 |
| 2009/10 | 198 | 26231 | 376871.37 | 11851.11 | 477.73 |
| 2010/11 | 222 | 26240 | 323484.34 | 6665.18 | 362.85 |

Source: Trading Report of NEPSE 2010/11

Table 4.1 shows the yearly volume and value of traded stocks are fluctuating. There is rise in market capitalization in fiscal year 2008/09. Similarly, NEPSE Index also is in increasing trend up to fiscal year 2007/08 and after that year it started to decrease. Number of listed companies increased from 69 in the fiscal year 2001/02 to 222 in the year 2010/11. The largest number of share was traded in the FY 2008/09 then it decreases to 26240.39 in FY 2010/11. There is rise in market capitalization in FY 2008/09 with Rs. 512939.07. Traded total turnover income decrease to Rs.6665.18 in FY 2010/11 from Rs.8360.1 in FY 2006/07. The lowest turnover income was in the FY 2002/03 with Rs.575.80. Similarly, NEPSE Index also is in increasing trend up to FY 2007/08 and then started to decrease. The highest NEPSE Index was in the FY 2007/08 with Rs.963.36 point and lowest in FY 2002/03 with 204.86 point.

4.1.2 Analysis of Paid up Values

Paid up value indicates the actual amount of the investment in assets.

(Rs. in million)

| Year | Paid-up Value | Percentage of Growth |
|-------------|----------------------|-----------------------------|
| 2001/02 | 9685.0 | 18.16 |
| 2002/03 | 12560.1 | 29.69 |
| 2003/04 | 13404.9 | 6.73 |
| 2004/05 | 16771.9 | 25.12 |

| | | |
|---------|-----------|--------|
| 2005/06 | 20008.6 | 19.30 |
| 2006/07 | 21798.8 | 8.95 |
| 2007/08 | 29465.8 | 35.17 |
| 2008/09 | 61140.39 | 107.49 |
| 2009/10 | 79356.73 | 29.79 |
| 2010/11 | 100238.85 | 26.31 |

Source: SEBON Annual Report 2010/11

Table 4.2 shows the paid up value and percentage of growth of paid up value from fiscal year 2001/02 to 2010/11. There is increasing trend of paid up value over the period. The highest paid up value was Rs. 100238.85 million in FY 2010/11 whereas lowest was Rs.9685.0 million in FY 2001/02. It is seen that the growth rate in FY 2008/09 was 107.49 percent. There was a positive growth rate of paid up value over the period. The highest growth rate was 107.49 percent in the fiscal year 2008/09 whereas the lowest was 6.73 percent in the fiscal year 2003/04 .

(Rs.in million)

| Table 4.3 | | |
|---|----------------------------|-------------------|
| Value and Percentage of Different Sector | | |
| Sector | Paid-up Value (Rs.) | Percentage |
| Banking | 41806.19 | 41.71 |
| Development | 16864.69 | 16.82 |
| Insurance | 3585.29 | 3.58 |
| Finance | 15301.08 | 15.26 |
| Manufacturing and Processing | 2539.74 | 2.53 |
| Hotel | 1615.15 | 1.61 |
| Trading | 83.42 | 0.08 |
| Other | 18443.29 | 18.40 |
| Total | 100238.85 | 100 |

Source: Trading Report of NEPSE 2010/11

Table 4.3 shows the paid up value of listed securities reached to Rs.100238.85 million by the end of fiscal year 2010/11. Among all the sector, banking has the highest percentage of paid up capital (i.e. 41.71) and trading has lowest percentage of paid up capital (i.e. 0.08).

4.1.3 Annual Turnover

Annual turnover constitutes an important indicator for measuring the nation's economic activity. It also reflects the stock market liquidity as the higher amount of trading of stock market size, the greater is the stock market liquidity. Besides this, a turnover ratio serves as an important indicator for assessing the stock market condition in a given year. A turnover ratio of 100% means the each of the listed shares was traded once during the year and one of 50% means that it was traded once every two years.

(Rs.in million)

| Table 4.4 | | |
|--|------------------------|-----------------------------|
| Annual Turnover from 2001/02 to 2010/11 | | |
| Year | Annual Turnover | Percentage Of Growth |
| 2001/02 | 1540.63 | -34.28 |
| 2002/03 | 575.8 | -62.62 |
| 2003/04 | 2144.3 | 272.40 |
| 2004/05 | 4507.7 | 110.22 |
| 2005/06 | 3451.43 | -23.43 |
| 2006/07 | 8360.1 | 142.22 |
| 2007/08 | 22820.8 | 172.97 |
| 2008/09 | 21681.14 | -4.99 |
| 2009/10 | 11851.11 | -45.34 |
| 2010/11 | 6665.18 | -43.76 |

Source: SEBON Annual Report 2010/11

Table 4.4 shows the annual turnover in value and percentage of annual turnover from fiscal year 2001/02 to 2010/11. The highest turnover was Rs.22820.8 million in FY in 2007/08 and lowest turnover was Rs. 575.8 million in FY 2002/03. The trend of amount of annual turnover was fluctuating over the periods.

