CHAPTER I

INTRODUCTION

1.1 General Background

Capital markets are financial markets for the buying and selling of long-term debt- or equity-backed securities. These markets channel the wealth of savers to those who can put it to long-term productive use, such as companies or governments making long-term investments. In the capitalist system, financial markets play a central role in the allocation of capital resources. The strong capital market has been the encouraging factor for the growth and expansion of banking and financial system. The development of capital market has shifted the trend of investing in a business venture with the limited individual person's fund to investing in big business venture with the collective fund of investor. Accumulation of fund from the small or big investors in the form of equity or debt capital by the business organization has developed the primary and secondary market, which are the important component for making investor easy to investment activities in this global economy.

The capital, it is most important resources for development of country, which is raised by so many investment companies, personal investor is called finance. Investment in financial assets like common stock, bond, is called long term capital like as t-bill is called short term capital are known as financial investment. A financial asset represents a financial claim. It is an asset that is usually documents by some forms of legal representation. Although tangible certificates of ownership typically represent financial assets, the financial asset itself is intangible. They are also called securities. Financial asset themselves do not directly possess productive capacity. Financial assets can be viewed as claims to the income generated by real assets. In this context, the value of financial assets is derived firm the value of the financial assets is derived from the value of the underlying real assets, financial assets are also called capital in the business organization. The existence of bank and other non bank financial institution in a formal and organized way is collectively known as the financial system of a country. That entire functional behaviour of all the players involved is known as financial system which is most important for development for capital market. Capital is assets very much important for development of all kind of business and non business activities. We stated earlier that real assets determine the wealth

of an economic. While financial assets represents on real assets. Financial assets and the market in which they trade play several crucial roles in developed economies. Financial assets allow us to make the most of the economy's real assets.

A key division within the capital markets is between the primary markets and secondary markets. In primary markets, new stock or bond issues are sold to investors, often via a mechanism known as underwriting. The main entities seeking to raise long-term funds on the primary capital markets are governments and business companies. Governments tend to issue only bonds, whereas companies often issue either equity or bonds. The main entities purchasing the bonds or stock include pension funds, hedge funds, sovereign wealth funds, and less commonly wealthy individuals and investment banks trading on their own behalf. In the secondary markets, existing securities are sold and bought among investors or traders, usually on a securities exchange, over-the-counter, or elsewhere. The existence of secondary markets increases the willingness of investors in primary markets, as they know they are likely to be able to swiftly cash out their investments if the need arises. A second important division falls between the stock markets for equity securities, also known as shares, where investors acquire ownership of companies and the bond markets.

Money markets are sometimes defined as organized and unorganized money markets. The organized or formal money markets provide an institutional mechanism for the transactions of short term securities and commercial banks, finance companies and other saving/credit unions are the players in the money market. Local merchants, indigenous bankers and relatives come under the informal or the unorganized sector. Capital Markets also play a vital role in the national economy. Capital market facilitates the allocation of funds between the savers and borrowers. This allocation will be optimum if the capital market has efficient pricing mechanism. If the capital market is efficient, the current share price of the company fully reflect the available information and there will be no question of the share price being over or under priced. Capital market is concerned with the long term finance. The funds collected in the market are raised and traded by long term financial instruments such as equities and bonds. The Money markets are used for the raising of short term finance, sometimes for loans that are expected to be paid back as early. Whereas the capital markets are used for the raising of long term finance, such as the purchase of shares or for loans that are not expected to be fully paid back for at least a year. Together, money markets and capital markets form the financial markets as the term

is narrowly understood. The capital market is concerned with long term finance .In the widest sense it consist of a series of channels through which the saving of the community are made available for industrial and commercial enterprises and public authorities.

Stock Exchange is a market for long term capital where both new capitals can be raised by companies and where existing shares can also be bought and sold. By providing a second hand market for investors to sell their shares, it facilitates the raising of new capital on the new issues market. The stock exchange also provides a market for government loans and securities, and increasingly involved in the buying and selling of securities in the overseas companies. On the market, the main operators are the market makers who trade in a group of share, and the stock brokers who act as agents for their clients, who are the investors who are actually buying and selling shares. New York Stock Exchange London Stock Exchange, Tokyo Stock Exchange, Paris Stock Exchange, Frank fruit Exchange , Toronto Stock Exchange are the biggest stock Exchanges of the world. Mumbai Stock Exchange is the largest stock and Nepal Stock Exchange is the only organized stock exchange of Nepal.

The history of the capital market in modern market or financial system of Nepal began in 1937 with the establishment of Nepal bank limited as the first commercial bank of the country. It was establish as a semi private commercial bank under Nepal bank act. After that in 1956 Nepal Rastrya bank was established under the NRB act 1955. In the history of capital market to provide credit to industrialists and other entrepreneurs; the government established the Nepal Development Corporation (NIDC) in 1959 under the Nepal industrial Development Corporation act 1959. In the history of Nepalese capital market that was initial phase. After that for organized capital market the securities marketing centre, which was established in 1977, was converted into the Nepal stock exchange limited (NEPSE) in 1992 to develop capital market in Nepal.

1.2 Securities Board of Nepal (SEBON)

Securities Broad of Nepal was establish by the government of Nepal on June 7, 1993 as an apex regulator of securities Market in Nepal. It has been regulating the market under the Securities Act, 2006. The function, the governing Broad of SEBON is composed of seven members including one full time chairmen 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 Institute of Chartered Accounting of Nepal, representative from Federation of Nepal

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.

There are seven department and sixteen sections in the organization of SEBON. Under the Management Department, there are two divisions namely Human Resources Section and Finance section. There are also four section under the planning and Development Department namely Research section, Training section, Information Technology section and International Affairs section. There are also two sections under the Corporate Finance Department, namely Public issue section and Collective Investment Scheme section. Likewise, under the regulation department, there are two section namely Stock Exchange Regulation section and Market Intermediaries Regulation section. There are also four sections under the Surveillance Department, Stock Exchange Surveillance Section, Market Intermediaries Surveillance Section, Trading Surveillance section and Corporate Surveillance section. Finally, under Legal Department, there are two sections Research and Investigation section and Enforcement section. The major financial sources of SEBON are the government grant, transaction fee from the stock exchange and registration fee of corporate securities. Other financing sources include registration and registration and renewal stock exchange and market and market intermediaries and the income from mobilization of its revolving fund.

The objectives of the Board are to promote and protect the interest of the investors by regulating the issuance, sale and distribution of securities and purchase, sale or exchange of securities, to supervise, look after and monitor the activities of the stock exchange and 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 function, duties and powers of SEBON as per the Act are as follows.

- To offer advice to Government on matters connected with the development of the capital Market.
- To register the securities of corporate bodies established with the authority to make a public issue of its securities.
- To regulate and systematize the issue, transfer, sale and exchange of registered securities.
- To give permission to operate a stock exchange to any corporate body desirous of doing so, subject to this act or the rules and bye-rules framed under tins Act.

- To supervise and monitor the functions and activities of stock exchange.

- To inspect whether of not any stock exchange is executing its function and activities in accordance with this act or the rules and bye rules farmed under this act, and to suspend or cancel the license of any stock exchange which is not found to be doing so.

- To issue licence to conduct the business of dealing in subject to this act, or the rules and the bye-rule framed under this act to companies or institution desirous of conducting the business of dealing in securities,

- To supervise and monitor the function and activities of securities dealers.

- To grant permission to operate collective investment schemes and investment fund programs and to supervise and monitor them.

- To approve the concerning transaction in securities framed by stock exchange and institution engaged in the business of dealing in securities, and for the purpose of making necessary provisions concerning the development of the capital market and protection the interest of investors investing in securities, issue order to have necessary alterations made in such bye-rules of stock exchange and institutions engaged in the business of according.

- To systematize the task of clearing accounts relate to transactions in securities.

- To supervise whether or not security dealers are behaving in the manner prescribed in this act or the rules and the bye-rules framed under this act, while conducting business of dealing in securities, and suspend the license to conduct the business of dealing in securities in case any securities dealer is not found to be behaving accordingly.

- To make necessary arrangement to regulate the volume of securities transacted and the procedure of conducting such transactions in order to ensure the promotion, development and clean operation of stock exchanges.

- To review or make arrangement to prevenat insider trading of any other offenses relating to transaction in securities in order to protect the investor in securities.

- To review or make arrangement for reviewing the financial statement submitted by the corporate bodies issuing securities and security dealers, and issue directives deemed necessary in that connection to the concerned corporate body.

- To systematize and make transparent the act of acquiring the ownership of a company or order to supervise and regulate matters concerning securities or companies.
- To discharge or make arrangements for discharging such other function as are necessary for the development and the capital market.

1.3 Nepal Stock Exchange (NEPSP)

The Nepal stock Exchange Limited popularly called NEPSE is the only Stock Exchange. It is located in Singha Durbar Plaza Kathmandu Nepal. On November 19, 2011 the equity market capitalization of the companies listed on NEPSE was approximately $3674.64 million. The basic objective of NEPSE is to import 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 13 January 1994. As of November 2010, the number of listed companies are 266, which includes Commercial Banks, Hydro power Companies, Insurance Companies and Finance Companies among others. The NEPSE Index is primary all equity market index of NEPSE.

Its main objective is to provide essential policy direction for the systematic and regular exchange of securities and develop competitive stock exchange market by protecting and promoting the interest of the investors. Nepal Stock Exchange is a trading (operational) institution, whereas Securities Board is the regulatory body. Before the Board came into existence, the Securities Exchange Centre carried on both the functions. Though any corporate body desirous to carry out the transaction of securities can submit application to the Board for obtaining the license, till now Nepal Stock Exchange alone is representing the securities market in the country.

History

The history of securities market began with the floatation of shares by Biratnagar Jute Mills 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 other significant development relating to capital market. Securities Exchange Centre was established with an objective of facilitation and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital market 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 Centre into Nepal Stock Exchange in 1993.

Listing of securities

One of the major components of the capital market is the secondary market for long-term securities. Listing is one of the regular and continuous functions of the NEPSE. Under the securities Act 1983 listing of securities of a public limited company is mandatory. The transaction of the securities con not be made without listing. So it is the process of registration of securities to make them eligible for trading. The securities that are already sold through primary market are bought and sold on behalf of their clients.

Operation trading Floor

As mentioned above, listing is quite essential to make them eligible for trading. The listed securities will be traded through the licensed members. The responsibilities of stock exchange to manage and operate the trading floor smoothly in a regulated manner. Operating trading floor the stock exchange must aware to disseminate the information in time and received information must be dissemination the information in time so that the insider trading and price manipulation can be checked for the healthy operation of the market.

Trading system of Nepal Stock Exchange

NEPSE has adopted an "Open Out Cry" system. It means transactions of securities are conducted on the open auction principle on the trading floor. The buying broker with the highest bid will pos the price and this code number on the buying column, while the selling broker with the lowest offer will post the price and code number on the selling column on the quotation board. The market maker quoted their bid and offer price on their own board before the floor starts. Once the bid and offer price match, contracts between the buying and selling broker or between the brokers and market makers are concluded on the floor (Kiran Thapa 2062).

