CHAPTER – I
INTRODUCTION

1.1 Background of the Study

For generations the stock exchange has given consumers the opportunity to invest their money into companies that they felt would perform solidly, thus increasing the worth of their securities. In essence, the securities market acts as a facilitator between buyers and sellers, as they exchange stock that they hold in companies. These companies use the money they receive from their investors to further their business and increase profits; increased profit means a higher worth for the securities. And round and round it goes. Traditionally, those looking to invest went to a securities broker in any number of brokerage companies who would assist the investor in the buying and selling of securities. But in this age of the Internet, investors need only turn on their computer to be linked into the stock exchange. Subsequently, to keep pace with this changing economy, online stock brokers entered into this new world of finance in order to assist customers in achieving financial goals. No doubt that these online trading have facilitated the operation of securities market. However, it cannot be ignored that there still exist some problems hindering to act the securities market in its full energy *(Ingersoll; 1997: 72).*

Generally, it is said that the nation having effective fund collection and investing them properly in the productive areas is found economically sound. As for our country, the per capita income of Nepalese people, being very low, savings are also very poor, and then it have finally resulted in to the lack of financial resources for the investments in productive sectors. So, the industrial sectors of our country have not been able to develop so far due to the lack of capital and experience in related fields. However, after the restoration of the democracy in 1990, the economic liberalization policy of the nation has helped the country to mobilize the capital somehow through privatization. Though, the private sector companies are helping the country in mobilization of capital to some extent, the expected desired results could not be achieved so far, which is due to developing stage of the capital market *(Bhattarai; 2006: 37).*

Capital market along with the financial markets play important role in an economic development of the country. Capital market proved to be the important segments of the economy since it facilitates and provides better institutional arrangements for the borrowing and lending of long-term funds. Capital market is the general barometer that measures the proper collection and canalization of savings for investment in productive and income generation assets. The relationship between securities market performance and economic growth has received renewed attention of academicians and policy makers in the present decade not in the developed and developing countries. The growing importance of securities markets in the developing countries has opened up many avenues for research in the relationship between financial development and economic growth, with focus on development role of securities market. Thus, it is widely accepted that for the economic development of the nation, the development of securities market is must. Thus, this study tries to whether the performance of the securities market is to the acceptable degree, if not, what are the problems hindering the optimal performance of securities market *(Hagstrom; 2009: 53).*

1.1.1 Security Board of Nepal

Securities Board of Nepal (SEBON) was established by the Government of Nepal on June 7, 1993 as an apex regulator of Securities Markets in Nepal. It has been regulating the market under the Securities Exchange Act, 2006.

Nepal Security Board promotes and protects the interest of the investors by regulating the issuance, sale and distribution of securities and purchase, sale and exchange of securities, to supervise, look after and monitor the activities of the securities exchange and the other related firms on securities business, and to render contribution to the development of the capital market by making securities transactions fair, healthy, efficient and responsible.

The Governing Board of SEBON is composed of seven members including one full time chairman appointed by the Government for tenure of four years. Other members of the Board include joint secretary of Ministry of Finance, joint secretary of Ministry of Law, Justice and Parliamentary Affairs, representative from Nepal Rastra Bank,

representative from Institute of Chartered Accountants of Nepal, representative from Federation of Nepalese Chambers of Commerce and Industries, and one member appointed by the Government from amongst the experts pertaining to management of securities market, development of capital market, financial or economic sector *(SEBON; 2012: 5).*

1.1.2 Nepal Securities Exchange

Nepal Securities Exchange, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act, 1983. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13th January 1994. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and members are the shareholders of NEPSE.

The history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction of the Company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange Center Ltd. in 1976 were othe significant development relating to capital markets. Securities Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into securities exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. Nepal Government, under a program initiated to reform capital markets converted Securities Exchange Center into Nepal Securities Exchange in 1993.

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 2 market makers, who operate on the trading floor as per the Securities Exchange Act, 1983, rules and bye-laws. Besides this, NEPSE has also granted membership to issue and sales manager securities trader (Dealer). Issue and sales manager work as manager to the issue and underwriter for public issue of securities whereas securities trader (dealer) works as individual portfolio manager *(NEPSE; 2012: 7).*

1.2 Focus of the Study

As the study is concerned with analyzing the performance of the securities market, such study would not be completed without analyzing the performance of the only one stock exchange of the country, Nepal Stock Exchange. In addition, the study would focus much on the past data, as reported by the annual report of NEPSE. Moreover, the study also focuses on the problems of the securities market, and on the experiences of the related parties of securities market.

1.3 Statement of the Problem

Various measures of securities market development indicate that securities market in Nepal is underdeveloped and has failed to show impact on the overall national economy. Small market size has made it weak to manipulation and price rigging, low turnover ratio and value trade-ratio it volatility and high concentration ratio indicate that the securities market in Nepal is highly illiquid and risky. Investors tend to avoid securities market because they do not have options to invest in securities according to their risk-return preference. Similarly, firms reject it because securities market is less reliable source of raising funds for them. Due to this financial system, Nepal has remained basically bank-dominated. In general, the following research problems have been raised to carry out the research;

- What is the trend of NEPSE Index?
- Is the financial perspective of securities trading showing good prospect?
- What are the problems of securities market?
- Are the investors satisfied with the performance of securities market?

1.4 Objectives of the Study

The main objective of the study is to examine the securities market performance in Nepal. The specific objectives of the study are as follows:

- To examine the past NEPSE index.
- To analyze the financial perspective of securities trading.
- To detect the problems of securities market.
- To examine the experience of investors regarding the performance of securities market.

1.5 Significance of the Study

The study is concerned to the theoretical explanation and practical application of securities market of listed companies in Nepal. The study would be significant to;

- the investors, as it examines the trend of securities in NEPSE and the problems and prospects of securities market, for collecting the securities related information.
- the SEBON and NEPSE personnel for formulating appropriate rules and regulations that will robust the securities transaction system.
- the listed companies to gain idea on the securities trading.
- the researchers to have knowledge on securities trading.
- The interested investors as the the study helps to trace out the hurdles and prospects of securities growth.
- the people who are curious to know about the price trend of the securities, volume of securities traded, listed of new companies in the secondary market (NEPSE) and the impact of signaling factors on NEPSE index etc.
- the issue managers, securities brokers, securities dealers and the market makers of securities market in Nepal.

1.6 Limitation of the Study

Each study is conducted under some constraints and limitations. Likewise, this study is also limited by some common constraints. This study is based on the fundamental analysis of the securities market growth. The research is made for the partial fulfillment of the requirements for the Master Degree in Business Studies (MBS). However, the specific limitations of the study are:

- The study analyzes the securities market performance and thus it does not cover other aspects of financial market.
- The accuracy of the primary data highly depends on the opinion of respondents.
- Reliability of the secondary data depends upon the accuracy of publication.
- The study covers only five fiscal year periods, i.e. from the fiscal year 2007/08 to 2011/12.

1.7 Organization of the Study

The entire study has been organized into five main chapters as:

Chapter I: Introduction

The first chapter deals with background of the study, focus of the study, statement of the problem, objective of the study, significance of the study and limitation of the study.

Chapter II: Review of Literature

The second chapter deals with conceptual framework including the fundamental concept of securities market. It also includes the brief review of previous research work.

Chapter III: Research Methodology

The third chapter deals with the research methodology which has been followed to achieve the purposes of the study. It consists of research design, the period covered, nature and sources of data, tools to be used, research variable etc.

Chapter IV: Data Presentation and Analysis

The fourth chapter deals with presentation and analysis of data. It gives a clear picture of how the collected data has been presented on the study and how it has been analyzed.

Chapter V: Summary, Conclusion and Recommendations

And at last, the fifth chapter shows the summary of whole study, conclusion drawn and recommendations given.

Besides these chapters, Bibliography and Appendix are included at the end of the study.

CHAPTER – II

REVIEW OF LITERATURE

A literature review is a text written by someone to consider the critical points of current knowledge including substantive findings as well as theoretical and methodological contributions to a particular topic. Literature reviews are secondary sources, and as such, do not report any new or original experimental work. The purpose of literature review is to make a review of an abstract accomplishment. Under this section, the concept of securities, securities market and the role of securities market in economic development have been reviewed. Besides these, the past journals and articles, and thesis related to the subject of the study have been also reviewed.

2.1 Conceptual Framework

2.1.1 Security

A security is generally a fungible, negotiable financial instrument representing financial value. Securities are broadly categorized into: a) debt securities (such as banknotes, bonds and debentures), b) equity securities, e.g., common stocks; and, c) derivative contracts, such as forwards, futures, options and swaps *(Stoll; 1998: 169).*

The company or other entity issuing the security is called the issuer. A country's regulatory structure determines what qualifies as a security. For example, private investment pools may have some features of securities, but they may not be registered or regulated as such if they meet various restrictions *(Daves; 2004: 51).*

Securities may be represented by a certificate or, more typically, 'non-certificated', that is in electronic or 'book entry' only form. Certificates may be bearer, meaning they entitle the holder to rights under the security merely by holding the security, or registered, meaning they entitle the holder to rights only if he or she appears on a security register maintained by the issuer or an intermediary. They include shares of corporate stock or mutual funds, bonds issued by corporations or governmental agencies, stock options or other options, limited partnership units, and various other formal investment instruments that are negotiable and fungible *(Geske; 2001: 28).*

2.1.2 Utilization of Securities

Securities may be utilized depending upon the purposes;

a) New capital

Commercial enterprises have traditionally used securities as a means of raising new capital. Securities may be an attractive option relative to bank loans depending on their pricing and market demand for particular characteristics. Another disadvantage of bank loans as a source of financing is that the bank may seek a measure of protection against default by the borrower via extensive financial covenants. Through securities, capital is provided by investors who purchase the securities upon their initial issuance. In a similar way, the governments may raise capital through the issuance of securities *(Lowe; 2002: 18).*

b) Repackaging

In recent decades, securities have been issued to repackage existing assets. In a traditional securitization, a financial institution may wish to remove assets from its balance sheet to achieve regulatory capital efficiencies or to accelerate its receipt of cash flow from the original assets. Alternatively, an intermediary may wish to make a profit by acquiring financial assets and repackaging them in a way more attractive to investors. In other words, a basket of assets is typically contributed or placed into a separate legal entity such as a trust, which subsequently issues shares of equity interest to investors. This allows the sponsor entity to more easily raise capital for these assets as opposed to finding buyers to purchase directly such assets *(Ellis; 2002: 46).*

c) By Type of Holder

Investors in securities may be retail, i.e. members of the public investing other than by way of business. The greatest part in terms of volume of investment is wholesale, i.e. by financial institutions acting on their own account, or on behalf of clients. Important institutional investors include investment banks, insurance companies, pension funds and other managed funds *(Ingersoll; 1997: 91).*

d) Investment

The traditional economic function of the purchase of securities is investment, with the view to receiving income and/or achieving capital gain. Debt securities generally offer a higher rate of interest than bank deposits, and equities may offer the prospect of capital growth. Equity investment may also offer control of the business of the issuer. Debt holdings may also offer some measure of control to the investor if the company is a fledgling start-up or an old giant undergoing 'restructuring'. In these cases, if interest payments are missed, the creditors may take control of the company and liquidate it to recover some of their investment *(Ingersoll; 1997: 91).*

e) Collateral

The last decade has seen an enormous growth in the use of securities as collateral. Purchasing securities with borrowed money secured by other securities or cash itself is called ‘buying on margin’. Collateral arrangements are divided into two broad categories, namely security interests and outright collateral transfers. Commonly, commercial banks, investment banks, government agencies and other institutional investors such as mutual funds are significant collateral takers as well as providers. In addition, private parties may utilize stocks or other securities as collateral for portfolio loans in securities lending scenarios *(Higgins; 2003: 65).*

2.1.3 Classification of Securities

The various classification of securities are listed below;

a) Debt and Equity

Securities are traditionally divided into debt securities and equities.

i) Debt

Debt securities may be called debentures, bonds, deposits, notes or commercial paper depending on their maturity and certain other characteristics. The holder of a debt security is typically entitled to the payment of principal and interest, together with other contractual rights under the terms of the issue, such as the right to receive certain information. Debt securities are generally issued for a fixed term and redeemable by the issuer at the end of that term. Debt securities may be protected by

collateral or may be unsecured, and, if they are unsecured, may be contractually senior to other unsecured debt meaning their holders would have a priority in a bankruptcy of the issuer. Debt that is not senior is subordinated *(Lowe; 2002: 22).*

ii) Equity

An equity security is a share of equity interest in an entity such as the capital stock of a company, trust or partnership. The most common form of equity interest is common stock, although preferred equity is also a form of capital stock. The holder of an equity is a shareholder, owning a share, or fractional part of the issuer. Unlike debt securities, which typically require regular payments (interest) to the holder, equity securities are not entitled to any payment. In bankruptcy, they share only in the residual interest of the issuer after all obligations have been paid out to creditors *(Ingersoll; 1997: 102).*

b) Hybrid

Hybrid securities combine some of the characteristics of both debt and equity securities *(Lowenstein; 1995: 42).*

c) Preference Shares

Preference shares form an intermediate class of security between equities and debt. If the issuer is liquidated, they carry the right to receive interest and/or a return of capital in priority to ordinary shareholders. However, from a legal perspective, they are capital stock and therefore may entitle holders to some degree of control depending on whether they contain voting rights *(Ellis; 2002: 53-54).*

d) Convertibles

Convertibles are bonds or preferred stock that can be converted, at the election of the holder of the convertibles, into the common stock of the issuing company. The convertibility, however, may be forced if the convertible is a callable bond, and the issuer calls the bond. The bondholder has about 1 month to convert it, or the company will call the bond by giving the holder the call price, which may be less than the value of the converted stock. This is referred to as a forced conversion *(Daves; 2004: 78).*

e) Equity Warrants

Equity warrants are options issued by the company that allow the holder of the warrant to purchase a specific number of shares at a specified price within a specified time. They are often issued together with bonds or existing equities, and are, sometimes, detachable from them and separately tradable. When the holder of the warrant exercises it, he pays the money directly to the company, and the company issues new shares to the holder *(Schilit; 2002: 108).*

f) Warrants

Warrants, like other convertible securities, increases the number of shares outstanding, and are always accounted for in financial reports as fully diluted earnings per share, which assumes that all warrants and convertibles will be exercised *(Hagstrom; 2009: 65).*

2.1.4 The Securities Markets

Securities market is an economic institute within which take place sale and purchase transactions of securities between subjects of economy on the base of demand and supply. Also we can say that securities market is a system of interconnection between all participants (professional and nonprofessional) that provides effective conditions: to buy and sell securities, to attract new capital by means of issuance new security (securitization of debt), to transfer real asset into financial asset, and to invest money for short or long term periods with the aim of deriving profit *(Haugen; 1992: 75-76).*

a) Primary and Secondary market

The public securities markets can be divided into primary and secondary markets. The distinguishing difference between the two markets is that in the primary market, the money for the securities is received by the issuer of those securities from investors, typically in an initial public offering transaction, whereas in the secondary market, the securities are simply assets held by one investor selling them to another investor (money goes from one investor to the other). An initial public offering is when a company issues public stock newly to investors, called an 'IPO' for short. A company can later issue more new shares, or issue shares that have been previously registered in a shelf registration. These later new issues are also sold in the primary market, but

they are not considered to be an IPO but are often called a 'secondary offering'. Issuers usually retain investment banks to assist them in administering the IPO, obtaining SEC (or other regulatory body) approval of the offering filing, and selling the new issue. When the investment bank buys the entire new issue from the issuer at a discount to resell it at a markup, it is called a firm commitment underwriting. However, if the investment bank considers the risk too great for an underwriting, it may only assent to a best effort agreement, where the investment bank will simply do its best to sell the new issue *(Hull; 2000: 222).*

For the primary market to thrive, there must be a secondary market, or aftermarket that provides liquidity for the investment security—where holders of securities can sell them to other investors for cash. Otherwise, few people would purchase primary issues, and, thus, companies and governments would be restricted in raising equity capital (money) for their operations. Organized exchanges constitute the main secondary markets. Many smaller issues and most debt securities trade in the decentralized, dealer-based over-the-counter markets *(Rappaport & Mauboussin; 2001: 145-146).*

In Europe, the principal trade organization for securities dealers is the International Capital Market Association. In the U.S., the principal trade organization for securities dealers is the Securities Industry and Financial Markets Association, which is the result of the merger of the Securities Industry Association and the Bond Market Association. The Financial Information Services Division of the Software and Information Industry Association (FISD/SIIA) represents a round-table of market data industry firms, referring to them as Consumers, Exchanges, and Vendors *(Damodaran; 2002: 27).*

b) Public Offer and Private Placement

In the primary markets, securities may be offered to the public in a public offer. Alternatively, they may be offered privately to a limited number of qualified persons in a private placement. Sometimes a combination of the two is used. The distinction between the two is important to securities regulation and company law. Privately placed securities are not publicly tradable and may only be bought and sold by

sophisticated qualified investors. As a result, the secondary market is not nearly as liquid as it is for public (registered) securities *(Geske; 2001: 47).*

c) Listing and OTC Dealing

Securities are often listed in a stock exchange, an organized and officially recognized market on which securities can be bought and sold. Issuers may seek listings for their securities to attract investors, by ensuring there is a liquid and regulated market that investors can buy and sell securities *(Black; 2001: 46).*

Growth in informal electronic trading systems has challenged the traditional business of stock exchanges. Large volumes of securities are also bought and sold 'over the counter' (OTC). OTC dealing involves buyers and sellers dealing with each other by telephone or electronically on the basis of prices that are displayed electronically, usually by commercial information vendors such as Reuters and Bloomberg *(Doodh; 1962: 72).*

There are also euro securities, which are securities that are issued outside their domestic market into more than one jurisdiction. They are generally listed on the Luxembourg Stock Exchange or admitted to listing in London. The reasons for listing euro bonds include regulatory and tax considerations, as well as the investment restrictions.

