CHAPER - I
INTRODUCTION

1.1 Background of the Study

Economic growth of any nation is highly influenced and characterized by development and expansion of capital market. The growth of economy of the USA had been largely due to strength and efficiency of its capital market. Further, East Asian economic boom and crises are largely the effect of capital market fluctuation. The capital market has more significant role in developing economies like Nepal. The stock market plays important role encouraging and canalizing the saving to provide the entrepreneurs for investment in profitable projects.

Every corporation acquires their needed long-term fund by selling the securities in the capital market. "The term security will be used to refer to a legal representation of the right to receive prospective future benefits under related conditions" (Francis, 1998: 26). Capital Markets typically involve financial assets that have life spans of greater than one year. Capital market can be decomposed into securities market and non-securities market.

There are mainly two sources of financing in the profitable venture. These are: a) Internal Financing, and b) External Financing. The internal financing has the limited scope; because of its limited scope; the risk associated with it is also limited. External financing becomes more important and popular for fostering the productive activities in the economy. The external financing may be segregated into mainly into three categories I) Equity financing, ii) Preferred stock financing, and iii) Debt financing. Among which the equity/common stock financing is the compulsion and important financing source for the corporations.

The trading of the common stocks takes place in the stock market. Stock market is a major component of the security market. Through the medium of security market corporate sectors can mobilize funds to finance the productive projects by issuing shares.

Stock market may be further classified into primary market and secondary market. Primary market is that market whereby the corporations acquire the needed capital by Initial Public Offering (IPO) and through right issue. The secondary market is that market where the securities once issued by the corporations in the primary market are traded. So, secondary market plays vital role in liquidating the shares.

Stock market provides the best investment opportunities to the investor. It also provides liquidity to the securities. The liquidity affects the economic activities and thereby affecting the development of the country. The level of liquidity is influenced by the price formation of the stocks in the stock market. So, in order to maintain the high liquidity in the stock, the stock market has to be efficient in pricing the shares.

The prices of the share fully reflect the available information and rationality of the investors in the efficient stock market. The role of information is decisive in security pricing. If a market instantaneously incorporates all the previous price data of securities and publicly or privately available price sensitive information, that market is known as perfectly efficient market. Therefore, it is impossible to make abnormal profit by using this set of information because everywhere the security price equals and its investment value same at all times.

There are two types of investors from the viewpoint of their trading characteristics. One is liquidity trader and the other is information trader.

1.2 Statement of the Problem

It was frequently heard that investors were not provided with the sufficient price earning information of the stock of the listed companies in time on a regular basis. This was so because of the unavailability and inability to use the modern instruments and communication technologies in calculating and spreading the price earning related information to the investors.

The investors could not identify the good and bad stock in lack of proper information. It was identified by several university researchers that because of the lack of sufficient information, rumors and whims could play significant role in share price movements

and that investment on common stock is based more on intuition, imagination, guesswork than the conscious judgment based on statistical probabilities in Nepalese stock market.

"Investment in the past was done on whim. Even officials at the stock exchange and Securities Board, refuting investors' allegations of market manipulation and insiders trading last February, discreetly claimed that the Nepal stock market is in a nascent stage. And that, investment are made more on an impulse, rather than through market study and credit rating" (Sharma, 2001).

Though it is known that investors are the main source of capital and the backbone of the securities market, none of the effective organized programs had been introduced to initiate and develop the price awareness of the stocks to the investors in Nepal. Unless investors begin analyzing the intricate financial details of corporate institutions before making investment decisions, the market cannot function smoothly. The speculative behaviors of some of the investors also play influencing role in setting the price of the stock in the market. Inability in doing real stock value judgment for trading purpose is one of the serious problems for the development of the Nepalese stock market.

The price of the stock that represents the value of the companies in per stock basis can be compared to the natural principle of 'mirror and object'. As we put any object in front of the mirror it should reflect the object. But, the price of the stock does not represent the company in Nepalese stock market because of the intermittent role of other factors.

Besides, the theories and principles related to the stock market and share price/value calculation are also based on some assumptions. This may not be able to represent the practical situation in an authentic way.

Brokers are also supposed to assist in the maintenance of a fair and orderly market but they may not be able to do this job in their full capacity successfully because of the various obstacles presented in the economic environment. So the necessity to analyze

the practical situation of brokering services in secondary market is a must in present situation.

Brokers should be honest toward their profession and act according to the instruction of the investors. Even a single unauthorized action of a single broker crates big problems in the stock market. "Has your broker ever used buzzword like "… 'going to double in price, can't miss', 'have to get in now', 'we'll both be rich', 'A once in a life time opportunity'? … most investor make a mistake with their brokers and all him to become the dominant player in the relationship. You should never forget that he works for you. Because of that, you should demand results. If he doesn't produce, fire him. It's sadly ironic that we see so many aggressive business types who will not hesitate to fire an employee for one small mistake, and yet will allow their broker to make ten, twenty , thirty thousand dollars worth of bad judgments and never say a word. With totally dishonest brokers you have additional problems. They not only cost your funds with bad advice, but even when they are right their dishonesty can penalize you… If your broker is dishonest he can use your stock for months on end even though you may have wished to sell" (Mrkvicka, 1991: 134).

He has also suggested the precaution that "whether you like it or not, you are probably going to have to deal with a broker of some sort. That means you are vulnerable …. Stockbrokers are, contrary to what they would have you believed, unregulated potential adversaries. Since the entire securities industry is based in some part on trust, one dishonest broker is too many" (Mrkvicka, 1991: 134).

The trading of shares in the stock market affects the economic activities through the creation of liquidity. Investor's are often unwilling to surrender control of their savings for long period. But succinctly, investor's will come if they can come. And the level of the price of the stock eventually affects this two different periods (i.e. buying price and selling price).

So, it is very obvious to conclude that the prices of the stocks of different companies affect the national economy as a whole. Although the growth of the stock market is

high relative to the growth of the economy, the shares of corporate sector in the national economy is still very low due to the negligible size of the corporate sector.

In an efficient market the price is set by the interaction of demand and supply. The higher transaction volumes of share represent the market efficiency. Liquid and efficient market requires a large number of interested and active investors. But the daily transaction made on NEPSE is very meager in comparison to the transaction volume in the securities market in other developing countries. So, it cannot be assumed to guarantee that the price set at this market is competitive.

Since the price of the stock is fixed by presented few brokers who represent the investors in the Nepal Stock Exchange, they play the vital role in price formation. So the market is loyal to these few investors only.

The market liquidity also seemed miserably low which manifests a less number of shares trading on the floor. Market liquidity is perceived as the yardstick of the successful stock market. Usually an asset is considered liquid if it can be sold at short notice at the current value without incurring high transaction cost. The level of liquidity also affects the price formation of the stocks. Further the market price of the stock is assumed to represent the image of the company, which is referred as corporate culture and is yet to be analyzed in Nepalese context. Besides these, there are other serious problems that play vital role in NEPSE.

In this connection, the researcher has strong curiosity related to the secondary market as follows:

- Are brokers professional and brokerage service is efficient?
- What are the purposes of investors investing in security?
- Are investors receiving reliable and adequate information from the brokers, listed companies and NEPSE?
- Is the system followed by NEPSE is technology friendly?
- Are brokers analyzed the securities?
- is CDS system compulsory in stock market ?
- Why Nepalese investors prefer ownership transfer than the blank transfer?
- Do brokers able to satisfy and retain their customer?

Because of all of above and always fluctuating trend of the stock price, the researcher took interest to find out what actually is the situation in the stock market in respect of Brokers Performance and their Services in Secondary Market. In another words, the researcher is interested to find out what type of services the stock broker providing in the secondary market and the role of securities broker on market efficiency in NEPSE.

1.3 Objectives of the Study

This study is conducted to meet the following objectives:

) To examine the brokerage services in secondary market.

) To analyze the performance of the brokerage company in Nepal.

) To examine the investor satisfaction towards the brokers' services.

1.4 Significance of the Study

Economic development is the urge of the present day world. Successes of the business organizations ensure the prosperity of the country. Today, the developing countries are organizing to ensure the prosperity of the country and confronting a great deal of uncertainty brought by the global economic environment.

In the modern age economy, the world has seen various inventions. These inventions and technologies are very fruitful to the developing countries. But Nepal is unable to apply these inventions for the development of the economy in many fronts.

While investing in shares, the investors forgo opportunity income that s/he could receive investing elsewhere. Given the lack of adequate knowledge, inability in using modern technologies and insufficient use of communication technologies to spread the information about the price-earning relationship of the stock, people are in a position to invest the amount by analyzing the trend of the market. It indicates that there is an extreme necessity to establish a clear concept about the price earning relationship to secure the invested amount.

The services of broker related to the share trading aspects also influence the tendency of investors in share trading activities. In Nepal, the brokers are mainly providing the share trading services with some information. So the possibility of other services

should also be looked for and initiated in Nepal to increase the participants in the share trading activities.

Hence, this study targets to explore and increase stock investment by imparting the knowledge about the different aspects related to the growth of securities market and brokering services in Nepalese stock market. This study will also be helpful for other researches in the similar field as it provides suggestions on the related field to some extent.

1.5 Limitation of the Study

This study is subject to following limitations:

This will base on the secondary source of data as well as primary data. Primary data are acquired mostly by using the questionnaires and personal interviews from securities investors and brokers and personnel of NEPSE and SEBO/N.

This study will base on the last five years data beginning from FY 2003/04 to 2007/08 (2060/061 to 64/065 B.S).

This research will confine to the components of NEPSE.

This study is limited by financial and time constraints.

1.6 Organization of the Study

This study consists following five main chapters and necessary subchapters as follows:

Chapter I. Introduction: This Chapter deals with the background of the development of security market in Nepal, the statement of the problem, significance, Objective of the study, Significance of the study, Limitations of the study and limitations of the study and organization of the thesis itself.

Chapter II. Review of Literature: This chapter includes the conceptual review and review of related studies. this chapter consists the analysis of related studies which include different books, articles, periodicals, and pervious thesis reports, various published and unpublished documents of the related organizations. This chapter is

mainly related to theoretical analysis and brief review of related and pertinent available literatures.

Chapter III. Research Methodology: This chapter includes the research design, sources of data and data analysis tools. It deals with the research methodology. It deals with the nature of the data and method of analysis. In this chapter different statistical and financial tools are described regarding the analysis and presentation of data received from primary and secondary sources.

Chapter IV. Presentation and Analysis of Data: This chapter contains presentation and analysis of data to indicate quantitative fact and actual state of brokerage service and the performance of the Nepalese secondary stock market and major findings of the study

Chapter V. Summary, Conclusions and Recommendations: This chapter includes Summary, Conclusions, and Recommendations of the study. Finally, This chapter offer several avenues for future research in this field.

CHAPTER - II

REVIEW OF LITERATURE

Review of literature means reviewing research studies or other relevant proposition in the related area of the study so that all the past and previous studies, their conclusion and perspective of deficiency may be known and further researcher can be conducted or done. It is an integral mandatory process in research works. It is a crucial part of all dissertations. In other words it's just like fact are finding based on sound theoretical framework oriented towards discovery of relationship guided by experience, resonating and empirical investigation. It helps to find out already discovered things. Review of relevant literature implies putting new spectacle in old eyes to think in new way by posting the problem with new data and information to see that what results are derived. The primary purpose of literature is to learn and it helps researcher to find out what research studies have been conducted in one's chosen field of study, and what remains to be done. For review study, the researcher uses different books and journal, reviews and abstracts, indexes, reports, and dissertation or research studies published by various institutions, encyclopedia etc.

We study the review of literature in dividing two headings:

Conceptual Review

Review of related Studies

2.1 Conceptual Review

This chapter deals with the review relating to the topic "Brokering Service in Nepali Stock Market in descriptive manner. For this study various books, journals and articles, some previous thesis related to the topic have been reviewed.

2.1.1 Financial Market

Financial market is that market that provides a forum where suppliers of loans and investments can transact business directly. The two key financial markets are money market and capital market. Money market is a short-term financial market where the debt instruments or marketable securities are traded for a short-term. The long-term securities (Bonds and Stocks) are traded in the capital market.

2.1.2. Capital Markets

Capital market is a total financial market (long-term and short-term financial market) which relationship created by a member of institutions and arrangements that allows the suppliers and demands of long-term funds to make transaction. Capital market can be divided into securities market and non-securities market. The different types of securities are traded in the securities market. The term securities include long-term transaction (i.e. more than one year) financial tools, which are used by the companies to gather the needed long-term fund.

Capital Market includes

Activities relating to the organization, distribution and trading of securities.

Organization, which facilities this activities.

Individuals and institutions, which buy and sell securities.

Rule and regulations, customs and practices that control; the organization and conduct of business in the market.

"Securities are marketable financial instruments that bestow on their owners the right to make specific claims on particular assets. An individual security provides evidence of either creditor ship or ownership depending on whether it is a bond or a stock respectively. A bond is a loan that is paid off interest, the investors lends money to the borrowing company that issued to the bond. In contrast, stockownership represents a cash investment in the future of a corporation; the investor owns a part of the corporation and shares in the profits" (Francis, 1998:26).

"Common stock has one important investment characteristic and one important speculative characteristic. Their investment value and average market price tend to increase irregularly but persistently over the decades as their net worth builds up through the reinvestment of undistributed earning…..however, must of the time common stocks are subject to irrational and excessive price fluctuations in both decisions as the consequence of the ingrained tendency of most people to speculate or gamble, i.e. to give way to hope, fear and greed" (Chandra, 1995:47).

2.1.3. Securities Market in Nepal

Security Market Center was started in 1970 AD as capital market development immediately after that, Securities Exchange Act was passed and the name of the Securities Marketing Center was changed to Securities Exchange Center (SEC) and the SEC converted into Nepal Stock Exchange in 1994 AD.

2.1.4. Securities Board of Nepal (SEBO/N)

Since, its establishment, SEBO has continuously concentrated its efforts to improve the legal and statutory frameworks, which are the bases for healthy development of the stock market. SEBO/N has been concentrating its efforts to improve the legal statutory frameworks for the healthy development of stock market and to enhance the degree of investor's protection. After the second amendment of Securities Exchange Act on January 1993AD, SEBO/N is acting as an apex regulatory body by bringing market intermediaries directly under it's jurisdiction and made it mandatory for the corporate bodies to report annually as well as semi-annually regarding their performance. It also established direct relationship with market intermediaries and listed companies SEBO/N's regulatory interventions were targeted to discipline the market and to consolidate its position as central securities market regulator.

Under the present Act SEBO is responsible for the supervision of NEPSE, its members, disclosure requirements for listed companies, and the licensing of:

      Issue Manager

      Underwriters

      Portfolio Managers

      Market Makers and Stock Brokers.

Under the Securities Investment Trust Act 1997, it is also responsible for the registration and supervision of investment funds.

"The securities Board was set up for the development of the securities market and to enhance the degree of investor's protection. Securities Board (SEBO/N) realized that capital market reforms needed to be looked into broader perspective vis-a-vis the growth of the private sector. "Under the previsions of Securities Exchange Act, 1983 and Securities Exchange Regulation, 1993 AD, SEBO has been making attempt to

develop an understanding with NEPSE on moving ahead in a coordinated way under which SEBO will act as an apex regulatory body and NEPSE as a frontline regulator"(SEBO/N, Annual Report).

In order to develop the securities Board as an effective regulatory body and forgo ahead effectively, the board had put into implementation a medium term 4-year comprehensive managerial strategic plan. This had been implemented during the Ninth Plan period.

The strategic plan strives to attain the major policy development issues on:
Improvement in the statutory and regulatory framework of the capital market.
Development of market standard and information system.
Development of widely participated capital market.
Improvement in the Securities Board institutional capacity. (SEBO/N, Annual Report).

The initial draft of the strategic plan was circulated among the policy makers, experts, Government official market operators, securities business persons, business community investors and has been improved based on available comments. This plan was approved by National Planning Commission and is being implement in the year 1998-2002 during the Ninth Plan period.

SEBO has seven members including a chairman. NEPSE should not be member of SEBO and the other hand SEBO should not be represented on the Board of Directors of NEPSE. It is also highly desirable that the government regulatory over right function be kept separate from the operation and governance of stock exchange. This is essential to maintain public confidence. If the main government regulatory body is too closely identified with day-to-day functioning of the stock exchange, this could erode public confidence in the market failure.

At present SEBO have 28 staff in total including executives, officers, supervisory and support staff. This may not be an adequate number of staff to perform the different tasks assigned to SEBO/N such as: regulatory supervision, enforcement for the regulation and enforcement program as well as for training government regulators,

self regulators and market practitioner. Income from registration of corporate securities and registration as well as renewal of the market intermediaries are the main financial sources of income of SEBO/N. In order to be a self-dependent institution it has created revolving fund from which it generated income that helps to cover part of its expenses.