It is seen that the trend of growth rate of annual turnover was fluctuating. The highest growth rate was 272.40 percent in the fiscal year 2003/04 and lowest was negative 62.62 percent in the fiscal year 2002/03.

(Rs. in million)

| Table 4.5 | | | |
|------------------------------|------------------------------|------------------------|-------------------|
| Annual Turnover | | | |
| Sector | No. of company listed | Annual turnover | Percentage |
| Banking | 23 | 3431.82 | 51.49 |
| Development | 61 | 813.24 | 12.20 |
| Insurance | 70 | 377.15 | 5.66 |
| Finance | 21 | 630.70 | 9.46 |
| Manufacturing and processing | 18 | 363.06 | 5.45 |
| Hotel | 4 | 151.92 | 2.28 |
| Trading | 4 | 27.53 | 0.41 |
| Other | 6 | 869.76 | 13.05 |
| Total | 207 | 6665.18 | 100 |

Source: Trading Report of NEPSE 2010/11

Table 4.5 clearly shows that banking sector has dominated over other sectors in terms of amount i.e. commercial banks position in stock exchange. Their performance in financial term and in shareholder relation has earned the confidence of investors. Out of the total traded amount in fiscal year 2010/11, the highest percent was that of bank i.e. 51.49 percent and the lowest percentage was of trading companies i.e. 0.41 percent.

4.1.4 Proportion of Sector –wise turnover to Total Turnover to Yearly Basis

This reveals with the Turnover proportion on sector wise like Banking, Development, Insurance, Finance, Manufacturing and Processing, Hotel, Trading and Other

(Rs. in million)

| Table 4.6 | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|
| Amount of Turnover to Total Turnover of Different Sector | | | | | |
| Sector | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
| Banking | 66.55 | 62.90 | 57.22 | 60.72 | 51.49 |
| Development | 6.91 | 9.09 | 12.64 | 11.17 | 12.20 |
| Insurance | 2.45 | 1.16 | 0.98 | 1.55 | 5.66 |
| Finance | 8.54 | 11.04 | 12.07 | 10.66 | 9.46 |
| Manufacturing and Processing | 0.29 | 1.50 | 0.12 | 0.32 | 5.45 |
| Hotel | 0.08 | 0.12 | 0.08 | 0.08 | 2.28 |
| Trading | 0.12 | 0.15 | 0.15 | 0.30 | 0.41 |
| Other | 15.06 | 14.06 | 16.74 | 15.19 | 13.05 |
| Total(%) | 100 | 100 | 100 | 100 | 100 |
| Total units | 8360.1 | 22820.8 | 21681.14 | 11851.11 | 6665.18 |

Source: Trading Report of NEPSE 2010/11

Table 4.6 shows that value of shares of banking sectors tops the list followed by finance in first two year i.e. in fiscal year 2006/07 and 2007/08. After that, Development occupy the second rank from fiscal year 2008/09 to 2010/11. The reason for such heavy transaction of banks, development banks and finance companies is due to highest market value of these shares and great faith shown by people towards these shares. However, hotel is in poor condition up to the year 2010/11.

4.1.5 Analysis of Secondary Market Development

The secondary market provides liquidity for financial assets making them more attractive. In Nepal, the secondary market is very thin because of limited distribution of

the securities. NEPSE is established in order to promote the market and to support the market even involving itself buying and selling activities if necessary. Development of secondary market is analyzed on the basis of market capitalization, amount of annual turnover, number of listed companies, and paid up value.

(Rs. in million)

| Table 4.7 | | | | |
|---|-------------------|-------------------|---|---|
| Development of the Stock Market in Nepal | | | | |
| Year | Listed Co. | Traded Co. | Percent of Turnover to market capitalization | Percent of Turnover to Paid up value |
| 2006/07 | 135 | 116 | 4.48 | 38.35 |
| 2007/08 | 142 | 136 | 6.23 | 77.45 |
| 2008/09 | 159 | 170 | 4.22 | 35.46 |
| 2009/10 | 176 | 198 | 3.14 | 14.93 |
| 2010/11 | 207 | 222 | 2.06 | 6.65 |

Source: SEBON Annual Report 2010/11

In the Table 4.7, It is shown that number of listed companies has increased from 135 to 207 in the fiscal year 2010/11. But the traded companies were more than listed companies. Percent of turnover to market capitalization was highest in the FY 2007/08. Likewise percent of turnover to paid up value up value is highest in the FY 2007/08 with Rs.77.45 million and lowest with 6.65 million in FY 2010/11.

(Rs. in million)

| Table 4.8 | | | | |
|---|------------------------|------------------------------|--------------|----------------------------|
| Development of Stock Market in Nepal | | | | |
| Year | Annual Turnover | Market capitalization | Index | No. of share traded |
| 2006/07 | 8360.1 | 18630.13 | 683.95 | 18147 |
| 2007/08 | 22820.8 | 366247.5 | 963.36 | 285998 |
| 2008/09 | 21681.14 | 512939.07 | 749.10 | 30547 |
| 2009/10 | 11851.11 | 376871.37 | 477.73 | 26231 |
| 2010/11 | 6665.18 | 323484.34 | 362.85 | 26240 |

Source: SEBON Annual Report 2010/11

Growth rate of annual turnover from the fiscal year 2006/07 to 2010/11

$$= AT_{06/07} (1+g)^n = AT_{10/11}$$

$$\text{Or, } 8360.1 (1+g)^5 = 6665.18$$

Therefore, the growth rate of annual turnover of five year period is negative 4.44 percent.