2.1.5 Physical Nature of Securities

a) Certificated Securities

Securities that are represented in paper (physical) form are called certificated securities. They may be bearer or registered.

b) Bearer Securities

Bearer securities are completely negotiable and entitle the holder to the rights under the security (e.g. to payment if it is a debt security, and voting if it is an equity security). They are transferred by delivering the instrument from person to person. In some cases, transfer is by endorsement, or signing the back of the instrument, and delivery *(Freedman; 1999: 130).*

c) Registered Securities

In the case of registered securities, certificates bearing the name of the holder are issued, but these merely represent the securities. A person does not automatically acquire legal ownership by having possession of the certificate. Instead, the issuer (or its appointed agent) maintains a register in which details of the holder of the securities are entered and updated as appropriate. A transfer of registered securities is affected by amending the register *(Freedman; 1999: 131).*

d) Non-Certificated Securities and Global Certificates

Modern practice has developed to eliminate both the need for certificates and maintenance of a complete security register by the issuer. There are two general ways this has been accomplished *(Freedman; 1999: 131).*

i) Non-Certificated Securities

In some jurisdictions, such as France, it is possible for issuers of that jurisdiction to maintain a legal record of their securities electronically. In the U.S. today, most mutual funds issue only non-certificated shares to shareholders, though some may issue certificates only upon request and may charge a fee. Shareholders typically don't need certificates except for perhaps pledging such shares as collateral for a loan *(Freedman; 1999: 132).*

ii) Global Certificates, Book Entry Interests, Depositories

To facilitate the electronic transfer of interests in securities without dealing with inconsistent, a system has developed whereby issuers deposit a single global certificate representing all the outstanding securities of a class or series with a universal depository. This depository is called The Depository Trust Company, or DTC. DTC, through a legal nominee, owns each of the global securities on behalf of all the DTC participants *(Freedman; 1999: 133).*

e) Divided and undivided security

The terms ‘divided’ and ‘undivided’ relate to the proprietary nature of a security. Each divided security constitutes a separate asset, which is legally distinct from each other security in the same issue. Pre-electronic bearer securities were divided. Each

instrument constitutes the separate covenant of the issuer and is a separate debt *(Freedman; 1999: 134).*

With undivided securities, the entire issue makes up one single asset, with each of the securities being a fractional part of this undivided whole. Shares in the secondary markets are always undivided. The issuer owes only one set of obligations to shareholders under its memorandum, articles of association and company law. A share represents an undivided fractional part of the issuing company. Registered debt securities also have this undivided nature *(Freedman; 1999: 137).*

f) Fungible and Non-Fungible Security

If an asset is fungible, this means that if such an asset is lent, or placed with a custodian, it is customary for the borrower or custodian to be obliged at the end of the loan or custody arrangement to return assets equivalent to the original asset, rather than the specific identical asset. In other words, if an owner of 100 shares of IBM transfers custody of those shares to another party to hold for a purpose, at the end of the arrangement, the holder need simply provide the owner with 100 shares of IBM identical to those received. Cash is also an example of a fungible asset. The exact currency notes received need not be segregated and returned to the owner *(Freedman; 1999: 138).*

2.1.6 Securities Market and Economic Growth

The securities market fosters economic growth to the extent that it-(a) augments the quantities of real savings and capital formation from any given level of national income, (b) increases net capital inflow from abroad, (c) raises the productivity of investment by improving allocation of investible funds, and (d) reduces the cost of capital.

It is reasonable to expect savings and capital accumulation and formation to respond favorably to developments in securities market. The provision of even simple securities decouples individual acts of saving from those of investment over both time and space and thus allows savings to occur without the need for a concomitant act of investment. If economic units rely entirely on self-finance, investment is constrained

in two ways: by the ability and willingness of any unit to save, and by its ability and willingness to invest. The unequal distribution of entrepreneurial talents and risk taking proclivities in any economy means that at one extreme there are some whose investment plans may be frustrated for want of enough savings, while at the other end, there are those who do not need to consume all their incomes but who are too inert to save or too cautious to invest the surplus productively. For the economy as a whole, productive investment may thus fall short of its potential level. In these circumstances, the securities market provides a bridge between ultimate savers and ultimate investors and creates the opportunity to put the savings of the cautious at the disposal of the enterprising, thus promising to raise the total level of investment and hence of growth *(Kiley; 2000: 47-48).*

The securities market facilitates the internationalization of an economy by linking it with the rest of the world. This linkage assists through the inflow of capital in the form of portfolio investment. Moreover, a strong domestic stock market performance forms the basis for well performing domestic corporate to raise capital in the international market. This implies that the domestic economy is opened up to international competitive pressures, which help to raise efficiency. It is also very likely that existence of a domestic securities market will deter capital outflow by providing attractive investment opportunities within domestic economy. A developed securities market successfully monitors the efficiency with which the existing capital stock is deployed and thereby significantly increases the average return *(Stoll; 1998: 182).*

In as much as the securities market enlarges the financial sector, promoting additional and more sophisticated financing, it increases opportunities for specialization, division of labor and reductions in costs in financial activities. The securities market and its institutions help the user in many ways to reduce the cost of capital. They provide a convenient market place to which investors and issuers of securities go and thereby avoid the need to search a suitable counterpart *(Doodh; 1962: 83).*

There are also other developmental benefits associated with the existence of a securities market. First, the securities market provides a fast-rate breeding ground for

the skills and judgment needed for entrepreneurship, risk bearing, portfolio selection and management. Second, an active securities market serves as an 'engine' of general financial development and may, in particular, accelerate the integration of informal financial systems with the institutional financial sector. Securities directly displace traditional assets such as gold and stocks of produce or, indirectly, may provide portfolio assets for unit trusts, pension funds and similar FIs that raise savings from the traditional sector. Third, the existence of securities market enhances the scope, and provides institutional mechanisms, for the operation of monetary and financial policy. While the above indicate that the securities market promotes economic growth, it is not one way relation. The economic growth also promotes securities market *(Doodh; 1962: 84).*

2.1.7 The Stock Exchange and the Capital Market

The stock exchange is the very hub of the capital market; the pivot, without this facility and the chance, which is thus available to investors to liquidate their investments or adjust their portfolio whenever they desire to do so, it is doubtful if there would be any motivation to invest in securities. Most savers would then probably simply hold on to their funds in cash or bank deposit which guarantees that they would be able to meet the fundamental purpose of the saving; such motive is usually quite far from a desire to invest. Besides, there is a strong possibility that even where savings remain constant in aggregate terms, that without the safe-guard and the guarantee of quality and the resultant confidence generated by stock exchange listing, most savers could not be easily persuaded to place their money in securities, issued by firms whose competence or integrity they could not trust. Savers would then probably put their money instead in small, owner-managed business concerns. The implication of this for the entire economy could be a serious handicap being placed on the promotion of large-scale enterprises and with this, a severe limitation on the nation's production capacity. Because of the impact of scale on cost of production, prices and loss of international competitiveness, the marketability of securities, which the stock exchange impact on, therefore has extremely important implication for the individual saver, the investor or fund user as well as the nation as a whole. This tremendous impact that the capital market introduces to the capital formation and investment process, ultimately to the promotion of individual and nation well-being and posterity,

makes it seem today a vital component of the total strategy for promoting national economic development. The activities of the stock exchange fall into two broad categories, the primary and secondary markets. The primary market is concerned with the initial issuance of securities. The secondary market augment the supply of funds to the primary market stated somewhat differently. From the perspective of the overall economy, the secondary market is particularly important, as it makes it possible for the economy to ensure long-term commitments in real capital *(Oba; 1999: 33-36).*

In about two-decade history, the NEPSE has been devoid of any major fraud, shocks and scandals. In this regard, the listing requirements and code of conduct of members and staff of the NEPSE have helped to ensure:

- Disciplined public accountability
- Continued survival and improved performance of the quoted companies.
- Disciplined management of listed companies and market operators.
- An increasing pool of ingestible funds for economic development.

The role of the NEPSE as vehicle of rate mobilization of long-term capital and a platform for buying and selling of shares/stocks is not only geared towards the socio-economic aspiration of the nation; it is also efficient and cost conscious *(Bhattarai; 2006: 13).*

2.1.8 Irregularities in Securities Market

Various irregularities exist in Nepal's Share Market. Although these irregularities generate income to certain group, general investor suffers from this. To build clear and transparent share market, the individual and institution, who inspect share market, should always remain aware. The irregularities that exist in Nepal's Share Market are:

A) Pooling

In this irregularity, a certain group buys and sales share of certain company within themselves in order to rise up the price of share by displaying the maximum number of shares transaction to the general public. And when the price reaches its zenith, the pooling members sell the shares and the share price, which rose up unnecessarily

without any specific basis declines as a result the general investors, who buys that share with the hope of price rise, have to bear a great loss *(Bhattarai; 2006: 28).*

B) Cornering or Warehousing

The individual or group involved in this irregularity buys all the shares of certain company. As a result, the share of such company is limited to a single person or group and invites scarcity of share of such company. The supply of such share becomes low and demand will be high. On the increased demand of share, the person or group involved in cornering or warehousing sells in small lot, takes the share price to the maximum height and sells the remaining shares in high price *(Bhattarai; 2006: 28).*

C) Organized Runs

In organized runs, an active group flows an unnecessary rumor of certain company to influence share price. The main objective to flow such rumor is to fascinate the investor in the share and to sell the shares of the individual doing organized transactions. Both capital gain and prompt sale are achieved from this organized runs *(Bhattarai; 2006: 28).*

D) Ramping

To attract investors by displaying fast transactions of the shares dramatically just before the last movement of share transactions in the market and to make profit from such runs is ramping. From this fast raising of share price, the general investors guess that the demand for that company's share is high and will increase further in future *(Bhattarai; 2006: 29).*

E) Washsale

Washsale is not actually a sale of share. Actually, the person involved in it sales shares to his family and relatives and indicates that the share price of certain is in decreasing/increasing. In this, the person sells share to himself in low price and indicates the price fall in the market and finally buys the share in low price to reap profit. The person involved in this does such activity with the aid of broker *(Bhattarai; 2006: 29).*

F) Matching

If a same broker gets both selling and buying order, then matching can occur. The broker may decrease the price if he is closer to buyer and may increase the price if he is closer to seller to match the order *(Bhattarai; 2006: 30).* However, this kind of activity has been prohibited from Ashad 2062 B.S.

G) Insider Training

The transaction done with the aid of confidential information of company is called Insider Trading. On the basis of unpublished information especially if the company's staff, director or executive takes advantages by buying/selling the share of same company, then it is called Insider Trading. For example, if the board of directors decides to distribute dividend but such decision has not been publicized and on the basis of this decision, the decision maker and other company staff, knowing the decision, collects the share of the company and sells after the price increment or takes the bonus share, then this kind of transaction is known as Insider Training *(Bhattarai; 2006: 30).*

2.2 Review of SEBON Regulations

In the exercise of the of the power conferred by section 116, sub section 7, of the Securities Related Act, 2007, the Securities Board of Nepal has made following provisions regarding the issuance of securities;

Public Issuance of Securities

- If a Corporate Body intends to sale and distribute its securities to more than fifty persons at a time, it shall be required to make public issuance of securities. While selling securities through public offering the Corporate Body shall be required to set aside at least thirty percent of its issued for public subscription.
- The corporate body making public issue pursuant to Sub-regulation (1) shall be required to have completed a minimum of one year of business operation under it objectives and also require to have already published the audited financial reports for the period.

- The application for publicly issued shares pursuant to Sub-regulation (1) shall have citizenship certificate verified by the applicant attached thereto and also shall have to mention the name, address of the bank or financial institution where the applicant has maintained account and account number and the Issue Manager require to have arranged the refund of application money to be deposited in the bank account. Provided, however, that applicants subscribing for more than Rs. 50,000 require depositing the application money compulsorily through account payee check.
- In case the application money so received has been deposited with the Banker to the Issue for interest, eighty percent of the interest so received shall be required to be given to the applicant in a proportion al basis for the days from the application date to the day before the allotment date and the Board shall be informed of such arrangement.
- The body corporate while making public issue of securities pursuant to these regulations may reserve up to five percent of the share to the working staffs and up to five percent for the local residents depending on the nature of business like hydropower, production or processing, out of the shares set aside for public issue. However, the shares reserves as such shall not be eligible to be sold or transferred within a minimum period of three years from the date of allotment.
- Other provision related to the public issuance shall be prescribed by the Board under its directives.
- In case a body corporate has issued securities without making public issue as prescribed by these regulations such securities shall not be eligible for trading through the stock exchange or an alternative trading system.
- The Issue Manager shall be required to cancel any authorized application that it detects to have stated false information thereon. In case the Board finds that such application is not cancelled and the securities are distributed, the Board may impose fine equivalent to the same amount on the Issue and Sales Manager. The Board is required to use the proceeds only for the development of capital market *(www.sebon.org.np).*

2.3 Review of Articles

Cornell & Rutten (2008), in their article, *"Market Efficiency, Crashes, and Securities Litigation"*, have stated that unless markets are fully efficient, which is not logically possible, estimates of damages based on the efficient market hypothesis and *ex post* analyses of stock price movements frequently will overstate damages, often significantly. The reason for the overstatement is that lawsuits are only filed in situations where large stock price declines have already been observed, and in such situations, the impact of even small inefficiencies typically will be exaggerated. A further reason is that the very possibility that a lawsuit may be filed may exacerbate the decline.

The foregoing demonstrates that even when the market is deemed efficient for purposes of showing reliance, it should not automatically be deemed efficient for purposes of estimating damages. This does not mean, however, that stock price data should no longer be used as a tool for estimating damages; the point is that it should be only one of many tools. Stock price data by itself cannot answer whether the price decline is commensurate with the fundamental news conveyed by a fraud-related disclosure and thus whether the drop is a meaningful estimate of actual damages. Other standard valuation techniques, such as discounted-cash-flow analyses, must be brought back into securities litigation to answer that crucial question. Fortunately, standard valuation models and analyses of stock price movements focus on varying aspects of the problem of estimating damages, such that any errors, oversights, or elements of speculation involved in the application of one approach typically will differ from those that are likely to arise when applying the other. Consequently, using both techniques in conjunction with each other, and comparing the results, will give a more balanced and accurate measure of true damages than either applied alone.

Tetlock (2009), in his article, *"Does Liquidity Affect Securities Market Efficiency?"* has stated that it is challenging to estimate the relationship between liquidity and market efficiency using data from conventional financial markets, where securities' fundamentals cannot be observed and systematic risks affect pricing. Securities markets with persistently high liquidity show significant pricing anomalies, such as overpricing low probability events and under pricing high probability events. Conversely, the sporadically liquid and illiquid securities markets are remarkably

efficient. A leading explanation is that illiquid markets have fewer noise traders, and periods of illiquidity prevent arbitrageurs from profiting on short-term trades that would destabilize prices.

Further liquidity serves as a proxy for non-informational or noise trading. The key finding is that the prices of illiquid securities converge toward terminal cash flows much more rapidly than the prices of liquid securities. This implies that non-informational or noise trading is prevalent during periods of liquidity, which may help explain the observed mispricing in liquid securities. Although these results are unlikely to generalize without modification to conventional financial markets with long-horizon securities and larger stakes, they do suggest three interesting directions for future research. First, liquidity may only appear to be a priced risk factor because it captures some systematic element of mispricing. Second, different types and sources of liquidity may have opposing effects on the costs of arbitrage and equilibrium mispricing—*e.g.*, liquidity from noise trading may harm efficiency, whereas liquidity from low search costs may enhance efficiency. Third, because there appear to be significant limits to arbitrage on an online exchange with few capital constraints and securities that expire within a single day, the limits to arbitrage in conventional markets may be more severe than previously thought.