2.1.5 Nepal Stock Exchange (NEPSE)

The history of securities market began with the floatation of shares by Biratnagar Jute Mills ltd. and Nepal Bank Ltd. in 1937AD. Introduction of the company act in 1964 AD, the issue of government bond in 1964 AD and the establishment of securities exchange center ltd. in 1967 AD were other significant development resulting to capital markets.

Securities Exchange center was established with an objective with an objective of facilitating and promoting the growth of capital market institution undertaking job of brokering, underwriting, managing public issue, market making for government bonds and other financial services.

Government of Nepal, under a programme initiated to reform capital market, converted securities exchange center into Nepal stock exchange in 1993 AD. Nepal stock exchange, in short NEPSE is a non-profit organization, operating under securities Exchange Act 1983 AD.

The basic objectives of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating in its trading floor through market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13th January 1994 though licensed members.

Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and Licensed members are the shareholders of NEPSE.

The development of the stock market is directly linked with the development of the corporate firms and industries in the economy. Nepal's industrial development history

is not so long in comparison to other countries. So, the essential thing for the rapid growth of capital market is to encourage business firms to convert business firms to convert into public limited companies. "Industrialization is the foundation of the economy. In this respect, the securities market is an important constituent and core of the capital market" (Shrestha, 1983).

NEPSE performs several types of regulatory services including market surveillance and the on-going supervision of the brokerage firms. Some of the functions of NEPSE are:

Trading

Listing

Clearing and settlement

Market surveillance

2.1.5.1 The Board of Directors of NEPSE

NEPSE is a secondary market. NEPSE board consists of 9 members. Therefore it constitutes 9 directors. The chairman is from the Ministry of Finance. Two directors are from Nepal Rastra Bank (i.e. Central Bank), one from NIDC and two are elected from members. The general Manager is the ex-officio director. All the details of capital structure of NEPSE and board of directors are given below.

Table: 2.1

Board of directors of NEPSE.

S.NO	Name of Organization	No. of Directors	Designation
1	Ministry of Finance	1	Chairman
2	Securities Board of Nepal	2	Director
3	Nepal Rastra Bank	2	Director
4	Nepal Industrial Dev. Corporation	1	Director
5	Licensed Members	2	Director
6	General Manager of NEPSE	1	Director

Source: NEPSE

At present, the NEPSE board is chaired by Mr. Bimal Wagle, join secretary of Ministry of Finance (MOF) of N/G (Nepal Government). Mr. Ganesh K. Shrestha and

Mr. Lila Prakash Sitaula as representing from Nepal Rastra Bank (Central Bank), Mr. Rabindra Ballav Pant is the representing NIDC, Mr. Iswari Rimal representing the member brokers, Mr. Rewat Bdr. Karki who is the General Manager of NEPSE is also representing as ex-officio director of NEPSE board.

2.1.5.2 Brokering Services in NEPSE

"Brokers have to get license from SEBO/N and Membership Certificate from NEPSE before starting their services. Under the provision of Securities Legislation, brokers have to review their License before the expiry of each fiscal year" (SEBO/N, Annual Report, 2008).

The role of broker in Nepalese securities market is limited to advising their clients as to whether particular stock will be worth-investing or not. They should advice their clients by analyzing the company report and other information regarding the company, which can be affect the market and the companies concerned. Brokers are not obliged to offer advice to their clients, and even if they do, they cannot be held responsible for the quality of the information they offer. But, the quality of the information works as a main source of their goodwill and uplift the moral responsibility towards their clients.

It is mandatory for brokers to submit their annual report along with their financial statement and trading report to SEBO/N within four months after the expiry of the fiscal year. But, "By the end of fiscal year 2004/05, out of 23 stock brokering companies only 22 companies submitted their financial report of fiscal year 2004/05 (SEBO/N, Annual Report). SEBO/N monitors the brokers regarding securities transaction and reporting. Table No.2.2 presents the submission of financial reports of 2004/05 by listed companies.

Table: 2.2

Submission of financial reports of F/Y 2007/08 by listed companies

S.No.	Description	Number of companies submitted/ not-submitted financial reports of fiscal year 2007/08
01	Submitted	23
02	Not- Submitted	0
	Total:	23

Source: SEBO/N Annual Report 2008

Brokers are supposed to behave more legally and morally towards the fulfillment of the satisfaction of their clients. However, it is not the case in all and every situation. They were often intended to increase the trade volume and blamed for the stock price crash and thereby making profit by ignoring the clients' losses. The amount of commission is directly related to the amount of turnover (i.e. trading) in an investors account. This provides some temptation to recommend frequent changes in investor's holding. Such behavior may be advantageous for them in the short run.

There were some conditions and circumstances seen in the stock market when market brokers had done some activities, which create the market disorders. These activities were performed to protect their sole interest and the mutual interest connected with ample number of clients. For instance, there had been immediate reactions seen in the stock market against the political and legal changes.

"The number of stock brokers who have been charged with or found guilty of security exchange commission violations is frighteningly large…I believe the reason for brokerage abuse is simple. The commission sales system, which pays brokers for what they sell rather than for what they earn for their clients, is the root of the evil….the brokerage investment industry is highly regulated, yet broker abuses continue to escalate, why? Although the regulations are more than adequate, they are seldom enforced. Couple of this with the fact that brokers is constantly pressured by their house to sell, sell, sell, and sell. it is easy to see why many forget that they are first legally and morally charged with the financial well being of their clients. The reality of the industry is that sales come first" (Edward, 1991:131).

The first thing a prospective buyer or seller has to do is to locate a broker. In choosing a broker it is always preferable to select one who is recommended by someone who has dealt with him for some time and is satisfied with his integrity and honesty. But almost all the brokers' office is not placed in the convenient locality in Nepal.

"Because lack of confidence in their own business, brokers is not maintaining the offices to make it possible for the customers to come and contract. Brokers are undermining their business because of lack of their clear vision to perceive the relationship between brokerage business and their needed dedication and contribution of time, effort and fully energy to honor their market matching profession through the rational art, science and techniques of institutionalization"(Shrestha,2057:12).

Brokers are supposed to give the potential investors the adequate and the real information about the different stocks available in the market. But, in reality they have also been criticized for the use of imaginary words to persuade them to buy and sell the security as immediately as possible.

Members of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present, there are 23 member brokers and one market maker, who operate on the trading floor as per the securities Ordinance 2005, rules bye-laws of the exchange.

There are many intermediaries involved in the Nepal stock Exchange for stock trading, brokers are one of them. Brokers (Appendix 1) play an intermediary role on behalf of their client and receive certain commission for their service.

Beside this NEPSE has also licensed to dealer to Act in the Primary and secondary market. Dealer (primary market) operates as a manager to the issue and underwriter whereas dealer (secondary market) operates as a portfolio manager. Presently, NEPSE has licensed to 9 dealers (primary market) and 1 dealer (secondary market).
Brokers are the legal people who bring the perspective investors and the company together. Brokers have to get license from Securities Board of Nepal (SEBON) and member certificate from Nepal Stock Exchange (NEPSE). Under the provision of

Securities Legislation, Broker has to review their license before expire of each fiscal year.

The rate of commission on equity transactions ranges from 1 percent to 1.5 percent depending on the traded amount. The rate of brokerage commission on debenture ranges from 0.15 percent to 0.75 percent. As per the rules the rate of brokerage commission rate is given in Table No. 2.3.

Table: 2.3

Brokerage Commission

Traded Amount	Rate of Commission (%)
Up to Rs. 50,000	1.00
Rs. 50,000 to Rs. 500,000	0.90
Rs. 500,000 to Rs. 10,00,000	0.80
Rs. 10,00,000 to Above	0.70

Source: NEPSE

NEPSE has adopted an "open Out- cry" system. It means transactions of securities are conducted on the open auction principle in 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 the code number on the selling column on the quotation board. The buying price will charge when any other broker increases it and the selling price will change when someone will be ready to see at low price. When the price matches the buying broker declares the quantity and the selling broker either accepts it or announces the quantity.

A. Broker's Representative

The broker may also send the representative in the trading floor in the case of his/her being unable to present at the particular day or representative staff may help him/her on a great trading day. But the representative must appear in an examination. The examination is taken by NEPSE where he/she must attend both written examination, and interview. Then if he/she passes the examination, NEPSE will give him/her permission to act as the representative of his/her brokering house on the trading floor.

B. Right of the Stockholders

Ownership in a corporation is represented by its stock and a corporation may issue more than one type of stock. Whenever a corporation issues more than one type of stock, usually called classes of stock, they must clearly define the rights and privileges that belong to each class. If only one class of stock is issued it is referred to as a common stock. If two stocks are issue they are usually referred to as common stock and preferred stock, each enjoying specific rights and privilege and, perhaps each having a certain restrictive provision attached to them.

"Individual who buys the stock becomes the owners of a corporation and as a stock holder, they acquire the rights the corporate character. Stockholder has the following rights.

The right to share in the corporate earnings. The owner of stock has the right to share proportionately in the corporate earnings that is distributed as a dividend to all holders of this class of stock.

The right to vote, specifically the right to elect, by vote the members of the board of directors who in turn will represent the shareholders in determining board level corporate management policy.

The right to transfer ownership. Stockholders have the right to sell or dispose of their shares of stock in any market that they wanted.

The right to purchase any additional shares of stock, in the event that the corporation issues more stock of the same class. This right generally referred to as a preemptive tight, entitles each shareholders to have the first opportunity to purchase, in proportion to his existing holdings, any additional shares that the corporation intends to issue, before they are offered for sale"(Hampton,1996:33-45).

2.1.5.3 Major Difficulties Faced in the Trading Procedure in NEPSE.

There are many trading difficulties in NEPSE. The difficulty realized by brokers is the trading system employed in NEPSE that is open-out-cry method. The other problems are created because of the disobedience of the rules and regulations promulgated by the regulating bodies and the government. Besides, government and regulatory bodies

there are also other parties involved in the trading procedure being responsible for the ineffective management of the trading of the shares.

After issuing the share of a company, the shares are traded on the secondary market. But some companies do not trade in the secondary market and have apparently become insolvent. In that case, NEPSE de-list the stocks of that company which should be approved by SEBO/N. Nearly all listed companies are majority owned by promoters. Thus corporate governance issues and the right of minority shareholders are of continuing concern.

One of the reasons for the enlistment of the companies in NEPSE is that many of the companies are listed not because they wish to be so, but because of statutory requirement of compulsory listing (the prohibition of share transaction if not listed). In NEPSE companies often list for legal or tax reasons rather than to obtain on going equity financing. There is also absence of prescribed for suspension cancellation and de-listing of shares.

Typical investors are likely either to rely solely on their brokers to be entirely on their own. Those who rely on their self-decisions usually over-invest, love to trade on the latest report or hot tip, and are unhappy when nothing is happening. Brokering house are a sources of both information and recommendations. The emphasis, however, is on recommendations because brokers earn commissions based on the amount of trading that investors do.

"Has your broker even used buzzword like…"Going to be double price', 'Can miss', Have to get in now', 'Well both be rich', 'A once in a lifetime opportunity..? Most investors make a mistake with their broker and allow him to became the dominant player in the relationship. You should never forget that he works for you. Because of that, you should demand results. If he doesn't produce, fire him. It's sadly ironic that we see so many aggressive business types who will not hesitate to fire an employee for one small mistake, and yet will allow their broker to make ten, twenty, thirty thousand dollars worth of bad judgments and never say a word. With totally dishonest brokers you have additional problems. They not only cost you funds with bad advice,

but even when they are right their dishonestly can penalize you…..if your broker is dishonest he can use your stock for months on end, even though you may have wished to sell" (Mrkvicka,1991:131).

The role of the broker in providing information plays significant role. Stock market, actually, is no place for amateurs but in spite of this knowledge potential investors come to invest their savings without adequate counseling and analysis of the information and data. It is mainly by their ignorance that they often feel cheated by the brokers when the time becomes too late to turn back.

2.1.5.4. Trading Procedure Followed by NEPSE

The trading of shares in the stock market affect the economic activities though the creation of liquidity. Investor's are often unwilling to surrender control of their savings for long period. Put succinctly, investor's will come if they can come. And the level of the price of the stock eventually affects this two different periods (i.e. buying price and sell price).

So, it is very obvious to conclude that the price of the stocks of different companies affect the national economy as a whole. Although the growth of the stock market is high relative to the growth of the economy, the shares of corporate sector in the national economy is still very low due to the negligible size of the corporate sector.

A. Trading System

Nepse was using open-out-cry trading system but since Aujust 23 it started to follow computarised trading system. The open-out-cry method was once used at the Sri Lanka Stock Exchange some years ago. It means trading of securities is conducted on the open auction principle on the trading floor.

The brokers representing the buyer of the securities code the highest buying price and his code number on the buying column and the broker representing the seller of the securities code the lowest selling price and his code number on the selling column. Once the bid and offer (ask) price is matched, the buying broker and selling broker perform the contract on the floor.

The first trading price of the share of a company should not be more or less than 5% of the previous day's closing price. Once the transaction is done then the price can be changed within limit of 2% in each consecutive transaction. At present, the trading method did not cope well. So, the computerization of trading support system is necessary.

B. Types of Transactions

When trading shares, the investor places an order involving a round lot or an odd lot or both. Generally, round lot means that the order is for 100 shares or multiple of 100 shares. Odd lot orders are generally for 1 to 99 shares. But in Nepal, NEPSE has fixed the round lot of 100 shares if the face value is Rs.100 or 100 shares if the face value is Rs. 10.

The transition should be done of at least one round lot on regular trading of less than 10 shares of Rs. 100 face value is permitted only on odd-lot trading hours. Beside this, for large block trades over 5% of the nominal value of a company's shares, the trade may be agreed off floor and details are to be reported to NEPSE.

C. Trading Session

NEPSE has fixed stock trading days and hours during which the number are allowed to enter the floor to make the transactions as tabulated below:

Table: 2.4

Trading Days and Hours

Types Of Trading	Days	Trading Time
Regular Trading	Sunday to Thursday	12:00 AM To 3:00 PM
Odd Lot Trading	Friday	12:00 AM To 1:00 PM

Source: NEPSE

D. Listing

Trading on the floor of NEPSE is restricted to listed corporate securities and government bonds. At present, 135 companies have listed their securities to make them eligible for trading. Listing and Annual Fee for share are as tabulated below:

Table: 2.5

Listing and annual fee for share

S.No.	Issued Capital	Listing Fee	Annual Fee
1	Up to Rs. 10 Million	0.20 % or Minimum Rs.15000	Rs. 15000
2	Rs. 10 Million to Rs. 50 Million	0.15% or Minimum Rs 45000	Rs. 25000
3	Rs. 50 Million to Rs 100 Million	0.10% or Minimum Rs. 75000	Rs. 35000
4	Above Rs. 100 Million	0.075 or Minimum Rs. 100000	Rs 50000

2.1.5.5 Trading Procedure in NEPSE

The buyer and the seller cannot do the transactions themselves without contracting brokers. The broker may be selected by taking into consideration number of things. When a buyer/ seller of a security make decision to give the order to the broker, he appears in the office of the broker and fills up a standard form called 'buy/ sell order form'.

The buyer of the securities must deposit certain percentage of the total value of the shares that he wants to buy the shares. This advance deposit may be set by the negotiation between the buyer and the broker. If the broker trusts the buyer then he may also do it without taking the advance. The buyer of the security is then given a slip from the brokering office as an evidence of his deposit of the money. Likewise, the seller also had to fill up the buy/sell form mentioning all the details of the transaction he wants to be done.

While filling the buy/sell order form the buyer/seller should mention the time period within which they want the transaction to be performed. If the broker fails to do the transaction within that given period for the client then the contract will be automatically come into an end and the buyer/seller have to do another contract to reactivate it.

In Nepalese context, if the buyer/ seller do not specify the period then the broker will treat an order as 15 days order and the order expire at the end of the 15 day period from the order made provided that buyer/seller has not been filled up by then.

The broker, their representative and the NEPSE staff are present at the transaction time. The buyer broker or the seller brokers both begin to order the price of the share in which they want to make transaction. There are separate buy/ sell column in the board for the securities of every company.

As soon as the buyer or the seller broker code their order it is placed in the buy or sell column with the code number of the broker. The first order should be placed within the range at 10% of the last day's closing price, which will follow, by the 5% range in the subsequent transaction.

The buy and sell order of the same price can be placed of up two brokers but not more than that. The buy order can be placed by another broker with little more prices then the coded buy price to wipe out the previous buy order of another broker. Likewise, if a broker codes little fewer prices then the presently coded sell price then the previous sell order is replaced by the new one.

If buy and sell price once matched then the brokers themselves talk about the number of shares they want to buy and sell to each other. When they both agree on the number of shares then the quantity is informed to the NEPSE staff that will then record the price, quantity, transaction number and traded amount in the computer.