Table 1.1

Listed Groups of companies

At end of the Fiscal Year 2011/012

S.N	Sectors	No. of Listed Companies	Company Percent
1	Commercial Bank	26	12.093
2	Development Bank	71	33.023
3	Finance Company	71	33.023
4	Insurance Company	20	9.302
5	Hotel	4	1.860
6	Mfg. & process Co.	17	7.907
7	Trading Company	4	1.860
8	Other Company	2	0.930
Total		215	100.000

Source: Nepal stock exchange

1.4 Meaning and History of insurance

1.4.1 Definition

Human life is full of risks and uncertainty. Each and every step of life is full of risks. We can't eliminate risk. However, we can make provision for financial security against risk. Insurance is the means to get financial security against risk. Insurances is a way of reducing uncertainty of occurrence of an event. Insurance is an investment, from which we get return only when certain loss occurred from predetermined incident. Insurance is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance is defined and the equitable transfer of the risk of a loss from one entity to another, in exchange for payment. An insurer is a company selling the insurance and insurance policyholder is the person is buying the insurance policy. The amount to be charged for a certain amount of insurance payment is called premium. The transaction involves the insured assuming a guaranteed and known relatively small loss in the firm of payment to the insurer in exchange for the insurer's promise to compensate the insured in

the case of a financial loss. The insured receives a contract, called the insurance policy, which details the conditions under which the insured will be financially compensated. Insurance companies are a major business in today's world. The insurance industry is one the largest sectors of finance everywhere in the world and in Nepal too. It plays a major role. It ranges from consumer to corporate and industrial insurance and even reinsurance, or insurance of insurance.

Insurance companies are financial intermediaries because they collect and invest large amount of premiums. They provide means for accumulating savings and channelize these funds to various sectors. They are considered as the contractual saving institution due to their nature. Apart from handling risks of different markets, they are also the time bound financial contractor. The insurance industry has enjoyed those most enviable records of long term growth of any of the financial institutions. Insurance is a key instruments in the industrial development, social development and moreover for economic growth. So it is the sources of nudge capital investor.

1.4.2 Insurance in Nepalese context

Insurance is a emerging business for Nepal. Modern insurance business started by some Indian insurance companies in the early times. They were mainly focused in providing insurance facilities especially for import export business with India. Nepal goods Transport and Insurance company limited (Nepal Mal Chalani Tatha Bima Company Limited) was established in 1948 AD. With authorized capital of five lakhs as the first insurance company of Nepal, this insurance company is the milestone of Nepalese insurance history. After that that company converted in to Nepal insurance and transport company Pvt. Ltd. In 1960 AD this was again reorganized the Nepal Insurance Company Ltd. In 1992 AD, then immediately the HMG established Rastrya Bima Sansthan under the insurance act 2069 AD. This insurance company is totally financed by the government to provide all types of insurance perils. This insurance company has alone provided various types of insurance facilities for about 2decades in Nepal. After reestablishment of democracy, Nepal implemented the policy of privatization and economic liberalization and globalization.

 Beema Samiti (Insurance Board) is the Insurance Regulatory Authority of Nepal, The line ministry of the Finance Ministry, Nepal. The word 'Beema' means 'Insurance' and 'Samiti' connotes 'Board'. Hence, the Word 'Beema Samiti' is synonymous to Insurance Board

which is constituted to systematize, regularize, develop and regulate the insurance business within the country under Insurance Act, 1992. This Samiti (Board) looks after all the insurance related activities in the State of Nepal. As a regulatory body, the Board's main concern is to create a professional, healthy and developed insurance market in Nepal. Furthermore, after the restoration of democracy in 1990 AD, insurance environment began to change simultaneously along with other factors. Thus to meet the requirements of the changing situation, Insurance Act, 1968 was repelled by new Insurance Act, 1992 (Beema Ain, 2049). The preamble of the Act clearly states the purpose of the Act, thus "to establish an Insurance Board to systematize, regularize, develop and regulate the insurance business". To achieve the goal of the preamble, Beema Samiti (Insurance Board) is formed as an autonomous body the Insurance Act of 1992.

Beema Samati has its own duties and responsibility. Beema samiti provide suggestion to Nepal government to formulate necessary policy for systematic regulation, developing and regulation the insurance business. Not only the government but also regulate to the insurance companies, insurance agent etc. Seemiti could make decision on the complaints faced by the insurer regarding to the settlement of liability of the insurance and formulated necessary basis of the protection of interest of the insured.

1.4.3 Insurance companies in Nepal

There are 25 insurance companies in Nepal, among them eight insurance companies are life insurance, sixteen are non life insurance companies and one is life and non life insurance companies. However twenty one companies are listed in Nepal stock exchange. Among them only three life insurance companies are taken for the sample for research. Among them first three insurance companies are sample for research.

Table 1.2

Insurance Companies in Nepal

S.N	Name of Insurance Companies
1	**Life Insurance Co. (Nepal)**
2	**National Life Insurance Co.Ltd**
3	**Nepal Life Insurance Co. Ltd.**

4	Himalayan Gen. Insurance Co. Ltd.
5	United Insurance Co.(Nepal)Ltd.
6	Everest Insurance Co. Ltd.
7	Premier Insurance co. Ltd.
8	Neco Insurance Co.
9	Alliance Insurance Company Limited
10	Sagarmatha Insurance Co. Ltd
11	NB Insurance Co. Ltd.
12	Rastriya Beema Sanstan
13	Nepal Insurance Co. Ltd.
14	National Insurance Co. Ltd.
15	Lumbini General Insurance
16	Shikhar Insurance Co. Ltd.
17	Siddhartha Insurance Limited
18	Asian Life Insurance Co. Limited
19	Prime Life Insurance Company Limited
20	Surya Life Insurance Company Limited
21	Gurans Life Insurance Company Ltd.
22	The orientel insurance company
23	American life insurance company
24	Prudential insurance company
25	N.L.G. Insurance co. ltd.

Sources: Report of Beema samiti

There are all together 25 insurance companies in Nepal including government and privately owned. This size of insurance companies is considered as the population size of

the study and for this study, the researcher is going to draw three insurance companies as sample. They are given as follows:

National Life Insurance Co. Ltd.

Nepal Life Insurance Co. Ltd.

Life Insurance co. (Nepal) Ltd.

National Life and General Insurance Company Limited:

As the second life insurance company of Nepal. National Life and general Insurance co Ltd was established in 1988 AD. This company incorporated in insurance Lifoard on 1986/6/02 and commenced insurance business from 1988/01/05. All over the country, It has four branches and four contact office. All together with 120 staffs, this company is providing different types of life and nonlife insurance facilities to customer.

Head office	:	Kathmandu
Branch office	:	Birgunj, Biratnagar, Bhairahawa and Nepalgunj
Contact office	:	Lalitpur, Dang , Butwal and Banepa
Sub branches	:	Pokhara, Rajbiraj, Birtamodh, Janakpur, Hetauda,
		Dhangadhi, Dharan, Mahendranagar and Narayanghar.

Nepal Life Insurance Company Limited:

This is third life insurance company of Nepal. It was established with and authorized capital of Rs. 250 millions on 2001 as a joint stock company. Out of Rs. 200 millions as investment belongs to promoters and remaining Rs. 50 millions was collected by issue of shares to general public. After inauguration on 2001/04/17 AD, this company providing various life administrative staff in the company. No branch has been extended by this company yet.

Head Office	:	Kathmandu
Branch office	:	

Life Insurance Corporation (Nepal) Limited:

On 2001, Life Insurance Ltd. Was formally established to provide different life insurance facilities all over the country. This company has an authorized and paid up capital of Rs.

250 millions. It has 32 administrative staffs engaged in head offices, five branch office and four sales counters all over the country.

Branch offices   :   Kathamandu, Biratnagar, Nepalgunj, Butwal, Birgunj

Sales counters   :   Janakpur, Dhangadhi, Mahendranagar, Birtamodh.

1.5 Focus of the Study:

NEPSE is an organized stock exchange for trading stocks in secondary market. Although small investors can invest their money by purchasing shares of companies in primary market or in the secondary market, they (general public or investors) lack effective knowledge of capital market and its mechanism. The price of the stock is the function of several factors. Investing in stock is highly risky as being ownership capital. It represents only a final claim while in liquidation. Stock price is determined by a number of factors. Some factors are quantitative whose effect can be quantified whereas other factors are qualitative whose effect on share price can't be quantified. This study focuses to the sensitivity of stock price on NEPSE with special focus to Insurance Companies towards various factors. In other words, this study intends to determine the factors affecting the price (i.e. market value) of the stock.

1.6 Statement of Problem:

The stock price is always determined in market by its demand and supply. Both the qualitative and quantitative factors determine the stock price. However, to specify exactly what factors do determine stock price is a unpredictable issue. Share price is the function of the several factors. The stock price is determined in time to time and stock exchanges react to the changes by its quality economic factor, political issues, environmental factors and investors attitude etc. However, for some that has no effect. This study conducted by the determinants of stock and find out the degree of affection of those determinants. More specifically, this study is expected to answer the following research questions.

- What are the major determinants of the stock price in NEPSE?
- How earning affect to the stock price?
- How book value affect to the stock price?
- What is the effect of the dividend to the stock price?

1.7 Objectives of the Study:

Investors require proper knowledge of share price i.e. how it is formed, why does it fluctuate, what factors are responsible for the determination of its price and so on. A many studies have been made regarding securities listed in NEPSE, however, most of the studies made up to only the reference of commercial banks of present capital market are related to the financial performance evaluation, capital structure analysis, dividend policy, risk and return etc. In the Nepalese context there are so many sector for investment in securitises among them insurance companies group also vary energetic sector for investment in stock. Thus, the present study will be very much important to the investors, planners, researchers, student and policy makers to get a deep insight into the concerned field of the study. Therefore, this study aims to identify the factors responsible for determinants of stock price and their relationship with the stock price, so that it will give a better insight into the stock price. Furthermore, this study is proposed to meet the following objectives.

1. Study, analyse the earning and effect on stock price,

2. To study the effect of dividend to the stock price,

3. To evaluate the effect of book value to the stock price,

1.8 Significance of the Study:

Now-a-days general public attitude shows that there is a high potentiality in stock investment. They are moving to invest their savings in stock market. It indicates that the high levels of saving and investment activities are increasing. To achieve high economic growth in nation, it is necessary to increase saving and investment activities. To invest in stock market is to some extent riskier. To get the success from it, it is necessary to get proper knowledge of share price i.e. how it is formed, why it fluctuates, what factors are responsible for the determination of its price and so on. Thus, the present study will be very much important to the investors, planners, researchers, student and policy maker to get a deep insight into the concerned field of study. The study is important to draw the attraction from. It is helpful to the financial managers of corporate firms to know about the movement and price formation of stock price with respects to change in financial position of the firm. This study is also very useful to potential investors to know the effect of price trend, volume of stock and impact of signalling factors in NEPSE.

1.9 Limitation of the Study:

This study tries to explore the factors determining the stock price in Nepal stock exchange both primary and secondary data are analyzed. However, this study may face the following limitation during the course of research.