McKinley (2010), in his article, *"Stock Market Efficiency and Insider Trading"* has stated that insiders could significantly outperform the market by either buying or selling shares of their company's stock in both the short and long term. However, after statistical analysis was performed on the data it became apparent that insider trading was not so profitable. The data suggest that no form of insider trading, buying or selling, is profitable in the short run (one to six months). After performing statistical analysis, it has been concluded that it takes about one year for insider information to become public and reflected in a stock's price.

However, not each insider trading is profitable in the long run. Stocks that were sold by insiders under-perform the market after one year. The one-year data for insider buying proved to be statistically insignificant. The inability of insiders to profit from

purchasing shares in their own company may be due to their lack of knowledge about competitors coupled with overconfidence in their ability to manage their company.

Huang, Chen & Cheng (2011), in their article, *"Stock Manipulation and Its Impact on Securities Market"*, have stated that stock manipulation is an important issue for both the regulation of trading and the efficiency of the market. Although it is a growing concern on many emerging stock markets, there is scant evidence on stock price manipulations and their impacts on market quality.

Overall, manipulation can actually create market inefficiency, by distorting the stock prices away from their fundamental value. Moreover, the manipulation operations have led to both abnormally high trading volume and volatility, thus worsening the market depth, and hence the market quality. This suggests a strong role for government regulation to discourage manipulation. It also poses a new challenge for regulators. Since most of the manipulators rely on neither inside information nor on visible actions, their manipulations are difficult to be detected and ruled out.

Aly, Mehdian & Perry (2012), in their article, *"An Analysis of Day-of-the-Week Effects in the Egyptian Stock Market"*, have examined daily returns for the CMA Index from 2006-2011 to test for the Monday effect in the Egyptian equity market. The Egyptian stock market provides a unique opportunity to test for seasonal anomalies in an emerging and recently modernized stock exchange where trading takes place on a four-day week basis (Monday through Thursday) as opposed to the more traditional five-day week. The empirical results indicate that while Monday stock returns are significantly positive, they are not significantly different from returns during the rest of the week. Furthermore, Monday returns are significantly more volatile than returns from Tuesday to Thursday. Hence, the significantly positive returns on Monday are associated with returns that are more risky.

In addition, an intra-month return analysis provides evidence to indicate that the significantly positive Monday returns are not caused by higher returns during the last two weeks of the month. The overall implication of this study suggests that the emerging Egyptian market is at least weakly efficient. Therefore, no specific trading

rule can be exploited to generate abnormal stock returns in the Egyptian stock market. Finally, it is important to note that Egypt, like other emerging equity markets has an immature capital market.

2.4 Review of Thesis

Shakya (2007), in his thesis, *"Role of Financial Indicators in Determining Share Price in Nepalese Financial Market",* has the main objective to measure the role of stock price determinants. The other specific objectives are:

- To examine and evaluate the relationship of MPS with various financial indicators like NWPS, EPS, DPS, ROE, etc.
- To analyze the market trends of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.
- To find out whether stocks of the sampled companies are equilibrium priced of not.
- To identify qualitative factors affecting the stock price.

The major findings of the study are:

- NABIL's MPS is positively correlated with all financial indicators but these values are not statistically significant at either 5% or 10% level of significance.
- NIBL's MPS has negative correlation with all financial indicators.
- For all other banks, the correlation coefficients of MPS with other financial indicators are both positive and negative. These values are statistically significant at either 5% or 10% level of significance.
- Relationship with all financial indicators of MPS for NFCL is positively correlated and the relationship is statistically significant at 5% level of confidence with EPS and at 10% level of confidence with NWPS and DPS.
- For other Finance Companies, the correlation coefficient of MPS with other financial indicators, are both positively and negatively correlated and the relationship is statistically significant for KFL and UFCML and for others it is insignificant.

Giri (2008), in his thesis, *"An Analysis of Share Price Movement Attributed to Right Offering Announcement"*, has the main objective to find out the relationship between right offering and the share price fluctuation. The other specific objectives of the study are:

- To find out if there is significant changes in share price after the announcement of right offering.
- To find out if there is any problem in the primary issue of securities.
- To prescribe some policies that will help to ratify the current problems in the issue in the issue of securities.

The major findings of the study are:

- SEBON has failed to establish a 'one-window policy' causing various imbroglios for the companies that want to go primary issue market for raising the capital.
- Till the date there is no enactment of the 'Investors Protection Act'.
- Companies Act with regard to the contents of the issue prospectus is deemed to be insufficient on the ground that, it does not mention the companies are required to specify on the issue prospectus about the risk category on which their businesses fall.

Satyal (2008), in his thesis, *"Stock Price Determinants in Nepal Stock Exchange"*, has a major objective of identifying the prime determining factor of share price fluctuation of Nepalese Commercial Banks. The other supporting objectives of his research are

- To examine and evaluate the relationship between MPS with the various financial indicators like EPS, BPS, DPS etc.
- To analyze the market trends of MPS with financial indicators.
- To conduct the opinion survey of potential investors regarding various aspects of share behaviours in Nepal.

The major findings of the study are:

- DPS of BOK is much volatile in comparison to MPS, BPS and EPS. Bank of Kathmandu has positive correlation with between their Market price per share

and DPS, BPS and EPS. This indicates that they directly affect the Share Price of BOK.

- BPS and EPS are positively correlated in the case of Everest Bank Limited whereas DPS is negatively correlated. This indicates that increase in DPS of this Bank don't contribute on the increase of Share Price rather it decreases it. But increase in BPS and EPS increase the share price and vice versa. DPS is much volatile in comparison with MPS, BPS and EPS.
- The correlation between MPS and other indicators are found to be insignificant for most of Banks. It shows that they individually influence very less but jointly they influence a lot. There can be other factors which influence the share price of the organisation.
- Dividend pattern plays a great role on share price movement. Higher the DPS, more will be the Share Price. Most of the investors like to analyse the Dividend pattern of the company before they invest in their shares.

Baral (2008), in his thesis, *"Stock Price Movement in Nepalese Securities Market"*, has the main objective to detect the reason behind the stock price movement. The other specific objectives of the study are:

- To study and analyze the rate of newly listed companies and maintenance of already listed companies in NEPSE.
- To study and analyze the investors views regarding the decision on stock investment.
- To suggest the findings of the study to the interested parties related to stock investment.
- To study & examine the signalling factors impact on stock price with the help of NEPSE index.

The major findings of the study are:

- Studying the annual trend analysis of Nepalese stock price market, it was found that stock price trend is decreasing from many years as smoothly but from one year price of stock is decreasing as rapidly.
- On analyzing the price trend of three years NEPSE index in different months (36 months) with the help of monthly trend showed that the price trend of

different months of the year 2006 was in increasing trend 2007 in decreasing trend while that of 2008 was sometimes in increasing and sometimes in decreasing trend. So from this trend analysis we can say there is no relationship of price trend between three successive years.

- Studying the sector wise monthly trend analysis for one year, it was found that unsystematic activities of the Nepalese stock price market. No exports can certainly forecast about the stock price.
- Volume of stock traded in stock exchange during the study period was found in increasing trend but in last year it was in decreasing trend.

Burlakoti (2009), in his thesis, *"Stock Price Behaviour of Financial Institutions and Commercial Banks"*, has the main objective to analyze the stock price behaviour. The other specific objectives of the study are:

- To study the present position of the financial institution and joint venture banks.
- To examine and evaluate the relationship of MPS with various financial indicators like EPS, NWPS, DPS and DPR.
- To analyze the degree of risk involved in the common stocks investment of the sampled companies.
- To identify whether stocks of the sampled companies equilibrium priced or not.

The major findings of the study are:

- The DPS of SCBL has higher than NBL, NIBL and EBL. In finance companies, DPS of NFCL is higher than AFCL, NMBCL. It is seen that DPS of NFCL is in satisfactory level.
- The MPS of SCBL is higher than NBL, NIBL and EBL. SCBL is the most appreciable bank among the selected ones. The risk of NBL is higher than SCBL, NIBL and EBL. It indicates that there is high risk in NBL. The CV of EBL is more fluctuating i.e. there is higher CV in EBL.
- The correlation coefficient of EPS and DPS seems to be significant except the case of EBL and AFCL, i.e. correlation coefficient recorded as EBL & AFCL is in negative.

- The coefficient of determination (r^2) of SCBL, NIBL, NFCL & NMBFCL are strong of 0.64, 0.254, 0.7174, 0.393 which indicates that 64%, 25.4%, 71.74% & 39.3% of the total variation in market price has been explained by the influence of EPS and remaining 36%, 74.6%, 28.26%, 60.7% is due to the effect of other factors.

Khadka (2009), in his thesis, *"Broker Performance and their Services in Nepalese Stock Market"*, has the main objective to measure the role of brokers in enhancing the stock market in Nepal. The other specific objectives of the study are:

- To examine the brokerage services in secondary market.
- To analyze the performance of the brokerage company in Nepal.
- To examine the investors satisfaction towards the broker's services.

The major findings of the study are:

- The purpose of investment of the investors in securities market were found 67.50%, 22.50%, 5%, and 5% for capital gain, social status, use of excess money and dividend/interest income respectively.
- The data acquired from the survey said that 50%, 66.67% and 16.67% investors follow the fundamental and Technical analysis and market fluctuation/trend and broker advice respectively to securities buy/sell the decision.
- It was found that 20% of the 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.

Rayamajhi (2010), in her thesis, *"Share Price Behaviour of Commercial Banks listed in NEPSE"*, has a major objective to analyse the behaviour of share price. The specific objectives of the study are:

- To analyze the stock price movement of the NEPSE market.
- To test the random walk or weak efficient market hypothesis.
- To test whether the successive price changes are independent or dependent with the price of historical change.

The major findings of the study are:

- The total numbers of actual and expected runs are statistically significant for most of the equity shares, which implies that their price changes are significantly different from random series. Result of run test also supports the result of autocorrelation. Therefore, today's price change is dependent on the information of yesterday's price.
- The mean absolute values of the autocorrelation coefficients are lower when the lag days are increases. This means the information of past price changes have little role to predict the future price changes for longer days.
- Half of the sample companies' share have greater than average value of K (18.87%) difference between actual and expected number of runs, which indicates significant difference between the actual and expected number of runs.
- There exists a low order serial dependence, which helps in certain extent to increase investor's expected profit.

Sapkota (2010), in his thesis, *"Price Formation and Brokering Services in Nepal Stock Exchange"*, has the main objective to evaluate the brokering services in Nepal. The other specific objectives of the study are:

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

The major findings of the study are:

- 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 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.
- The investors 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.

Shrestha (2011), in her thesis, *"Current Problems and Prospects of Securities Market in Nepal"*, has the major objectives to detect out the existing problems in Securities market in Nepal and also the prospects of Securities Market in future. The other specific objectives of the study are:

- To measure the company traded to company listed in the securities market.
- To evaluate the stock turnover in the observed periods.
- To analyze the role of market capitalization for enhancing the economic growth.

The major findings of the study are:

- The development of stock market primarily depends on program and their implementation.
- In Nepal, the overall policy environment has not been conductive to the development of stock market. Therefore, it is difficult to develop more efficient secondary market, trading system for both equity and debt security.
- Lack of investor's confidence in stock market since many listed companies resulted not trading on regular basis or hold AGM.
- NEPSE does not have appropriate policies, memberships and fee structure to attract member outside the Kathmandu.
- Lack of necessary provisions in the laws and regulation for the privatization and automatics of stock exchange as well as for the establishment of central depository of securities (CDS).

Gurung (2012), in his thesis, *"Primary Issuer of Share in Nepal"*, has the main objective to find out the reaction of public to the primary issuer of the country. The other specific objectives of the study are:

- To identify the problems of primary share issue market.
- To assess the growth of primary issue market.
- To analyze the pattern of public response to shares and to find the reason for variation.

The major findings of the study are:

- Public response in primary market is high due to lack of opportunities for investment in other fields.
- No public are attracted towards shares than other securities basically to increase their value of investments, be it dividend gain or bonus shares.
- It can be seen that public response to primary issues on Banking and financial sectors is normally higher than that of the manufacturing and services sector. There was poor response because interest rates are higher as compared to dividend yield, the public companies were not performing well, and people were unaware about the importance of investing in securities.

2.5 Research Gap

Securities prices are affected by numerous factors, and these entire reviewed thesis are concerned with presenting just the movement of the securities price behavior. However, these reviewed theses are much vague and do not exactly point out what factors actually affect the securities price and eventually the securities market performance. Considering these gaps, the present study makes detail investigation on the performance of the securities market, and the factors either promoting or hindering the securities market performance. More specifically, the study is concerned with analyzing both the quantitative and qualitative data. The quantitative data includes the past trend of NEPSE, the securities transaction, the contribution of different listed companies, the market capitalization, market day operation and others. On the other side, the qualitative data includes the problems of the securities market, satisfaction on securities market, the factors affecting the securities price and others.

CHAPTER - III
RESEARCH METHODOLOGY

Research methodology is the method used to give a clear cut idea on what the researcher is carrying out his or her research. In order to plan in a right point of time and to advance the research work methodology makes the right platform to the researcher to mapping out the research work in relevance to make solid plans.

3.1 Research Design

A research design is a specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of frame work for the project that stipulates what information is to be collected, from which sources and by what procedures.

This study is carried out to analyze the performance of the securities market. To conduct the study, both analytical and descriptive research approach are adopted for the reality available historical data. All the data used in this study are primary and secondary in nature.

3.2 Period Covered

The study covered the period of 5 years from the fiscal year 2007/08 to 2011/12. Data are taken from NEPSE and SEBON and the analysis is made on the basis of these five years' data. Also, the questionnaires are disbursed and the primary data analysis is done.

3.3 Population and Sample

The concern of the study is on the analysis of the performance of the securities market. So, NEPSE is taken as sample, which reflects the overall data of all the companies, to achieve the research objectives.

3.4 Nature and Sources of Data

To fulfill the predetermined objectives that are set up for the study, both primary and secondary sources are included. The secondary data is obtained from the central office

of Nepal Stock Exchange (NEPSE), Singhadarbar, Security Board Office, Thapathali and economic survey published by Ministry of Finance. Annual report of SEBON and NEPSE are considered the main source of secondary data. Besides these, various bulleting available, websites, journals are also taken into consideration. The primary data are collected from field survey.

3.5 Data Analysis Tools

For the analysis of the data, both financial and statistical tools have been extensively used.

3.5.1 Financial Tools

The major financial tools used in the study are as follows;

a. NEPSE Index

Index is a statistical indicator providing a representation of the value of the securities which constitute it. Indices often serve as barometers for a given market or industry and benchmarks against which financial or economic performance is measured. Thus, NEPSE index is one of the mechanisms for measuring the performance of the securities market. It is calculated by;

$$\text{NEPSE Index} = \frac{\text{Total Market Capitalization}}{\text{Total Amount of Shares Issued}} \times 100$$

b. Traded Companies to Listed Companies

Not all listed companies in NEPSE make transaction in a year. So, the traded companies and listed companies are different phenomenon. Thus, the ratio of traded companies to listed companies depicts what proportion of the total listed companies has remained active during a certain period.

$$\text{Traded Companies to Liste Companies Ratio} = \frac{\text{No. of Traded Comapanies}}{\text{No. of Issued Companies}} \times 100$$

c. Market Capitalization

Market capitalization (often simply market cap) is the total value of the tradable shares of a publicly traded company; it is equal to the share price times the number of shares outstanding. As outstanding stock is bought and sold in public markets,

capitalization could be used as a proxy for the public opinion of a company's net worth and is a determining factor in some forms of stock valuation. Preferred shares are not included in the calculation.

$$\text{Market Capitalization} = \text{Share Price} \times \text{No. of Shares Outstanding}$$

d. Sector-wise Number of Shares Traded

Different companies having different nature of business are listed in NEPSE. Generally, the financial institutions; including commercial banks, development banks and finance companies, trading and manufacturing companies, insurance companies, hydropower and other are listed in NEPSE. To determine what kind of companies is much active in securities market, the sector-wise number of shares traded is evaluated.

$$\text{Sectorwise Number of Shares Traded} = \frac{\text{Shares transacted by the Sector}}{\text{Total Shares Transacted in NEPSE}} \times 100$$

e. Paid up Capital

Paid up capital refers to capital contributed to a corporation by investors through purchase of stock from the corporation (primary market, not through purchase of stock in the secondary market). It includes share capital (i.e. capital stock) as well as additional paid-in capital. However, the term has different definitions in different contexts. For example, it could refer to the money that a company gets from potential investors in addition to the stated (nominal or par) value of the stock, which coincides with the definition of addition paid up capital.

f. Market Days and Average Daily Turnover

The market day is simply the total number of days during which market operations were conducted during the period. However, the average daily turnover is calculated by dividing the total value of share trading by the number of trading days during the year.