Growth rate of NEPSE Index from the fiscal year 2006/07 to 2010/11

$$NI_{06/07} (1+g)^n = NI_{10/11}$$

$$\text{Or, } 683.95 (1+g)^5 = 362.85$$

Therefore. The growth rate of NEPSE Index of five year period is negative 11.92 percent.

Growth rate of market capitalization from the fiscal year 2006/07 to 2010/11

$$MC\ 06/07\ (1+g)^n = MC\ 10/11$$

$$18630.13\ (1+g)^5 = 323484.34$$

Therefore, the growth rate of market capitalization of five year period is 76.9 percent.

(Rs. in million)

| Year | Listed Co. | Market capitalization | Annual Turnover | Market Capitalization as % of Nominal GDP |
|-------------|-------------------|------------------------------|------------------------|--|
| 2001/02 | 96 | 34704 | 1540.63 | 8.55 |
| 2002/03 | 108 | 35240.4 | 575.8 | 8.09 |
| 2003/04 | 114 | 41424.77 | 2144.3 | 8.77 |
| 2004/05 | 125 | 61365.89 | 4507.7 | 12.06 |
| 2005/06 | 135 | 96763.74 | 3451.43 | 16.03 |
| 2006/07 | 135 | 18630.13 | 8360.1 | 27.78 |
| 2007/08 | 142 | 366247.5 | 22820.8 | 44.62 |
| 2008/09 | 159 | 512939.07 | 21681.14 | 53.43 |
| 2009/10 | 176 | 376871.37 | 11851.11 | 31.86* |
| 2010/11 | 207 | 323484.34 | 6665.18 | 24.01# |

Source: SEBON Annual Report 2010/11

*revised Estimate GDP

Preliminary Estimate of GDP

The trend of secondary market (Table 4.9) shows that there is an enormous growth of secondary market in terms of listed companies, market capitalization to gross domestic product. But its growth is started to decrease after the fiscal year 2009/10. The number of listed companies has increased from 96 to 207 in the fiscal year 2010/11. Similarly,

market capitalization, which was recorded to Rs. 18630.13 million in 2006/07, has increased to Rs. 323484.34 in fiscal year 2010/11. However, market capitalization as percentage to nominal GDP has decreased to 24.01.

Shares are traded in specific lot of certain face value in the market. NEPSE has fixed the board lot of 10 shares if the face value is Rs. 100 or 100 shares if the face value is Rs.10. The transactions on regular trading are occurred on at least one board lot. The transaction of less than 10 shares are traded only on odd lot trading hours. Thus, the number of transaction is the times that the transactions occurred during a certain period.

| Table 4.10 | | |
|--|-------------------------|-------------------|
| Percent of Shareholders of Listed Companies | | |
| Sector | No. of Companies | Percentage |
| Banking | 23 | 11.00 |
| Development | 61 | 29.67 |
| Finance | 70 | 33.97 |
| Insurance | 21 | 10.05 |
| Manufacturing and Processing | 18 | 8.61 |
| Hotel | 4 | 1.91 |
| Trading | 4 | 1.91 |
| Others | 6 | 2.87 |
| Total | 207 | 100 |

Source: SEBON Annual Report 2010/11

Table 4.10 shows the group wise percentage of listed company's number in NEPSE during the study period. Finance sector has the largest percent of shareholders with 33.97 percent and hotel and trading has smallest percentage of shareholders with 1.91 percent.

4.1.6 Market Capitalization of Listed Stocks in NEPSE

Market capitalization indicates the present value of investment. The value of market capitalization differs from the value of paid up capital, because the value of market capitalization is related with market price of the share. The value of market capitalization changes due to the changing sentiments of capital market. If the market condition is favorable, the market value of assets increases substantially so that the value of company is increased and vice versa. The increased market value further suggests the good performance of the concerned companies. So, the investors are highly interested to such companies.

(Rs. in million)

| Table 4.11 | | |
|------------------------------|------------------------------|---------------------------------|
| Market Capitalization | | |
| Fiscal Year | Market Capitalization | Percentage of Growth (%) |
| 2001/02 | 34703.9 | -25.13 |
| 2002/03 | 35240.4 | 1.55 |
| 2003/04 | 41424.3 | 17.55 |
| 2004/05 | 61365.9 | 48.14 |
| 2005/06 | 96813.7 | 57.76 |
| 2006/07 | 18630.13 | -80.75 |
| 2007/08 | 366247.5 | 1865.89 |
| 2008/09 | 512939.07 | 40.05 |
| 2009/10 | 376871.37 | -26.53 |
| 2010/11 | 323484.34 | -14.16 |

Source: SEBON Annual Report 2010/11

Paid up value and market capitalization both serve as means to evaluate the importance of stock market. The market capitalization is highest in the FY 2008/09 with Rs. 512939.07 million and lowest in the FY 2006/07 with Rs. 18630.13 million. The gradual growth of market capitalization shows the growth of stock market.