1. This thesis work covers only five years data.

2. In this thesis, researcher takes only 3 insurance companies as sample among 25 insurance companies.

3. This thesis is mainly based upon secondary data available from various sources.

4. Time and money are also constraint for the study.

5. This study is meant only for the fulfilment of requirements of Master of Business Studies (MBS).

6. Researcher knowledge.

1.9 Organization of the Study:

The structure of the thesis report will comprise of five chapters which have been briefly described as follows:

Chapter 1: Introduction

This section consists of general background of study, focus of the study, statement of problem, objectives of the study, significance of the study, limitations of the study.

Chapter 2: Review of Literature

This chapter describes brief review of related and pertinent literature available. It includes conceptual review of insurance companies and review of empirical work. For this purpose, various books, journals and periodicals as well as internet shall be used.

Chapter 3: Research Methodology

This chapter describes the research methodology enjoyed in the study. It includes research design, sample selection, sources of data, data collection procedure and tools for analysis of the study.

Chapter 4: Presentation and Analysis of Data

This chapter is one of the main chapters of this study. This chapter illustrates the collected data into a systematic format such as trend, graphs etc. It discusses the analysis of the data as well as interpretation of data.

Chapter 5: Summary, Conclusion and Recommendation

This chapter comprises the summary of entire thesis.

CHAPTER II

Review of Literature

2.1 Conceptual Review

The main objective of this study is to analyse the effect of BPS, EPS and DPS on MPS. Conceptual review of study some of the terms, which are in frequent use in researches regarding capital market and finance. Thus, before going into the details of factors affecting stock price of Insurance companies, some the relevant terms related to capital market are defined and discussed here.

2.1.1 Common Stocks

Common stock is an ownership share in a organization or corporation; therefore the common stocks holder are the true owners of a organization. It is a security issued by a corporation to raise equity capital, the major sources of long-term capital. Funds provided by common equity are used to finance major portion of the firm's fixed assets such as land and building plant and machinery, vehicle, etc. Representation real owner of organization common stock holder take limited liabilities, it means stock holder only has liabilities only their investment. Common stock does not have a maturity date, shareholders however, stock holder can sell their investment capital in the secondary market or stock market. Hence, the company which needs fund for indefinite period issues shares of common stock. Common stock has some specific features. The corporate charter of a company specifies the number of authorized shares of common stock. The organization or company can't sell more shares than the charter authorized without obtaining approval from its owners through a shareholder vote or without amending its charter.

By getting special authority form the company to common stock holder they can elect Board of Director from the voting system. Each share of common stock entitles its owner to one vote on any matter of organization governance that are out to a vote at the annual meeting and to a share in the financial benefits of ownership. The organization is controlled by a board of directors elected by such common stock holders. The board, which meets only a few times each year, selects managers who actually run the organization on a day-to–day basis. The members of the board are elected at the annual meeting. The board's mandate is to oversee the management to ensure that it acts in the best interest of shareholders in the contest of unhappy of shareholders attempt to replace

the current management team. Common stock holder has a must important characteristics; residual claim and limited liability features. Residual claim means that stock holders are the last in line of all those who have a claim on the assets and income of the corporation. In a liquidation of the firm's assets the shareholders have a claim to what is left after all other claimants such as the tax authorities, employees, suppliers, bondholders. And other creditors have been paid. For a firm not in liquidation, shareholders have claim to the part of operating income left over after interest and taxes have been paid. Management can either pay this residual as cash dividends to shareholders or reinvest it in the business to increase the value of the shares. Limited liability means that the most shareholders can lose in the event of failure of the corporation is their original investment. Unlike owners of unincorporated businesses, whose creditors can lay claim to the personal assets of the owner, corporate shareholders may at worst have worthless stock. They are not personally liable for the organization's obligation.

Features of common stock

Par value: par value is stated price in common stock certificates. In Nepal, Companies Act 2063 has given flexibility to wet a par value. A company can set a par value of Rs 50 each or any other higher amount divisible by the figure 10 as provided in the memorandum of association and articles of association.

Maturity: common stock has no maturity date. It exists as long as the organization does. Therefore capital raised from common stocks is also called fixed or permanent capital.

 Voting right: Common stock holder has voting right for operation of organization. Each share of common stock entitles to the holder to one vote in the election of directors and in other major decision.

Proxy: It is a legal document giving one person the authority to represent on behalf of other.

Pre-emptive right: Common stockholders also have pre-emptive right. The pre-emptive right gives the existing shareholders right to purchase any new shares issued by the company at subscribed price on pro-rata basis. Pre-emptive rights allow common stockholders to maintain their proportionate own reships and control in the company.

Limited liability: Common shareholders get limited liability. They are actual owner of the company and have residual claim on all assets. Their liability in case of the liquidation is limited to the amount of their investment.

Claim on income and Assets: As a real owner they claim in income and company's assets and income from business activities.

2.1.2 Stock Certificates

"The ownership of a firm's stock has typically been represented by a single certificate, with the number of shares held by the particular investor noted on it. Such a stock certificate is usually registered, with the name, address, and holding of the investor included on the corporation's books. Dividend payments, voting materials, annual and quarterly reports and other things are then sent directly to investor, taking into account the size of his or her holdings. Shares of stock held by an investor may be transferred to a new owner with the assistance of either the issuing corporation or, more commonly, its designated transfer agent. This agent will cancel the old stock certificate and issue a new one in its place, made out of the new owner. Frequently, a register will make sure that this cancelling and issuing of certificate has been done properly. Usually, banks and trust companies act as transfer agents and registrars. Many stock holders have chosen to avoid these rather cumbersome procedures. Instead, depository trust companies are used which substitute computerized records for embossed certificates" (Sharpe, Alexander & Bailey; 2000).

Securities

Before introducing securities market we must have to know about securities. Simply stated, a securities is a legal documents that shows an ownership of investing capital. In other words, security is a piece of paper evidencing the investor's right to the asset. It is the legal representation of the right to receive ownership interests. The examples of securities are bonds, preferred stocks, share, commercial paper t-bill etc. When someone borrows money from a broker, he or she must leave some item of value as security. Failure to repay the loan interest means that the pawnbroker can sell the pawned item to recover the amount of the loan and perhaps make a profit. The terms of agreements are recorded via pawn tickets. When a college student borrows money to buy a car, the lender usually holds formal title to the car until the loan is repaid. In the event of default, the lender can repossess the car and sell it to recover his/her costs. In this case, the official certificate of title, issued by the state, serves as the security for the loan. A person who borrows money for a vacation may simply sign a piece of paper promising repayment with interest. The loan is unsecured, in the sense that there is no collateral, meaning that no specific assets

have been promised to take the borrower to court to try to recover the amount of the loan. Only a piece of paper called a promissory note stands as evidence of such loan. When a firm borrows money, it may not offer collateral. For example, some loans may be secured with specific pieces of property. Such a loan are recorded by means of mortgage bonds, which indicate the term of repayment and the particular assets pledged to the lender in the event of default. However, it is much more common for corporation to simplify pledge all of its assets, perhaps with some provision for the manner in which the division will take a place in the event of default. Such a promise is known as debenture bond.

Finally, a firm may promise a right to share in its profits in return for investor's funds. Nothing is pledged, and no irrevocable promises are made. The firm simply pays whatever its directors deem reasonable from time to time. However, the investor is given the right to participation in the determination of who will be the members of the board of directors. The right protects the investors against serious malfunctions. The investor's property right is represented by a share of common stock, which can be sold to someone else, who will then be able to exercise the right. The holder of common stock is said to be as owner of the corporation and can, in theory, exercise over its operation through the board of directors. Generally, only a piece of paper represents the investor's right to certain prospects or property and the conditions under which he or she may exercise those rights. This piece of paper, serving as evidence of property rights, is called a security. It may be transferred to another investor, and with it will go all rights and conditions. Thus everything from pawn ticket to share of GM common stock is a security.

Security Market

A securities market is a mechanism designed to facilitate the exchange of financial assets ar securities by bringing buyers and sellers of securities together. Alternatively, security market is a place where securities are bought and sold, the facilities and people engaged in such transaction the demand for and availability of securities to be traded, and the willingness of buyers and sellers to reach agreement on sales. On the basis of the seasoning of claim, the capital market can be categorized into primary and secondary market. The primary market is the market which the securities are traded in first time in market to raised the fund in an organization for business activities. The main function of primary market is to make the financial capital available to make new investments in building, equipments, and necessary goods. The investment bankers play the vital role in issuing new securities. Secondary market is the market for the existing securities, second

hand securities are bought and sold in the secondary market. Main function of secondary market is liquidity to the purchases of securities. This market remains as a centre to convert stocks, bonds, and other securities into cash immediately.

On the other hand according to time length maturity period we can introduce money market and capital market for the securities. The money market is the fixed income short term securities that usually are highly marketable. The money market securities can adapted easily to small investors. Investor buy money market securities at a discount from face value. The T-bill, commercial, Bankers Acceptances, Repos are the examples of money market. The capital market securities is the market for long term capital. Companies and the government can raise funds for long term investments from the capital market. The capital market includes the stock market, the bond market etc which expect is high risk and high return. The security market is known as the market where all types of securities are traded. The security market is a broad term embracing a number of markets in which securities are bought and sold. Securities markets includes how an individual investor goes about the business of placing any order to buy or sell, how the order is executed, the process of setting the payment and transfer costs, and one hope the payment of federal personal income taxes on the profits from the transactions.

These securities include common shares, preference shares and debentures. The security market may be divided into two categories:

Primary Markets: In the primary market the original issuance of the financial instruments of the company is traded. The company should sell its approved share through the authorized issue and sales agent. The company has to register its shares in the SEBO to get the valid authority to the issuance of shares. Primary markets provides as important allocate function by channelling the funds to those who can make the best use of them – presumably, the most productive.

Secondary Markets: In the secondary market the share once issued in the primary market are traded. So, the secondary market liquidates the shares and provides the opportunity between the investor and the seller of the securities. The company must list the securities in the security market for the transaction purpose.

If the owner of 100 shares sells his/her stocks, the trade is said to have occurred in the secondary market. Thus, the market for outstanding shares or the used share is the secondary market. The company receives no new money when sales occur in this market.

In the secondary market existing securities are traded and thus enabling disposal of these securities whenever the owner wishes. An active secondary market is, therefore, a necessary condition for an effective primary market, as no investor wants to feel locked in to an investment.

Stock Market & Stock Exchanges

"Secondary markets are those in which outstanding previously issued securities are traded. By far the most active secondary market, and the most important one to financial managers, is the stock market. It is here that price of firm's stock are established, and since the primary goal of financial management is to maximize the firm's stock price, knowledge of the market in which this price is established is essential for anyone involved in managing a business" (Weston & Brigham; 1987).

There are two basic types of stock market – the organized stock exchanges, which include the New York Stock Exchange (NYSE), The American Stock Exchange (AMEX), and several regional exchanges, and the less formal over-the–counter markets. Since the organized exchanges have actual physical market location and are easier to describe and understand, we shall consider them first. The organized security exchanges are tangible physical entities. Each of the larger one occupies its own building, has specially designated members, and has an elected governing body its board of governors. Members are said to on the exchange, although everybody stands up. These seats, which are bought and sold, give the holder the right to trade on the exchange.