Once the price meet into agreement, the buyer broker or seller broker can not reject to do the transaction and they should keep their word by trading at least 10 shares at that price. If the buyer broker do not get required number of shares from the seller broker, he will purchase the available shares from the seller broker and for the other required shares he continue to code the price at buy column. When his code price is matched with the sell code of another broker then the other transaction is performed. The buyer broker may also code little high price if he feel unable to find another seller broker at that price level.

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Likewise, if the buyer broker do not buy all the number of shares which the seller broker wanted to sell then he will sell the shares which the buyer broker agree to buy and keep himself continuously in the selling column unless he met other buyer broker to buy the number of shares which he wanted to sell.

The broker has to code their price before 12:50, the brokers who do not code their price cannot participate in the transaction after 12:50 p.m., the buyer broker and seller brokers negotiate to match their buy sell price themselves. When they meet into agreement, they inform to the NEPSE staff to code the new matched price to the board. Likewise, the quantity of the new matched price to the board.

Likewise, the quantity of the shares to be traded is also agreed and informed to the NEPSE staff who will then record the quantity, price, transaction number and the amount of transaction in the computer.

When the trade is done, the broker informs his buyer/seller client about the transaction details. Then the buyer of the security should provide the amount of security to the broker within five days, which is then transferred to the seller broker's account by the buyer broker. In case of declining market trend the buyer may refuge to pay the remaining amount by disobeying the written promise.

In that case the buyer broker should sell the security as soon as possible by informing the NEPSE about the details. The buyer broker then calculate the total loss which he bear from the two transactions including his brokering charges by subtracting the total proceeds from the amount he had paid. This loss is then claimed to the 'Appeal Court'.

2.1.5.6 Clearing and Settlement Procedures in NEPSE

When a trade has been agreed the selling brokers complete and sign a standard dealing slip (trading slip) and obtains the signature of the buying broker. The three copies of the dealing slips will be kept by the buying broker, NEPSE floor staff and the selling broker himself. Then the NEPSE staff enters the details of the trading slip in a computer. At the same time another NEPSE staff write down the details from the white board on a control sheet. Then the details from the dealing slips and the control

sheets are compared and corrected before closing off the day's trading activities. Queries are referred back to the brokers in case of confusion.

NEPSE has adopted a T+3 system which means that settlement of transactions should be done within 3 working days of following the transactions day settlement will be carried out on the basis of paper verses payment.

Once the transaction is made in NEPSE, the broker of the buying investor deposits the amount of the shares bought from the seller plus the fee of the NEPSE which is 25% of the broker's service charge in the NEPSE's current account no 1558 at Nepal Bank Limited, Dilli Bazar branch and submit the voucher with necessary documents in NEPSE within five working day of the transaction made. Then NEPSE will handover the cheque to the seller broker after subtracting the fee of NEPSE, which is also same as taken from the buying broker.

2.1.5.7 Ownership transfer by NEPSE

There are two types of procedures adopted by NEPSE in case of blank transfer and ownership transfer, which is as follows:

A. Blank Transfer

Once the trading is performed, the buyer broker submits the bank deposit voucher and the seller broker submit the certificates to the NEPSE for the further processing. If the buyer investor wants to buy the shares as a blank transfer, then it is registered in the NEPSE floor but the further processing is stopped. It is done mostly in the view of selling the shares in the very near future for the capital profit. But the shares must be registered to the new buyer's name within the sufficient time before the annual general meeting if the buyer wants to get the dividend and the bonus declared by the company in the annual general meeting.

B. Ownership Transfer

Despite the amendments to the Company Act to reduce the allowable period for making transfer of ownership in the register of shareholders, from 30 days to 15 days, it is time consuming and take weeks or even months in actual practice. The overall registration updates are slow and manageable.

To by-pass this problems a large portion of settlements are done by blank transfer at present. The signature verification process is also slow. It begins from the buying/selling broker sending a messenger with the share certificate to the company's premises in Kathmandu office to obtain the company's verification from their records. This long period has its greater influence and adverse effects in the price formation of the stocks in Nepalese stock market.

The whole procedure for clearing and settlement requires lots of paper work. The highly manual based procedure often results in delay, inefficiencies and potential risks for all participants.

2.1.5.8 Mutual Trading Procedure in NEPSE

Mutual trading is performed in NEPSE when the broker get buy and sell order of a particular share at particular price from two different clients. The mutual trading is coded with green ink marker in the board of NEPSE. If the set of brokers announce the mutual trading with little lower price of the same security, then the previous mutual trading will be replaced with the new one.

The price of the mutual trading is generally coded at the last time period, i.e. 12:50 p.m. in the floor where the market shows the trend of the particular share at that particular day. The price of the mutual trade should be placed within the range of 5%.

"The criteria of mutual trading plays vital role because the price is determined independently by only two brokers. So, it is sometimes said that the criteria or the facility to perform mutual trade should be banned. The present practice of share trading by mutual consent is a kind of wash sales that should be discouraged as it creates distortion in the price determined by the market forces. Such action helps in avoiding fictitious names created by several different share brokers in share transaction and also to check on the creating an illusion of rising price (Shrestha, 2056).

With the objective of making securities transactions more transparent, SEBO has made attempts to establish a system of time stamping of the orders from clients. Likewise attempts have been made to make the mutual trading more transparent.

2.1.6. The Level of Capital Market Disorders

There are many unfair acts being performed by different parties in the stock market which eventually force the market to be inefficient.

There unfair share market particles cover wash sales, cornering of the share market, churning, formation of pools and cartels, misuse of insider information and so on" (Shrestha,2056).

Wash sale

"A wash sale is essentially no sale at all. If a person who owns some securities sells those securities to himself, this is a wash sale. The purpose of wash sale is to create a record of a sale. This may be done to deceive someone in believing that a market price has changed"(Francis,1998:45).

"In wash sales, there is simply record of a sale but there is no sale of shares at all. If a man sells securities to his wife, this is a wash sale. The market makers have taken shares in the name of there family, relatives and other employees who were under their control. But, as they raise prices artificially to the peak, which is called forcefully created market boom by their own dishonest acts, they sold and later on put innocent investors to be the victims as they are made to buy at higher prices. At present, the practice of conducting shares transaction at a price agreed by mutual consent of buyer and seller is allowed in share market. This is a kind of wash sale since no money needs to be involved only the commission is to e paid to the broker".

Cornering the Market

Cornering in some security occurs when an investors buys all of a particular security that is for sale. This person then owns the only source of supply and can raise the price. The person who obtains a corner on the market of some asset may then liquidate it at a high price for a capital gain. Cornering may be defined as large acquisition of shares by individuals to create a scarcely for delivery against the existing contracts.

Market makers are also found to conduct unhealthy practice of cornering the share market in some selective scripts available for sale…..being price manipulators, they obtain a corner on the share market of some selective scripts and then liquidate them at a higher price for a capital gain.

Churning

Churning can occur when a client gives the broker an authority to trade the client's account without seeking the client's approval of every trade. So, it is very safe way for securities brokers to seal funds from their client's account while escaping detection by all but he most watchful clients. When the client buys or sells the commission is generated for brokers without regard to whether or not the clients gains from the transaction. This practice is called churning because it involves 'turning over' the clients account.

"Another way how the market makers and share brokers device the investors is the growing practice of churning under which they steal funds from clients while escaping detection by all…. It is the practice of turning over a client's fund for the personal benefit of brokers by frequent transaction. However, it is difficult for an investor who has been deceived by broker to prove that churning has occurred" (Shrestha,2056).

Pool

A pool is a formal or informal association of two or more persons with the objective of manipulating prices and profiting there form. When this objective is attained the poll is dissolved….some of the members may provide capital, some may provide inside information, some may operate the pool's operations or all members may participate in all these functions.

Insiders Trading

Insider is one who is restricted from trading in a company's shares because he has access to price sensitive information. Insiders include officers, directors, auditors, and large shareholders. It is the sale or purchase of securities by persons who possess price sensitive information about the company on account of their fiduciary capacity.

Insider transactions include also those who receive confidential price sensitive information from insiders who have access to it. Trading on the basis of insider information is prohibited because the information is not available to all market participants.

"Insider activities are growing in both volume and speed among company promoters, directors, officers other executives and technicians to influence the prices of share in the market…There has been frequent release of price sensitive information by insiders to earn speculative profits by trading on shares of such companies. Having no access to such price sensitive information. Investors in general are put into disadvantage".

2.2. Review of Thesis

Bhatta (1997) says "Dynamic of stock market in Nepal". His research objectives are the follows:

-) To analyze the trend of the Nepalese stock markets.
-) To diagnose and compare sectoral financial status of the stocks in Nepalese stock market.
-) To analyze the market share prices of the Nepalese stock marker.
-) To find out the impact of the secondary on primary market and vice versa.
-) To recommend for the improvement of stock market in Nepal.

The conclusion of his study was;

The stock market economic activities move in similar direction. They influence each other. The development of the former in reflected in the latter. The stock market raises and mobilizes the invest-able resources to finance the long-term large projects in the economy. The stock market, therefore, cad be regarded as a heart of economy.

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

Development of manufacturing sectors is the backbone of an economy, which in turn assists to foster banking, finance and insurance sectors. Unfortunately, the manufacturing sector doesn't have a good perform in Nepalese economy. Almost all firms in this sector have a sustained loss.

The secondary aspect of the stock market is not also functioning well in Nepal. There is almost no liquidity in the stock market except that of banking and some finance and insurance sectors.

Bhatta has analyzed the market price of the shares of 10 companies; four from manufacturing sector, one from hotel sector, two from trading sector, three from finance sector and four from banking sector for his study. Bhatta tries to analyze the trend of the market, to diagnose and compare the sectoral financial status of the stocks in Nepalese stock market. He also tries to analysis the market share price of the Nepalese stock market and to find out the impact of the secondary market on primary market and vice-versa.

Bhatta has concluded that the liquidity in the Nepalese stock market is very poor and the trading of only fifty percent of the listed stocks takes place in the stock exchange when the market is boom. The trading of stocks takes in terms of number of transactions, number of shares traded and value or shares traded are very low.

He has primary used secondary data in his study. He did not use any of the primary data for collecting tools. He tremendously used different ratios to calculate the financial status of the companies under study. He missed about brokering services for stock market in Nepal.

Shrestha (1999) says 'Stock price behavior in Nepal'. His research objectives are the follows:

] To examine the serial correlation of the successive daily price change in the individual stocks.

] To determine whether the sequence of price changes is consistent with changes of the series of random numbers expected under the independent Bernoulli process.

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) To determine the efficiency of the stock market though the theoretical model of efficient market hypothesis in the Nepalese stock market.

) To provide feedback policy input towards institutional development of efficient market.

The main findings of his study were:

The serial correlation coefficients of the daily price changes for 1 and 2 lag days, and run of the series of daily price changes lead to conclude that the successive price changes are not independent random variable for the 30 sample stocks listed in the Nepal stock exchange ltd. the random walk theory is not a suitable description for the stock market price behavior in Nepal.

The dependence in the series of price changes observed imply that the price changes in the future market will not be independent from the price change of the previous days. It implies that the information of the past price changes is helpful in predicting future price changes in a way that the speculation though technical analysis can make higher expected profit than they would be under native buy-and-hold policy (i.e. average market return).

Therefore, opportunities are available to sophisticated (both institutional and individual) investors to earn higher return in the market. The existence and participation of the sophisticated investors have not been realized from the findings of this study. It is realized that mostly the adolescent investors have dominated in the market that can cause prices to diverge significantly from intrinsic values because the very existences of the sophisticated traders cause to erase the opportunities of persistence in prices, which establish independence of successive price changes.

Dahal (2002), says "Stock Market Behavior of Listed Joint Stock Companies in Nepal". His research objectives are the follows:
To study and analyze stock price trend and volume of stock traded on the secondary market.

) To study and analyze the rate of listing of new companies and maintenance of listed companies in Nepal stock exchange ltd.

) To study and analyze the investors views regarding the decision on stock investment.

) To study and examine the signaling factors' impact on stock price with the help of NEPSE index.

) To suggest the abstract to the interested parties related to stock market.

The major findings of Dahal's study were:

Most of the investors were asked for their performance of investment sector. Major portion of them said that they were attached with banking sectors for investment,

On analyzing primary data it was found that the stock market is in Nepal is in developing stage as investors are not well aware about the investment process and its other factors like NEPSE index, price trend and investments facilities are not doing their work in systematic way.

The investors were not satisfied with their investment as they were asked whether they were satisfied or not to their investment.

It was found that the investor's motivation for owning shares of company is to receive the dividends from the shares.

The investors were found interested to be elected in company's management.

When investors were asked if they faced any difficulties in the stock market. Majority of them replied that they were facing difficulties there. Therefore it implies that there are many difficulties in Nepal Stock Market.

It was found that investors in the stock market take the investment decision on the basis of market price of shares.

It was found that rumor is the most predominate factor to determine the market price of share.

The efficiency of stock markets' different parties, brokers, market makers, and security exchange limited were not getting required support from these parties.

On analyzing the price trend of two years NEPSE index in different months with the help of months of the year 2000 was in increasing trend, while that of year 2001 is in decreasing trends. So from this trend analysis we can say there is no relationship of price trend between two successive years.

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While analyzing the rate of listing of new companies showed that increasing trend from the year 1997 to the year 2001.

Volume of stock traded in stock exchange during his study period was found in increasing trend but in last year it was in decreasing trend.

On analyzing pared t-test for signaling factors with reference to major seven events it was found that signaling effects had played major role in fluctuate of the stock price.

Dahal in his study said that the major portion of the potential investors is like to invest in banking sectors. He started that Nepalese Stock market is still infancy stage and Nepalese investors are not well aware of investing process. He primarily based his study on secondary data. He also claimed that on his study the NEPSE index, price trend and investments facilitators are not doing their work systematically. The investors were found interested to get elected in company's management

Further more, he added, the majority of the investors are facing many difficulties in Nepal Stock Exchange. The efficiency of stock market's different parties, like, brokers, market makers, security exchange limited were not found efficient by analyzing interviewers' expression as they were not getting required support from these parties.

Dahal has concluded that the investment decision is based on market price of shares volume of stock traded in stock exchange during his study period was found in increasing trend but in last year it was in decreasing trend. His study focused on the price of the stocks but not in brokerage services.

Gutam (2004) says "Price formation and brokering services in Nepal Stock Exchange." His research objectives are the follows:

- To analyze whether the price formation in Nepal stock exchange is effective or not.
- To study the price formation at Nepal Stock Exchange
- To analyze the trend of market price of the stock of the companies under study.

〉 To analyze the brokering services and the role of the brokers in price formation in Nepalese Stock Market.

〉 To provide recommendation on the basis of finding.

The major conclusions of Mr. Gautam study were;

The efficient price formation is one of the requirements for the development of the stock market. The involvement of different sectors especially the brokers with various services and facilitators in comparison to cost help to grow the involvement of the number of investors and the number of shares traded. The efficiency in pricing of shares in the market can also be reduced by increasing the involvement of the related sectors in share trading activities. The creation of fair market offers an easy mechanism to evaluate the conditions of securities market and future prospects of the securities and the movements in the prices of he shares.

The effective price formation helps to create of liquidity of stocks, it provides a continuous market for securities where securities may be bought or sold at any time during business hour at comparatively small variations from the last quoted price, if the price formation is inefficient in the stock exchange, prospective investors will find it hard to obtain securities at reasonable price, which discourage country's long-term investment, and ultimately savings will be affected in negative direction.

The stocks should indicate the direction in which community's savings should be invested. In the market where price formation is effective, the price differences between shares represent differences in their profitability and prospects as judged by collective opinion of numerous competent operators. Thus the price system established on the stock exchange provides guidance to investors and helps them in directing the flow of fund into firms having prosperous and bright future.

In Nepal, the dynamism of stock market has been greatly reduced by the domination of the long-term shareholders who invest in the shares with the hope of increasing their wealth. Even though it was found from the responses given be the investors that they prefer blank transfer, it is their intention to prefer the shares having higher liquidity to earn capital gains when the time comes but actually most of them holds shares for long period. This was realized during the direct observation during the observation period at NEPSE floor and the brokerage offices.

This can be justified by very less number of shares that were traded on the stock market. Even though it reduces the dynamism of the stock market, the investors have few investment alternatives rather than investing in the shares.

The rationality of the Nepalese investors was found to be at low level. They have very little knowledge of the trading procedure and the price formation mechanism at NEPSE.

People, in Nepal, simply invest in shares because they have very little alternatives of investment available. They are not well aware of the fact that investing in shares involves risk. So, the concerned bodies should feel responsible to provide sufficient and reliable information about investment in shares. So that, the rationality could be upgraded and the price formation may become more effective.

in his study focus on the price formation of the stocks rather than brokering services of shares in NEPSE. His study primarily based on secondary data. He tried to find out the various aspects of price formation and brokering services in NEPSE. The selection of sample size has not been properly taken for the study and the analysis of data has been based on intuition. He had taken only 20 companies (from the different sectors) for the research study. For the adequate result of the study, this 30% (20 Companies) of sample was quit low.