(Rs. in million)

| Table 4.12 | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|
| Sector-wise Market Capitalization | | | | | |
| Sector | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
| Banking | 135588.4 | 259955.3 | 302219.29 | 206282.52 | 111938.05 |
| Development | 6010.6 | 17997.8 | 27137.89 | 27488.87 | 13210.54 |
| Finance | 9889.3 | 37674.4 | 43007.13 | 29869.59 | 13756.06 |
| Insurance | 8059.8 | 11241.4 | 10537.49 | 9756.61 | 9937.18 |
| Manufacturing | 6200.0 | 7516.9 | 7706.09 | 7592.03 | 9577.84 |
| Hotel | 3261.1 | 4809.6 | 4851.95 | 5285.58 | 3040.64 |
| Trading | 796.4 | 1170.2 | 1696.36 | 1617.51 | 1380.74 |
| Others | 16495.7 | 25881.9 | 115782.88 | 88978.67 | 78672.9 |

Source: Trading Report of NEPSE 2010/11

Here, sector wise market capitalization is shown from FY 2006/07 to 2010/11. From the above table, it is clear that banking sector dominates the other sectors. And the trading sector has the lowest market capitalization. In the fiscal year 2010/11, banking has Rs.111938.05 million, development has Rs.13210.54 million, finance has Rs.13756.06 million, Insurance has Rs. 9937.18 million, Manufacturing has Rs.9577.84 million, Hotel has Rs.3040.64 million, Trading has Rs.1380.74 million and finally other sector has 78672.9 million. It is seen that market capitalization of other sector is fluctuating.

4.1.7 Stock Price Index of NEPSE

Market index have always been of great importance in the world of security analysis and portfolio management. Both individual and institutional investors use the market index and benchmark which they evaluate the performance of their own or institutional portfolio. Market indexes are used to determine the relationship between historical price movements and economic securities and portfolios. Technical analysts usually use price movements to predict future movements in the stock market.

Stock market indexes are used to study the trend of growth pattern in the economy, to analyze as well as to forecast business cycle and to correlate stock market indexes to economic activities. However, index is a device designed to measure the change in a group related variable over the period of time. Here, the index is taken as a measuring tool whether the performance of stock market is good or bad. 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 the particular period compared to the previous period as disclosed by the 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.

Stock price index reflects market trends because it takes all issued listed on the exchange on account. NEPSE follows the Standard and Poor's methods while calculating index of stock prices. According to this, the computation formula for price index is as follows:

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

$$Po1 = \frac{\sum P1 \times Q1 \times 100}{\sum P0 \times Q0}$$

Where,

Po1 = NEPSE Price index

P1 = Today's stock price

Q1 = Listed shares (No. of shares outstanding)

Po = Base Market price

Qo = Based listed shares

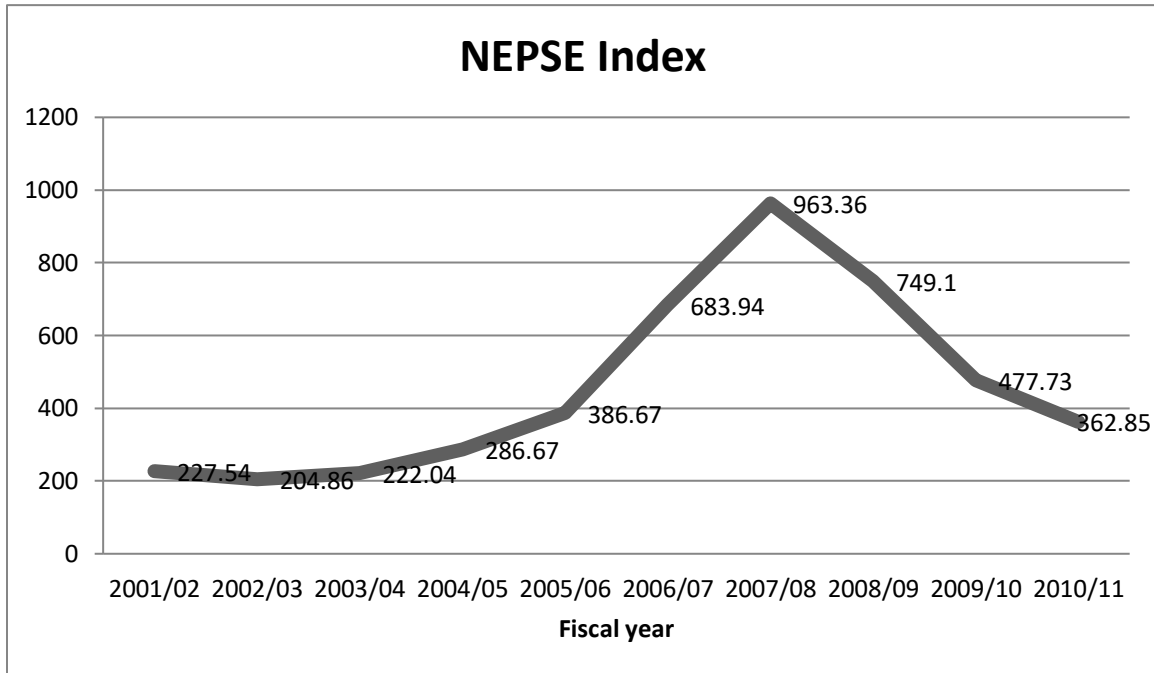
After the initiation of floor trading, NEPSE started to calculate the NEPSE index. For the purpose of calculation of index, NEPSE has taken February 1994 (or 30 Magh 2050) as a