2.1.3 Stock Price

Stock price is the amount of money that one has to pay to purchase/receive a stock of a company. Stock price is the amount of money paid by a buyer to buy one stock or the amount received by the seller by selling a stock. The stock price is determined in stock market, by market forces i.e. demand (buyer's force) and supply (seller's force).The demand and supply are based on the environmental forces and individuals' future expectations. The market price is different from its par value and book value.

2.1.3.1 Par Value

"When a corporation is first chartered, it is authorized to issue up to a stated number of shares of common stock, each of which will often carry a specified par value. Legally a corporation may be precluded from making payments to common stockholders if doing so

would reduce the balance sheet value of stockholders equity below the amount represented by the par value of outstanding stock. For this reason, the par value is typically low relative to the price for which the stock is initially sold. Some corporations issue no-par stock. In that case, a stated value must be recorded in place of the par value" (Sharpe & Alexander; 2000). The initial offering price of the share may vary from the par value if stocks are issued on premium or discount.

2.1.3.2 Market Price

A share of common stock can be authorized either with or without par value. Par value is the recorded figure in the corporate charter. Generally, par values of most of stocks are set at fairly low figures with compare to their market value, and the market value per share is the current price at which the stock is traded. Market value per share of common stock is the function of the current and expected future dividend of the company and the perceived risk of the stock on the part of investors. Price of shares is that price in which shares are traded or the amount which, is paid by the buyer to the seller to purchase the stock of company. The market piece of shares varies from one company to other. Since, the common stock holders are the owner of the organization and have least priority to claim in liquidation, the share price is highly volatile and very sensible to environmental factors. An organization has two types of environment, i.e. internal & external. The environment within the organization is called internal environment and is somehow in control of the organization. So the organization tries to maintain the favourable environment to maximize the share price in stock market. On the other hand, external environmental factors are not within the control of the organization, but such forces highly affect the market price of share.

Since the market price of shares is very much sensitive to the environmental forces, the shares price increases if there is favourable environment and vice versa. This increase in share price is based on the market mechanism or market forces, i.e. demand and supply. If the earning and divided of an organization increases, then the investors have positive perception towards the organization and they like to buy the shares of the organization, as a result demand increases; on the other hand, the supplier like to hold the shares and supply decreases, and there is gap between demand and supply, so, the market price of the shares increase. The investors determine the share price they would like to pay for the shares of an organization and the sellers determine the price they would like to receive by selling shares based on their assumptions towards organization and future expectation.

Such assumptions and expectations vary from individual to individual. Since different person analyses the same situation differently with their level of knowledge.

The index of stock gives the surrogate of market price of share. NEPSE index is the surrogate of all the listed companies in NEPSE. So, it consists one of the indicators of stock price in NEPSE. There are various indexes to analyze the stock behaviour in the world's capital market. Stock market indexes are pure numbers used for making comparison between index number in the same series of the index number. An index is usually a ratio tabulated from average of different securities. Typically, a time series of index number is constructed from the same base date and base value usually set 100 or 10 or to make time directly comparable.

Market value refers to the price of an individual share of stock, while market capitalization is a calculation of the entire value of all outstanding publicly traded shares of stock available on the market. They are related but different measures of a company's worth. The current price of an individual share of stock is also known as the market value of the stock. This is the least stable indicator of a company's worth, because it may fluctuate sharply up or down in response to events that have nothing to do with the individual company's performance, such as pending legislation or world events, or in response to the collective feelings of the market about the company based on positive or negative rumours.

Significance of Market Value

One of the primary ways investors make money in the stock market is to buy a stock at one price, hold it until the stock price rises and then sell it at a profit. Therefore, the price of a share may present a good time to buy or sell for an individual investor depending on whether he expects the stock price to rise or fall over time. Market value often dips or spikes in response to official news releases such as quarterly earnings releases.

Market Capitalization

Market capitalization commonly referred to as market capitalization is simply the number of outstanding shares multiplied by the individual share price. In other words, the market capitalization of a company is the cost to buy the entire company on the open market. Since the number of shares available on the market varies significantly between companies, a higher share price does not necessarily correspond to a higher market capitalization value.

2.1.3.3 Net Worth /Book Value

If a company went belly-up and sold all of its assets and subtracted any liabilities, the remaining value investors would receive represents the company's book value. In other words, the book value represents the total value of all the assets minus any liabilities. This value often gets referred to as shareholders' equity or owners' equity. Book value really ties into how accountants value the company on a per-share basis and has nothing to do with how the market values the company's stock.

Book value is a measure of all of a company's assets: stocks, bonds, inventory, manufacturing equipment, real estate, etc. In theory, book value should include everything down to the pencils and staples used by employees, but for simplicity's sake companies generally only include large assets that are easily quantified. Companies with lots of machinery, like railroads, or lots of financial instruments, like banks, tend to have large book values. Book value is not very useful in the latter case, but for companies with solid assets it's often the No.1 figure for investors. A simple calculation dividing the company's current stock price by its stated book value per share gives you the P/B ratio. If a P/B ratio is less than one, the shares are selling for less than the value of the company's assets. This means that, in the worst-case scenario of bankruptcy, the company's assets will be sold off and the investor will still make a profit. Failing bankruptcy, other investors would ideally see that the book value was worth more than the stock and also buy in, pushing the price up to match the book value. That said, this approach has many flaws that can trap a careless investor.

A corporation will generate income, much of which is paid out to creditors (as interest) and to shareholders (as dividends). Any remainder is added to the amount shown as cumulative retained earnings on the corporation's books. The sum of cumulative retained earnings and other entries (such as common stock and capital contributed in excess of the par value) under shareholder's equity is the book value of the equity. The book value per share is obtained by dividing the book value of the equity by the numbers of share outstanding. The book value of the equity reflects the historical costs of brick and meter the physical assets of the company. A well run company with strong management and an organization that functions effectively should have a market value greater that the historical book value of its physical assets.

Cumulative retained earnings + Capital contributed in excess of par + common stock =Book value of equity.

The accounting value of share of common stock equal to the common equity of the firm (common stock plus retained earnings) divided by the number of shares outstanding. Book value is generally considered to be relatively unimportant in determination of the value of the company, since it represents only the historical investments made in the company-investment that may have little relation to current value of price.

2.1.3.4 Earnings

Accounting earnings that represent the difference between revenues and expenses, including the expenses associated with non-equity source of funds (such as interest to debt, dividend to preference shares) is also known as total earnings available for common stock. If this portion of income is divided by number of outstanding shares, we get earning per share (Sharpe, Alexander & Bailey; 2001).

2.2.3.5 Dividends

The percentage of earnings the firm pays in cash to its shareholders is known as dividend. The dividends, of course, reduce the amount of earnings retained in the firm and affect the total amount of internal financing. Nothing is more important than dividends to stock holders. They buy shares of the firm with the hope of sharing profits earned by firms. The sole motive of stockholders is to receive return on their investment; nothing pleases them more than knowing the firm's earnings and more profits mean more dividends coming in.

2.2 Influencing factors of Market Values

In the stock market, share prices are also dependent on so many factors. There are many some factors that are that directly influence the share prices.

Demand and Supply – This fundamental rule of economics holds good for the equity market as well. The price is directly affected by the trend of stock market trading. When more people are buying a certain stock, the price of that stock increases and when more people are selling the stock, the price of that particular stock falls. Now it is difficult to predict the trend of the market but your stock broker can give you fair idea of the ongoing trend of the market but be careful before you blindly follow the advice.

News – News is undoubtedly a huge factor when it comes to stock price. Positive news about a company can increase buying interest in the market while a negative press release

can ruin the prospect of a stock. Having said that, Investors must always remember that often times, despite amazingly good news, a stock can show least movement. It is the overall performance of the company that matters more than news. It is always wise to take a wait and watch policy in a volatile market or when there is mixed reaction about a particular stock.

Market Capital – If investors are trying to guess the worth of a company from the price of the stock, investor are making a huge mistake. It is the market capitalization of the company, rather than the stock, that is more important when it comes to determining the worth of the company. Investor need to multiply the stock price with the total number of outstanding stocks in the market to get the market capital of a company and that is the worth of the company.

Earning Per Share – Earning per share is the profit that the company made per share during the annual report. It is mandatory for every public company to publish the quarterly report that states the earning per share of the company. This is perhaps the most important factor for deciding the health of any company and they influence the buying tendency in the market resulting in the increase in the price of that particular stock. So, if investors want to make a profitable investment, investors need to keep watch on the annual reports that the companies and scrutinize the possibilities before buying stocks of particular stock.

Price/Earning Ratio - Price/Earning ratio or the P/E ratio gives fair idea of how a company's share price compares to its earnings. If the price of the share is huge lower than the earning of the company, the stock is undervalued and it has the potential to rise in the near future. On the other hand, if the price is way much higher than the actual earning of the company and then the stock is said to overvalued and the price can fall at any point.

Before the conclude this discussion on share prices, let researcher reminds there are so many other reasons behind the fall or rise of the share price. Especially there are stock specific factors that also play its part in the price of the stock. So, it is always important that investors to the importance research well and stock trading on the basis of researchers' research and information that get from the broker. To get benefit from the effective consultancy service it is therefore always better from professional stock trading companies rather than getting lured by discount brokerage advertisements that investors must be coming across every day.

When look at the performance of the stock market at the end of a trading day it can be hard to work out why shares have either risen or fallen in value. Broadly speaking, share prices are influenced by news or information: new data on employment, manufacturing, directors' dealings, political events or even the weather, all kinds of news can influence the way shares move. Investors will sometimes, however, see little move in share prices when, for example, interest rates shift. This is because investors try to anticipate what is going to happen in the for the times and try to move their portfolios in or out of these stocks before the rest of the market catches on. Sometimes, of course, these expectations can be wrong and if this happen, markets can move very sharply. If investors want to trade successfully in the stock market investors will need to know what news other investors look at and how they will look at it. This will help to pick the best moment to buy and sell your shares.

Economic factors

Industry performance

Government monitory policy

Company news

Analysts reports

Press recommendations

Sentiment

Technical influences

Economic factors

Economic factor is the most important factor to fluctuation of stock price. In the global economy has a fundamental influence on share prices because it is ultimately responsible for driving company profits. Broadly speaking, if the economy is growing, company profits improve and shares will become more highly valued. If the economy is weakening, company profits will fall and share prices will go down.

1. Interest rates: The can raise or lower interest rates to stabilize or stimulate the economy. This is known as monetary policy. If a company borrows money to expand and improve its business, higher interest rates will affect the cost of its debt. This can reduce company profits and the dividends it pays shareholders. As a result, its share price may

drop. And, in times of higher interest rates, investments that pay interest tend to be more attractive to investors than stocks.

2. Economic outlook: If it looks like the economy is going to expand, stock prices may rise. Investors may buy more stocks thinking they will see future profits and higher stock prices. If the economic outlook is uncertain, investors may reduce their buying or start selling.

3. Inflation: Inflation means decrease the value of money and higher comodity prices. This often slows sales and reduces profits. Higher prices will also often lead to higher interest rates. For example, the Bank of Canada may raise interest rates to slow down inflation. These changes will tend to bring down stock prices. Commodities however, may do better with inflation, so their prices may rise.