3.5.2 Statistical Tools

The major statistical tools used in the study are as follows:

a) Mean

The arithmetic mean (or simply the mean) of a list of numbers is the sum of the list divided by the number of items in the list. The mean is the most commonly-used type of average and is often referred to simply as the average.

$$\text{Mean}(\bar{X}) = \frac{x_1 + x_2 + \ldots\ldots\ldots\ldots\ldots + x_n}{N}$$

b) Standard Deviation

Standard deviation is a widely used measure of the variability or dispersion, being algebraically more tractable though practically less robust than the expected deviation. A low standard deviation indicates that the data points tend to be very close to the mean, whereas high standard deviation indicates that the data are spread out over a large range.

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\Sigma(X - \bar{X})^2}{N}}$$

c) Coefficient of Variation

The coefficient of variation represents the ratio of the standard deviation to the mean, and it is a useful statistic for comparing the degree of variation from one data series to another.

$$\text{C.V.} = \frac{\text{Standard Deviation x 100}}{\text{Mean}}$$

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This section provides interpretation and analysis of secondary data. Thus this section is exclusively devoted for the analysis of common stocks of different companies through price trends, signaling factors impact on NEPSE index with the help of NEPSE index provided by Nepal Stock Exchange Center, volume of stock traded, Rate of listing of New Companies in Secondary Market and maintenance of them in NEPSE is considered.

4.1.1 NEPSE Index

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

Table 4.1

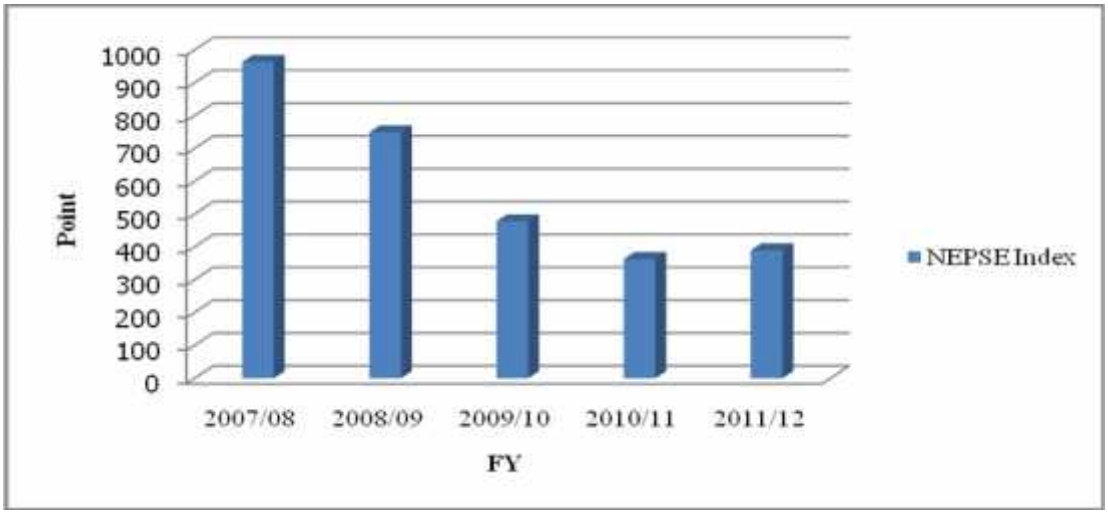
NEPSE Index

Fiscal Year	NEPSE Index	Percentage Change
2007/08	963.36	40.85
2008/09	749.10	-22.14
2009/10	477.73	-36.23
2010/11	362.85	-24.05
2011/12	389.74	7.41

(Source: Annual Reports, 2007/08 to 2011/12, NEPSE & Appendix - II)

Figure 4.1

NEPSE Index



Till the fiscal year 2007/08, the NEPSE index has notably increased, indicating the willingness of investors to pay high price for acquiring the stock of listed companies. However, this increasing trend of NEPSE index has been enshrouded by the diffidence of the investors from the fiscal year 2008/09, when the economic crisis occurred, as a result the NEPSE index persistently move downward trend, and by the end of the fiscal year 2010/11 it has been recorded to be lowest during the observed periods. Nevertheless, the NEPSE index has slightly increased in the fiscal year 2011/12, indicating positive of signal of growth of the market in the coming periods. More concisely, the NEPSE index has been ascertained to be highest, 963.36 points, in the fiscal year 2008/09, and has been recorded to be lowest, 362.85 points, in the fiscal year 2010/11, and in the fiscal year 2011/12, it has been observed to be 389.74 points. In addition, it has been found that the NEPSE made the highest jump in the fiscal year 2007/08, when the index has been increased by 40.85%. Also, the highest fall of NEPSE is in the fiscal year 2009/10, when it decreased by 36.23%.

Although the number of listed companies has increased during the periods, and the number of transactions has also increased, the decreasing trend of NEPSE index shows that the investment in stock has lose its charm among the investors, and thus investors are not willing to pay more amount for acquiring the stock due to the uncertainty of the stock price, making them to be much cautious for securing their interest, capital gain. Eventually, this decreasing trend of the NEPSE index in the recent periods is not the desirable performance of the securities market.

4.1.2 Annual Turnover

The annual turnover analysis indicates the number of shares transacted in amount in the NEPSE. The annual turnover of NEPSE in the five year period is presented in the Table 4.2.

Table 4.2

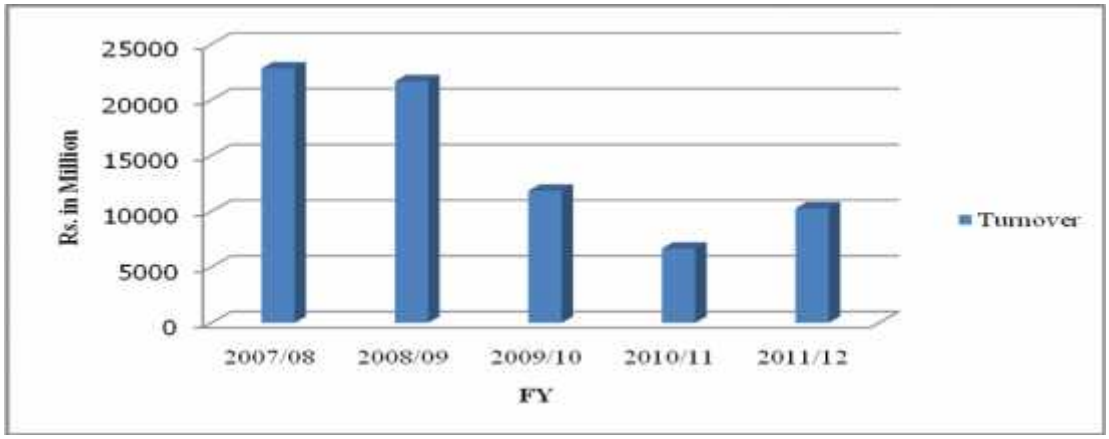
Annual Turnover

Fiscal Year	Turnover (Rs. in Million)	Percentage Change
2007/08	22820.76	172.97
2008/09	21681.14	-4.99
2009/10	11851.11	-45.34
2010/11	6665.33	-43.76
2011/12	10279.29	54.22
Average	**14659.53**	
S.D.	**6432.57**	
C.V. %	**43.88**	

(Source: Annual Reports, 2007/08 to 2011/12, NEPSE & Appendix - II)

Figure 4.2

Annual Turnover of NEPSE



The annual turnover of the NEPSE has tremendously decreased in the first four fiscal years, indicating bad performance of the securities market. However, the securities market has recovered some of its position by increasing the annual turnover in the fiscal year 2011/12. The annual reports of NEPSE showed that the turnover has been highest, Rs. 22820.76 million, in the fiscal year 2007/08, and has been lowest, Rs. 6665.33 million, in the fiscal year 2010/11. The turnover has been observed to be Rs. 10279.29 million in the fiscal year 2011/12 There has been highest increment in the turnover in the fiscal year 2007/08, when the turnover increased by 172.97%,

and the highest decrement in the turnover in the fiscal year 2009/10, when it decreased by 45.34%. However, the increment in the turnover by 54.22% is indeed a good performance of the securities market in the fiscal year 2011/12.

Moreover, it has been ascertained that the average turnover during the observed periods is 14659.53 millions, and the variation in the turnover is 43.88%, indicating high inconsistency in the turnover. Despite the high interest shown by the number of companies to trade in the stock market and the increment in the market days, the low annual turnover in the recent periods has certainly been the matter for critical analysis.

4.1.3 Sector wise No. of Shares Traded

The sector wise number of shared traded clarifies the number of shares traded on the basis of sector and thus enlightens on the contribution of each sector on the total number of shares traded. The sector wise number of shares traded in the five year period is presented in the following Table 4.3.

Table 4.3

Sector wise No. of Shares Traded

Sector	**Fiscal Year 'No. in 000'**					**Average**	
	2007/08	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**No.**	**%**
Commercial Banks	11241.41	13301.43	9680.62	8534.28	15415.74	11634.70	37.90
Finance	3094.26	3552.01	3265.92	3591.18	2196.89	3140.05	10.23
Hotel	158.07	95.89	50.28	1584.59	1387.77	655.32	2.13
Manufacturing & Processing	1655.08	95.12	360.68	1128.51	1132.46	874.37	2.85
Other	7.70	630.82	423.13	285.18	455.92	360.55	1.17
Hydro Power	7251.21	3612.12	4776.70	1210.63	7127.66	4795.66	15.62
Trading	14.97	14.65	12.01	37.77	9.82	17.84	0.06
Insurance	433.26	418.89	629.90	1590.58	1521.54	918.83	2.99
Development Banking	2534.88	3631.12	3535.07	5158.66	5419.46	4055.84	13.21
Mutual Fund	319.10	758.50	187.50	459.05	55.20	355.87	1.16
Preferred Stock	101.42	74.43	29.46	20.48	34.05	51.97	0.17
Promoters Share	1788.41	4361.90	3171.55	1639.48	7122.39	3616.75	11.78
Corporate Bond	-	-	58.53	-	6.50	13.01	0.04
Government Bond	-	-	50.00	1000.00	-	210.00	0.68
Total	**28599.77**	**30547.16**	**26231.35**	**26240.39**	**41855.40**	**30700.76**	**100**

(Source: Annual Reports, 2007/08 to 2011/12, NEPSE & Appendix - II)

The preponderance of the number of traded shares of the commercial banks to the total number of traded shares is categorically highest in comparison to that of others, although the number of traded shares of CB's has fluctuated during the periods. This clearly indicates that the CB still, as in the previous periods, is the prominent companies or in other words the major pillar of stock exchange. The investors have given much predilection to the commercial banks while making investment in stock market. This affectionate in commercial banks could be regarded as the good prospect for the development of stock market, if other crucial steps have been taken for ameliorating the stock market. The commercial banks traded highest number of shares, 15415.74 thousand, in the fiscal year 2011/12, and in average such number is 11634.70 thousand, representing 37.90% of the total number of traded shares.

Next to the commercial banks, the hydropower has traded highest number of shares in most of the fiscal years. The traded shares of hydropower has ranged from 1210.63 thousand in the fiscal year 2010/11 to 7251.21 thousand in the fiscal year 2007/08. This purports that the investors have regarded hydropower as sound investment sector, and such thinking could be the good prospect for stock market. The hydropower has traded 4795.66 thousand shares in average, and represented 15.62% of the total number of traded shares.

Except in the fiscal year 2009/10, when there is slight decrement in the number of traded shares, the traded shares of development bank has been ascertained to be in increasing trend, indicating good prospect of stock market. The traded shares of development bank has increased from 2534.88 thousand in the fiscal year 2007/08 to 5419.46 thousand in the fiscal year 2011/12. The table manifests that the trades shares of development bank in relation to the total trades shares is 13.21% in average. Next to the development banks, the promoters shares have been traded highest shares in comparison to the rest of the listed companies. The finance companies traded 3140.05 thousand shares in average, representing 10.23% of total number of shares. Likewise, the representation of promoters shares is 11.78%, insurance companies is 2.99%, manufacturing and processing is 2.85%, hotel is 2.13%, mutual fund is 1.16%, government bond is 0.68%, corporate bond is 0.04%, preferred stock is 0.17%, trading companies is 0.06%, and other is 1.17%.

4.1.4 Sector wise Turnover Collection

The contribution of each sector on the total turnover of the NEPSE can be clarified with the aid of sector wise turnover collection. The Sector wise turnover collection in the five year period is presented in the following Table 4.4.

Table 4.4

Sector wise Turnover Collection

Sector	**Fiscal Year 'Rs. in Million'**					**Average**	
	2007/08	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**Turnover**	**%**
Commercial Banks	13822.14	12406.45	7196.24	3,431.82	5615.37	8494.40	57.94
Finance	2307.53	2615.40	1263.94	630.69	279.85	1419.48	9.68
Hotel	27.67	18.69	10.15	151.93	185.43	78.77	0.54
Manufacturing & Processing	343.44	26.08	37.74	363.06	811.25	316.31	2.16
Other	0.29	494.39	217.83	122.67	204.81	208.00	1.42
Hydro Power	3199.94	890.30	752.45	343	1243.38	1285.81	8.77
Trading	33.65	33.49	35.43	27.53	22.91	30.60	0.21
Insurance	264.86	212.80	183.47	377.15	334.28	274.51	1.87
Development Banking	1981.05	2740.36	1323.53	813.24	647.40	1501.12	10.24
Mutual Fund	6.09	22.40	5.21	14.68	1.81	10.04	0.07
Preferred Stock	81.15	74.05	26.39	15.99	30.10	45.54	0.31
Promoter Share	752.95	2146.73	735.00	270.57	896.20	960.29	6.55
Corporate Bond	-	-	58.53	-	6.50	13.01	0.09
Government Bond	-	-	5.20	103.00	-	21.64	0.15
Total Turnover	**22820.76**	**21681.14**	**11851.11**	**6665.33**	**10279.29**	**14659.53**	**100**

(Source: Annual Reports, 2007/08 to 2011/12, NEPSE & Appendix - II)

The table 4.4 shows that the stock market of Nepal has been slowed from the fiscal year 2008/09. Till the fiscal year 2007/08, the annual turnover of most of the listed companies and the stock market as whole has been flourishing. The turnover of commercial banks has been recorded to be highest, Rs. 13822.14 million, in the fiscal year 2007/08. Similarly, the highest turnover in the five year periods of finance

companies is Rs. 2615.40 million in the fiscal year 2008/09, of hotel is 185.43 million in the fiscal year 2011/12, of manufacturing and processing companies is Rs. 811.25 million in the fiscal year 2011/12, of hydropower is Rs. 3199.94 million in the fiscal year 2007/08, of trading companies is Rs. 35.43 million in the fiscal year 2009/10, of insurance companies is Rs. 377.15 million in the fiscal year 2010/11, of development bank is Rs. 2740.36 million in the fiscal year 2008/09, of mutual fund is Rs. 22.40 million in the fiscal year 2008/09, of preferred stock is Rs. 81.15 million in the fiscal year 2007/08, of promoter share is Rs. 2146.73 million in the fiscal year 2008/09, and of government bond is Rs. 103.00 million in the fiscal year 2010/11.

However, the average turnover in relation to the total turnover of stock market of commercial banks is 57.94%, finance companies is 9.68%, hotel is 0.54%, manufacturing and processing is 2.16%, hydropower is 8.77%, trading companies is 0.21%, insurance companies is 1.87%, development banking is 10.24%, mutual fund is 0.07%, preferred stock is 0.31%, promoters share is 6.55%, corporate bond is 0.09%, government bond is 0.15% and other sector is 1.42%.

Since the representation of number of traded shares of commercial banks is lower than the representation of annual turnover, it can be inferred that the market price of shares of commercial banks is comparatively higher than that of other listed companies. Thus, the cavalcade of investors showing interest to invest in commercial banks can be a good prospect for the stock market development. However, the increment in turnover of commercial banks in cost of other sectors is truly not beneficial for the stock market development. Moreover, although the representation of hydropower in number of traded shares is higher than that of development banking, the representation of annual turnover of development banking is greater than that of hydropower. This aids to make surmise that the development bank possesses good prospect for the stock market development. In contrast, the persistent decrement of turnover from the promoters share certainly hinders to some extent and creates problem for the stock market development. Thus, for the overall development of stock market, all the constituents, purporting the listed companies, should be optimally enhanced, and should be considered that the upgrading of one does not take place on the cost of others.

4.1.5 Number of Shares Traded

The total number of shares traded indicates the trend of shares trade during the period taken for research. Also, the percentage change in number of shares traded is presented in the Table 4.5.