base period. The base period value for the index was initially set as 100. Thus, 100 multiply the ratio of current market value to base period market value.

As one of the major economic indicator, the increasing trend of NEPSE index indicates that the economic performance of the nation is good and it is increasing year by year.

| Fiscal Year | Price Index |
|---|--------------------|
| 2001/02 | 227.54 |
| 2002/03 | 204.86 |
| 2003/04 | 222.04 |
| 2004/05 | 286.67 |
| 2005/06 | 386.67 |
| 2006/07 | 683.95 |
| 2007/08 | 963.36 |
| 2008/09 | 749.10 |
| 2009/10 | 477.73 |
| 2010/11 | 362.85 |
| Source: Trading Report of NEPSE 2010/11 | |

Diagram-1



NEPSE index is the market worth value of all listed companies which is the economic indicator that leads to the investors about the stock market trend. So, the higher NEPSE index indicates the higher return in the stock market and lower NEPSE index is vice-versa. It is seen that NEPSE index is 227.54 in the fiscal year 2001/02. There is decrease in next year, i.e. fiscal year 2002/03. Then it started to increase up to FY 2007/08 with highest NEPSE index of 963.36 points. And gradually started to decline and reached to 362.85 in FY 2010/11.

4.2 Presentation and analysis of Primary Data

The analysis of primary data collected through questionnaire is presented in this part. The questionnaire with respect to growth, problems and prospects of stock market in Nepal were distributed to stock broker, investors, staff of SEBON and NEPSE to know their opinion. Altogether 40 questionnaires were distributed. Out of them, 35 questionnaires were received. The responses of each choice in the question where the choices are to be ranked are weighted by the value of the rank assigned by the respondents. And weighted

arithmetic means were calculated to find out the overall rank for each choice for the respondents.

4.2.1 Analysis of Growth of Nepalese Stock Market

The basis for the growth of Nepalese stock market has been analyzed on listed companies, market capitalization, amount of IPO, number of issue manager and brokers, growth of NEPSE index and annual turnover.

Result of mean survey of growth of Nepalese Stock Market

| S.N | Statement | 5 | 4 | 3 | 2 | 1 | Mean Score |
|-----|---|----|----|----|---|----|------------|
| 1 | The growth of number of listed companies is satisfactory. | 5 | 15 | 6 | 6 | 3 | 3.37 |
| 2 | The growth of market capitalization is satisfactory | 17 | 8 | 6 | 4 | - | 4.08 |
| 3 | The growth of amount of I.P.O is satisfactory. | 4 | 11 | 15 | 5 | - | 3.4 |
| 4 | Number of issue managers and brokers are not sufficient. | 10 | 20 | 3 | 2 | - | 4.08 |
| 5 | The growth of NEPSE index is satisfactory. | - | 5 | 10 | 7 | 13 | 2.2 |
| 6 | The growth of annual turnover is satisfactory. | 12 | 6 | 3 | 7 | 7 | 3.25 |

The mean score for the growth of the number of listed companies is 3.37. Mean score is nearest to 3 which means respondents cannot tell growth rate of listed companies is satisfactory or not. Mean score for the growth of market capitalization is 4.08 which is nearer to 4 i.e respondents think growth rate of market capitalization is satisfactory. Respondents are asked to rank the growth rate of I.P.O is satisfactory or not. The mean score is 3.4 which indicate respondent cannot tell growth rate of I.P.O is satisfactory or not. Regarding the number of issue managers and brokers are sufficient or not. The mean score is 4.08 which is nearest to 4 and it indicates respondents do not agrees that it is not sufficient. Similarly, growth rate of NEPSE index is not satisfactory. The mean

score for this is 2.2 which is nearest to 2 and it clearly indicates that growth rate of index is not satisfactory. Lastly, regarding the growth of annual turnovers, respondents responses to do not know.

4.2.2 Analysis of Problems of Nepalese Stock Market

The problems of Nepalese Stock market has been analyzed on the basis of investment opportunity, awareness about stock market, legal rules and regulations, influenced by small number of large investors, number of issue manager and brokers and market index.