Furthermore, he added that the efficient price formation was one of the major requirements for the development of the stock market. The effective price formation helps to create of liquidity of stocks. If the price formation is inefficient in the stock exchange, prospective investors will find it hard to obtain securities at reasonable price.

The researcher found the fact that different research performed on different headings, which were directly or indirectly related to the efficiency and effectiveness of the price of the share in the security market and the price is directly related to the trading of shares and it affects the brokering services in NEPSE. The researcher tried to perform a detailed study on this topic perhaps; this might be the first Master's Thesis which deals with only brokering services in NEPSE.

Mainali (2006) has conducted research on "A Study on Share Price Behaviour of Listed Companies". The main objectives of this study were:

) To analyze the behavior of stock price of Listed Companies.

) To examine the stock price trend and volume of stock traded on the secondary market.

) To identify the factors affecting stock price.

) To analyze the investors' view regarding the decision on stock investment.

In her study, Mainali concluded that Share trading system in share market is still uncivilized even in this IT age. Though the volume to trading has increased the number of brokers has not increased. Therefore, for the systematic operation of the share market, the number of brokers should be increased according to the volume of trading. Similarly, the automation system has to be put in to practice to make the share market effective and competitive.

The public investors not direct invest their savings in shares haphazardly. They should at least analyze or get suggestions from experts about financial position and the level of risk prior to taking and investment decisions. Because of the persistence in the stock price movements professional traders either institutional or individual can beat the market. Thus it is suggestions that the investors should be alert to exploit the opportunities

Overall, the previous studies in stock market support the idea that Nepalese stock market is not efficient even in the weak form hypothesis. Nepalese investors are not efficient enough to recognize potential for excess return.

Joshi (2007) has conducted research on "Role of Nepal Stock Exchange in the secondary Market" she using the secondary data from 2001to 2006.

The main objectives of this study were:

) To assess the past and present behaviour of business operation in the Nepal Stock Exchange Market.

) To forecast the future trends of business and economic activity in the NEPSE in terms of quality, value and volume.

) To prescribe ways and means by which secondary market would be more effective and meaningful.

The basic conclusion of her study was:

NEPSE should introduce digital technology and online marketing in its trading procedure, the rules and regulations should be up to date, Privatization process needs to be carried out effectively in order to develop Nepalese stock market.

Tax system should be reformed which should encourage and stimulate capital formation.

Shrestha (2008) has conducted research on "Brokering Service ln Nepali Stock Market. This study was conducted to analyze the brokering serves in NEPSE. main objectives.

) To analyze the performance and effectiveness of Brokering Service in NEPSE.
) To analyze the general investors opinions on Brokering Service.
) To recommend and make suggestion to improvement on the basis of the study.
) The information was then analyzed by using different statistical tools as described in the Research Mythology. The major findings of the present study are briefly summarized as follows:

It was found from the data acquired from the questionnaire that years of investor's involvement shares investing activities were found 5.6 years which is regarded as a short period.

The purpose of investment of the investors in securities market were found to be 40.00 percent for capital gain, 26.67 percent for dividend, 11.11 percent for social status and 22.22 percent for use of excess money.

It was found from the data acquired from the questionnaire that out of 14 companies, the number of companies per investor is 5 companies.

In comparison to the wide array of services investors are getting from broker in many developing and developed countries. Nepalese investors are getting mostly trading services only (64.44 percent), while few (35.56 percent) are getting both trading and information services.

Forty percent of the total investors were satisfied and sixty percent of the total investors were not satisfied with the performance of brokering services of NEPSE.

While the entire broker were satisfied with the performance of brokering services of NEPSE.

Investors were mostly found to prefer ownership transfer (86.67 percent of total investors) and blank transfer were found only 13.33 percent of total investors. So, it showed that investors were mostly of speculative nature and they get involved in trading of shares for capital appreciation rather than dividend appreciation in Nepalese Securities Market. But the trading of shares in NEPSE was very less and only 5 to 17 listed companies' shares were traded in the NEPSE during the observation period. It can be said that investors are investing in the shares as long-term investment rather than for short period.

It was found from the data collected from the questionnaire that the median value of investors is very low. Investors themselves said that they are getting very low level of reliable and adequate information from brokers regarding the transaction of shares in the securities market. So, brokers should think at this point to serve their clients by providing a wide array of services related to the share trading activities. The Chi-square test showed that there was no any significant difference between the views of two sectors in regards to the level of responsibility of reliable and adequate information are getting / providing from brokers regarding the transaction of shares in NEPSE.

The mutual trading was found to be high and low. This is responsible for stock market disorders. So, it should be restricted to create highly competitive environment in the stock market. The Chi-squire test also showed that there was no any significant difference between the views of two sectors in regards to the level of responsibility of mutual trading in stock market disorder.

Brokers were found to be less responsible as compared to investors in different types of stock market disorders, such as: wash sale, cornering the market, inside trading, churning, pool and mutual trading as responded by two sectors. The Chi-squire test also showed that there was no significant difference between the views of two sectors in regards to the level of responsibility of different types of stock market disorders. Such as: Wash sale, cornering the market, inside trading, churning, pool and mutual trading.

2.3 Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. There is various researchers conduct on related topic like primary and secondary market behaviour, stock price behaviour in Nepal, Price formation and brokering services in NEPS, share price behavior of listed companies, Role of NEPSE in the secondary market etc. In order to perform those analysis researchers have used various data.

Some researcher has done well research based on primary and secondary data using various financial tools as well as statistical tools. Here both primary and secondary data are used for making this research. This study tries to define aggregate brokering service provided in Nepal and stock price movement in NEPSE. Probably this will be the appropriate research in the area of broking services in Nepalese context.

CHAPTER – III
RESEARCH METHODOLOGY

This chapter refers to the overall research methodologies form the theoretical aspects to the collection and analysis of data. This study covers quantitative methodology in greater extent and also used the descriptive part based on both technical aspect and logical aspect. This research tries to perform a well designed quantitative research in a very clear and direct way using both financial and statistical tools as required by the study. Detail research methods are described in the following headings.

3.1 Research Design

In this research work various opinions, behaviors/characteristics of the responded investors and brokers are included. It is based on both primary and secondary data. To collect primary data, total populations of the licensed brokers are to be taken as sample. From the side of the investors, 100 persons are to be taken as sample. The sample investors are chosen from the person who visited the NEPSE floor at the time of securities trading. Necessary data and information are to be collected from interested investors and responded brokers. Brokers' financial performance related data are collected from secondary source. The acquired data are organized in tabular form. The facts and figure are analyzed and presented in graphical views and describe the findings. The research clearly identifies the problems, justify current situation and practices, and compare the results from the study. The research covers the five years period data from 2003/04 to 2007/08.

3.2 Data Collection Procedure

This study equally takes the data from both the primary and secondary source of data. The entire primary data had been collected from selected investors and brokers. Necessary consultation had been made and interviews were taken with the authorities of NEPSE, SEBON and brokers. Likewise, secondary data had been collected from different institution. The major organizations that they supplied data are SEBON, NEPSE, etc.

3.3 Data Processing Procedure

Secondary data are not further processed. These data are used in the study directly. Data collected from questionnaire fill-up, interviews and discussions were analyzed by using different statistical tools.

3.4 Presentation and Analysis of Data

The results came from the analysis were presented in tabular form and clear interpretations on it are given simultaneously. Detail calculations, which cannot be shown in the body part of the report, are presented in appendices at the end of this study report.

3.5 Analytical Tools

On the basis of primary data collected from questionnaires and informal discussion with different investors, brokers and staff as well as officers of NEPSE and SEBON, statistical tools were used to perform the details analysis as required by the study. Statistical Tools

Percentage Analysis

The percentage analysis is done to compare the two or more data for general information. It is used as a method to divide the opinions of the related sectors into two or more sectors.

Arithmetic Mean

Arithmetic mean is the sum of all the observations divided by the number of observations. The arithmetic mean is denoted by $\overline{X}$. It is computed as:

$$ArithmeticMean(\overline{X}) \, X \frac{fx}{n}$$

Range

Range is calculated to describe the distance of the data acquired from a source. The higher range describes that the response is scattered highly while the lower range describes that there is unity between the responses regarding that question.

CHAPTER – IV
PRESENTATION AND ANALYSIS OF DATA

In this chapter, relevant available data of the primary and secondary source are collected and analyzed. Investors and brokers were taken as the sources to gather the relevant raw information and data by distributing the questionnaires. The help of relevant data published in different publication were also utilized to make the study meaningful. Appropriate statistical tools have been used to perform the analysis. Different types of graphs are also used to show the facts and figure.

4.1   Primary Data

To collect primary data 100 questionnaires were distributed to investors and 23 questionnaires to the brokers. Among them 40 and 16 questionnaires were returned from the investors and the brokers respectively with necessary filled-up.

4.1.1   Data Acquired from Investors

) Number of Year Involvement of Investors in Securities Investing Activities:

The first question was asked to the investors to know the particular information of their involvement with the securities investing activities in security market of Nepal. Forty investors responded this question. They have different involving years. The highest involving year is 16 and 1 is the lowest involving year in securities market. The average involving year in the securities market of the Nepalese investors is found to be 7.5 years.

) Purpose of Securities Investment

The second questioned was asked to the investors to know their specific purpose in investing securities. Four purposes - capital gain, dividend/interest income, use of excess money and making social status were set in the questionnaire. All of the 40 responded giving the answer of this question. Among them 27, 9, 2 & 2 respondents have stated capital gain, dividend / interest, use of excess money and making social status as purposes of making investment in securities. From the acquired data majority of the investors, 67.5% prefer to capital gain and 22.5%

social status whereas the use of excess money and dividend/interest income through investing securities show low priority i.e. 5% each.

Chart No 4.1

Purpose of Securities Investment
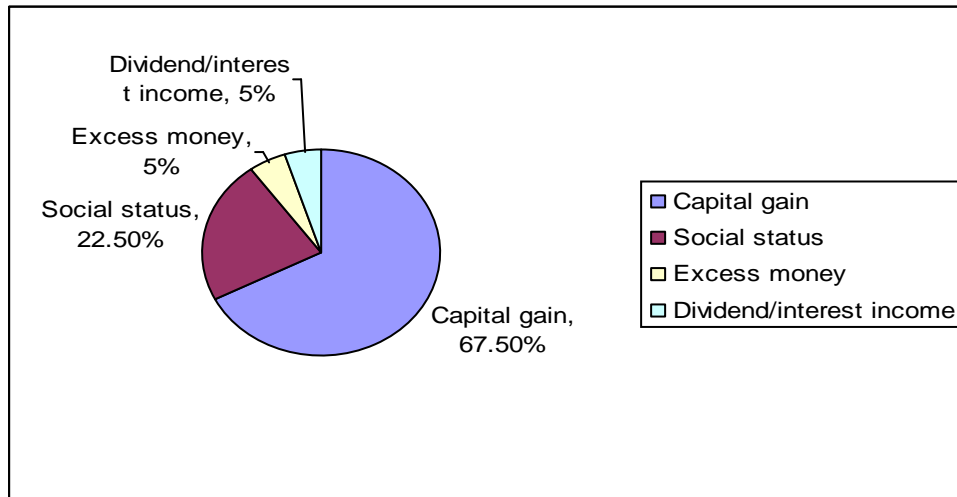
## Number of Companies in the Investment portfolio

The investors were asked this third question to know the number of companies they have invested among the listed companies in NEPSE. Among the respondent investors, 35 have given the answer of this question. From the acquired data, it was known that the highest score of 52-companies' securities in their investment portfolio. However, in an average, 14 companies' securities have been owned by each investor.

Source of Advice/Information for Buy/Sell Decisions

The fourth question was asked to the investor to know the basis to reach to the buy/sell decisions of securities. In this question, four alternate source of information were put to choose i.e. brokers' advice, fundamental & technical analysis of the companies, market fluctuation/trend and others. Fourty investors responded this question. Among them 15 investors followed fundamental and technical analysis of the companies, 20 investors followed market fluctuation/trend to reach the buy/sell decisions and 5 investors it was found that no followed the brokers' advice to take the buy/sell decisions of the securities. From the acquired data 37.5%, 50%, and 12.5%, investors reached to securities buy/sell decision with the help of fundamental and technical analysis of the

companies, market fluctuation/trend of the securities market and broker advice respectively.

Chart No 4.2

Advice/Information for Buy/Sell Decisions
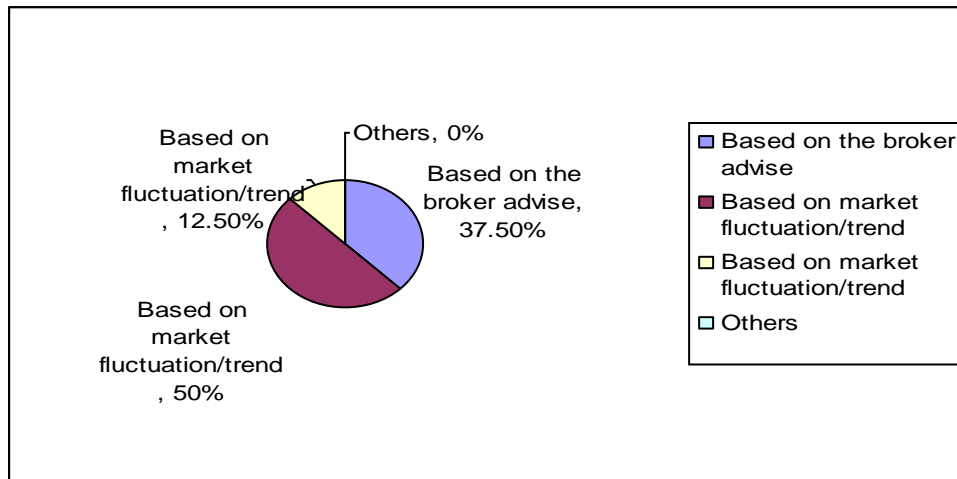

Investment Sectors

The fifth question was asked to know the preferable sector for investment of the investors. All of forty respondent investors have given the preference to the Banking sector than the other alternate sectors - trading, manufacturing and processing, and others sectors. From the acquired data, 100% investors have the first preference to invest in the banking sectors securities in the Nepalese securities market.

Investors Receiving Service from Broker

The sixth question was asked to the investors to know the types of services providing by the broker to their customer/clients. To this question, 40 investors have responded. 25,11, 0 & 4 investors were receiving corresponding services from the brokers among the four alternate services – trading only, trading and information, information only and other (like discounting etc) services respectively. Among them, most of the investors are receiving securities trading service only from the brokers which is 62.5%. 27.5% of investors are receiving both trading and information services with brokers whereas 10% of investors are receiving others services like discounting etc. There is no mechanism to receive only ready-made flow of information from the broker.

Chart No 4.3

**Investors Receiving Service from Broker**
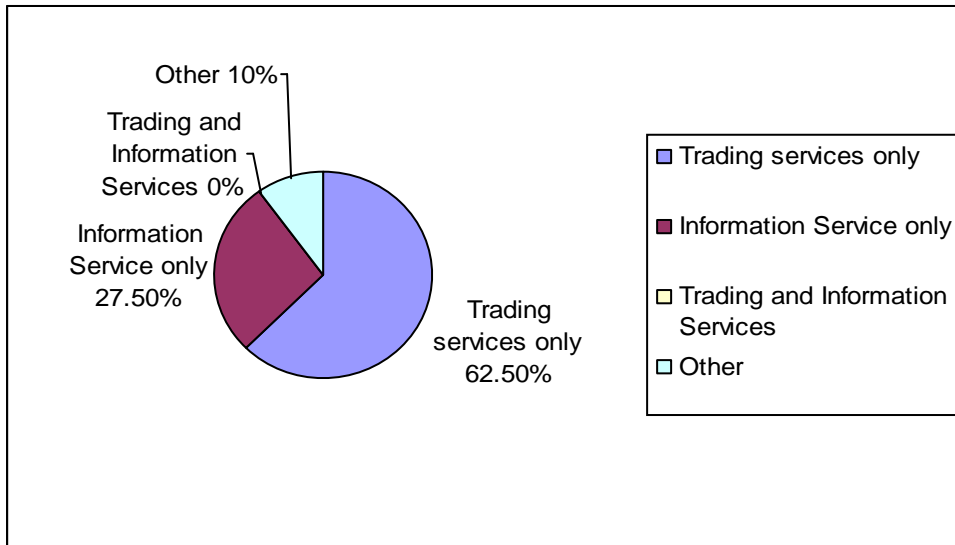
Performance of the Brokering Services of NEPSE

The seventh question was asked to the investors to check the level of satisfaction of the investors with the performance of the NEPSE. Forty investors have given their views in this query. From the acquired data, it was found that 8 are satisfied, 11 are not satisfied where as 21 investors are satisfied only to some extent. Here, the majority of the responded i.e. 52.5% were only satisfied to some extent whereas 27.5% of investors are totally dissatisfied and 20% of investors are fully satisfied with performance of the brokering services of NEPSE.