Table 4.5

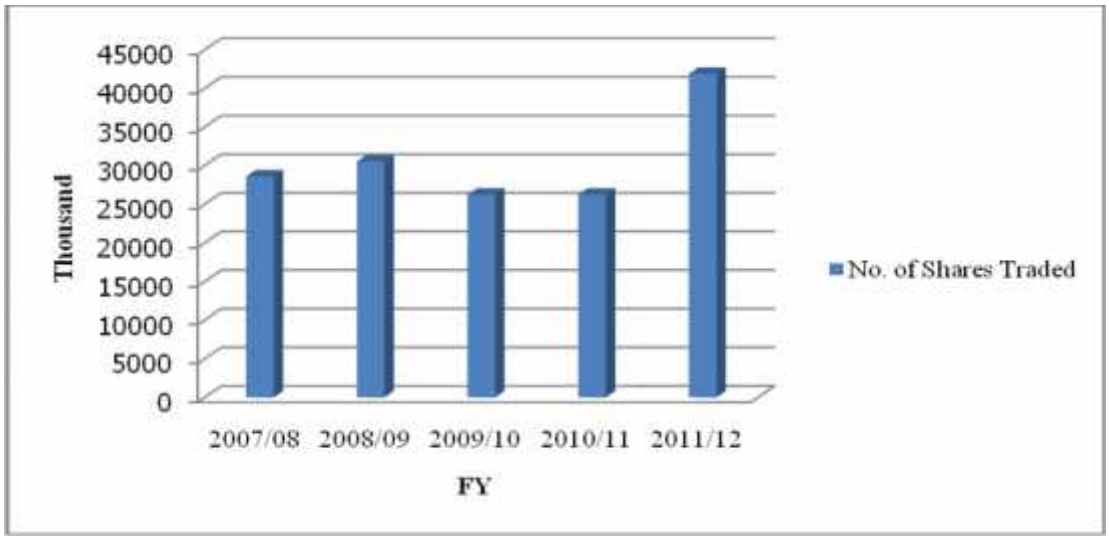
Number of Shares Traded

Fiscal Year	No. of Shares Traded	Percentage Change
2007/08	28599.77	57.60
2008/09	30547.16	6.81
2009/10	26231.35	-14.13
2010/11	26240.39	0.03
2011/12	41885.40	59.62
Average	**30700.81**	

(Source: Annual Reports, 2007/08 to 2011/12, NEPSE & Appendix - II)

Figure 4.3

Number of Shares Traded



The table 4.5 shows that the number of shares transaction increased tremendously in the fiscal year 2007/08 compared to the number of shares transaction in the previous year. However, in the fiscal year 2009/10, the number of share transaction decreased by 14.13 and in rest of the periods it has increased. The number of shares transaction ranged from 26231.35 thousand in the fiscal year 2009/10 to 41885.40 thousand in the

fiscal year 2011/12. The increment in the number of traded shares implies that the growing awareness of investors on the income that arises from share business and further indicated a good performance of securities market.

4.1.6 Number of Company Traded

This clarifies the total number of company traded out of the total listed companies in NEPSE. The number of company traded also clarifies the increasing/decreasing trend of the companies traded in the NEPSE during the fiscal year compared to the previous year. The total number of company traded during the period taken for research and the percentage change is presented in the Table 4.6.

Table 4.6

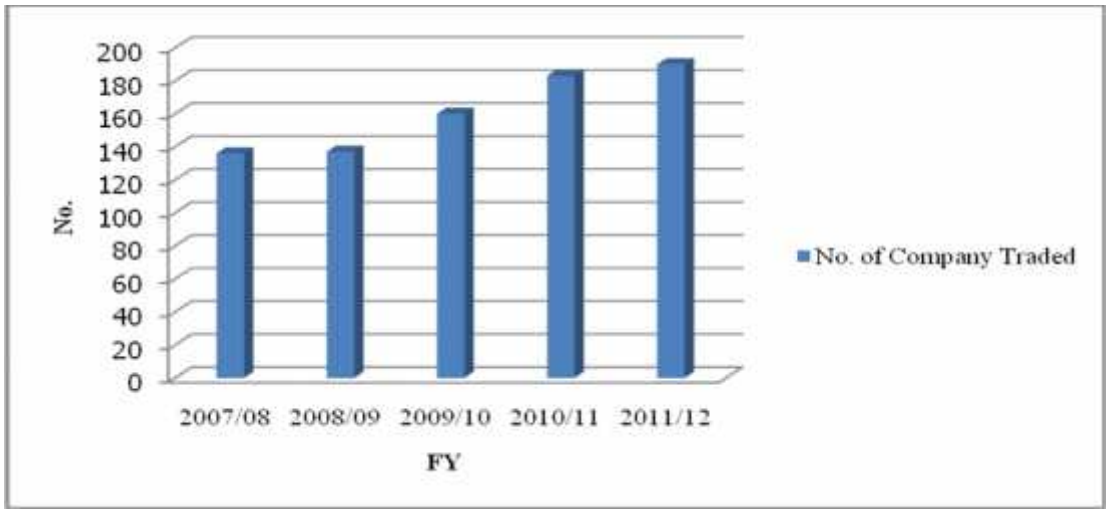
Number of Company Traded

Fiscal Year	No. of Company Traded	Percentage Change
2007/08	136	17.24
2008/09	137	0.74
2009/10	160	16.79
2010/11	183	14.38
2011/12	190	3.83
Average	**161**	

(Source: Annual Reports, 2007/08 to 2011/12, NEPSE & Appendix - II)

Figure 4.4

Number of Company Traded



The table 4.6 shows that the number of company traded in each fiscal year has increased. In fiscal year, 2007/08 only 136 companies were traded, similarly in fiscal

year 2008/09, 2009/10, 2010/11 and 2011/12 it has been ascertained that 137, 160, 183 and 190 companies were traded respectively. In average, 161 companies were traded during the period taken for research. This indicates that the investors have shown interest in different sectors and in different companies for investment in share. This increment in the number of traded companies and in the interest for diverse sectors in investors indicates better performance of the securities market.

4.1.7 Market Days

To increase the turnover of the NEPSE and the stock growth, the number of operating days in NEPSE is crucial. The total market days operated in the NEPSE is presented in the Table 4.7.

Table 4.7

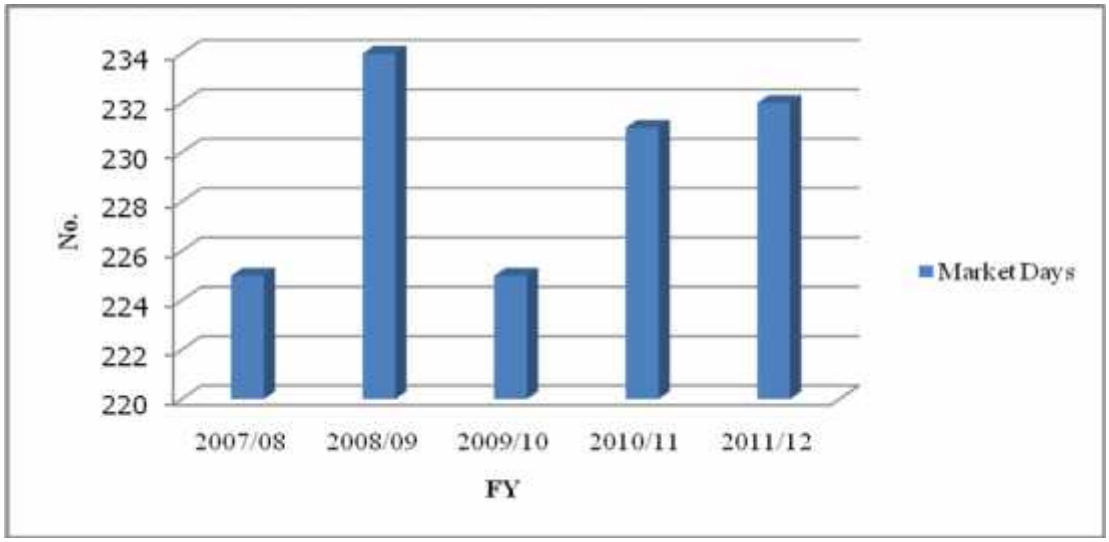
Market Days

Fiscal Year	Market Days	Percentage Change
2007/08	225	-3.02
2008/09	234	4.00
2009/10	225	-3.85
2010/11	231	2.67
2011/12	232	0.43
Average	**229**	

(Source: Annual Reports, 2007/08 to 2011/12, NEPSE & Appendix - II)

Figure 4.5

Market Days



The table 4.7 shows that the market days of the NEPSE office varied during the period and followed fluctuating trend. Within these five year period NEPSE transacted maximum 234 days in the fiscal year 2008/09 and minimum 225 days in each fiscal year 2007/08 and 2009/10. Since, the hurdles in the market days adversely affect the turnover of NEPSE, the number of holidays and other factors like strike and other disturbing factors should be minimized by the government for the smooth operation of NEPSE and eventually increase the turnover. The uncertainty in market days that would be operated in a year is certainly a problem for the securities market development.

4.1.8 Average Daily Turnover

This indicates the turnover collected by NEPSE per day and is the useful indicator to measure the efficiency of NEPSE in turnover collection. The average turnover also delineates the average number of shares traded per day. The average daily turnover of NEPSE is presented in the Table 4.8.

Table 4.8

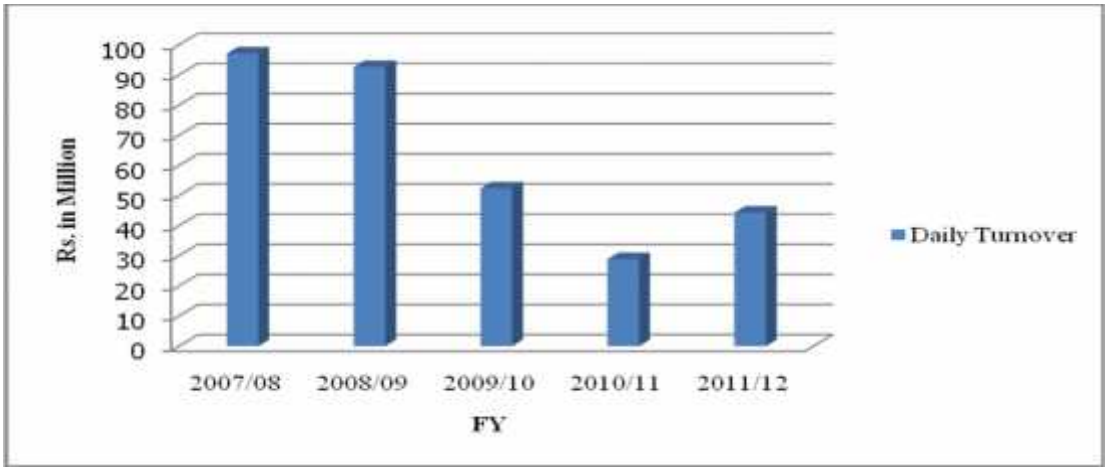
Average Daily Turnover

Fiscal Year	Average No. of Shares	Daily Turnover
2007/08	121.70	97.11
2008/09	130.24	92.65
2009/10	116.10	52.39
2010/11	113.59	28.85
2011/12	180.54	44.31
Average	**132.43**	**63.06**
S.D.	**24.72**	**27.10**
C.V. %	**18.67**	**42.97**

(Source: Annual Reports, 2007/08 to 2011/12, NEPSE & Appendix - II)

Figure 4.6

Average Daily Turnover



The table 4.8 shows that the average number of shares per day of NEPSE ranged from 113.59 thousand in the fiscal year 2010/11 to 180.54 thousand in the fiscal year 2011/12. NEPSE transacted 132.43 thousand shares per day within these five year periods in average. The coefficient of variation indicates a slight consistency (18.67%) in the average number of daily shares transacted. Moreover, the average daily turnover followed decreasing trend in the first four fiscal years; i.e. from Rs. 97.11 thousand in the fiscal year 2007/08 to Rs. 28.85 in the fiscal year 2010/11. However, the daily turnover has increased in the fiscal year 2011/12 and it is exactly Rs. 44.31 thousand. The average daily turnover of the stock market has been measured to be Rs. 63.06 million and the variation in such average turnover is 42.97%, indicating high inconsistency.

Except in the fiscal year 2011/12, both the daily turnover and daily transacted shares have shown poor performance of the securities market, signaling the hindrance on the securities market development.

4.1.9 Number of Companies Listed and Delisted

To transact shares in the secondary market, the company should be listed on the NEPSE. The number of companies listed indicates the increasing/decreasing trend of the number of companies listed per year. The number of companies listed in the NEPSE during the five year period is depicted in the Table 4.9.

Table 4.9

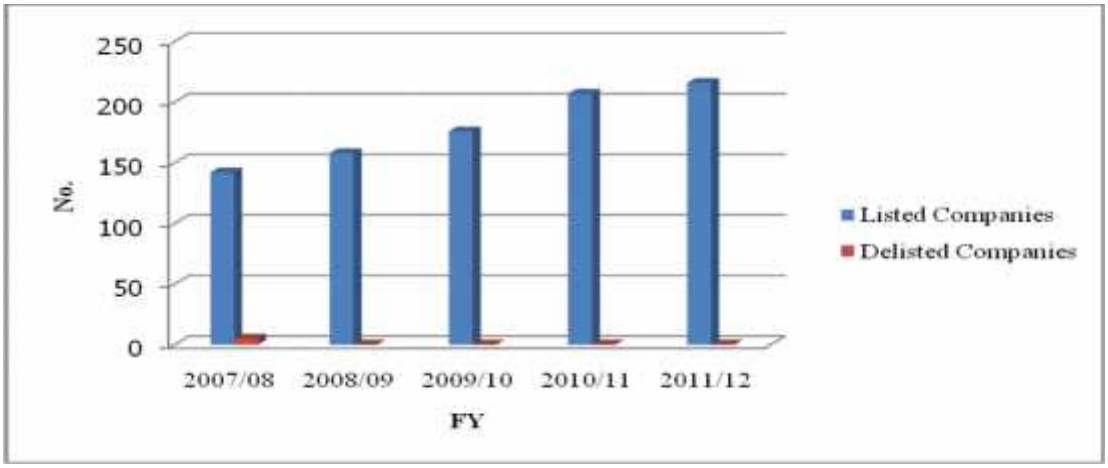
Number of Companies Listed and Delisted

Fiscal Year	No. of Companies Listed	Percentage Change	Delisted
2007/08	142	5.19	5
2008/09	158	11.27	0
2009/10	176	11.39	0
2010/11	207	17.61	0
2011/12	216	4.35	0

(Source: Annual Reports, 2007/08 to 2011/12, NEPSE & Appendix - II)

Figure 4.7

Number of Companies Listed



Listing and delisting of companies in the stock exchange is regular annual phenomena of stock market. The NEPSE delists the companies that do not truly follow the act, laws and bylaws related to the stock market. Further, for making the stock market much efficient and making the listed companies much obliged to the rules, the delisting is essential. The annual reports of NEPSE indicate that the number of listed companies has increased in each fiscal year.

The number of listed companies has reached to 216 in the fiscal year 2011/12 from 142 in the fiscal year 2007/08. This purports that the companies have shown much interest for trading their stock through secondary market, and for accentuating their capital, which ultimately builds up the capital market. On the other side, the NEPSE has delisted 5 companies in the fiscal year 2007/08 for not following the prescribed rules and regulations and for other purposes. There has been highest number of increment in the number of listed companies in the fiscal year 2010/11. The increment in the number of listed companies indicates good performance of the securities market.

4.1.10 Traded Companies to Listed Companies

This ratio depicts the percentage of number of companies traded out of the companies listed in each year. This ratio also delineates how many company remained active and inactive during the period. The traded company to listed company is presented in the Table 4.10.