Result of mean score of Survey of problems of Nepalese Stock Market

| Table 4.16 | | | | | | | |
|---|--|--------|--------|---|---|---|------------|
| Mean Score of Survey of Problems of Nepalese Stock Market | | | | | | | |
| S.N | Statement | 5 | 4 | 3 | 2 | 1 | Mean score |
| 1 | There is lack of investment opportunities. | 1 7 | 1 0 | - | 7 | 1 | 4 |
| 2 | There is lack of awareness about stock market. | 2 0 | 9 | - | 3 | 3 | 4.14 |
| 3 | Legal rules and regulations are not sufficient. | 1 8 | 8 | 5 | - | 4 | 4.02 |
| 4 | Numbers of issue managers and brokers are not sufficient. | 1 5 | 1 0 | 6 | 4 | - | 4.03 |
| 5 | Stock market is greatly influenced by small number of large investors. | 17 | 13 | - | 3 | 2 | 4.14 |
| 6 | The used market index is not satisfactory. | 7 | 13 | 8 | 5 | 2 | 3.51 |

Respondents agree that there is lack of investment opportunities. The mean score for this is 4. The mean score for the statement lack of awareness about the stock market which indicates respondents agree with it. Regarding legal rules and regulations, the mean score is 4.02 which indicate legal rules and regulations are not sufficient. Number of issue

managers and stock brokers are not also sufficient clearly indicated by the mean score 4.03 nearest to 4. For the statement stock market is greatly influenced by small number of large investors, respondents agrees it is so. Its mean score is 4.14 which is nearest to 4. Lastly. Respondents do not know whether used market index is satisfactory or not for the mean score is 3.51 which are nearest to 3.

4.2.3 Analysis of Prospects of Nepalese Stock Market

The prospects of Nepalese stock market has been analyzed on the basis of market return, awareness programs, legal provision and amount of IPO, number of listed companies and liquidity and marketability. These are analyzed with the help of mean score.

Result of mean score of survey of Prospects of Nepalese Stock Market

| Table 4.17 | | | | | | | |
|--|---|----|----|----|----|---|------------|
| Mean Score of Survey of Prospects of Nepalese Stock Market | | | | | | | |
| S.N | Statement | 5 | 4 | 3 | 2 | 1 | Mean Score |
| 1 | Stock market provides satisfactory return. | 15 | 15 | 3 | 2 | - | 4.23 |
| 2 | An investor's awareness program launched by SEBON is successful. | 4 | 8 | 13 | 7 | 3 | 3.08 |
| 3 | The growth of amount of I.P.O is increasing. | 7 | 18 | 3 | 7 | - | 3.71 |
| 4 | The number of listed companies is increasing yearly. | 18 | 5 | 7 | 5 | - | 4.03 |
| 5 | Liquidity and marketability is the main factor to develop the stock market. | 20 | 6 | 5 | 4 | - | 4.2 |
| 6 | Legal provision has become easier and improved. | 3 | 7 | 8 | 12 | 5 | 2.71 |

Respondents agreed with the statement stock market provide satisfactory return. The mean score for this is 4.23 which is nearest to 4. The mean score for the statement investor's awareness program launched by SEBON is successful is 3.08 which indicate

respondents do not know about this. Legal provision has not become easier and improved as indicated by mean score 2.71 which is nearest to 2. Similarly, respondents cannot tell whether growth of amount of I.P.O. is increasing or not. Respondents agreed that the number of listed companies is increasing yearly indicated by mean score 4.03 which is nearest to 4. Liquidity and marketability is the main factor to develop the stock market is agreed by the respondents. They ranked it to number 4 whose mean score is 4.2.

4.3 Findings of the Study

Major findings constitute the core of any research. The major findings of the present study are as follows:

A. Major findings of primary data

From the analysis of growth of Nepalese Stock Market. It can be concluded that the growth of market capitalization is satisfactory. However, the growth of NEPSE index is not satisfactory and the number of issue managers and brokers are not sufficient whereas respondents cannot tell whether number of growth of listed companies, growth rate of I.P.O. and growth rate of annual turnover is satisfactory or not.

The investors are facing different problems and difficulties. Majority of the respondents agreed with the asked questionnaire about the problems of Nepalese Stock Market. So, it is conclusive that the major problems are lack of investment opportunities, lack of awareness, insufficient legal rules and regulations and issue managers, influenced by small number of large investors. However, respondents cannot tell whether used market index is satisfactory or not.

By analyzing the prospects of Nepalese Stock Market. It can be concluded that increase in number of listed companies, increase in market return, increase in market turnover and liquidity and marketability are the main factor for the prospects of Nepalese Stock Market.

The total number of listed companies reached from 96 to 207 in the fiscal year 2010/11. NEPSE detected some of the companies from its list because they did not disclose necessary information timely and correctly.

B. Major findings of Secondary data

The paid-up value of listed securities is highest in the fiscal year 2010/11 with Rs. 100238.85 million and lowest with Rs. 9685.0 million in the fiscal year 2001/02.

The highest annual turnover in value was Rs. 22820.8 million in the fiscal year 2007/08 and the lowest in the fiscal year 2002/03 with the value of 575.8 million. The trend of growth rate of annual turnover is fluctuating. The highest growth rate was 272.40 percent in the fiscal year 2003/04 and lowest was negative 62.62 percent in the fiscal year 2002/03.