4. Deflation: Falling prices tend to mean lower profits for companies and decreased economic activity. Stock prices may go down, and investors may start selling their shares and move to fixed-income investments like bonds. Interest rates may be lowered to encourage people to borrow more. The goal is increased spending and economic activity.

5. Economic and political shocks: Changes around the world can affect both the economy and stock prices. For example, a rise in energy costs can lead to lower sales, lower profits and lower stock prices. An act of terrorism can also lead to a downturn in economic activity and a fall in stock prices.

6. Changes in economic policy: If a new government comes into power, it may decide to make new policies. Sometimes these changes can be seen as good for business, and sometimes not. They may lead to changes in inflation and interest rates, which in turn may affect stock prices.

 Industry performance

Often, the stock price of the companies in the same industry will move in tandem with each other. This is because market conditions generally affect the companies in the same industry the same way. But sometimes, the stock price of a company will benefit from a piece of bad news for its competitor if the companies are competing for the same market.

 Investor sentiment

Investor sentiment or confidence can cause the market to go up or down, which can cause stock prices to rise or fall. The general direction that the stock market takes can affect the value of a stock:

- Bull market – a strong stock market where stock prices are rising and investor confidence is growing. It's often tied to economic recovery or an economic boom, as well as investor optimism.
- Bear market – a weak market where stock prices are falling and investor confidence is fading. It often happens when an economy is in recession and unemployment is high, with rising prices.

Government Monetary Policy

The country has two major policies; fiscal policies and monitory policy, it is also fluctuated market price index. The monetary policy of the government, as well as the policies of governments around the world, influences the stock market. If the government tightens monetary policy or raises interest rates, then there is less money in the financial system for corporations and individuals to borrow. This can lead to a reduction in corporate growth and possibly slower profit growth also. On the other hand, a loose money supply and lower interest rates can bolster corporate and personal borrowing and fuel growth, expansions and corporate profits. This in turn can lead to a higher stock market.

Company news

The way investors interpret news coming out of companies is also a major influence on share prices. If, for example, a company puts out a warning that business conditions are tough, shares will often drop in value. If, however, a director buys shares in the firm, it may be a signal that the company's prospects are improving. Companies put out a great deal of news and most of the major announcements are covered by the financial press. But some announcements not regarded as so important and sometimes, particularly among smaller firms that are monitored less by investors and financial journalists, indicators of the company's health can be missed. Investors can stay one step ahead of the game by looking carefully at all the information sent out by companies, their competitors and other companies are interested in. This information is usually available on companies' websites. Try to think laterally about the information investors are getting. If, for example, a competitor to a company investors have shares in produces a revolutionary new product, it will probably hit profits at the company. Also think about the impact it will have on

suppliers to that business. An increase in sales of mobile phones with cameras in them will not only be good for the phone company but the firms that supply the technology in the phones. Takeovers or even rumours of takeovers also have a big influence on prices. This is because investors expect the bidder to pay a premium to shareholders.

Analysts' Reports

Reports produced by independent analysts also influence share prices. If an analyst changes their recommendation from 'sell' to 'buy', for example, the shares will often rise in value. Analysts' reports are produced primarily by investment banks for professional investors, although some stockbrokers will make their research available to private investors. Investors may find summaries of some reports published on financial news websites or in newspapers and magazines. Some investment banks also publish their reports on their websites for free. Investors should remember that the recommendation an analyst puts on a company will affect its share price very quickly and can become irrelevant within hours. This is because the analyst will usually say a stock is a buy within a particular price range. If the price moves above their targets the improvements the analyst expects may be priced in and so the shares not worth buying. But analysts' reports are always worth reading, even if the recommendation is out of date. The reports usually contain a great deal of useful information on the company and how its business is developing. They also often look at how the company rates against its competitors.

Press Recommendations

The financial pages of most national newspapers and investment magazines usually contain share tips. Like analysts' reports these tips can have a major influence on share prices. If a journalist recommends a share, the price will usually rise and if they write a negative story the price will fall. These moves usually happen very quickly so if you are going to follow the recommendation it often makes sense to do so as soon as possible.

Technical Influences

Share prices can rise and fall for a variety of technical reasons that may have nothing to do with the actual outlook for an individual company or the outlook for the market. It is, for example, a common occurrence for share prices to drop back after a strong rally. This happens because investors take profits on some of the shares that have risen in value, protecting their gains just in case the shares start to slip back. Investors often refer to this as market consolidation. Some professional fund managers who hold the affected stocks

also adjust their portfolios as they do not want their holding to be too far above or below the company's weighting in the index.

2.2.1 Cause of Stock's Price to rise

Better than expected earnings: When a stock outperforms analyst estimates, it tends to see its price rise. This means that stocks not only need to beat estimates but need to demolish them in order to see nice boost in their stock price. Sometimes companies issue guidance that they are going to beat analyst estimates. In this case the stock price may have moved earlier and may not re act to big earnings. It is only the true and significant surprises that cause a stock to pump upwards.

New products: When a company announces a new product or an anticipated product's release date, it can move the price of a stock up.

Broker upgrades: When a major brokerage gets behind a stock or upgrades it, this can move the price up. While investors should never buy a stock based on this alone, money managers who work at these firms may include a stock in their funds should they issue solid guidance.

Bad News for Competitors: Imagine if one day Target declared bankruptcy. What do investors think would happen to the stock of competing retailers? It would go up, of course. However, these moves are often slight compared to the amount the bad news will affect the company on the receiving end of the bad news.

Bid for Acquisition: Perhaps no other factor can cause a stock's price to jump like a suitor looking to buy a company. Good companies with battered stocks that get bought out can provide huge boosts to a stock's price. If the deal goes through, stock holders are often compensated at a premium.

New Regulations/Laws: Should a new regulation or law end up improving the bottom line of a company, the stock can react favourably. Looking at our retailers again, if Congress ever passes a bill which implements online sales tax, local retailers of all sorts will see increases in stock price as consumers will inevitably curtail online shopping on high ticket items if they can get them for cheaper in a store.

2.2.2 Causes Prices to fall

Earnings Miss: An earnings miss is devastating for a company's stock price. As mentioned, many analysts try to set the expectation so a company. If a company manages

to miss in spite of this, it is very bad. Investors often see stocks beat earnings without gains, but rarely see stocks miss earnings without at least a few point drop.

Losing products: This is most common in the consumer products and pharmacy industry, where expiring patents and generics can cause a company to lose exclusive rights to a product. Many brand name medicines can generate billions of revenue, so losing products like this can cause a stock's price to move down.

Broker Downgrades: When a major broker downgrades a stock and it loses institutional support and its fund managers sell off the stock, a stock's price can drop.

Good News for Competitors: When something good happens to a company's competitor, the former company can actually lose share price. Whichever stock wins this contract will remain up whereas the loser may drop.

New Regulations/Laws: New laws and regulations can cripple companies. In our example above, what do investors think will happen to Amazon's bottom line if sales tax on online purchases was implemented nationally? It would be disastrous for the company and its stock price.

Lawsuits: Lawsuits are never good for a company's stock price. Examples would be getting sued over patent rights and product licensing. However, the most damaging lawsuits tend to be health-related.

Management Changes: When a company's CEO or CFO suddenly leaves, stock prices can tank and rightfully so. A sudden departure usually means something bad was discovered which will be announced to unwitting stock holders shortly. When companies fire a CEO for poor performance, it is done gracefully, not suddenly. The reason is no CEO will want to work for a company which just threw their last CEO out with no warning. As a result, stock prices fall in response to sudden management changes and for good reason.

2.2.3 The Market Rises and Fall

However, most of the changes in a stock's price can be easily understood with what investor are going to discover in this article. In fact, not only can understand why stock prices rise and fall but investors will also discover how to use this information to get bargains on good stocks and take profits on your successful investments at the best times. Below, investors will examine why the prices of stocks rise and fall over the short term

and long term. An investor could look at these one at a time as the reasons behind these movements are very different depending on the length of the stock price change.

2.2.3.1 Long Term Factors that Cause Stock Prices to Rise and Fall

Now that we know why stock prices move up and down on a day to day and week to week basis, we will now look at the reasons why stocks move up and down in the long term, such as quarter to quarter or even year to year.

While there are a lot less reasons why stocks move over the long term, some of these reasons are not understood by most investors. By learning and applying this information, can gain an edge in predicting how the markets will fare over the next few years.

Earnings, Earnings Growth, and Future Earnings: The main driver of a stock's price over the long term is its earnings. The more money the company makes and the better margins it produces, the more money its stock is worth. While a stock's price may rise and fall on a day to day basis without any change in earnings for the reasons listed in the previous section, over the long haul stock prices tend to stick to earnings. However, stocks are priced based on their future earnings potential. The more potential investors think a stock has, the more they will pay for it now. This is why earnings growth is so important. When a company not only increases earnings but increases them faster than they did in a prior point in time, it is a good sign that the company might be able to continue to do this and grow exponentially rather than linearly. Companies which not only create growth but accelerating growth sell for a premium for this reason.

Dividends: One of the primary reasons a company's growing earnings influence the price of a stock is because large, profitable companies can pay investors dividends. These are typically paid out quarterly and are money straight into the investor's pocket. Most investors choose to automatically reinvest these into their company which is a good decision if the company is still strong. However, dividends themselves often cause a stock's price to centre at a certain amount. For example, at the time of this writing, out of the biggest, steady companies with low volatility and high dividends pay out around 3-4% annually. If you track their stock price in the past, each stock typically maintains the same percentage yield from quarter to quarter. As long as the company is healthy, the stock price rarely falls below this magic line as the income stream alone sets the price. If the company was to raise the dividend, the stock price often elevates to match the new dividend.

Interest Rates: When the lowers interest rates, stock prices across the board tend to increase faster over time. When the interest rates raises, the price of stocks of all sorts seems to decrease. This is because lower interest rates influence people to get loans for things like houses and influence businesses to borrow money to upgrade infrastructure and hire more employees to grow faster. This means more sales for businesses, particularly those that are involved in supplying parts and machines to other businesses as well as companies which sell to builders.

The country's Economy: Just like interest rates, the state of the economy has a broad, sweeping effect on the price of stocks in the long term. However, a lot of people do not know what the term good economy really means. Of course there are other factors which are important but these are the two primary indicators. Lower growth rates or falling growth rates and increasing unemployment numbers are signs of a bad economy. When the economy is good, the price of all stocks across the board typically rises. This means that the P/E ratio is going to increase, regardless of earnings. This is because people have more money to invest and they assume companies will be able to grow their earnings faster in line with a faster growing economy as that is simply common sense.

P/E of stocks will fall during slow economic growth and high unemployment: Higher unemployment means less money for consumers to spend which means less earnings for companies. Slow economic growth means less earnings growth and expansion opportunities for companies, at least domestically. Booming economies in emerging markets have helped large companies continue to grow in spite of the stagnant economy. One exception to this rule is companies which produce things people just cannot live without, such as food and basic health supplies. Companies which produce pharmaceuticals, food, and necessary consumer products tend to have steady prices even as the economy slows. This is because people cannot cut out expenditures on necessary goods when they have less money but rather cut things they do not need from their budget.