Table 4.10

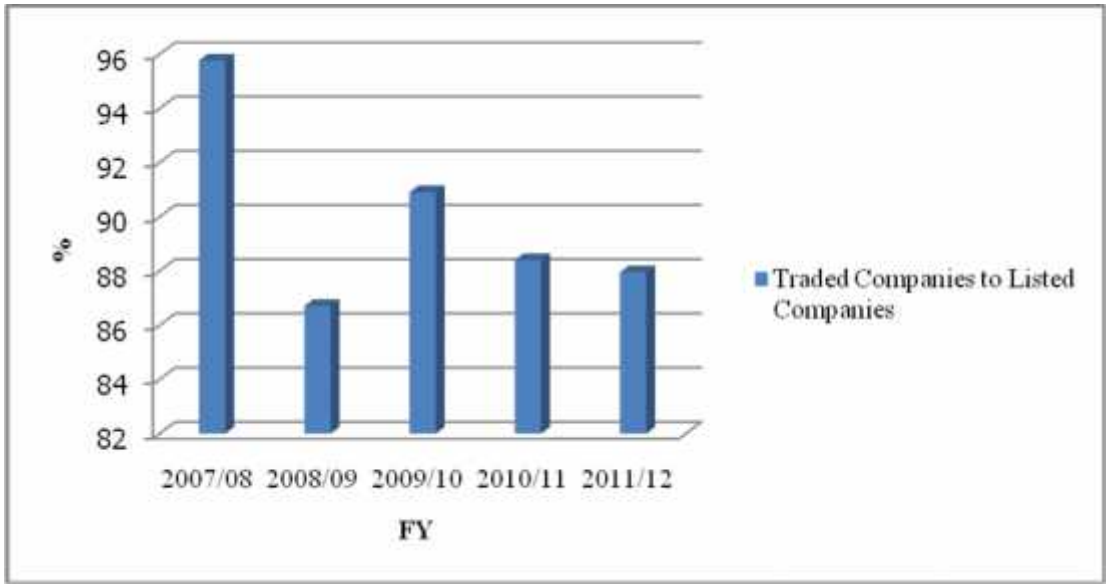
Traded Companies to Listed Companies

Fiscal Year	Companies Traded	Companies Listed	Ratio %
2007/08	136	142	95.77
2008/09	137	158	86.71
2009/10	160	176	90.91
2010/11	183	207	88.41
2011/12	190	216	87.96
Average			**89.95**

(Source: Annual Reports, 2007/08 to 2011/12, NEPSE & Appendix - II)

Figure 4.8

Traded Companies to Listed Companies



The table 4.10 shows that the traded companies to listed companies in the five year period. The table depicts that in each fiscal year the number of traded companies is

lower than the number of listed companies, purporting that some of the listed companies remain idle by not trading in each fiscal year. The table further manifests that the number of traded companies to the number of listed companies has been in fluctuating trend. The ratio has been computed to be 95.77% in the fiscal year 2007/08, and the ratio has decreased to 86.71% in the fiscal year 2008/09, has increased to 90.91% in the fiscal year 2009/10 and then has decreased to 88.41% in the fiscal year 2010/11 and finally has decreased to 87.96% in the fiscal year 2011/12.

The ratio shows that the fiscal year 2007/08 has remained the most satisfactory as highest proportion of the listed companies traded in the market. In average, only 89.95% of the listed companies in NEPSE have been traded within the five year period taken for study. NEPSE should set out new policy and techniques to effectively jerk out the untraded companies in transactions and thus increase the turnover.

4.1.11 Market Capitalization of Listed Companies

This indicates the total market value of the listed companies during the research period. The total market capitalization of listed companies and the percentage change in the five year period is presented in the Table 4.11.

Table 4.11

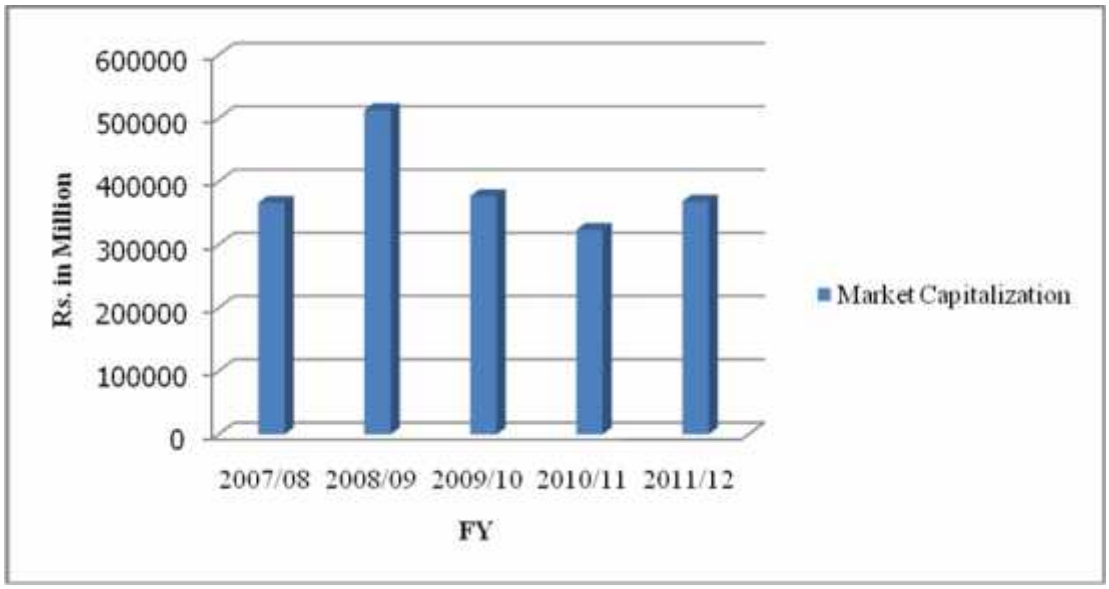
Market Capitalization of Listed Companies

Fiscal Year	Market Capitalization (In Million)	Percentage Change
2007/08	366247.56	96.59
2008/09	512939.07	40.05
2009/10	376871.37	-26.53
2010/11	323484.34	-14.17
2011/12	368262.13	13.84

(Source: Annual Reports, 2007/08 to 2011/12, NEPSE & Appendix - II)

Figure 4.9

Market Capitalization of Listed Companies



The table 4.11 shows that the market capitalization of the listed companies has followed increasing trend for the first three fiscal years and then has decreased in the fourth year, and finally increased in the last year. The market capitalization has ranged from Rs. 323484.34 million in the fiscal year 2010/11 to Rs. 512939.07 million in the fiscal year 2008/09. The market capitalization increased highest (96.59%) in the fiscal year 2007/08 and lowest (-26.53%) in the fiscal year 2009/10.

From the market capitalization trend, it can be assumed that the fluctuating trend in market capitalization is just the bad performance of securities market t. The fluctuating trend has indicated that either the outstanding securities has of listed companies has decreased or the stock price of the listed companies has decreased. However, as per the annual report both the listed securities and number of transactions have followed increasing trend. Thus, it can be certainly said that the price of the securities has turned down, indicating a problem for securities market enhancement.

4.1.12 Turnover to Market Capitalization

This ratio indicates the efficiency of NEPSE in effectively utilizing the market capital in converting to turnover. The total turnover to market capitalization in the five year period is presented in the Table 4.12.

Table 4.12

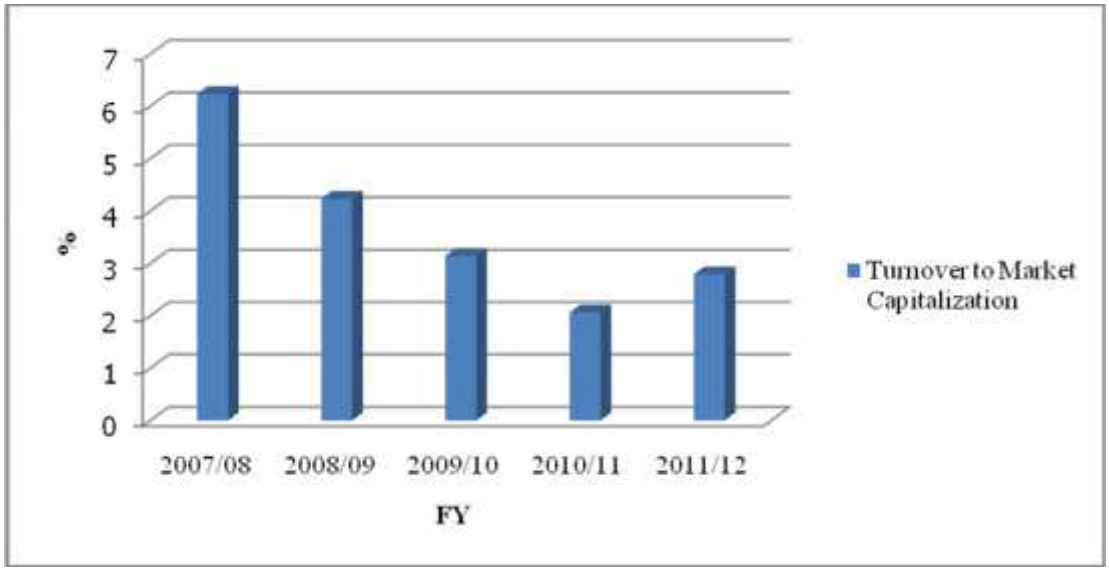
Turnover to Market Capitalization

Fiscal Year	Turnover	Market Capitalization	Ratio in %
2007/08	22820.76	366247.56	6.23
2008/09	21681.14	512939.07	4.23
2009/10	11851.11	376871.37	3.14
2010/11	6665.33	323484.34	2.06
2011/12	10279.29	368262.16	2.79
Mean			**3.69**
S.D.			**1.45**
C.V.			**39.30**

(Source: Annual Reports, 2007/08 to 2011/12, NEPSE & Appendix - II)

Figure 4.10

Turnover to Market Capitalization



The table 4.12 depicts the turnover to market capitalization of NEPSE. The table shows that the turnover to market capitalization of the listed companies ranged from 2.06% in the fiscal year 2010/11 to 6.23% in the fiscal year 2007/08. The turnover to market capitalization has decreased in most of the fiscal years, except in the fiscal year 2011/12 when it has been measured to be 2.79%. NEPSE utilized 3.69% of the market capitalization in average in generating turnover. The standard deviation and coefficient of variation of turnover to market capitalization are 1.45% and 39.30%

respectively. The coefficient of variation indicated that turnover to market capitalization of NEPSE fluctuated by 39.40% during the period taken for study.

4.1.13 Paid up Capital

To find out the increase/decrease in the total paid up capital of listed companies, the paid up capital in five fiscal year period is taken. The five year's paid up capital also clarifies the trend that the NEPSE paid up capital is following. The paid up capital of listed companies is presented in the Table 4.13.

Table 4.13

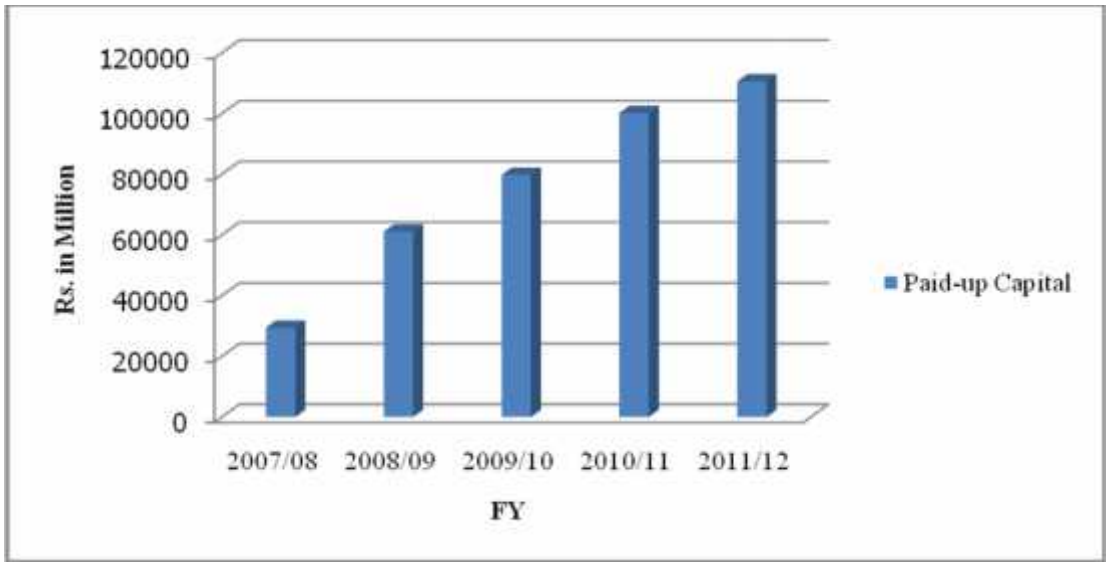
Paid Up Capital

Fiscal Year	Paid-up Capital (In Million)	Percentage Change
2007/08	29465	35.50
2008/09	61140	107.50
2009/10	79786	30.50
2010/11	100238	25.63
2011/12	110610	10.35

(Source: Annual Reports, 2007/08 to 2011/12, NEPSE & Appendix - II)

Figure 4.11

Paid Up Capital



The table 4.13 shows that the total paid up capital of companies listed in NEPSE is in increasing order. The paid up capital increased from Rs. 29465 million in the fiscal year 2007/08 to Rs. 110610 million in the fiscal year 2011/12. The paid up capital

increased highest to 107.50% in the fiscal year 2008/09 and lowest to 10.35% in the fiscal year 2011/12 compared to the paid up capital of previous year. The table shows that along with the increase in the number of companies listings in NEPSE, the paid-up capital of the listed companies have increased, showing good performance of securities market.

4.1.14 Turnover to Paid up Capital

This ratio measures the NEPSE's efficiency in optimally utilizing the paid up capital in generating sales. The turnover to paid up capital in the five fiscal year period is presented in the Table 4.14.

Table 4.14

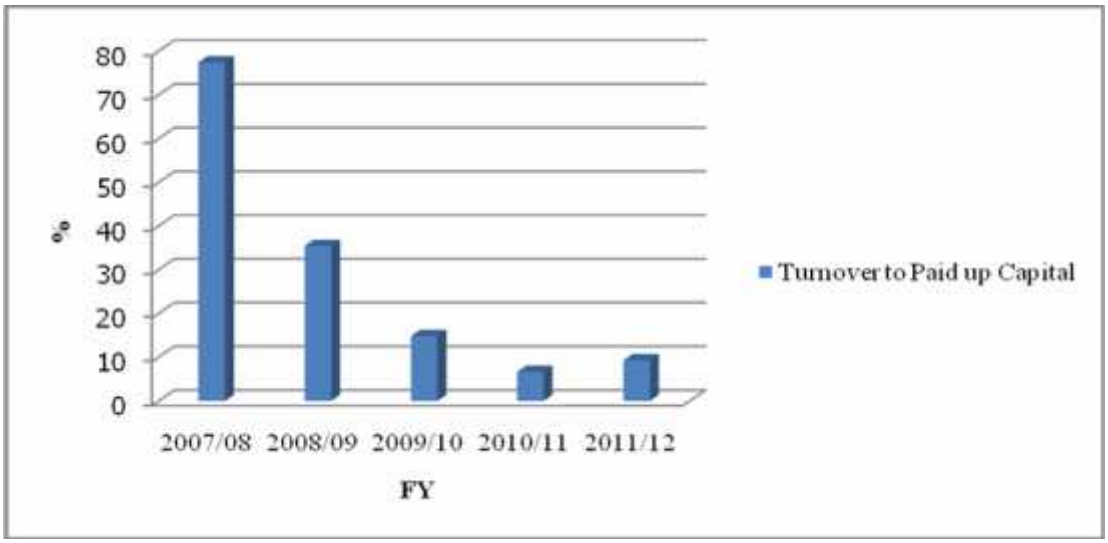
Turnover to Paid up Capital

Fiscal Year	Turnover	Paid up Capital	Ratio in %
2007/08	22820.76	29465	77.45
2008/09	21681.14	61140	35.46
2009/10	11851.11	79786	14.85
2010/11	6665.33	100238	6.65
2011/12	10279.29	110610	9.29
Mean			**28.74**
S.D.			**26.37**
C.V. %			**91.76**

(Source: Annual Reports, 2007/08 to 2011/12, NEPSE & Appendix - II)

Figure 4.12

Turnover to Paid up Capital



The table 4.14 shows that the turnover to paid up capital of NEPSE has ranged from 6.65% in the fiscal year 2010/11 to 77.45% in the fiscal year 2007/08. The ratio has been in decreasing trend in most of the periods. In average, 28.74% of the total up capital has been converted to sales. The coefficient of variation (91.76%) depicts high inconsistency in turnover to paid up capital. NEPSE should increase its market days to increase the turnover and finally utilize its paid up capital optimally in generating higher turnover.

4.1.15 Number of Transactions

To determine how many times the each share is transacted annually, the number of transactions is essential. Greater the number of transactions higher will be the turnover. Hence, the number of transactions in each fiscal year and the percentage change is presented in the Table 4.15.