The market capitalization was Rs.34703.9 million in the fiscal year 2001/02 and Rs.323484.34 million in fiscal year 2010/11. The highest growth of market capitalization was 1865.89 percent in the fiscal year 2007/08 and lowest was in fiscal year 2006/07 with negative 80.75 percent.

NEPSE index was continuously increasing till the fiscal year 2007/08. Then it started to decline continuously up to the fiscal year 2010/11. The highest NEPSE index was 963.36 points in fiscal year 2007/08 and lowest was 204.86 points in fiscal year 2002/03.

The stock index at present of around 362.85 points has not been satisfactory as compared to 683.95 of 2006/07.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY

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

The business world of today is entirely different from the past. The changing life standard has always been challenging to the business community and also has given opportunity to produce different types of goods and services to fulfill the challenging needs of people. To balance between change and needs, continuous flow of investment is must. No investors invest capital until fully assured that investment is safe.

NEPSE is only market in Nepal. Apart from being developed from the time it is established, more effort is necessary for the better development of stock market. Investors will hesitate to invest in securities because of lack of proper knowledge and well guidance in the field. Investors want to have full information about risks and return from their investment and they should be confident about their investment being utilized in the secured field.

The stock index at present is around 362.85 in the fiscal year 2010/11. It has not been satisfactory as compared to last five year, due to continuous decline in the stock index after the fiscal year 2006/07. Financial performance of almost all market maker is not satisfactory except banking and development institutions.

Price index is used to measure the performance of the stock market. This reflects directly the pattern of security price. The highest index suggests the increased in market price of

the stocks and implies the better performance of companies and vice versa. NEPSE index of share prices has computed by using Standard and Poor's Index method with the base period of 12 February 1994 (or 30 Magh 2050) and the base period value for the index was initially set as 100. NEPSE index significantly rose up to the level of 963.36 points in fiscal year 2007/08. It is in general, decreased during this period and reached 749.10 points in the fiscal year 2008/09. After this, there is continuous decline in NEPSE index up to the end of 2010/11 and reached to the 362.85 points.

5.2 CONCLUSIONS

Nepalese stock market is in emerging state. Its development is accelerating since the political change in 1990 in effect of openness and liberalization in National economy.

The development of stock market primarily depends on the government policies and programs to increase the demand for supply of securities. In Nepal, the overall policy environment has not been conducive to the development of stock market. Therefore, it is difficult to develop more efficient secondary market trading mechanism for both equity and debt securities.

Performances of many listed companies especially in hotel and other sector are poor. Even companies promoted by highly successful business houses are not doing well. Companies are neither disclosing facts properly nor submitting financial statements in time in case of financial institutions and manufacturing companies. Stock market should be the real barometer of the country's economic situation. However, it is not turning out to be real indicator as the market does not show a clear and true picture of the economy. The banking and development institutions dominate the stock market, while the hotels and others sectors performance has not been satisfactory so far. This sector's working is not transparent and its performance has not been as per the expectations. A balanced development is a pre-requisite for a true economic outlook.

There is lack of investor's confidence in the stock market since many listed companies do not trade on a regular basis or hold AGM and provide disclosure information to investors on timely basis. There is a lack of necessary provision in the laws and regulation for the

privatization and automation of stock exchange as well as for establishment of central depository of securities.

The open out-cry system being replaced through automation to expand stock market transaction and cut down on possible risks. NEPSE officials believe that after the automation, the Nepali stock market would attract huge numbers of investors, including institutional investors. After the automation, stock analysts have predicted price correction to that the heated stock market is not showing any signs of cool down.

People invest in shares looking at the market situation, and by making some wild guesses, public are attracted towards share market than other companies, basically to increase their value of investment. Too much money is chasing too few shares creating an artificial rise in the prices. There has been no new issuance to meet investor's appetite at present.

The present condition of NEPSE index and that only of the banking index (Bankex) does not reflect real economic growth. One of the reasons of Bankex being bullish is due to the transparent and international accounting system of the financial institutes, which indicates that the transparent and international accounting system will boost the real sector also.

5.3 RECOMMENDATIONS

Fully automation and sound infrastructure with healthy market transaction can only help stimulate market instruments like development bonds to revive capital market on a transitional phase.

NEPSE sensitive index should reflect the overall economic performance. The composition in the NEPSE sensitive index is not correct. The management of NEPSE has included only super- structure issues such as financial institutions in sensitive index, while the economic structure is missing.

The introduction of development bonds will help the market to develop further. However, dissemination of information regarding the bonds is crucial in today's context to attract greater number of investors.

The introduction of development bonds in the secondary market is the driving force to create liquidity. There is a need to sustain trading of bonds in which all concerned institutions must work in unison.

SEBON and NEPSE are operating under the government ownership. This has put breaks on the development of Nepalese securities market. This ownership of NEPSE should be handed over to the private sector also along with the government in order to develop it as a self-regulatory organization.