International Events: Negative events around the world can cause the prices of stocks to shake, particularly if the sector stands to be negatively impacted by the impending catastrophe. The financial sector stood to lose the most in the event of a European meltdown and as such lost the most in price. However, each time a good news piece came out, such as a bailout of Greece, financial stocks tended to move upward in response.

Investor Sentiments: At the end of the day, if people do not like the stock market and there is not a high demand for the stocks of even good companies, the price of stocks will trend downwards.

2.2.3.2 Other Situations that Cause Stock Prices to Rise and Fall

Sometimes, stock prices rise and fall, even dramatically without a major catalyst. Here are some of the reasons why this may occur.

The Actions of Big Players: When hedge fund managers and other investors or money managers with very large amounts of capital move into or out of a position, they can single-handedly move a stock up or down a few points depending on how fast they move and the size of the company in question. Naturally small stocks will move more than large stocks. This is visible in both bad stocks when big money settles a short. After a prolonged decrease in stock price, a sudden hike in price can indicate a major short seller is taking their profits. This hike in price can be dramatic, unprecedented, and be short lasting. Many beginning investors mistake this for being a turn around in a stock but it is nothing more than a big shorter settling up.

Pullbacks, Corrections, Consolidation Periods: Pullbacks, corrections, and consolidation periods are very common in the stock market and are natural occurrences with little impact on the long term price of a stock. A pullback occurs after an individual stock's price has unnaturally inflated beyond its numbers due to eager investors. This happens to great stocks and is nothing to worry about in the absence of a catalyst. Pullbacks are common after a stock has a run of several good days or weeks and are to be expected when investing in any stock. When eager buyers drive up the price of a stock into a range where more people want to sell and take profits, a pullback is inevitable. In fact, pullbacks are actually a great time to buy into the stocks of good companies. Do not buy into a stock when it is a vertical tear upwards – these prices will come down at some point in the next week or two, even if it is only for a day. Even great stocks have pullbacks, so be patient and get a good price. A market correction is used to describe when the market as a whole suffers from a pullback. These are normal occurrences and can represent even a several percent drop of the market in a single day. Market corrections are okay because they happen after the stock has run up a bit and because they also make great buying opportunities. A consolidation period is essentially a slow, drawn out pullback or sideways movement of a stock. Most stocks do not steadily increase over time but increase in

response to good earnings news and then meander sideways or slightly down until the stock's earnings catch up to the multiple that investors are willing to pay or until there is reason to believe that a stock's price will increase. This period of moving sideways is called the consolidation period. The take-home message here is you do not want to sell a great stock with good earnings during the consolidation period just because the stock appears stagnant. If you do that, you will miss the next run up in price. Be patient. What investors want to do is instead of committing more capital to your positions in good companies, wait for an individual stock to pull back or wait for a market correction to jump in and grab your stock at a great price. These happen all the time and it is a good way to find stocks on sale. The trick to getting stocks cheap this way is to make sure that it is an actual pullback or correction and not the start of an ongoing downward trend. A stock which gets hit after one of the catalysts mentioned above is not feeling the effects of a pullback but is actually just lower in price due to bad events. As a side note, catalysts reduce a stock's price without reducing the underlying company's earnings power can be good opportunities to get a great company at a great price.

2.2.4 Causes Buyer Demand

As more and more buyers flock to a stock, the supply at a lower price diminishes partly because al the chap shares are sold out and partly because sellers realize they can raise the price. Three main factors drive buyers demand. They are:

Company profitability

Dividend income Speculation

Most investors value company profitability.

A business that makes money is worth purchasing for a variety of reasons. It won't go bankrupt, it will grow, and it might be purchased by any other company. Therefore, the company becomes more valuable. You might notice that the stock market pays attention to earnings release. These releases are the company's proof that it is a valuable enterprise. When a company can demonstrate consistent earnings growth, it attracts more and more investors. Dividend income is also valuable to investors. By paying a dividend, the company is sharing profits with the shareholders. Many investors like the idea of getting paid and not doing any work. Dividend stocks can attract more and more investors just like growth stocks. If a stock has a history of always paying a heavy dividend, one can expect that history to continue. It's even better if the dividend has a history of increasing. Stock

that offer constituent dividend growth will continually attract investors. Also, stocks that offer a relatively high dividend yield (dividend payment divided by share price) attract buyers. Finally, Speculation can cause a stock's price to change dramatically. While earnings growth and attractive dividends are reasonable approaches to investigating; speculating is harder to understand. Speculators typically don't base their buying behaviour on historical performance. Rather, they are hoping to predict the future of a stock. The markets saw plenty of speculation in the intent boom. Buyers hoped that internet stocks would make a bundle of money, but they weren't quite sure how, some gained, some lost.

2.2.5 Equity Funds - Affects Price

What factors influence the price of stocks, and therefore the value of equity mutual funds? There are several fundamental factors: expectations, external events, fiscal and tax policies, government spending, monetary policy, inflation, and business cycles. Technical factors include: the condition of securities markets, price movements, trading volume and supply and demand. Fundamental factors include everything outside the security markets themselves which might influence price. Because market security prices are negotiated between buyer and seller, future expectations help determine price.

2.2.6 The Impact of Research on Stock Prices

On a quantitative basis, we could perform a regression analysis to determine the correlation between changes in a stock's price and the publication of a research report. However, we would need to filter out the effect of "noise", the impact of news releases, competitor news releases, economic reports, as well as other macroeconomic factors. After all that work, the results may not show statistical significance, which means that we would not have found any direct relationship between the movement in a stock's price and the issuance of a report. In addition, the results can be manipulated by a change in the length of the time period being studied.

On a qualitative basis, it has been proved that having more information about a company in the marketplace is better than less information, but the return on the investment in research is nevertheless hard to calculate. On the other hand, objective information in the marketplace about a company reduces the "halo effect" on that company if its competitor announces unexpected bad news. With objective information, the market can evaluate the impact of the news event on both companies.

While quantifying the benefits is difficult, most of the value of research lies in the unquantifiable benefits provided to investors:

- Comparative operating and valuation data on a company
- Earnings estimates and target valuations based on reasonable data included in the report
- A reliable source of independent, third-party information on a continuous basis so that investors can track performance and evaluate an investment

The benefits of research coverage are not immediate, and the decision to invest in stock research is generally a long-term process. It takes time for investors to familiarize themselves with a stock and get comfortable with a new company and its investment potential. Research, however, provides the market with more information and increases market efficiency, but it is hard to determine exactly when a report will convince an investor or a fund manager to buy a stock. It could be near the publication date or months later, but it will be the third party report that helps provide the information on which that investor makes his or her decision. However, investors should beware of research reports that advertise how the stocks these reports followed rose immediately after publication of the report. While it may be true that the stock rose after the report was issued, there is generally no way to prove beyond a reasonable doubt that the report was the sole reason why the stock rose. If you see such a claim, check the long-term trend of the stock's price and see if it fell back after a few days or weeks. Although the total return on the investment in research is hard to quantify, the information provided via third-party research has tangible value. Objective research provides information to the market to reduce uncertainty. Even though the nature of the stock market prevents us from isolating any one of the many variables that affect a stock's price, no one can disagree that in the long run, greater available information means greater market efficiency.

2.3 Review of Study Variables

Among the various factors affecting the market price, main variables are Dividend per share, Earning pre share and Book value pre share are the studies variables for the study. Which are affect the market price directly which is explaining as follows.

2.3.1 Relationship between Book value & Market price

Book values are equal to or have some long-term relationship with market values, and that market returns are related in a systematic fashion to book return. The book value of the firm's common stock is determined by using the most recent balance sheet data and calculation the total value of stockholder's equity. Second, the market capitalization of the firm's common stock is determined by taking the most recent market price for the firm's common stock and multiplying it by the number of shares outstanding. The book value of shareholders equity is divided by the market capitalization to arrive at the BV/MV ratio. Relatively low value of this ratio characterizes growth stock, and relatively high values characterize value stock. Because the market value of a stock is driven by supply and demand, many companies trade well above or often below their book value. The company's market value trades well above its book value, but investors willingly purchase the stock at the inflated price.

Although comparing a company's book value to its market value can help you determine whether a stock is overvalued or undervalued, it's not the only factor to consider. Often a stock can trade for less than its book value, but that doesn't mean the company is undervalued. For example, a company that has limited future growth or that operates in a shrinking market can trade below its book value because opportunities for future revenue seem reduced. In this case, the company's market value reflects its uncertain future. Earnings, debt and assets are the building blocks of any public company's financial statements. For the purpose of disclosure, companies break these three elements into more refined figures for investors to examine. Investors can calculate valuation ratios from these to make it easier to compare companies. Among these, the book value and the price-to-book ratio (P/B ratio) are staples for value investors.

If it's obvious that a company is trading for less than its book value, we have to ask our self why other investors haven't noticed and pushed the price back to book value or even higher. The answer could be that the market is unfairly battering the company, but it's equally probable that the stated book value does not represent the real value of the assets. Companies account for their assets in different ways in different industries, and sometimes even within the same industry. This muddles book value, creation as many value opportunities. We need to know how aggressively a company has been depreciating its assets. This involves going back through several years of financial statements. If quality assets have been depreciated faster than the drop in their true market value, we found a

hidden value that may help hold up the stock price in the future. If assets are being depreciated slower than the drop in market value, then the book value will be above the true value, creating a value trap for investors who only glance at the P/B ratio. An investor looking to make a book value has to be aware of any claims on the assets, especially if the company is a bankruptcy candidate. Usually, links between assets and debts are clear, but this information can sometimes be played down. Like a person securing a car loan using his house as collateral, a company might use valuable assets to secure loans when it is struggling financially. In this case, the value of the assets should be reduced by the size of any secured loans tied to them. This is especially important in bankruptcy candidates because the book value may be the only thing going for the company, so you can't expect strong earnings to bail out the stock price when the book value turns out to be inflated.

The Kind of Companies Most Suited to book value plays

Critics of book value are quick to point out that finding genuine book value plays has become difficult in the heavily analyzed stock market. Oddly enough, this has been a constant refrain heard value investors still continue to find book value plays. The companies that have hidden values share some characteristics:

- Old companies have usually had enough time for assets like real estate to appreciate substantially.
- Big companies with international operations, and thus with international assets, can create book value through growth in overseas land prices or other foreign assets.
- The value of wood, gravel and oil go up with inflation, but many investors overlook these asset plays because the companies don't have the dazzle and flash of growth stocks.

Book value shopping is no easier than other types of investing, it just involves a different type of research. The best strategy is to make book value one part of what look for. Investor shouldn't judge a book by its cover and investor shouldn't judge a company by the cover it puts on its book value. In theory, a low price-to-book-value ratio means a cushion against poor performance. In practice it is much less certain. Outdated equipment may still add to book value, whereas appreciation in property may not be included. If investors are going to invest based on book value, Investors has to find out the real state of those assets.

That said, looking deeper into book value will give a better understanding of the company. In some cases, a company will use excess earnings to update equipment rather than pay

out dividends or expand operations. While this dip in earnings may drop the value of the company in the short term, it creates long-term book value because the company's equipment is worth more and the costs have already been discounted. On the other hand, if a company with outdated equipment has consistently put off repairs, those repairs will eat into profits at some future date. This tells you something about book value as well as the character of the company and its management. Investor won't get this information from the P/B ratio, but it is one of the main benefits from digging into book value numbers, and is well worth the time.