Chart No 4.4

Performance of the Brokering Services of NEPSE
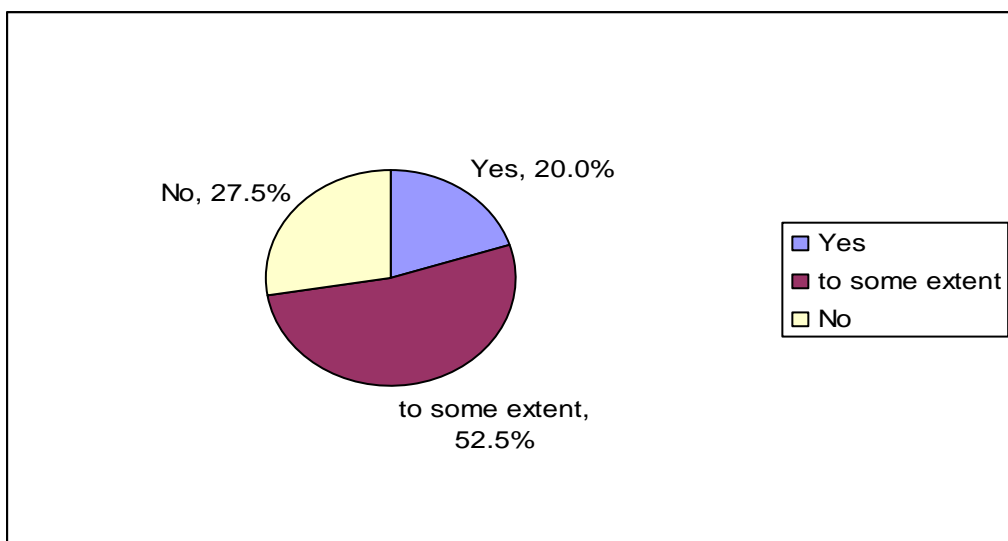
Factors Considering to Select the Brokering Services / Brokerage Firms

The eighth question was asked to the investor to know the factors on which basis the broker is selected to transact the securities by the particular investors. Four major factors were considered in this study. They were services charge, counseling/advice, quality of services, and experience and reputation of the broker (brokerage firm). Forty investors have given their answer to this question. 27(67.5%) of respondent investors have given the 1st priority to the quality services of the brokers (brokerage firms) while appointing them. Similarly, 6(15%) service charge, 4(10%) experience & reputation, and 3(7.5%) counseling / advice have given their answer to this question.

Chart No 4.5

Factors Considering to Selecting the Brokering Services / Brokerage Firms
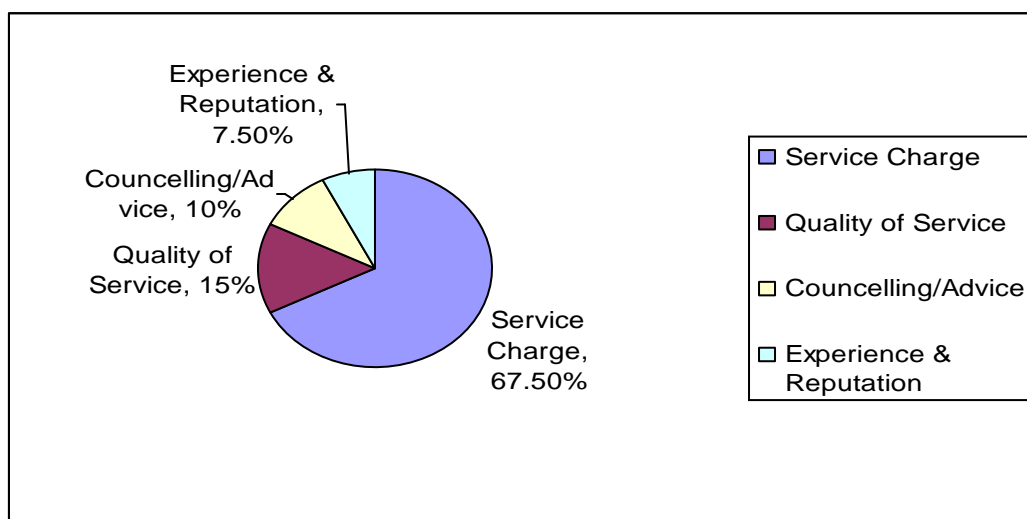
Flow of Information from Listed Companies

The ninth question was asked to know if the listed companies were providing the information related to their performance and future planning. Sufficient, to some extent and not sufficient, 3-options were put for choice. Forty investors responded this query. Among them, 18 persons were believed that the listed companies are providing the information about them to some extent, which is 45% having highest weight among the alternative. Similarly, 14(35%) of the respondents believe that they are not providing sufficient information. Eight, among them i.e. 20% of the respondents are found in the support of the companies that the listed

companies are providing adequate information related to heir performance and future planning.

Chart No 4.6

Flow of Information from Listed Companies
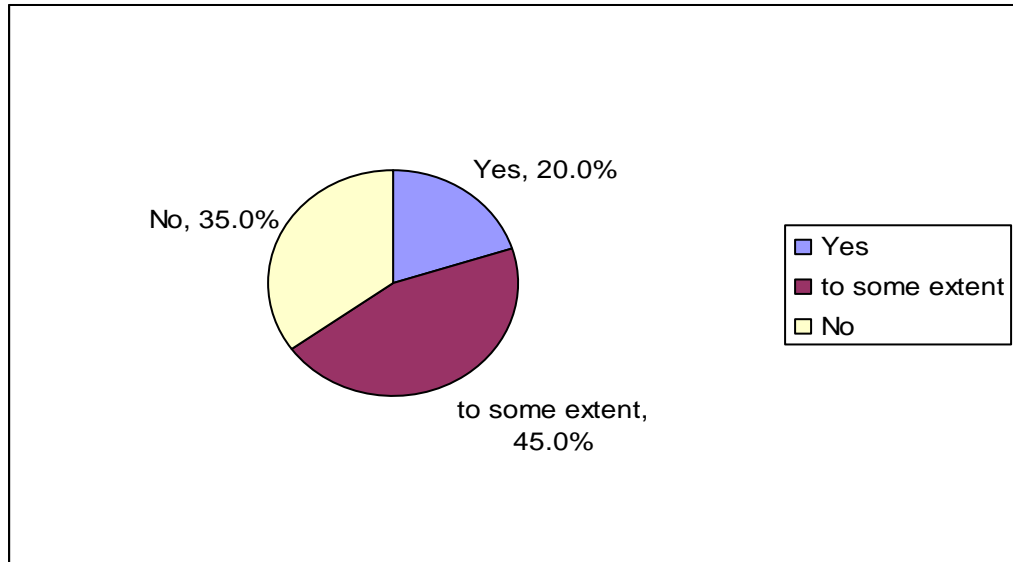
Preference of Share Transfer Method of Investors

The tenth question was asked to investors to know the attitude of their share transfer methods. Among the forty investors, 25 were in favor of ownership transfer of securities which is 62.5% of the total responses. Remaining 15(37.5%) were in support of Blank Transfer. It was found from the acquired data that higher portion of the investors preferred ownership transfer of securities in NEPSE.

Chart No 4.7

Share Transfer Method of Investors
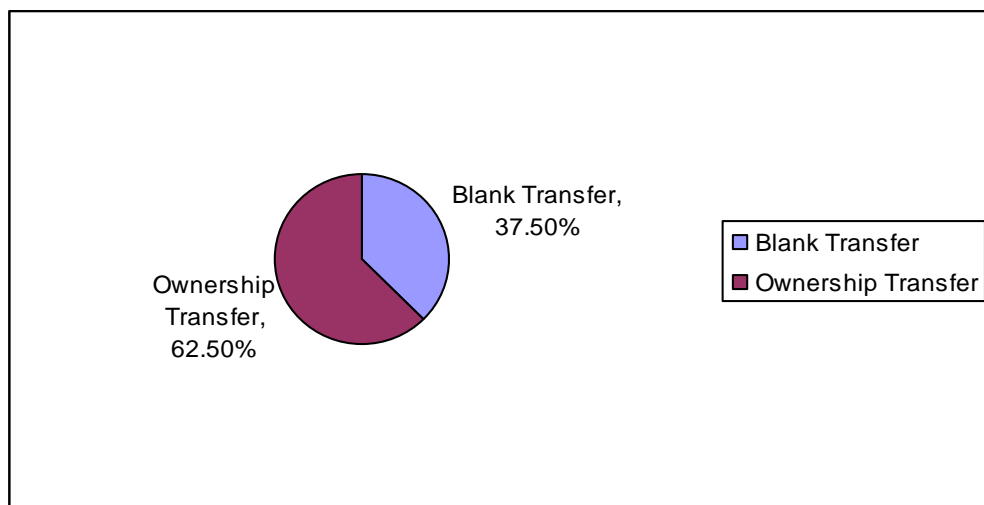
Adequacy and reliability of information provided by brokers to the investors

The eleventh question was asked to get reliable and adequate information from brokers and officials of NEPSE regarding the transaction of securities. In this particular question 35 investors gave the response, majority of the respondents i.e. 15(42.85%) believed that they are getting low level of adequate and reliable information. similarly, 9 (25.7%) very low, 7 (20%), highly, 4 (11.43%), very highly reliable and0 (0%) adequate information that the investors are receiving from brokers and official of NEPSE.

Chart No 4.8

Information provided by brokers to the investors
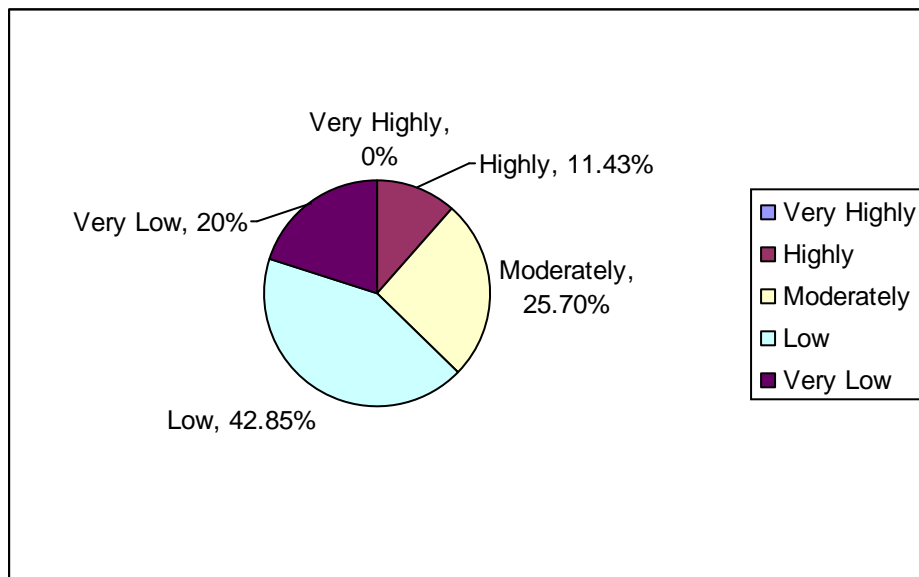
Broker Activities responsible to Market Disorder

The thirteenth question was asked to measure the extent of responsibilities of the brokers in securities transaction activities viz. wash sale, cornering the market, insider trading, churning, pool and mutual trading are responsible for market disorder. Thirty investors have given the answer of this particular question. Among them 15 (50%) investors moderately believed that market disorder is caused from the brokers activities. Similarly 8(26.67%) investors believed highly, 5(16.67%) investors believed low, 1(3.33%) investors believed very high and 1(3.33%) investors believed very low level of market disorder due to the broker's different types of activities.

) Mutual Trading as Stock Market Disorder

The twelfth question was asked to measure the belief of investor that the mutual trading was responsible in stock market disorder. Among the forty investors, the highest, 20(50%) investors believed that the mutual trading distorted the securities market low. Whereas 6(15%) investors believed moderately, 5(12.5%) investors believed highly, 5(12.5%) investors believed very highly and 4(10%) investors believed very low level of market disorder due to the mutual trading activities.

Chart No 4.9

Mutual Trading as Stock Market Disorder
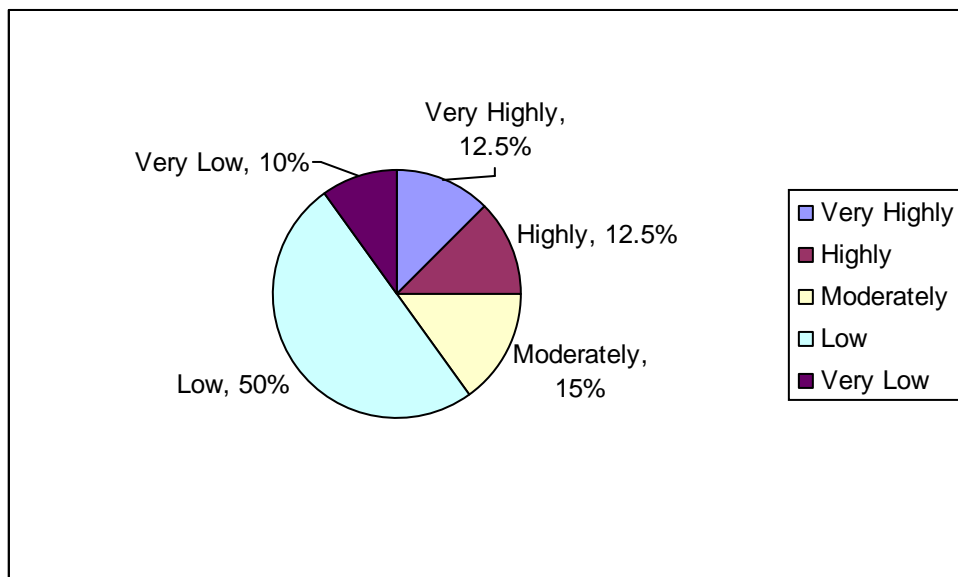
) Satisfaction of Investors with the 'Automated Trading System' (ATS)system followed by NEPSE

This is the last and the fourteenth question asked to the investors to know their views about the system 'Automated Trading System' (ATS) followed by the NEPSE. Forty investors have given their views in this question. The respondent investors 40(100%) are satisfied with the system.

4.1.2 Data Acquired from Brokers

) **Year of Involvement/Experience in Securities Broking Services of Brokers/Broker Firms**

This first question was asked to the Brokers to know how long they have been involved in the securities broking profession. The total period of time span was divided into 4 period of time interval – less than 2 years, 2 year to 5 year, 6 year to 10 years and more than 10 years. Sixteen brokers have given the answer of this particular question. No broker was found less than 2 years of experience in their profession. Most of the brokers are experience more than 10 years which is 90% of the total surveyed brokers.

) **Number of Regular Clients the Broker Serving**

The second question of this set of questionnaires was asked to the Brokers to find-out the number of clients they are serving currently. Among the 16 respondent brokers, only 11 brokers have given the answer of this question. From the acquired data the numbers of clients serving each broker are ranged from 10 to 500. In an average, approximate 150 nos. of regular clients are being served by each broker.

) **Brokers Providing Services**

Another question was asked to the brokers to know the types of services that they are providing to their customer/clients. Among the four alternative services – trading only, trading and information, information only and other services all 16 responded claimed that they are providing both trading & information services.

) **Tools & Technique used by Brokers to Analyze Securities**

The next question was asked to the brokers to know tool and techniques they are using to analyze the securities and to advise to the needy investors. Among the responded brokers, 14 brokers gave the answer of this question. Out of them, one broker used all of three techniques – market trend, fundamental analysis of companies & securities valuation. Similarly another broker reached to the decision

on the basis market trend and the fundamental analysis of the companies. Out of 100 percent, 28.57% of brokers are using Market Trend analysis. But 7.14% of them use none of the techniques mentioned in the questionnaires. They also do not disclose the technique they have been following. However, 7 responded i.e. 50% of brokers are using fundamental analysis of the companies and 14.27% preferred on the valuation as source of information and on the basis of that they suggest to their clients to buy and sell securities.