With a view to professionalizing the existing members, stock exchange and concerned authorities must conduct from time to time refresher courses. Member of the stock exchange and other associated with the working of stock exchange and others associated with the working of the capital market should have reasonable background in corporate finance, capital market, economics and financial engineering etc.

Stock market reform is an urgent need. Stock market reform should be done according to financial sector reform to protect small investors. Monopolization of broker members and traditional working style should be stopped.

The hike in the share prices is taking place without any understanding of technical and financial strengths of listed companies. There is a need to understand the fundamentals and performances of the listed companies.

People need to analyze the financial position of the firm before subscribing and not go with the rumors and wrong information prevailing in the market. They need to look for the best alternative they can get within the given time frame.

Stock market investment is a risky job. To win the stock market, investors should be always clear his own strengths, weakness, needs, desires, risk taking capabilities and how

to react on different and ever changing market conditions. This is one game where self-knowledge, sound understanding on the information of stock market can give a winning edge to the investors.

Government needs to amend the rules and regulation regarding stock market from time to time and to make policies that protect the individual investor's right. On the other hand, government needs to implement such rules properly and monitor from time to time. The government should provide appropriate policies for improving the environment for private sectors development, the efficient mobilization of savings through the stock market.

Privatization process needs to be carried out effectively in order to develop Nepalese stock market through the widespread distribution of shares to public investors. The existing laws and regulations relating to stock market have to be revised to rationalize and simplify the regulatory system.

NEPSE needs to initiate to develop different programs for private investors such as investor meeting and seminars in different subject matter like "trading rules and regulation" etc. NEPSE should take action on companies which do not review their license of registration at NEPSE.

The NEPSE should adopt appropriate policies, membership and fee structure to attract members outside Kathmandu, including brokers. All types of securities firms including brokers, dealers, issue managers and full service securities firm should be eligible for membership.

Different market disorders were felt to be in existence at different situations in NEPSE, which hamper the effective formation of price of the stock. So, special research should be carried out to help the concerned authorities to feel the possibilities of stock market disorders and to control the situation in more proactive manner. Likewise, the research should be carried out to find out the best possible and effective way to change the irrational investors into rational investors.

Annex

Questionnaire on Growth, Problems and Prospects of Nepalese Stock Market

Dear Respondents,

I am a student of MBS final year. The MBS program of faculty of management, T.U. requires the student to write a thesis for which I am conducting a survey on Growth, Problems and Prospects of Nepalese Stock Market. I would highly appreciate your kind cooperation regarding the matter. Your answer will not be published anywhere and will be used just for research purpose.

Thank you

Poonam Lama

Part A: Growth of Nepalese Stock Market

How far do you agree/disagree with the following observations on growth of Nepalese stock market? (Please make a tick-mark at the appropriate number as per the following scheme: 5=strongly agree; 4= agree; 3= do not know; 2=disagree; 1= strongly disagree).

| S.N | Statement | 5 | 4 | 3 | 2 | 1 | Mean Score |
|-----|---|---|---|---|---|---|------------|
| 1 | The growth of number of listed companies is satisfactory. | | | | | | |
| 2 | The growth of market capitalization is satisfactory. | | | | | | |
| 3 | The growth of amount of I.P.O is satisfactory. | | | | | | |
| 4 | Number of issue managers and brokers are not sufficient. | | | | | | |
| 5 | The growth of NEPSE index is satisfactory. | | | | | | |
| 6 | The growth of annual turnover is satisfactory. | | | | | | |

Part B: Problems of Nepalese Stock Market

How far do you agree/disagree with the following observations on growth of Nepalese Stock Market? (Please make a tick-mark at a appropriate number as per the following scheme: 5=strongly agree; 4=agree; 3=do not know; 2= disagree; 1=strongly disagree).

| S.N. | Statement | 5 | 4 | 3 | 2 | 1 | Mean Score |
|------|--|---|---|---|---|---|------------|
| 1 | There is a lack of investment opportunities. | | | | | | |
| 2 | There is a lack of awareness about stock market. | | | | | | |
| 3 | Legal rules and regulations are not sufficient. | | | | | | |
| 4 | Numbers of issue managers and brokers are not sufficient. | | | | | | |
| 5 | Stock market is greatly influenced by small number of large investors. | | | | | | |
| 6 | The used market index is not satisfactory. | | | | | | |

Part C: Prospects of Nepalese Stock Market

How far do you agree/disagree with the following observations on growth prospects of Nepalese stock market? (Please make a tick-mark at the appropriate number as per the following scheme: 5=strongly agree; 4=agree; 3= do not know; 2= disagree; 1=strongly disagree).

| S.N. | Statement | 5 | 4 | 3 | 2 | 1 | Mean Score |
|------|---|---|---|---|---|---|------------|
| 1 | Stock market provides satisfactory return. | | | | | | |
| 2 | An investor's awareness program launched by SEBON is successful. | | | | | | |
| 3 | Legal provision has become easier and improved | | | | | | |
| 4 | The growth of amount of I.P.O is increasing. | | | | | | |
| 5 | The number of listed companies is increasing yearly. | | | | | | |
| 6 | Liquidity and marketability is the main factor to develop the stock market. | | | | | | |

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