2.3.2 Relationship between Earning and Market price

Equity relationship is a central question which the academicians and researchers in the field of Capital markets are trying to address through different angles. A number of variable have been used to explain equity value and equity return. Earning is an important variable affecting the market value of equity share. Company producing and selling goods and services useful to citizens in a society and earning revenue covering its cost of production adds to its reserve and build up the same. Once a successful company starts building up reserves it will also look for expanding its scale of operations and thus increase its earnings. Once a company starts earning attractive sum, the equity share will have more and more demand which will result in increase in market value of the equity. Earning's after interest, depreciation and tax belongs to the equity shareholders. Earnings per share is computed by dividing earnings after interest, the depreciation and tax by total number of outstanding shares. Dividend may be distributed out of these earnings; whether it is distributed as dividend to shareholders or not, it belongs to the shareholders. Hence earning per share is a measure which the stock brokers and investors will watch carefully and consider it while deciding the market value of the equity share. The reverse will happen if the EPS falls down. From the above discussion it is clear that EPS affects the market value of equity share.

The price to earnings ratio (P/E ratio) is the ratio of market price per share to earning price per share. The P/E ratio is a valuation ratio of a company's current price per share compared to its earnings per share. It is also sometimes known as earnings multiple or "price multiple". Though Price-earning ratio has several imperfections but it is still the most acceptable method to evaluate prospective investments. It is calculated by dividing Market Price per Share (MPS) to Earnings per Share (EPS). Market value of share can be

taken from stock market's, earning price per share figure can be calculated by dividing net annual earnings to total number of shares (Net Annual Earnings/Total number of shares).

P/E ratio is a widely used ratio which helps the investors to decide whether to buy shares of a particular company. It is calculated to estimate the appreciation in the market value of equity shares.

The formula used to calculate the price to earnings ratio is:

$$\text{Price to Earnings Ratio} = \frac{\text{Market Price per Share}}{\text{Earnings per Share}}$$

The price to earnings ratio can also be calculated with the help of following formula:

$$\text{Price to Earnings Ratio} = \frac{\text{Market Capitalization}}{\text{Earnings after Taxes and Preference Dividends}}$$

The P/E ratio tells how much the market is willing to pay for a company's earnings. A higher P/E ratio means that the market is more willing to pay for the earnings of the company. Higher price to earnings ratio indicates that the market has high hopes for the future of the share and therefore it has bid up the price. On the other hand, a lower price to earnings ratio indicates the market does not have much confidence in the future of the share. The average P/E ratio is normally from 12 to 15 however it depends on market and economic conditions. P/E ratio may also vary among different industries and companies. P/E ratio indicates what amount an investor is paying against every earnings. A higher P/E ratio indicates that an investor is paying more for each unit of net income. So P/E ratio between 12 and 15 is acceptable. A higher P/E ratio may not always be a positive indicator because a higher P/E ratio may also result from overpricing of the shares. Similarly, a lower P/E ratio may not always be a negative indicator because it may mean that the share is a sleeper that has been overlooked by the market. Therefore, P/E ratio should be used cautiously. Investment decisions should not be based solely on the P/E ratio. It is better to use it in conjunction with other ratios and measures.

The most obvious and widely discussed problem in P/E ratio is that the denominator considers noncash items. Earnings figure can easily be manipulated by playing with non cash items, for example, depreciation or amortization. If it is not manipulated deliberately, earnings figure is still affected by non cash items. That is why a large number of investors are now using Price/Cash Flow Ratio which removes noncash items and considers cash items only. It is normally assumed that a low P/E ratio indicates a company is undervalued.

It is not always right as this may be due to the stock market assumes that the company is headed over several issues or the company itself has warned a low earnings than expected. Such things may lead to a low P/E ratio.

Can Market Price Affect Earnings Per Share?

Earnings Per Share

If investors want to know how a company is doing financially, look at its bottom line. This means the actual bottom line on a company's income statement. The income statement reflects the company's income for a specific period of time, as well as any expenses and costs incurred to generate that income. Earnings reports of public companies typically are released quarterly. Subtract expenses from revenue and you have the company's earnings, or profit. Divide the earnings by the number of outstanding shares of company stock and investors can calculate the earnings per share, or EPS. By comparing the quarterly or annual EPS to previous EPS from a prior period, you can track a company's profitability over time.

Market Expectations

Investors sometimes value a company based on expectations, and the market price often fluctuates if the company exceeds or fails to meet those expectations. A company's EPS is one indicator of a company's performance, and the market price of a company's stock can be influenced by its earnings per share. If the company's EPS is higher than anticipated, the market price of its stock will often rise. If its EPS is lower than anticipated, the stock price might fall, even if the company is sound and earned a profit.

Stock Price vs. EPS

While a company's EPS will often influence the market price of its stock, the relationship is rarely inverses. The company's EPS is determined by dividing the earnings by the number of outstanding shares. The market price of each share is immaterial.

Circular Relationship

Few things in the investment world operate in a vacuum and stock price and EPS are not exceptions. A company with strong earnings per share might see the market price of its stock rise. This higher stock price might create a positive impression of the company's products in the minds of customers, resulting in greater demand, increased sales and ultimately higher earnings. The inverse might also occur. Poor EPS might depress stock

prices resulting in lower consumer confidence, fewer sales and ultimately lower earnings per share. But these relationships are circular and not direct.

2.3.3 Relationship between Dividend and Market price

Dividends paid by the firms are viewed positively both by the investors and the firms. The firms which do not pay dividends are rated in oppositely by investors thus affecting the share price. The people support relevance of dividends clearly state that regular dividends reduce uncertainty of the shareholders i.e. the earnings of the firm is discounted at a lower rate, thereby increasing the market value. However, its exactly opposite in the case of increased uncertainty due to non-payment of dividends.

Agency cost argument, proposed that dividend payments reduce costs and increase cash flow, that is payment of dividends motivates managers to disgorge cash rather than investing at below the cost of capital or wasting it on organizational inefficiencies. Some authors have stressed the importance of information content of dividend suggested that dividend announcements provide the missing pieces of information about the firm and allows the market to estimate the firm's current earnings. Investors may have greater confidence that reported earnings reflect economic profits when announcements are accompanied by ample dividends. If investors are more certain in their opinions, they may react less to questionable sources of information and their expectation of value may be insulated from irrational influence.

Rate of return effect is that a firm with low payout and low dividend yield may tend to be valued more in terms of future investment opportunities. Consequently, its stock price may be more sensitive to changing estimates of rates of return over distant time periods. Thus expanding firms although may have lower payout ratio and dividend yield, exhibit price stability. This may be because dividend yields and payout ratio serves as proxies for the amount of projected growth opportunities. If forecasts of profits from growth opportunities are less reliable than forecasts of returns on assets in place, firms with low payout and low dividend yield may have greater price volatility. According to duration effect and arbitrage effect, the dividend yield and not the payout ratio is the relevant measure. The rate of return effect implies that both dividend yield and payout ratio matters. Dividend policy may serve as a proxy for growth and investment opportunities. Both the duration effect and the rate of return effect assume differentials in the timing of the underlying cash flow of the business.

Share price volatility should be related to the basic risks encountered in the firm's product markets. Market risk may also have impact on the firm's dividend policy. We therefore include a control variable to account for the variability in the firm's earnings stream. Given operating risk, there should be a direct link between stock price volatility. Under conditions of asymmetric information there is also likely to be a link between borrowing and dividend policy. A control variable was included to reflect corporate leverage. There are potential links between size and volatility. Small firms are likely to be less diversified in their activities and less subject to investor scrutiny. Institutions appear to concentrate their research activities and investment policies on larger listed companies. The market in the stocks of small listed firms could conceivably be less informed, more illiquid, and as a consequence subject to greater price volatility. Firms with a more dispersed body of shareholders may be more disposed towards using dividend policy as a signalling device. The latter may also be a function of size and thus a size control was required.

Dividend payout policy could be inversely linked to growth and investment opportunities. The previously mentioned duration and rate of return effects assume timing differentials in the firm's underlying cash flows. A variable to reflect growth was also included. The suggestion is that any remaining link between dividend policy and stock price volatility, after controlling for the influence of growth, would be suggestive of either the arbitrage or information effect. It is also possible that systematic differences in market conditions, cost structures, regulatory restrictions etc., may lead to differences in dividend policy. These also have impact on price volatility. Dividends and other cash flow variables such as accounting earnings, investment, industrial production etc to explain stock returns. The difficulty in any empirical work examining the linkage between dividend policy and stock volatility or returns lies in the setting up of adequate controls for the other factors. The relationship between dividend yield and price volatility operating earnings, size of the firm, level of debt financing, payout ratio and level of growth. These variables have a clear impact on stock returns but also impact on dividend yield.

2.4 Behaviours of stock market prices

There are approaches to explain the behaviour's of stock market prices. They are Technical Analysis, Fundamental analysis.. However, all theories explain with the behaviour of stock market prices.

2.4.1 Technical analysis

Technical analysis is a security analysis discipline used for forecasting the direction of prices through the study of past market data, primarily price and volume. Behavioural economics and quantitative analysis use many of the same tools of technical analysis, which, being an aspect of active managements, stands in contradiction to much of modern portfolio theory. The efficacy of both technical and fundamental analysis is disputed by the efficient-market hypothesis which states that stock market prices are essentially unpredictable. Technical analysis is a method of evaluating securities by analyzing the statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity. Just as there are many investment styles on the fundamental side, there are also many different types of technical traders. Some rely on chart patterns; others use technical indicators and oscillators, and most use some combination of the two. In any case, technical analysts' exclusive use of historical price and volume data is what separates them from their fundamental counterparts. Unlike fundamental analysts, technical analysts don't care whether a stock is undervalued - the only thing that matters is a security's past trading data and what information this data can provide about where the security might move in the future.

Technical analysis is the study of the internal stock exchange information as such. The word technical implies a study of the market itself and not of those external factors which are reflected in the market. All the relevant factors, whatever they may be, can be reduced to the volume of the stock exchange transactions and the level of share prices; or more generally, to the sum of the statistical information produced by the market. Technical analysis involves the study of stock market prices in an attempt to predict future price movements for the common stock of a particular firm. Initially, past prices are examined in order to identify recurring trends or patterns in price movements. Then more stock prices are analyzed in order to identity emerging trends to pasterns that are similar to past ones. This analysis is done in the belief that these trends, the analyst hopes to predict accurately future price movements for that particular stock (Sharpe, Alexander and Belly, 2003).

Technical analysts also widely use market indicators of many sorts, some of which are mathematical transformations of price, often including up and down volume, advance decline data and other inputs. These indicators are used to help assess whether an asset is trending, and if it is, the probability of its direction and of continuation.

Technicians also look for relationships between price/volume indices and market indicators. Other avenues of study include correlations between changes in Options and put/call ratios with price. Also important are sentiment indicators such as Put/Call ratios, bull/bear ratios, short interest, Implied Volatility, etc. There are many techniques in technical analysis. Adherents of different techniques candlestick charting, Dow Theory, and Elliott wave theory may ignore the other approaches, yet many traders combine elements from more than one technique. Some technical analysts use subjective judgment to decide which pattern a particular instrument reflects at a given time and what the interpretation of that pattern should be. Others employ a strictly mechanical or systematic approach to pattern identification and interpretation.