Chart No 4.10

**Tools & Technique used by Brokers to Analyze Securities**
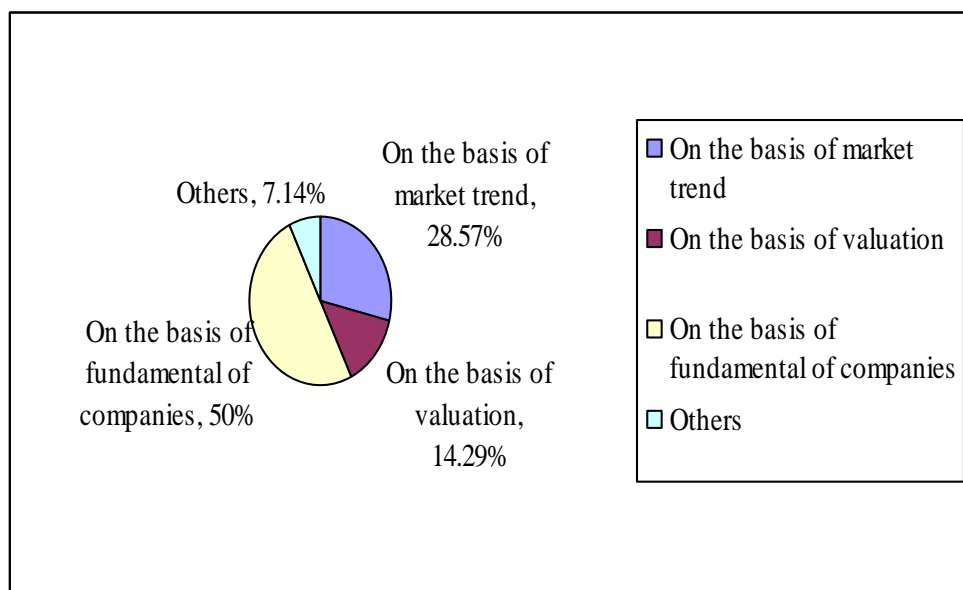
Frequency of transaction order received from regular clients

The fifth question was asked to the brokers to know the frequency of order that they have been receiving from their regular clients in a year. The frequencies of order are divided into 4 categories- 10 (Ten) times, 10 to 20 times, 21 to 30 times and more than 30 times. All of 14 respondent brokers gave the answer of this question. Among them, 12(75%) are receiving more than 30 times order from each regular customer whereas 25% of the brokers receiving 21 to 30 times order from their regular customer.

Chart No 4.11

Frequency of transaction order received from regular clients
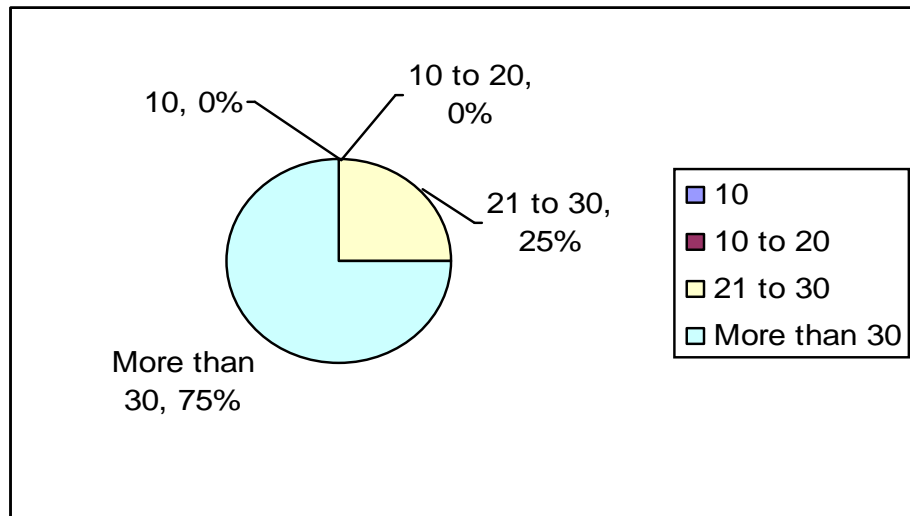
## Information Collection Habit of the Brokers

The sixth question was asked to the broker to know whether they collect the annual reports of the listed companies. Sixteen brokers have given the answer of this question. From the acquired data, it was found that all 16(100%) brokers collect the annual reports of the listed companies.

Size of Order in Terms of Rupees

The seventh question was asked to the brokers to know the volume of order they receive from the investors. The order size is divided in the rage of less than Rs. 20,000, Rs. 20,001 to Rs. 50,000, Rs. 50,001 to Rs. 100,000 and more than Rs. 100,000. Fourteen brokers gave the answer of this question. Among them, 7 (50%) brokers receive the order within the range Rs. 50,001 to Rs. 100,000. Similarly other 5(35.71%) of brokers also received the order more than Rs. 100,000 range. Remaining two brokers received the order within the range of less than Rs. 20,000 which is 14.28% of the total survey number.

Chart No 4.12

Size of Order in Terms of Rupees

Less than NRs. 20,000, 14.28%

Rs. 20,001 to Rs. 50,000, 0%

More than Rs. 100,000, 35.71%

Rs. 50,001 to Rs. 100,000, 50%

- Less than NRs. 20,000
- Rs. 20,001 to Rs. 50,000
- Rs. 50,001 to Rs. 100,000
- More than Rs. 100,000
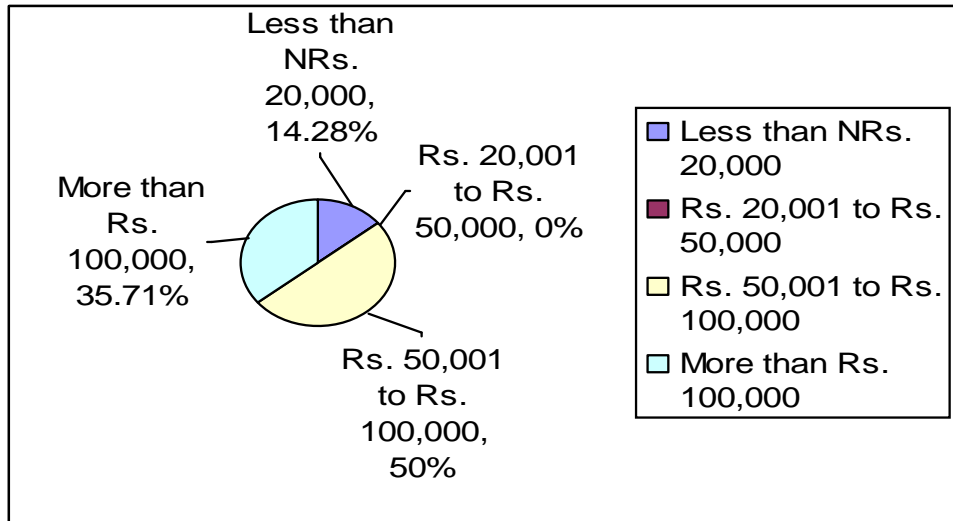
Data Base System of Brokers

The eighth question was asked to the brokers to know the system they are following to maintain the record of information and data. Three types of system are asked in the questionnaire system. Fourteen -brokers have given the answer of this question. Among them, 12 (75%), broker/brokerage firms setup both computerized and manual system, whereas 4, (25%) have only computerized system. no one use manual system. From the study, it was found the no broker follow manual system to keep the record currently.

Chart No 4.13

Data Base System of Brokers

Manual, 0%   Computerized, 25%

- Manual
- Computerized
- Both

Both , 75%

54
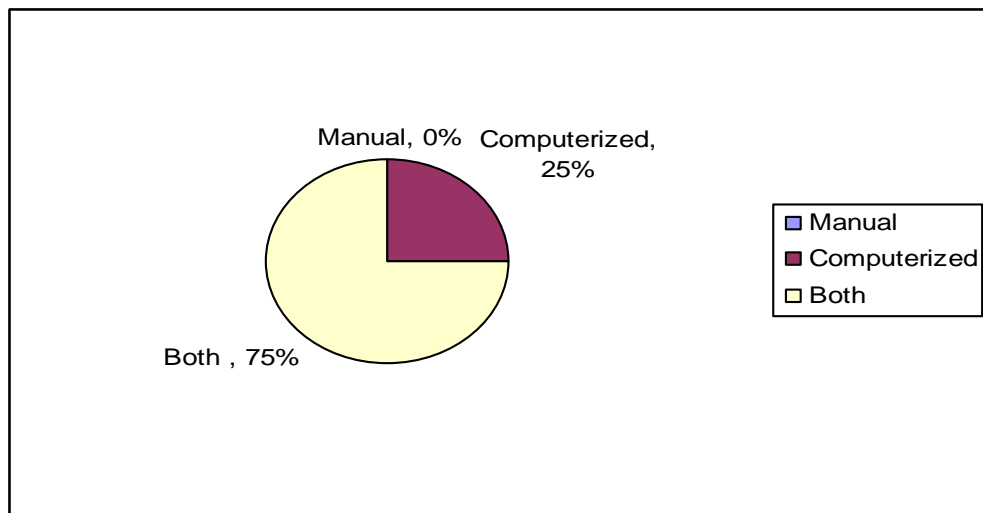
Consideration in Service Charge

Another question was asked to know whether the brokers gave the discount in their services charge. It was found that 12 (75%) do not give the discount whereas 4 (25%) give the discount to their customers in service charge, it was found from the acquired data.

Chart No 4.14

Consideration in Service Charge
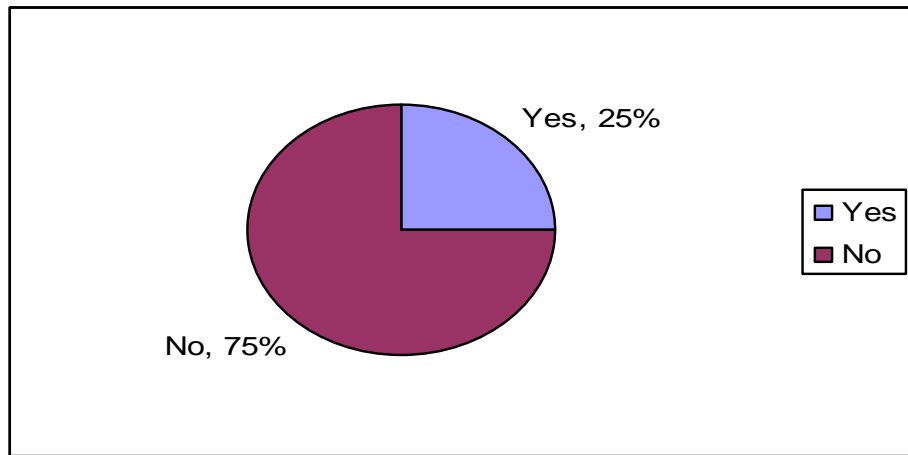
Home Service Facilities of Brokers

The next question was asked to the brokers to know whether they have home service facilities to the customer. It was found that 12 (75%) responded brokers have not such facilities. But 4 (25%) have been providing home services to their customer in case of needed.

Chart No 4.15

Home Service Facilities of Brokers
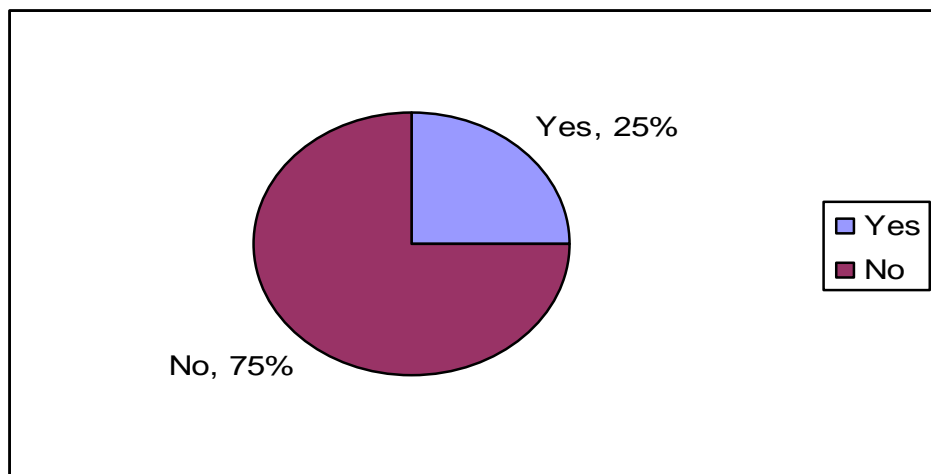
⌋ Brokers' Presence in Trading Section

The eleventh question was asked to the brokers to know whether they themselves present in the trading section to transact securities. In this question they were asked how they execute the transaction; with the help of their representatives or by themselves. All 14 responded brokers have given the answer of this question. Among them, five (35.71%) brokers were found to be present themselves and also send sometimes representative in trading section and 9(64.29%)   major portion of brokers execute the through representative.

Chart No 4.16

**Brokers' Presence in Trading Section**
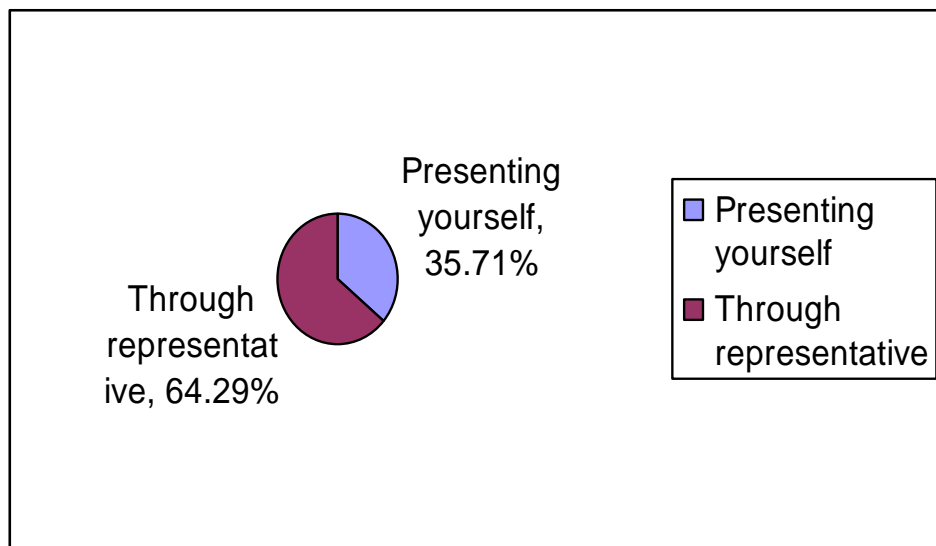
⌋ Efficiency of broker Services in NEPSE

The twelfth question was asked to the brokers to collect their views and experience about the efficiency of brokerage services of NEPSE. The sixteen respondent brokers gave the answer to this question. From the acquired data, among them, 12 (75%) said the brokering service is efficient in NEPSE whereas, 4(25%) are opposed to it.

Chart No 4.17

**Efficiency of broker Services in NEPSE**
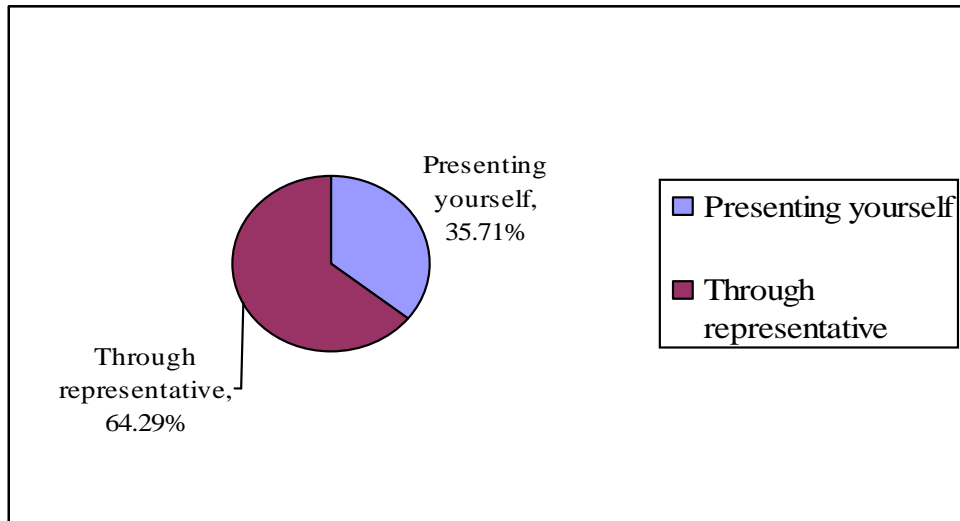
) **Preferable Method of Transferring Share**

The thirteenth question was asked to the brokers to know their experience about the share transferring method while buying the securities. Only 12 brokers gave the answer of this question. Among them, 8 (66.7%) of brokers are in the support of ownership transfer that the investors prefer while buying securities. But another 4 (33.33%) of brokers said that the investor want to blank transfer while buying the securities.