Table 4.15

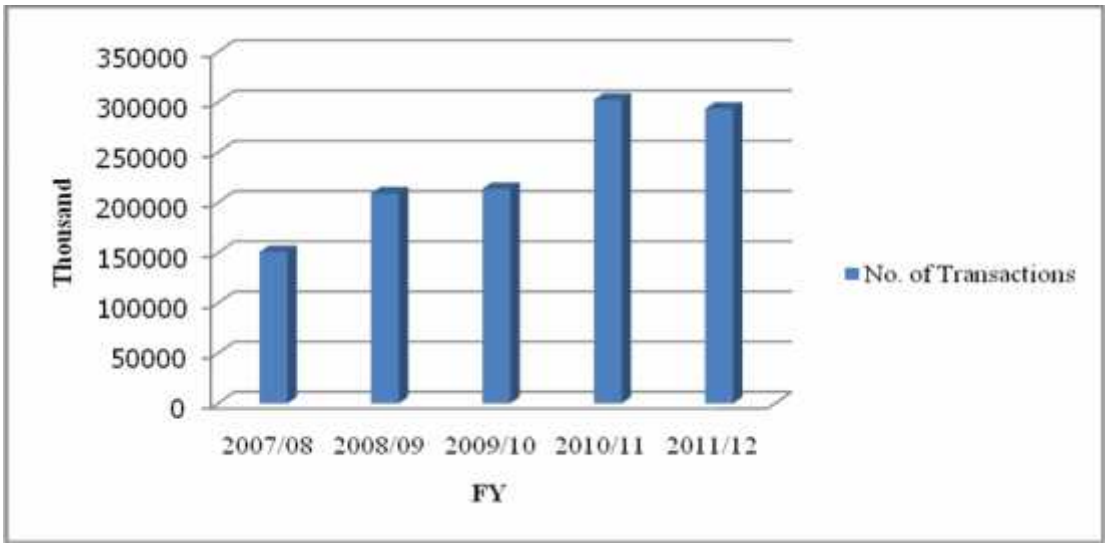
Number of Transactions

Fiscal Year	No. of Transactions	Percentage Change
2007/08	150800	25.13
2008/09	209091	38.65
2009/10	213733	2.22
2010/11	302364	41.47
2011/12	293489	-2.94
Average	**233895**	

(Source: Annual Reports, 2007/08 to 2011/12, NEPSE & Appendix - II)

Figure 4.13

Number of Transactions



The table 4.15 depicts that the number of transactions made during the five year period followed increasing trend for the first four fiscal years and then decreased in the last fiscal year. The number of transaction ranged from 150800 thousand in the fiscal year 2007/08 to 302364 thousand in the fiscal year 2010/11, however, this transaction has been recorded to be 293489 in the fiscal year 2011/12. The number of shares transaction increased highest (41.47%) in the fiscal year 2010/11 and lowest (-2.94%) in the fiscal year 2011/12 compared to the number of shares transactions of previous year. The average number of shares traded (30700) and the average number of shares transactions (233895) showed that the same share is transacted for 7.62 times in average. The greater the number of same share traded at multiple times has certainly showed good performance of the securities market.

4.1.16 Number of Listed Securities

Higher the number of listed securities indicates higher probability of share trading and the fast growth of stock market. The number of listed securities in NEPSE and the percentage change in such number is presented in the Table 4.16.

Table 4.16

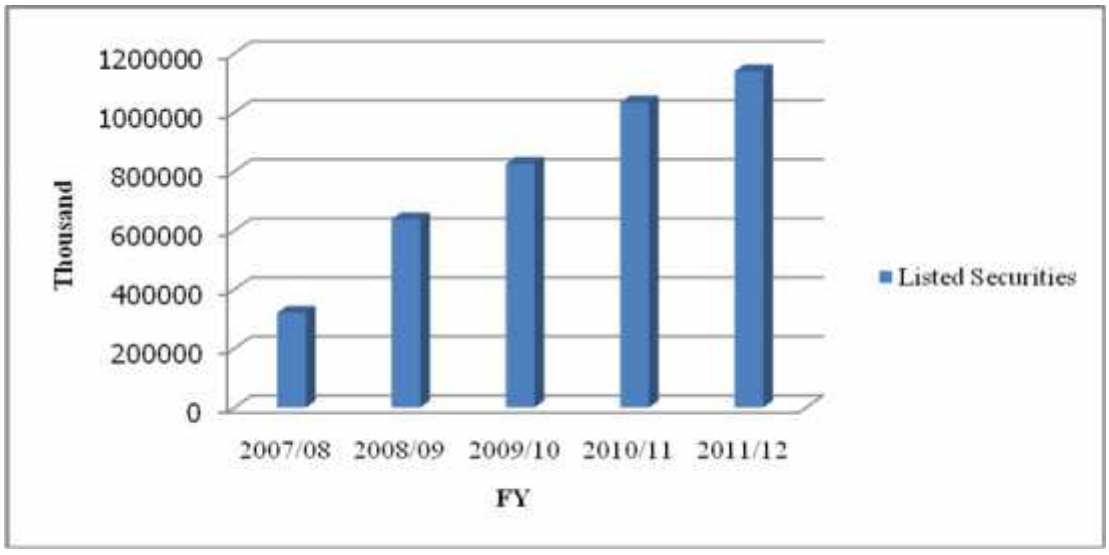
Number of Listed Securities

Fiscal Year	Listed Securities	Percentage Change
2007/08	321131	31.88
2008/09	637868	98.63
2009/10	826046	29.50
2010/11	1033674	25.14
2011/12	1140081	10.29

(Source: Annual Reports, 2007/08 to 2011/12, NEPSE & Appendix - II)

Figure 4.14

Number of Listed Securities



The table 4.16 depicts that the number of listed securities has increased during the five year period. The number of listed securities increased lowest by 10.29% in the fiscal year 2011/12 and highest by 98.63% in the fiscal year 2008/09 Also, the number of listed securities ranged from 321131 thousands in the fiscal year 2007/08 to 1140081 thousands in the fiscal year 2011/12. The table shows that with the increase in the number of listed companies, the number of listed securities in NEPSE has also increased, and these circumstances signal the better performance of the securities market.

4.2 Primary Data Analysis

A set of questionnaire related to the objectives of the study has been prepared for 25 respondents each. Some questionnaires were sent through email, and some through direct visit to the respondent. The researcher conducted questionnaire survey to 5 personnel from brokerage firms, 10 stock investors and 10 students.

4.2.1 Reasons for Securities Investment by Investors

To examine the reasons behind which the mass of investors are diverting toward the securities business, the brokerage companies are asked to express their view.

Table 4.17

Reasons for Securities Investment by Investors

Responses	**Respondents**			**Total**	
	Broker	**Investor**	**Student**	**No.**	**%**
Cash Dividend	1	3	2	6	24
Right Share	3	6	5	14	56
Interest on Bond	1	1	3	5	20
Utilization of Excess Fund	0	0	0	0	0
Total	**5**	**10**	**10**	**25**	**100**

(Source: Field Survey, 2013)

The table 4.17 delineates that 56% of the respondents, consisting of 3 brokers, 6 investors and 5 students, affirmed that investors are showing interest in securities business mostly to get the right share of the company. Further 24% of the respondents, including 1 broker, 3 investors and 2 students, said that with the hope of getting high cash dividend, the investors are investing their savings. And 6 of the respondents, 1 broker, 1 investor and 3 students, pointed out the interest on bond has motivated the investors to make investment in securities, while none of the investors have stated that the utilization of excess fund as the main reason behind the investment. Thus, it can be concluded that right share has been the main factor behind the investment in securities business.

4.2.2 Role of Political Fluctuation

Generally in most of the countries, the political situation has impact on the share price of the stock. To confirm whether political situation has effect on the stock price, the respondents are asked on this issue.

Table 4.18

Political Situation to Change the Share Price

Response	Respondents			Total	
	Broker	Investor	Student	No.	%
Increase in share trading volume	3	3	1	7	28
Decrease in share trading volume	1	2	3	6	24
Decrease in share price	1	5	4	10	40
Increase in share price	0	0	2	2	8
No impact	0	0	0	0	0
Total	**5**	**10**	**10**	**25**	**100**

(Source: Field Survey, 2013)

The table 4.18 shows that the national political environment is also responsible on the determination of share price because more political fluctuation cause the decrease in Share Price. It is revealed that 28% of the total respondents, including 3 brokers, 3 investors and 1 student, agree that political instability increases the share trading volume, 24% of the respondents, consisting of 1 broker, 2 investors and 3 students, assert decrease in share trading volume, 40% of the respondents, embracing 1 broker, 5 investors and 4 students, affirm decrease in share price, 8% of the respondents, including 2 students, have avowed increase in share price. Thus, on the basis of the majority it can be concluded that political instability causes decrease in share price.

4.2.3 Public Awareness on Securities Market Activities

To foster the stock exchange activities, awareness in public about the share related process is crux. Thus, to examine whether the investors are aware, the respondents are asked on this matter.

Table 4.19

Public Awareness on Securities Market Activities

Response	Respondents			Total	
	Broker	Investor	Student	No.	%
Yes	3	6	4	13	52
No	1	3	6	10	40
Can't Say	1	1	0	2	8
Total	**5**	**10**	**10**	**25**	**100**

(Source: Field Survey, 2013)

It has been revealed from the study that 52% of the respondents, which encompasses 3 brokers, 6 investors and 4 students, said that the investors are aware about the share market and the market phenomenon of the shares, 40% of the respondents, which includes 1 broker, 3 investors and 6 students, said that they are investing in share without proper knowledge about share. They said that they are investing in Share because they are influenced by some relatives or friends to earn profit. Rest 8% of the respondents, including 1 broker and 1 investor, wanted to say nothing about this. It would be worthwhile if NEPSE and SEBON organize programmes to mentor the public about the share related activities.

4.2.4 Satisfaction on Securities Trading System

To investigate the level of satisfaction on the present securities trading system in Nepal, the respondents were asked whether they are satisfied with the trading system.

Table 4.20

Satisfaction on Securities Trading System

Response	Responses			Total	
	Brokers	**Investors**	**Student**	**No.**	**%**
Yes	4	6	6	16	64
No	1	4	3	8	24
Don't Know	0	0	1	1	4
Total	**5**	**10**	**10**	**25**	**100**

(Source: Field Survey, 2013)

The table 4.20 has shown that out of 5 personnel of brokerage firms, 4 are satisfied with the existing trading system, however 1 is not satisfied with the trading system. Similarly, 6 investors are satisfied and 4 are not satisfied and 6 students are satisfied, 3 are not satisfied and 1 has remained neutral on the satisfaction of existing securities trading system. In overall, 64% of the respondents are satisfied, 24% are not satisfied and 4% remained neutral. As the majority of the respondents, 16 out of 25, are satisfied with the securities trading system, it can be considered that the appropriate trading system is followed in NEPSE and there is good prospect of security market in future as well.

4.2.5 Influencer of Security Price

The investors are attracted in the security of companies by analyzing various factors. Such factor creates rise or fall in the security price. To examine which factor most influence the investor on buying security of certain company and influences the security price of the listed company, the respondents were asked on this regard. The opinions obtained from them are presented in the following table.

Table 4.21

Influencer of Security Price

Response	Responses			Total	
	Brokers	**Investors**	**Student**	**No.**	**%**
Dividend	3	5	5	13	42
Rumor	0	0	2	2	8
Financial Condition	1	2	2	5	20
Management	1	3	1	5	20
Total	**5**	**10**	**10**	**25**	**100**

(Source: Field Survey, 2013)

The table 4.21 depicts that the majority of the respondents, 13 out of 25 (42%), have stated that dividend is the most influencing factor of security price. Similarly, 8%, 20% and 20% of the respondents affirmed that rumor, financial situation of the company and management of the company respectively are the influencing factors of the security price. Analyzing each category, the majority of each category; 3 out of 5 brokers, 5 out of 10 investors and 5 out of 10 students, have stated that dividend is the main factor that moves the security price. Hence, it can be concluded that dividend distribution pattern of the company is the major motive behind investing on the share of certain company and which raises or falls the security price.

4.2.6 Effects of Rules and Regulations of SEBON

To determine whether the rules and regulations of SEBON affect the security value, the respondents were asked on this matter. The answers achieved from them have been presented in the following table.

Table 4.22

Effects of SEBON

Response	Responses			Total	
	Brokers	**Investors**	**Student**	**No.**	**%**
Yes	3	5	3	11	44
No	2	2	5	9	36
Don't Know	0	3	2	5	20
Total	**5**	**10**	**10**	**25**	**100**

(Source: Field Survey, 2013)

The table 4.22 shows that the majority of the respondents, 11 out of 25, have stated that the rules and regulations of SEBON causes rise or fall on security value of the company. However, 36% respondents (9 out of 25) have affirmed that there is no relationship between rules and regulations of SEBON and the value of security. Likewise, 20% respondents (5 out of 25) have remained neutral on this matter. Looking each category, the majority of brokers, 3 out of 5, and investors, 5 out of 10, opined that the rules and regulations affect the security value. However, the majority of the students, 5 out of 10, have stated that stock value is not affected by such rules and regulations. Rather mixed opinion has been obtained in this matter. Hence, analyzing the overall majority, 44% respondents and the experience of respondents engaged in share transactions, it can be concluded that the rules and regulations of SEBON directly affect the security price.

4.2.7 Problems of Securities Trading System

Many factors are hindering the security trading in Nepal. To detect which factor barricades most in the trading system of Nepal, the respondents are asked to express their view. The responses obtained from them are presented in the following table.

Table 4.23

Problems of Stock Market Growth

Response	Responses			Total	
	Brokers	**Investors**	**Student**	**No.**	**%**
Small Capital Market	2	2	2	6	24
Growing Investors' Diffidence	1	5	6	12	48
Restriction on Foreign Investors	1	0	0	1	4
Insufficient Rules and Regulations	1	3	2	6	24
Total	**5**	**10**	**10**	**25**	**100**

(Source: Field Survey, 2013)

The table 4.23 shows that growing investors' diffidence is the major problem that is barricading the security trading system in Nepal. About 48% of the total respondents, 1 broker, 5 investors and 6 students, have said that the investor's diffidence is the major problem that is hindering the securities market growth. Similarly, 24% of the total respondents, including 2 brokers, 2 investors and 2 students, have opined that the small capital market is the major problem of the securities market. In addition, 24% of the respondents, consisting of 1 broker, 3 investors and 2 students, have opined that the insufficient rules and regulation is the major barricade behind the prosperous of the securities market. Further, 4% of the respondents, which includes 1 broker, have affirmed that restriction on foreign investors on the securities market is the major problem of the securities market growth. Thus, on the basis of the majority it can be indicated that the lack of investor's confidence is the major hindrance in securities trading system of Nepal. Besides this, small capital market is also the next problem of trading system.

4.2.8 Adequacy of Present Laws & Policies

Appropriate laws and policies are essential to smoothly operate the share transaction. To examine whether the present laws and policies adequate for transacting the share, the respondents are asked to opine their views.

Table 4.24

Adequacy of Present Laws & Policies

Response	Respondents			Total	
	Broker	Investor	Student	No.	%
Yes	4	4	4	12	48
No	1	5	5	11	44
Don't Know	0	1	1	2	8
Total	**5**	**10**	**10**	**25**	**100**

(Source: Field Survey, 2013)

The table 4.24 shows that 48% of the respondents, 4 brokers, 4 investors and 4 students, feel that the prevailing laws and policies regarding buying and selling of share are perfect. However, 44%, of the respondents, 1 broker, 5 investors, and 5 students, have said that the present laws and policies are not perfect to regulate the share market proficiently. And 8% of the respondents, including 1 investor and 1 student, have said they don't know anything about the laws and policies. It will be better if SEBON predicts the forthcoming problems and formulates the rules and regulations to avoid such problem in future.

4.2.9 Investor's Achievement on Long Processing Cycle

The essence of the settlement issue can be summed up as nothing good can happen between trade date and settlement, only bad things can happen. And the longer the settlement cycle, the greater will be the risk.

Table 4.25

Investor's Achievement on Long Processing Cycle

Responses	Respondents			Total	
	Broker	Investor	Student	No.	%
Investors lose money	2	5	4	11	44
Investors gain money	3	3	5	11	44
No gain no loss	0	2	1	3	12
Total	**5**	**10**	**10**	**25**	**100**

(Source: Field Survey, 2013)

The table 4.25 shows that 44% of the respondents, 2 brokers, 5 investors and 4 students, said the investors bear loss, 44% of the respondents, 3 brokers, 3 investors and 5 students, said that investor gains and 12%, 2 investors and 1 student, said that investor neither gains nor losses. Since, various settlement risks such as replacement risk, principal risk and liquidity risk can arouse by lengthening the securities settlement period, there is uncertainty whether investor gains, loses or remains indifferent.

4.2.10 Existence of Matching

If a same broker gets both selling and buying order, then matching can occur. The broker may decrease the price if he is closer to buyer and may increase the price if he is closer to seller to match the order. However, this kind of activity has been prohibited. To examine to what extent the matching exists in the brokerage industry, the respondents were asked on this concern.