Chart No 4.18

Preferable Method of Transferring Share
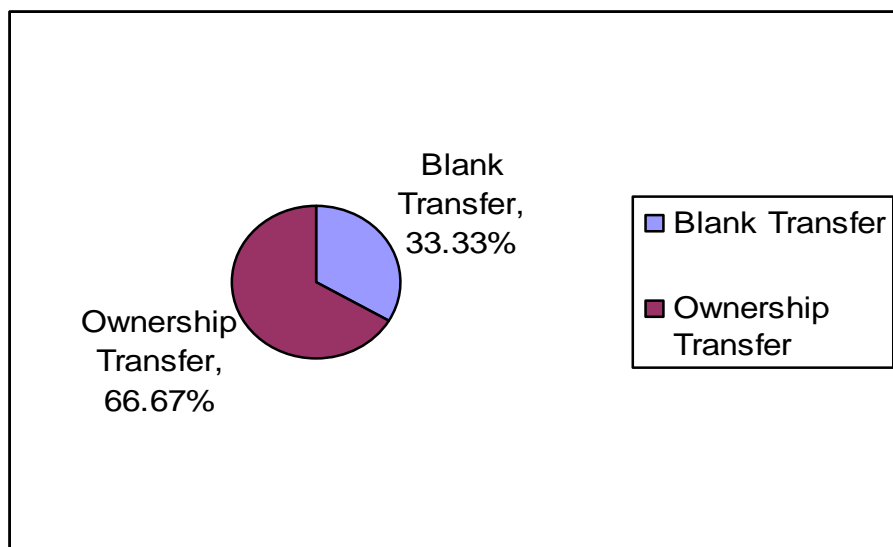
ʃ **Satisfaction of Brokers with the 'Automated Trading System'(ATS) system followed by NEPSE**

This is the last and the fourteenth question asked to the brokers to know their views about the system 'Automated Trading System' followed by the NEPSE. Sixteen brokers have given the answer to this question. All most all respondent brokers 16(100%), are satisfied with the system.

4.1.3 Comments and Suggestion

During the study, comments and suggestion from the investors, professionals and officials were welcomed. They have given different types of suggestion and comments to improve the brokerage services and the performance of the brokers. Major of the comments are presented below:

ʃ According to investors, brokers are more profit oriented than the services they provide. They failed to provide timely and reliable information and advice to the investors. To improve the performance of brokers, professionalism should be developed in brokers. To make business competitive, number of brokers should be increased.

ʃ For the smooth growth of secondary market, brokers and market makers ought to be honest toward the owner.

ʃ The NEPSE should provide easy access of information for the interested parties regarding the transaction data.

ʃ The investors are not allowed to enter trading floor during the transaction period. They are interested to see the trading activities during the transaction period. They want big screen and loud speaker be installed out side the trading floor with in the premises of NEPSE.

ʃ Online trading. Clearing House under the same roof, Central Depository System (CDS) should be established.

⟩ Some investors are seeking capital gain tax free or very nominal in securities business.

⟩ In the sprit of WTO, to make the business competitive and for the smooth growth of capital market, the securities exchange business should be allowed to private sectors too, since Nepal is already the member of WTO.

⟩ Transparency and the trading activities and quality of service have to be increased from all side.

4.2   Secondary Data

Total number of members that the Securities Exchange Board of Nepal issued the licenses to act as securities brokers was thirty- two. Presently, according to available data source, is 23 brokers are working in NEPSE. The list of them and the brokering transaction they have made in NEPSE during FY2003/04to FY 2007/08 are presented in the following table.

Table No 4.1

Total Brokers Turnover in NEPSE

Transaction Amount (in Million)

Name of the Licenses Members(Brokers)	Code No	FY2003/04	FY2004/05	FY2005/06	FY2006/07	FY2007/08	Total	Rank
Agrawal Securities Pvt. Ltd.	6	231.11	3832.98	705.40	1104.00	3179.70	9053.19	1st
Nepal Stock House Pvt. Ltd.	14	499.36	949.68	1125.33	1689.50	3738.20	8002.07	2nd
Ashutosh Brokerage & Sec. Pvt. Ltd.	8	153.58	687.42	567.37	1278.50	3360.90	6047.77	3rd
Sweta Securities P. Ltd.	25	125.37	451.05	577.67	1478.50	3234.20	5866.79	4th
Nepal Investment & Securities Trading P. Ltd.	19	55.18	736.71	523.71	802.30	3540.0	5657.9	5th
Primo Securities P.Ltd.	16	9.10	29.40	272.20	1061.10	3863.50	5235.30	6th
Kumari Securities Pvt. Ltd.	1	101.06	336.45	554.82	1689.20	2223.7	4905.23	7th
J.F. Securities Pvt. Ltd	7	2173.16	279.13	360.89	596.80	1267.30	4677.28	8th
Sri Krishna Securities P. Ltd.	28	54.40	146.25	216.66	966.10	2697.10	4080.51	9th
Siprabi Securities P. Ltd.	22	76.86	35.01	93.08	1061.10	2082.90	3348.95	10th
Premier Securities P. Ltd.	32	95.36	180.59	333.51	830.70	1825.20	3265.36	11th
Sipla Securities Pvt. Ltd.	20	72.88	151.71	158.89	674.90	2166.60	3224.98	12th
Arun Securities Pvt Ltd	3	342.65	165.68	181.01	198.20	1603.1	2490.64	13th
Trisul Securities & Investment Pvt. Ltd.	29	15.75	45.17	87.66	345.10	1610.6	2104.28	14th
Khandelwal Stock Broking Co. Pvt. Ltd.	17	0.00	0.01	0.00	120.90	1935.30	2056.21	15th
Annapurna Securities Service Pvt. Ltd.	13	47.65	61.17	101.89	730.50	977.3	1918.51	16th
Pragyan Securities Pvt. Ltd.	10	3.32	49.35	61.18	389.70	1247.50	1751.05	17th
Sagarmatha Securities Pvt. Ltd.	18	30.10	90.19	129.44	467.50	981.40	1698.63	18th
Opel Securities Pvt. Ltd.	4	59.15	66.62	151.93	356.90	943.9	1578.50	19th
Asian Securities P. Ltd.	26	50.78	106.30	159.40	294.30	884.50	1495.28	20th
Malla & Malla Stock Broking Co Pvt. Ltd	11	7.70	1.63	21.34	288.50	1027.40	1346.57	21st
Market Securities & Exchange Pvt. Ltd.	5	41.62	86.00	131.14	130.60	521.20	910.56	22nd
Midas Stock Broking Co. Pvt. Ltd.	21	27.42	77.40	88.26	164.40	388.50	745.98	23rd

Source: Annual Report, FY2003/04 to FY2007/08, SEBON

Chart No 4.19

Total Brokers Turnover in NEPSE
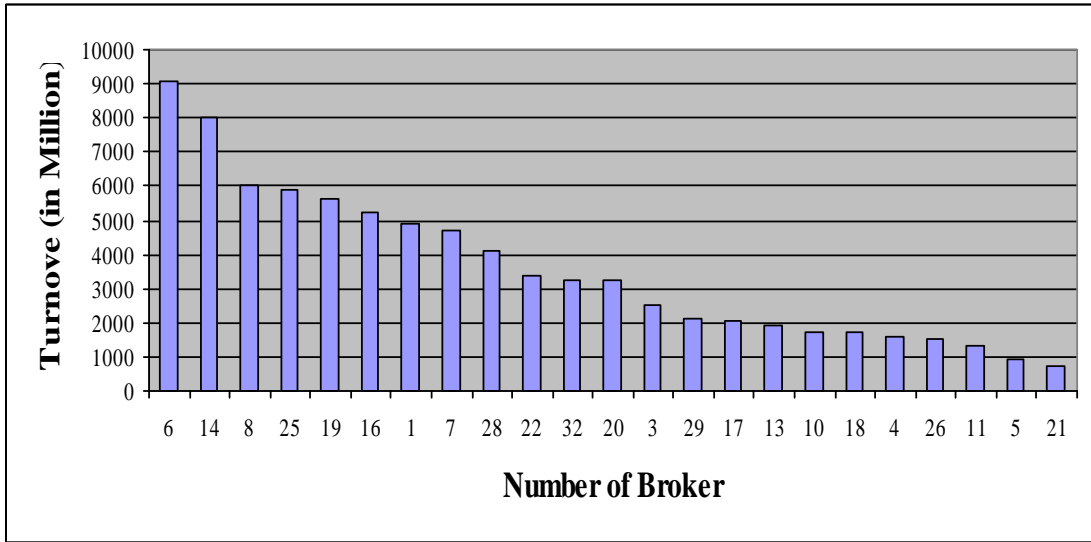
As shown in above table, NEPSE through its member brokers had made the transaction of securities in FY 2003/04 of the value of Rs.4288.49 million. The transaction of the NEPSE was increased in the following to Rs.9015.34 million in FY 2004/05 after than turnover value of NEPSE was decreased to Rs.6602.78 million in FY2005/06. Than after turnover value of NEPSE has been increased in FY 2006/07 and FY 2007/08 to Rs. 17064.40 and Rs. 45300 respectively. The trend of brokers' transaction turnover in yearly basis is presented in following chart.

Chart No 4.20

Annual Turnover of NEPSE
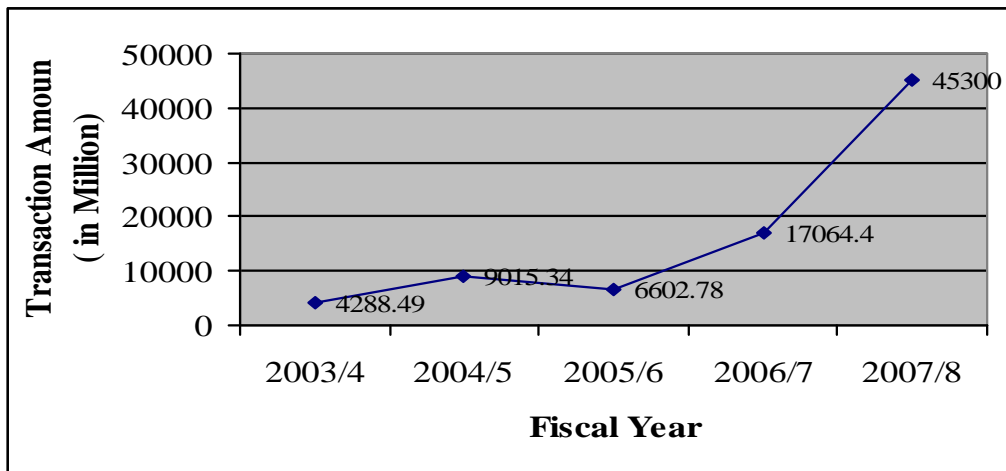
Source: Annual Reports of SEBON, FY 2003/04 to FY 2007/08

From the FY 2003/04 to FY 2007/08 last five years 23 brokers have been doing transaction in the NEPSE. Following figure shows the cumulative average transaction of each broker. If the broking business is perfectly competitive around 4.35% of transaction would go to the pie of each broker. Here in the figure nine brokers had done the transaction above the average transaction. Other fourteen brokers have the below the average performance. The highest cumulative average turnover 11% has been made by the broker Number 6. 9.73%, 7.35%, 7.13%, 6.88% 6.36%, 5.96 %5.69% and 4.96% of cumulative average turnover has followed by broker No. 14, 8, 25, 19, 16, 1, 7 and 28respectively. The remaining fourteen brokers had contributed 34.94% of the total transaction in an average during the study period. Broker Number 6 has the riches and broker number 21 poorest performances among the 23 active brokers.

Chart No 4.21

Cumulative Average performance of Brokers
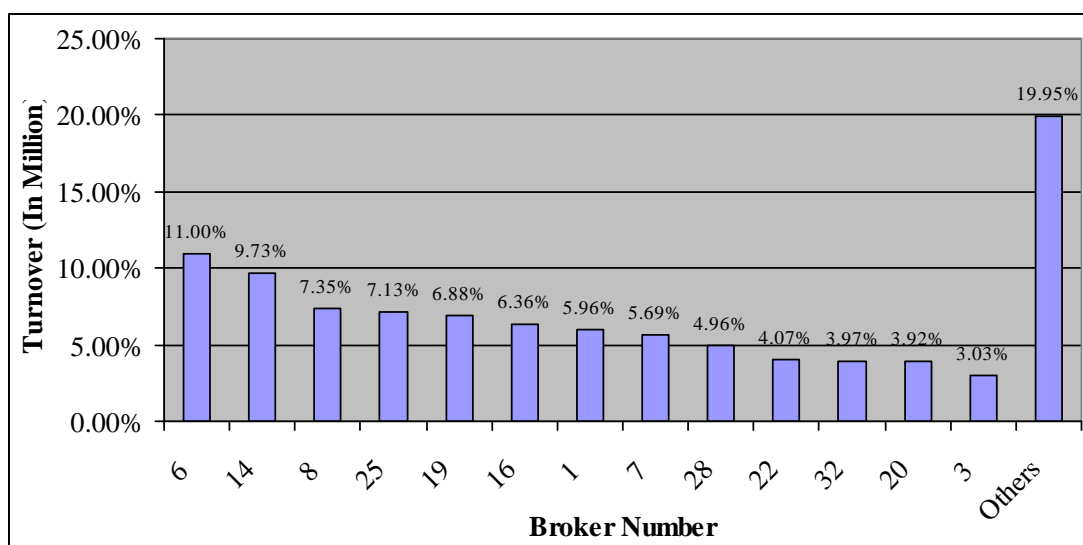
Source: Annual Reports of SEBON, FY 2003/04 to FY 2007/08

The transaction data of broker during the study period were also analyzed year wise. In fiscal year 2003/04, top-5 best performer did 79.28% transactions of NEPSE. Among them, Broker No. 7 have done alone 50.67% turnover. Broker No. 14, 3, 6 and 8 have followed second, third, fourth and fifth position with 11.64%,7.99%,5.39% and 3.58% of NEPSE transaction. Remaining 20.72% of NEPSE transaction has been done by other remaining 18 Brokers.

Similarly, in fiscal year 2004/05, Among the 23 active Brokers, top 5 performers have contributed 74.22% of turnover. In this year, Broker No.6 was the best performer with 42.52% of turnover. The top performance record of this year was followed by 1, 19, 8 and 22 number brokers with 10.53%, 8.17%, 7.63% and 5.37% of turnover share respectively.

Similarly, in fiscal year 2005/06, 53.47% NEPSE turnover was occurred through top 5 performer Brokers. Broker number 14 was the best performer in this year. It alone did the 17.04% of NEPSE transaction. The second, third, fourth and fifth highest was followed by Broker No. 6, 25, 8 and 1 with the transaction share of 10.68%, 8.75% 8.59% and 8.40% respectively. In this year remaining 18 Brokers have done only 46.53% of NEPSE turnover.

In next fiscal year 2006/07, 42.43% of NEPSE'S transaction was done by 5 best performer Brokers. Broker number 14 with the 9.90% of turnover remained in first position. The second, third, fourth and fifth position was taken by Broker number 1, 25, 8 and 6 with the 9.89%, 8.66%, 7.49% and 6.47% of turnover respectively. Remaining 18 Brokers have contributed 57.57% in total NEPSE transaction.

Likewise, 39.15% of NEPSE turnover was done through top 5 players in FY 2007/08. Broker number 16 with the 8.53% of turnover remains first position. Broker number 14, 19, 8 and 25 were in second, third, fourth and fifth positions with the 8.25%, 7.81%, 7.42% and 7.14% transaction respectively.

Table No 4.2

**Best Performer Brokers in Chronological Order**

Transaction Amount (in Million)

FY2003/04		FY2004/05		FY2005/06		FY2006/07		FY2007/08	
Broker No.	Amount	Broker No.	Amount	Broker No.	Amount	Broker No.	Amount	Broker No.	Amount
7	2173.16	6	3832.98	14	1125.33	14	1689.50	16	3863.50
14	499.36	14	949.68	6	705.40	1	1689.20	14	3738.20
3	342.65	19	736.71	25	577.67	25	1478.50	19	3540.00
6	231.11	8	687.42	8	567.37	8	1278.50	8	3360.90
8	153.58	25	451.05	1	554.82	6	1104.00	25	3234.20
Others	888.63	Others	2357.50	Others	3072.19	Others	9824.70	Others	27563.20
Total	**4288.49**	**Total**	**9015.34**	**Total**	**6602.78**	**Total**	**17064.40**	**Total**	**45300.00**

Source: Annual Reports of SEBON, FY 2003/04 to FY 2007/08

It was found from the available data, 9 brokers were rated top 5 performers during the study periods FY 2003/04 to FY 2007/08. Broker No. 14 and 8 has shown outstanding performance among the active Brokers. It has secured its place in top-5 position in all the five years of the study period. During the study period, the top 5 record were followed by Broker No. 6 & 25 for 4 times; 19, 1, for 2 times; and broker No. 7, 3, & 16 for only once. But remaining fourteen brokers did not fare good performance. In the view point of transaction broker number 6 was first position in study period FY2003/04 to 2007/08 with turnover of Rs.9053.19 million.

Chart No 4.22

Broker Performance: Top-5 Leaders
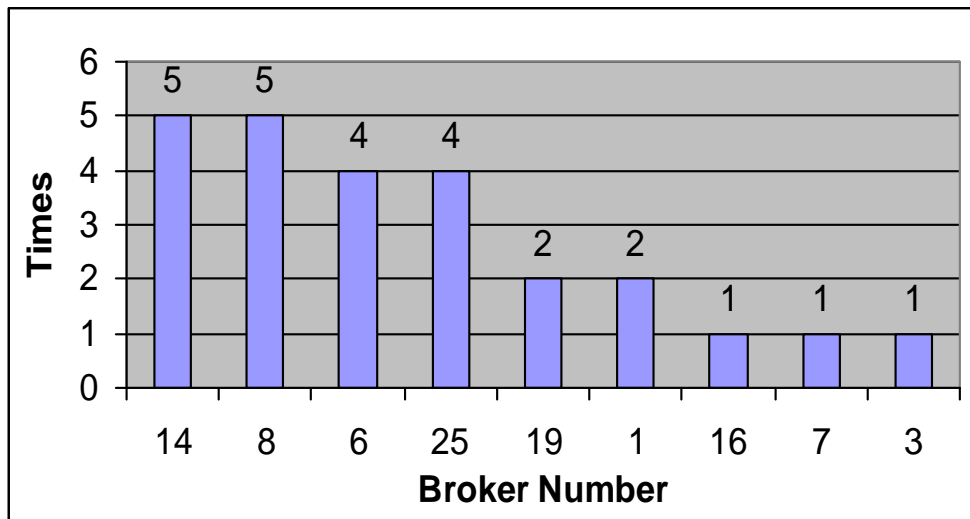
Source: Annual Reports of SEBON, FY 2003/04 to FY 2007/08

4.3   Major Findings

Based on available data, major findings of the study are summarized in following points:

〕 It was found from the available data that investors' involvement year in share investing activities were found to be 7.5 years. It is regarded very short period.

〕 The purpose of investment of the investors in securities market were found 67.50%,22.50%,5% and 5% for capitol gain, social status, use of excess money and dividend/interest income respectively.

〕 It was found from the data acquired from the questionnaire that average number of companies per investors is 14 and the upper range is 52. It is quite reasonable.

〕 The data acquired from the survey said that 50%, 66.67%, and 16.67% investors follow the fundamental & Technical analysis and market fluctuation/trend and broker advice respectively to securities buy/sell the decision.

⟩ It was found from the available data that all brokers are supposed to provide both trading and information services to the investors. But response of investors is quite different. It was found from the data collected from investors are 62.5% 27.5% and 10% of trading, Trading and information and other services that the investors are receiving from the brokers. The response between brokers and the investors are quite contradictory.

⟩ The acquired result of the survey data said that all investors were only interested to invest in the banking and finance sector.

⟩ 20% investors were satisfied with the brokerage performance of NPESE and 27.5% were dissatisfied. Whereas 52.5% of investors were satisfied only to some extent. In this regard, 75% brokers believed that the brokerage services in the NEPSE are efficient while remaining brokers did not believe on it. The result from the investors and the brokers are quite contradictory.

⟩ The study said that 67.5% of investors gave 1st priority to quality of services. The other factors were - service charge, experience and reputation and counseling/advice had 12.5%, 7.5% and 5% priority respectively.

⟩ It was found from the collected data that 20% of companies were providing sufficient information regarding the performance and future planning of the companies but 35% investors have just opposite response. However, 45% companies are found providing information in this regard to some extent.

⟩ Most of the investors were found preferring ownership transfer while buying the securities. 62.5% investors want to ownership transfer. Whereas investors' views, in this connection is approximately similar that 66.67% brokers have an experience of ownership transfer that the securities holder prefer while buying it.

⟩ The study said that information provided by the brokers to investors is not reliable and adequate to take the decisions. Only 11.43% and 25.70% information provided by the brokers are highly and moderately adequate and reliable to take

the decisions. So brokers should think at this point to serve their clients by providing a wide array of services related to the share trading activities.

) It is known from the study, mutual trading has substantial effect in stock market disorder. The acquired data said 15% of investors believe that the mutual trading has moderate effect in stock market disorder. Likewise, 12.5% investors said it had greater effect in stock market disorder.

) Different types of broker activities like wash sale, cornering the market, insider trading, churning, pool etc. were studied. These types of activities have also greater role for stock market disorder, the study said. 50%, 26.67% and 16.67% investors said the moderate, high and low effect respectively in stock market disorder due to these activities.

) Both the investors and brokers are satisfied with the functioning of NEPSE with the 'Automated Trading System' (ATS) system. In this connection, 100% investors and 100% brokers are totally satisfied with the system.

) The involvement of broker in this profession was found to be more than 10 years. 90% brokers are doing this profession since 10 years. The acquired data showed that the brokers' involvement in this profession is quite satisfactory since major portion of brokers are continuing this profession with the establishment of the NEPSE.

) The acquired data said that the average number of clients to each brokers is 150. It is quite sizeable number. However, the range of clients to each broker is 25 to 500 meaning high level of performance gap among the brokers.

) Most of the brokers receive order from their regular customer more than 30 times a year, is 75% of total investors. But order volume for the 25% of brokers was found to be within the range of 20 to 30 times. This data shows the customers are getting the services from the brokers almost permanently with the same brokers.

⟩ Out of 100 percent, 28.57% of brokers are using Market Trend analysis. But 7.14% of them use none of the techniques mentioned in the questionnaires. They also do not disclose the technique they have been following. However, 7 responded i.e. 50% of brokers are using fundamental analysis of the companies and 14.27% preferred on the valuation as source of information and on the basis of that they suggest to their clients to buy and sell securities.

⟩ According to the data acquired from questionnaire survey 45.45% brokers received the transaction order within range Rs. 50,001 to Rs. 100,000 and 45.45% brokers received the order with in the range of more than Rs. 100,000. It is clear from the data that the size of order in terms of rupees is quite sizeable. The order size less than Rs. 20,000.00 were received by only 9.09% brokers.

⟩ All brokers collect annual reports of the listed companies.25% brokers have the computerized data base system whereas 75% brokers have used combine computerized and manual data base system. The findings from the study showed that securities brokers of NEPSE are using the information technology. And of course, it will increase the efficiency of the broker in their services.

⟩ The study result shows that 56.25% of NEPSE turnover is execute through the brokers' representatives. Only 31.5% brokers present in the trading section with the transaction order. The portion of transaction execute through the representative is quite sizeable. Therefore, staffs and representative of the brokers are also being trained in this field.

⟩ Different types of facilities extended with the minimum cost are considered as the symbol of competition. Competition brings efficiency in the market and all the parties involved are benefited with it. 75% of rigid in the service charge as stipulated by the NEPSE. They do not allow any discount in their fees. Similarly 75% brokers do not provide home services to the investors. These data shows that the majority of brokers are doing the business in their traditional style. For the smooth growth of securities market brokerage service most available widely and service providers are to be flexible.

) During the study period, the NEPSE turnover increased from Rs. 4288.49 million to Rs. 9015.34 million in FY 2003/04 to FY 2004/05.The study period's the NEFSE decrease in FY 2005/06 Rs. 6602.78. After that, it went up with the speed of geometrical progression in the following FY 2006/07and FY 2007/08 with the turnover Rs.17064.40 million and Rs.45300 million. It shows considerable growth of stock market as well as brokerage services of NEPSE.

) The available data shows that major portions of brokers are not doing satisfactory performance in the NEPSE. Out of the 23 active brokers, only 9 brokers i.e. 46.88% are doing above the average performance. The study data shows that 11% of the 5 year cumulative average turnover was occurred through a single broker. Whereas 53.12% of cumulative average turnover was done by 14 brokers. Likewise, during the five year period only 9 brokers fell in the top five positions whereas 14 brokers have not been able to get chance in any of the year of the survey period. It shows that there is huge efficiency and performance gap among the brokers. To bridge the gap and for the balance growth of secondary market, different types of skill development and performance enhancement training should be given to the brokers.

CHAPTER – V
SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1   Summary

Economic sector plays vital role for developing the nation and urge of present day world. To attain the rapid pace of economic development of the country, there should be good environment for the establishment of corporations in the different sectors of the economy. Economic growth of any nation is highly influenced and characterized by development and expansion of capital market. The capital market has more significant role in developing economies like Nepal. The securities market play pivotal role for encouraging and canalizing the savings to provide fund to the entrepreneurs for investment in profitable projects.

Nepalese stock market is in infant stage and facing different types of problems. Stakeholders, regulating agency and the member brokers are responsible to creating such a situation. Lake of sufficient information, rumors and whims play significant role in investment in NEPSE rather then statistics and fundamental analysis. Stock brokers are supposed to act on behalf of investor and maintain fair and orderly securities market. But, they are not doing so in their full capacity rather their own and bi-lateral benefit of few investors. Due to which market efficiency could not be achieved. Numbers of listed companies in Nepal are few which limit the investment opportunities of the investors. Limited numbers of NEPSE'S brokers are not interested to provide their services in an efficient way. In such a situation, price set in NEPSE is not competitive.

The effective brokering services help to increase the transaction and thereby help to create liquidity of stocks. It would also help to create the efficiency in the price of the shares. If there are shortages in the brokering services, it will not help to create the effective price of the share in the stock exchange and the prospective investors will find it hard to obtain securities at reasonable price, which discourage country's long term investment and ultimately savings will be affected in negative direction.

This study Brokers Performance and their Services in Nepalese Stock Market examine the brokerage services, performance of brokerage firms and satisfaction of the investors. Securities market is main component of the national economy. Investor has to forgo opportunity income from alternate source while investing it in stock. Service, advice and response of brokers will influence the investment decision of the investor. Brokers are also considered the main player of the stock market in a developing economy like our country Nepal.

The study period is confined from FY 2003/04 to FY 2007/08 based on both primary and secondary information. Questionnaires were distributed to investors and brokers to acquire the information relevant to the study. Necessary discussion and interviews are also taken with dignitaries. Forty investors and 16 brokers are the main source of primary information where brokers turnover during the study period are taken as secondary source of information. The related data from other source were also utilized. The information was then analyzed by using different statistical tools like percentage analysis, range, mean, median, Pie-chart and diagram etc.

The major findings of the studies are summarized in the following words. Nepalese investors' habit in investing in stock market is very short. Investors prefer ownership transfer of securities to hold for long time and capital gain will reduce the dynamism of securities market. Investors follow the fundamental and technical analysis of the security while investing to some extent. Brokers are providing trading services with little informational services. Information propagation and awareness campaign activities should be increased. Major of the investor are not satisfied with the brokerage performance of NEPSE. Services charge is the main factor selecting brokerage services. Except few, listed companies will not provide realistic information to the general public. Mutual trading, insider trading, pool, churning, cornering, matching have the greater role for stock market disorder. Most of the brokers have below average performance. Only few brokers are participating in brokering activities actively.

5.2 Conclusions

Stock brokerage profession in the Nepalese context has not been considered as a respectable profession. It has happened due to the brokers' own activities, weakness of the market regulators and the gaps in the rules and regulation.

Presently, Nepali stock market has been in an increasing trend. More companies are issuing shares to general public, and more investors are entering into the securities market as investors. Thought the market has recorded growth, but the investors are not satisfied with the brokerage services they are receiving.

Stock market provides the best investment opportunities to the investor. It also provides liquidity for the investors. The liquidity affects the economic activities and thereby affecting the development of the country. The level of liquidity is influenced by the price formation of the stocks in the stock market. So, in order to maintain the high liquidity in the stock, the stock market has to be efficient in all aspect.

In Nepal, the dynamism of stock market has been greatly reduced by the domination of the long-term shareholders who invest in the shares with the hope of increasing their wealth. Even though it was found from the responses given by the investors that they prefer ownership transfer, it is their intention to prefer the share having higher liquidity to earn capital gains when the time comes but actually most of them hold the shares for long period.

The rationality of the Nepalese investors was found to be at low level. They are mainly interested in securities of the financial sectors. It may be due to the deteriorating performance of the other sectors of the business. They have only very little knowledge of the trading procedures and the price setting mechanism at NEPSE.

The prices of the share fully reflect the available information and rationality of the investors in the efficient stock market. The role of information is decisive in security pricing. Because of the lack of sufficient information, rumor and whim have played significant role in share price movements and investment on common stocks. The investment decision is based more on intuition, imagination, guesswork than on

conscious judgment based on understood statistical probabilities in Nepalese stock market. But the Nepalese investors are seeking qualitative services from the brokers in respect of trading of securities and higher accuracy in information they are getting. The quality of the information works as a main source of their goodwill and uplift the moral responsibility towards the investors. It also leads to the superior performance. Brokers are also quite rigid to provide additional services to their clients. Different types of awareness programs, discount in service charge, home services will encourage the perspective investors for the investment.

Since the price of the stock is fixed by few actively participating brokers who represent the investors in the Nepal Stock Exchange. They play the vital role and the market is also loyal to these few investors and brokers. There were some conditions and circumstances seen in the stock market when brokers had done some activities, which create the market disorders. These activities were performed to protect their sole interest and the mutual interest connected with very little number of investors and brokers themselves.

Most of the brokers and investor are satisfied with the system 'Automated Trading System' followed by the NEPSE.

Major portion of the broker have below the average performance. Higher part of the NEPSE turnover goes to the hand of few selected brokers. Such a situation is being created from the side of broker themselves as well as regulatory authorities. To bring down the performance gap closure, major portion of brokers should improve themselves and regulatory body ought to change some rules and regulation to foster the performance of the stock market.

5.3 Recommendation

The pace of economic development should be accelerated in order to have its positive impact on the stock market development. The following recommendations are made to the different sectors related to Brokers Performance and their Services in stock Market on the basis of the findings and the conclusions of the study.

⌡ Investors are found lake of information. Therefore, NEPSE should increase its information dissemination activities to meet the expectations of investors. Such activities make perspective investors aware and encourage them in securities investment activities.

⌡ Investors are not getting adequate and reliable information from the listed companies. Hence, listed companies should fulfill their liabilities of providing the financial status of the companies timely and comprehensively and they should conduct the Annual General Meeting (AGM) regularly.

⌡ Brokerage firms are found to be not obeying their obligation timely. They should help regulatory bodies performing their activities by providing the financial statement and other required information timely and regularly. They should strictly obey the rules and regulations made for them to help the regulatory bodies for the better performance of stock market.

⌡ Brokerage firms should keep their offices in easily accessible places since most of the brokerage firms are not located in easily seen place. They should also focus in other activities apart from trading the shares in NEPSE. Such services include information dissemination about the listed companies to the investors, providing margin-trading facilities to the small investors etc.

⌡ All brokerage firms are located in Kathmandu Valley only. Concerned authority should encourage the existing brokers to open the Branch Office or appoint their representative in the major cities outside the Kathmandu Valley. So that interested and potential investor could give the order staying at their home town.

⌡ Number of brokers should be increased to foster the competition to make existing brokers accountable toward the profession.

⌡ The stock market lacks the existence of sophisticated investors. So, it is recommended the regulatory bodies to carry out programs using various media

and spot program to inform and attract the potential investors, both individual and institutional, in investing into shares.

⟩ Brokers are mainly focusing their services in trading activities. The brokers should provide additional facilities and information with the minimum cost to the investor. So that motivation of investors will increase and they could be able to reach the buy/sell decision confidently.

⟩ The development of stock market is also dependent on political stability of the nation. So, government should try to maintain the political stability to help development the security market.

⟩ The size of stock market is pitifully small in Nepal because of small size of the corporate sector in the economy. The share of the corporate sectors is also negligible compared to total investment in the economy as a whole. Because of the small size of the corporate sector, government should promulgate suitable policies to equip and enable brokers to perform their duties effectively and thereby foster the development of corporate sectors in the economy.

⟩ Government should provide investment opportunities in some selected government undertaking Corporations with the sprit of privatization. Government should also encourage and create the environment for big privately joint and multinational undertaking corporations to go into the general public so that investors will get the more investment opportunities.

⟩ The level of knowledge of the Nepalese investors was found very low. So, the concerned authorities should conduct various research studies and disseminate the information relating to the share trading activities to increase the understanding of the investors in using financial tools to estimate the intrinsic value of share of a company before making investment decision.

⟩ Investors are found to be receiving low level of transaction related information from the NEPSE. Brokers should provide reliable and adequate information

related to the transaction and other aspects so that maximum number of investors could participate in securities investment.

⟩ The study shows that brokers are responsible for market disorder. They should perform their activities within the limitation of the rules and regulations. They should provide right and authentic information about all the companies to help investors chose the share of particular company that best fit his personal risk and return category but should not try to influence the investor's decision for his personal benefit.

⟩ The brokers should act as an important and responsible sector for the development of securities market and should strictly avoid involving themselves into stock market disorders.

⟩ The concerned authorities should take very strict action to those responsible for creation of stock market disorders.

⟩ Government should open the securities business to public sectors as well in order to foster the competition that leads to the better performance of secondary market. It is also essential in view of Nepal already being the member of WTO.

⟩ For the transparency of secondary market services and its dynamism there is a need of a Central Depository System (CDS).Necessary steps towards establishing such a system is worth priority.

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