Table 4.26

Existence of Matching

Responses	Respondents			Total	
	Broker	Investor	Student	No.	%
High	0	2	3	5	20
Average	0	5	6	11	44
Low	5	3	1	9	36
Total	**5**	**10**	**10**	**25**	**100**

(Source: Field Survey, 2013)

The table 4.26 delineates the existence of matching, an unhealthy method of manipulating the market, in the securities business. The table enumerates that 44% of the respondents, including 5 investors and 6 students, stated that the matching, to raise the price of the securities unnaturally, is in average level. Similarly, 36% of the respondents, including 5 brokers, 3 investors and 1 students, said that the involvement of brokerage company on matching the securities price is in low, and also 20% of the respondents, including 2 investors and 3 students, said that there is high degree of practice of matching among the brokerage company. Thus it can be concluded that the practice of matching to manipulate the securities price in brokerage company is in average level.

4.3 Major Findings of the Study

The following major findings have been drawn from the study;

Findings from Secondary Data Analysis

- The NEPSE index has started to persistently decrease from the fiscal year 2007/08 till the fiscal year 2010/11. The NEPSE index started from 963.36 point in the fiscal year 2007/08 and ended with 389.74 point in the fiscal year 2011/12. It increased maximally by 40.85% in the fiscal year 2007/08 compared to the index of previous year. The highest NEPSE index has been recorded to be 963.36 point in the fiscal year 2007/08.
- Alike the NEPSE index, the annual turnover of the securities market has also decreased in the first four fiscal years, and then increased in the last fiscal year. The annual turnover of NEPSE has ranged from Rs. 6665.33 million in the fiscal year 2007/08 to Rs. 22820.70 million in the fiscal year 2007/08. NEPSE made average sales of Rs. 14659.53 million in the five year period.
- Commercial bank covers the major portion of NEPSE turnover both in the no. of shares traded and the amount generated from the sales. During the five year periods, 30700.76 thousand shares were traded in average.
- The number of company traded and listed companies are increasing in every year. The delisted companies are, however, irregular. The NEPSE delisted 5

companies in the fiscal year 2007/08. Moreover, the market days of NEPSE has fluctuated during the observed periods. The market day is maximum, 234 days, in the fiscal year 2008/09. Also, NEPSE made an average daily turnover of Rs. 63.06 million in the five year period.

- In average, 89.95% of the listed companies were traded in the five year period. Likewise, NEPSE converted 3.69% of total market capitalization into turnover and 28.75% of total paid up capital in turnover in average.
- Similarly the number of listed securities has also increased from 1140081 in the fiscal year 2011/12 from 321131 in the fiscal year 2007/08.

Findings from Primary Data Analysis

- 56% of the respondents said that they invest share to gain right share, however dividend is the most influencing factor that fluctuates share price. Also, 40% of the respondents stated that the political fluctuation of the country leads to the decrease in share prices.
- Moreover, 52% of the respondents said that the investors are not fully aware about the stock market activities.
- 64% of the respondents said that the investors are satisfied with the existing growth trend of stock. In addition, 44% of the respondents are of the opinion that the rules and regulations of SEBON affect the value of stock.
- Similarly, 48% of the respondents have said that the growing diffidence on investors is the major problem of stock market hindering the growth.
- 48% of the respondents have stated that the present laws and policies related to the securities market are adequate for smooth operation of the market. Moreover, 44% of the respondents said that the event of matching is at average level.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The securities market seems to be in the news every day, yet many people do not understand what it really is or how it works. Indeed, why should one even care if there seems to be a problem with the markets? How does the value of securities affect one, if one is not even sure what securities are? The term "securities market" is somewhat amorphous, but embraces the concept of a system that allows trading, or buying and selling, company securities. Although the terms are often used interchangeably, a stock exchange is actually different, and is the means by which buyers and sellers are brought together to trade shares and securities. Securities are simply financial shares in a company. After an initial issue of shares, which a company sells to raise capital for its operation, the company plays no further part in buying and selling the stocks, even though the company's actions can affect the market for its shares, and thus the value. Instead, the stocks are bought and sold between investment groups and individuals, and at a price that both buyer and seller agree to. It is the function of the stock exchange to facilitate the trading in shares and similar "financial instruments", as they are called.

The reason that there has been increasing interest in the securities market in recent years is that the marketplace has opened up to the individual investor. While people may have held shares in the past, they were for the long term, and not often traded or even thought about. Of course, one has always been able to call one’s broker, and put in one’s order, but this kind of practice was mainly for those who were already investment minded. Whatever, securities market if operated without influences can be a good source for hug capital accumulation, and these capitals can be invested for the economic development of nation. There are many securities markets in the world. It cannot be said that these securities markets are operating without any interruption. Even the world best stock market like NYSE, DJIA, and others face problem in their operation. In Nepal, NEPSE is the only one stock exchange, and this stock exchange is also not far from the problems. Various problems have seemed to have affected the performance of the Nepalese stock market. Considering these facts, the present study

makes analysis within the periphery of the performance of the securities market. And for this, the study analyzes both the secondary and primary data by using various statistical and financial tools.

5.2 Conclusion

Various problems have hindered the NEPSE for operating in its full capacity. The study assumes that the securities market performance of NEPSE would be much worse due to decreasing trend of the index in the recent periods, the slowdown of the turnover, the decrease in the number of traded shares, market days, and the price of securities, if other things remained unchanged. In contrast, the still existed growing interest of the investors in making investment in the share, the increase in the number of both the traded companies and listed companies, the paid up capital of listed companies, listed securities, the transactions have been concluded to be the signals for the good performance of securities market. Thus, it can be concluded that although the performance of securities market is not so good, there are still the chances for the securities market to make astonishing growth, if it recognizes its positive points for development.

The majority of the investors and brokers have shown much dissatisfaction, narrowing the possibility for the expected growth of the securities market. Moreover, the growing diffidence among the investors and the fact of small capital market has been determined as the major problems for securities market development. The malpractices conducted by some of the securities related parties have also been the major problem for stock market development. Finally, it can be said that the securities market is not doing well, there are various problems hindering for the full expected performance of the securities market.

5.3 Recommendations

The following recommendations have been provided for the enhancement of the securities market performance;

- Many of the companies have not been listed on the NEPSE. Thus, NEPSE should be the facilitator for enlisting the remaining most of the companies and make transactions.
- In most of the cases, even the rumor has played for bringing the cavalcade of the investors to certain companies and making them to lose their money. The investors from their part should try to diagnose such rumor, and the NEPSE should also show quick response for revealing the truth of such rumor.
- A concise and sufficient law, either new or the amended one, for preventing the malpractices and punishing the meddler is expected from the securities exchange board of Nepal.
- Despite being listed, some of the companies have seemed to remain idle by not transacting in some of the years. There should be either the provision for making penalties to these companies or the plan for insisting these companies to transact.
- It would be better if NEPSE also enlist its share in its listings, so that the investors could make investment on it. For this, the NEPSE should be either privatized, or be run on public-private ownership.
- For making the securities market much developed, the other relative parties such as the brokers, market makers and even the listed companies should be much responsible.
- The securities market should make aware to the investors on how the stock price meddlers act for their self interest. Rather a separate informative section either on the NEPSE floor or on the homepage is expected from NEPSE or SEBON for pacing up the performance of the stock market.
- If possible, the clearing, trading and settlement periods of stock transaction should be reduced so that the investors have not to bear high transaction cost.

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Websites:

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APPENDIX – I

QUESTIONNAIRE

Dear Sir/Madam,

As per the partial fulfillment for the Degree of Master of Business Studies, I am preparing a thesis related to the securities market performance. To enhance the study, a questionnaire has been prepared for primary data collection. It would be great insightful if you fulfill this questionnaire. Thus, I humbly request you to express your opinion by answering this questionnaire.

Name: …….....

Status: Investor/Brokerage Services/Student (Please Tick One)

Please tick the appropriate answers.

1. What could be main reason behind the investment in securities market?
    a. Receive Cash Dividend
    b. Receive Right Share
    c. Get Interest on Bond
    d. Utilization of Surplus

2. What is the impact of political change in the stock price?
    a. Increase in share trading volume
    b. Decrease in share trading volume
    c. Decrease in share price
    d. Increase in share price
    e. No impact

3. Do you think that investors are fully aware about the stock market practices in Nepal?
    a. Yes b. No c. Can't Say

4. Are you satisfied with the securities trading system of Nepal?
    a. Yes b. No c. Don't Know

5. In your opinion which of the following is the main influencer of stock price?

a. Dividend
b. Rumor
c. Financial Situation of the Company
d. Management of the Company

6. Does SEBON rules and regulation affect the value of stock?

a. Yes b. No c. Don’t Know

7. In your opinion what are the problems of securities market?

a. Small Capital Market
b. Growing Investor’s Diffidence
c. Restriction on Foreign Investors
d. Insufficient Rules and Regulations

8. In your experience the prevailing laws and policies regarding the buying and selling of stock are adequate?

a. Yes b. No c. Don't know

9. What do you think about long stock processing cycle towards investors?

a. Investors lose their money.
b. Investors gain from their money.
c. Investors are indifferent.

10. To what extent, is the matching exists to manipulate the securities prices?

a. High b. Average c. Low

Thank You.

APPENDIX - II

Nepal Stock Exchange Limited

Comparative Summary Sheet of Transactions with Previous Years

16 July 2008- 15 July 2009

F/Y 2065/66

SN	Particulars	FY 2006/07 (2063/64)		FY 2007/08 (2064/65)		Change	FY 2008/09 (2065/66)		Change
		Share units ('000)	Amount Rs. in million	Share units ('000)	Amount Rs. in million	in %	Share units ('000)	Amount Rs. in million	in %
1	**Turnover**	**18147.25**	**8360.07**	**28599.77**	**22820.76**	**172.97**	**30547.16**	**21681.14**	**-4.99**
A	Commercial Banks	9090.95	5855.77	11241.41	13822.14	**136.04**	13301.43	12406.45	**-10.24**
B	Finance	2343.46	642.64	3094.26	2307.53	**259.07**	3552.01	2615.40	**13.34**
C	Hotel	81.70	7.07	158.07	27.67	**291.37**	95.89	18.69	**-32.45**
D	Manufacturing & Processing	82.92	24.12	1655.08	343.44	**1323.88**	95.12	26.08	**-92.41**
E	Other	14.24	0.54	7.70	0.29	**-46**	630.82	494.39	**170379**
F	Hydro Power	4460.27	1258.01	7251.21	3199.94	**154.37**	3612.12	890.30	**-72.18**
G	Trading	11.47	10.42	14.97	33.65	**222.94**	14.65	33.49	**-0.48**
H	Insurance	627.61	204.97	433.26	264.86	**29.22**	418.49	212.80	**-19.66**
I	Development Banking	1360.53	355.73	2534.88	1981.05	**456.90**	3631.81	2740.36	**38.33**
J	Mutual Fund	74.10	0.80	319.10	6.09	**661.25**	758.50	22.40	**267.82**
K	Preferred Stock	-	-	101.42	81.15		74.43	74.05	**-8.75**
L	Pramotor Share	-	-	1788.41	752.95		4361.90	2146.73	**185.11**
2	**Market days**	**232**		**235**		**1.29**	**234**		**-0.43**
3	**Average daily turnover**	**78.22**	**36.03**	**121.70**	**97.11**	**169.49**	**130.54**	**92.65**	**-4.59**
4	**Number of transactions**	**120510**		**150800**		**25.13**	**209091**		**38.65**
5	**Number of Scrips Traded**	**116**		**136**		**17.24**	**170**		**25.00**
6	**Number of Companies Listed**	**135**		**142**		**5.19**	**149**		**4.93**
7	**Number of Delisted Companies**	**12**		**5**			**0**		
8	**Total Paid Up Value of Listed Share**		**21746**		**29465**	**35.50**		**61140**	**107.50**
9	**Number of Listed Securities**	**243504**		**321131**		**31.88**	**637868**		**98.63**
10	**Market Capitalization**		**186301.28**		**366247.56**	**96.59**		**512939.07**	**40.05**
11	**NEPSE Index at the end of Year**								
-	High		683.95		1064.09	**55.58**		1175.38	**10.46**
-	Low		355.60		677.98	**90.66**		609.46	**-10.11**
-	Closing		683.95		963.36	**40.85**		749.10	**-22.24**
12	**Market Capitalization of Group -A**		**150664.76**		**306228.21**			**341841.16**	**11.63**
13	**Total Paid Up capital of Group -A**		**11816**		**17885**	**51.36**		**27860**	**55.77**
14	**Number of Listed Securities Group -A**	**10517**		**179037**		**1602.36**	**27840**		**-84.45**
15	**Sensitive Index**								
-	High		175.08		275.21			302.65	**9.97**
-	Low		98.21		172.19			157.51	**-8.53**
-	Closing		175.08		253.72			198.77	**-21.66**
16	**NEPSE Float Index**								
	High		-		-			95.71	
	Low		-		-			59.83	
	Closing		-		-			70.85	
17	**Bond Market (Listed)**								
i	Government Bond	33000.00	3300.00	61000.00	6100.00	**84.85**	151500.00	15150.00	**148.36**
ii	Corporate Bond	650.00	650.00	1725.00	1725.00	**165.38**	5335.00	5335.00	**209.28**
	Note:- US $ 1 =Rs. 78.21 (16 Jul 2009)								

Summary Sheet of First Twelve Month Transactions

Mid July 2011 - Mid July 2012

F/Y 2068/69

	Particulars	Mid Jul 2009-Mid Jul 2010		Mid Jul 2010-Mid Jul 2011		Change	Mid Jul 2011-Mid Jul 2012		Change
		2066/67		2067/68			2068/69		
		Share units	Amount	Share units	Amount	in	Share units	Amount	in
		('000)	Rs. in million	('000)	Rs. in million	%	('000)	Rs. in million	%
1	**Turnover**	**26122.82**	**11787.38**	**26240.39**	**6665.33**	**-43.45**	**41885.40**	**10279.29**	**54.22**
A	Commercial Bank	9680.62	7196.24	8,534.28	3,431.82	**-52.31**	15415.74	5615.37	**63.63**
B	Finance	3265.92	1263.94	3,591.18	630.69	**-50.10**	2196.89	279.85	**-55.63**
C	Hotel	50.28	10.15	1,584.59	151.93	**1396.85**	1387.77	185.43	**22.05**
D	Manufacturing & Processing	360.68	37.74	1,128.51	363.06	**862.00**	1132.46	811.25	**123.45**
E	Other	423.13	217.83	285.18	122.67	**-43.69**	455.92	204.81	**66.96**
F	Hydro Power	4776.70	752.45	1,210.63	343	**-54.42**	7127.66	1243.38	**262.50**
G	Trading	12.01	35.43	37.77	27.53	**-22.30**	9.82	22.91	**-16.78**
H	Insurance	629.90	183.47	1,590.58	377.15	**105.56**	1521.54	334.28	**-11.37**
I	Development Bank	3535.07	1323.53	5,158.66	813.24	**-38.56**	5419.46	647.40	**-20.39**
J	Mutual Fund	187.50	5.21	459.05	14.68	**181.77**	55.20	1.81	**-87.67**
K	Preffered Stock	29.46	26.39	20.48	15.99	**-39.41**	34.05	30.10	**88.24**
L	Promotor Share	3171.55	735.00	1,639.48	270.57	**-63.19**	7122.39	896.20	**231.23**
	Corporate Bond	0.00	0.00	0.00	0.00		6.50	6.50	
	Government Bond	0.00	0.00	1000.00	103.00				
2	**Market Days**	**225**		**231**			**232**		**0.43**
3	**Average Daily Turnover**	**116.10**	**52.39**	**113.59**	**28.85**		**180.54**	**44.31**	**53.56**
4	**Number of Transactions**	**213733**		**302364**		**41.47**	**293489**		**-2.94**
5	**Number of Scrips Traded**	**198**		**222**			**230**		**3.60**
7	**Number of Companies Listed**	**176**		**207**			**216**		**4.35**
8	**Total Paid Up Value of Listed Shares**		**79786**		**100238**	**25.63**		**110610**	**10.35**
9	**Total Number of Listed Securities**	**826046**		**1033674**		**25.14**	**1140081**		**10.29**
10	**Market Capitalization**		**376871.37**		**323484.34**	**-14.17**		**368262.13**	**13.84**
	NEPSE Index								
-	High		739.02		472.29	**-36.09**		432.83	**-8.36**
-	Low		405.45		292.31	**-27.90**		298.90	**2.25**
-	Closing		477.73		362.85	**-24.05**		389.74	**7.41**
11	**Market Capitalization of Group -A**		**303886.04**		**281125.92**	**-7.49**		**321120.95**	**14.23**
12	**Total Paid Up Value of Group - A**		**39670**		**77027**	**94.17**		**87216**	**13.23**
13	**NEPSE Sensitive Index**								
-	High		197.77		114.83	**-41.94**		110.34	**-3.91**
-	Low		98.90		71.69	**-27.51**		74.01	**3.24**
-	Closing		116.14		89.44	**-22.99**		98.77	**10.43**
	Note:- US $ 1 =Rs. 88.52 (16 Jul 2012)								

Table 1