Technical analysis is frequently contrasted with fundamental analysis, the study of economic factors that influence the way investor's price financial markets. Technical analysis holds that prices already reflect all such trends before investors are aware of them. Uncovering those trends is what technical indicators are designed to do, imperfect as they may be. Fundamental indicators are subject to the same limitations, naturally. Some traders use technical or fundamental analysis exclusively, while others use both types to make trading decisions.

The field of technical analysis is based on three assumptions:

1. The market discounts everything.

2. Price moves in trends.

3. History tends to repeat itself.

 1. The market discounts everything

A major criticism of technical analysis is that it only considers price movement, ignoring the fundamental factors of the company. However, technical analysis assumes that, at any given time, a stock's price reflects everything that has or could affect the company - including fundamental factors. Technical analysts believe that the company's fundamentals, along with broader economic factors and market psychology, are all priced into the stock, removing the need to actually consider these factors separately. This only leaves the analysis of price movement, which technical theory views as a product of the supply and demand for a particular stock in the market.

2. Price moves in Trends

In technical analysis, price movements are believed to follow trends. This means that after a trend has been established, the future price movement is more likely to be in the same direction as the trend than to be against it. Most technical trading strategies are based on this assumption.

3. History tends to repeat itself

Another important idea in technical analysis is that history tends to repeat itself, mainly in terms of price movement. The repetitive nature of price movements is attributed to market psychology; in other words, market participants tend to provide a consistent reaction to similar market stimuli over time. Technical analysis uses chart patterns to analyze market movements and understand trends.

Technical analysis seek to estimate security prices rather than intrinsic value, that is, they try to forecast short run shifts is supply and demand that will affect the market price of one or more securities. They tend to ignore such factors as the firms risk and earnings growth in favour of concentrating on various barometers of supply and demand that they have devised (Francis, 1983). Thus technical analysis discern past pattern or trends, which they believe to repeat in the future and recommend for the timely holding and disposing mechanism, which is profitable. or that recommend for short-term speculation based on its forecast of profitable pattern.

2.4.2 Fundamental Analysis

Fundamental analysis is the examination of the essential or primary forces that affect the well-being of the economy, industry groups and companies. As with the most analysis, the goal is to derive a forecast and profit from the future price movements. At the company level, the fundamental analysis may involve examination of the financial data, management, business concept and competition. At industry level, there might be and examination if the supply and demand for the products offered, for the national economy, the fundamental analysis might focus on economic data to assess the present and future growth of the company.

 Fundamental analysis begins with the assertion that the true or intrinsic value of any financial assets equals the present value of all cash flows that the owner or the assets

expects to receive. Accordingly, the fundamental stock analyst attempts to forecast the timing and size of these cash flows and then converts them to their equivalent present value by using an appropriate discount rate. More specifically, the analyst must attempt not only to estimate the discount rate but also to forecast the stream of dividends that a particular stock will provide in the future; this process is equivalent to forecasting the firms earning pre share and payout ratios. Furthermore, the discount rate must be estimated. Once the true value of the common stock of a particular firm has been determined, it is compared with the current market price of the common stock is fairly priced. Stock have a true value less than their current market price are known as overvalued or overpriced stock, whereas those that have a true value greater than their current market price are known undervalued or underpriced stocks. The magnitude of the difference between the true value and the current market price is also important information because the strength of the analyst's conviction that a given stock is mispriced will depend, in part, on it. Fundamental analysts believe that any notable cases of mispriced will be corrected by the market in the near future, meaning that prices of undervalued stocks will show unusual appreciation and prices of overvalued stocks will show unusual depreciation (Sharpe, Alexander and Bailey, 2003).

Fundamental analysis of a business involves analyzing its financial statements and health, its management and competitive advantages, and its competitors and markets. When applied to futures, it focuses on the overall state of the economy, interest rates, production, earnings, and management. When analyzing a stock, futures contract, or currency using fundamental analysis there are two basic approaches one can use; bottom up analysis and top down analysis. The term is used to distinguish such analysis from other types of investment analysis, such as quantitative analysis and technical analysis. Fundamental analysis is performed on historical and present data, but with the goal of making financial forecasts. There are several possible objectives:

- To conduct a company stock valuation and predict its probable price evolution,
- To make a projection on its business performance,
- To evaluate its management and make internal business decisions,
- To calculate its credit risk.

In the fundamental approach, the security analyst or prospective investor is primarily interested in analyzing factors such as economic influences, industry factors and pertinent company information such as product demand, earnings dividends and management in

order to calculate an intrinsic value for the firm's securities. Investor reaches an investment decision by comparing this value with the current market price of the security. The choice of stock analysis is determined by the investor's belief in the different paradigms for how the stock market works.

Fundamental analysis includes:

      1 Economic analysis

      2 Industry analysis

      3 Company analysis

On the basis of these three analyses the intrinsic value of the shares are determined. This is considered as the true value of the share. If the intrinsic value is higher than the market price it is recommended to buy the share. If it is equal to market price hold the share and if it is less than the market price sell the shares.

Important Elements in Fundamental Analysis

Having a basic knowledge of fundamental analysis will give investors a better foundation for the investment decisions. Learn 5 core elements in Fundamental Analysis and understand should use it when investing. Investors will learn how to find relevant information in earning reports from the listed companies.

- What is fundamental analysis?
- Why use fundamental analysis?
- The true value of a stock.
- 5 key factors to look for.
- Buying at the right price.

What is a Fundamental Analysis?

A fundamental analysis is all about getting an understanding of a company, the health of its business and its future prospects. It includes reading and analyzing annual reports and financial statements to get an understanding of the company's comparative advantages, competitors and its market environment.

Why use fundamental analysis?

Fundamental analysis is built on the idea that the stock market may price a company wrong from time to time. Profits can be made by finding underpriced stocks and waiting for the market to adjust the valuation of the company. By analyzing the financial reports from companies investors will get an understanding of the value of different companies and understand the pricing in the stock market. After analyzing these factors investors have a better understanding of whether the price of the stock is undervalued or overvalued at the current market price. Fundamental analysis can also be performed on a sectors basis and in the economy as a whole.

The true value of a stock

For a fundamental analyst, the market price of a stock tends to move towards its intrinsic value, which is the true value of a company as calculated by its fundamentals. If the market value does not match the true value of the company, there is an investment opportunity. Example of this is that if the current market price of a stock is lower than the intrinsic price, the investor should purchase the stock because he expects the stock price to rise and move towards its true value. Alternatively, if the current market price is above the intrinsic price, the stock is considered overbought and the investor sells the stock because he knows that the stock price will fall and move closer to its intrinsic value.

5 key factors to look for

1. Earning

The key element all investors look after is earnings. Before investing in a company investors want to know how much the company is making in profits. Future earnings are a key factor as the future prospects of the company's business and potential growth opportunities are determinants of the stock price. Factors determining earnings of the company are such as sales, costs, assets and liabilities. A simplified view of the earnings is earnings per share (EPS). This is a figure of the earnings which denotes the amount of earnings for each outstanding share.

2. Profit Margins

Amount of earnings do not tell the full story, increasing earnings are good but if the cost increases more than revenues then the profit margin is not improving. The profit margin measures how much the company keeps in earnings out of every dollar of their

revenues. This measure is therefore very useful for comparing similar companies, within the same industry.

$$\text{Net profit margin} = \frac{\text{Net profit}}{\text{revenue}}$$

Higher profit margin indicates that the company has better control over its costs than its competitors

3. Return on Equity (ROE)

Return of equity (ROE) is a financial ratio that does not account for the stock price. Since it ignores the price entirely it is by many thought of as the most important financial measure. It can basically be thought of as the parent ratio that always needs to be considered.

This ratio is a measure of how efficient a company is in generating its profits. It is a ratio of revenue and profits to owners' equity (shareholders are the owners). Specifically it is:

$$\text{Return on Equity} = \frac{\text{Net income}}{\text{Shareholder,s equity}}$$

4. Price-to-Earnings (P/E)

When taking the current market price into consideration, the most popular ratio is the Price-to-Earnings (P/E) ratio. As the name suggest it is the current market price divided by its earnings per share (EPS). It is an easy way to get a quick look of a stock's value. A high P/E indicates that the stock is priced relatively high to its earnings, and companies with higher P/E therefore seem more expensive. However, this measure, as well as other financial ratios, needs to be compared to similar companies within the same sector or to its own historical P/E. This is due to different characteristics in different sectors and changing markets conditions. This ratio does not tell the full story since it does not account for growth. Normally, companies with high earnings growth are traded at higher P/E values than companies with more moderate growth rate. Accordingly, if the company is growing rapidly and is expected to maintain its growth in the future this current market price might not seem so expensive.

5. Price-to-Book (P/B)

A price-to-book (P/B) ratio is used to compare a stock's market value to its book value. It can be calculated as the current share price divided to the book value per share, according

to previous financial statement. In a broader sense, it can also be calculated as the total market capitalization of the company divided by all the shareholders equity. This ratio gives certain idea of whether you are paying too high price for the stock as it denotes what would be the residual value if the company went bankrupt today. A higher P/B ratio than 1 denotes that the share price is higher than what the company's assed would be sold for. The difference indicates what investors think about the future growth potential of the company.

Buying at the right price?

In the long run the stock price should reflect its fundamental true value. However in the short run a stock might have great fundamentals but still be moving in wrong direction. This can be due to other factors, such as news releases and changes in future outlook, which also have effect on the price. Trends in the market and investors emotions also effect the short-term fluctuation in stock prices resulting in the current market price deviating from its true value.

If investors pay too high price for even the best stock in the world, you will never make a good return on your investment. Therefore, a great investment does not likely have a high price. The point of this question is that the price you pay for a stock does matter enormously; it is the most important factor in your return. Accordingly, doing your fundamental analysis thoroughly is of a great importance when making your investments. When determining whether a company's stock is a good investment, fundamental analysis is a great toolbox to reach a conclusion.

2.5 Fundamental Vs Technical Analysis

Technical analysis and fundamental analysis are the two main schools of thought in the financial markets. As we've mentioned, technical analysis looks at the price movement of a security and uses this data to predict its future price movements. Fundamental analysis, on the other hand, looks at economic factors, known as fundamentals. Let's get into the details of how these two approaches differ, the criticisms against technical analysis and how technical and fundamental analysis can be used together to analyze securities.

2.5.1 The Differences

Chart vs. financial statements

At the most basic level, a technical analyst approaches a security from the charts, while a fundamental analyst starts with the financial statements. By looking at the balance

sheet, cash flow statement and income statement, a fundamental analyst tries to determine a company's value. In financial terms, an analyst attempts to measure a company's intrinsic value. In this approach, investment decisions are fairly easy to make, if the price of a stock trades below its intrinsic value, it's a good investment. Although this is an oversimplification for the purposes of this tutorial, this simple tenet holds true. Technical traders, on the other hand, believe there is no reason to analyze a company's fundamentals because these are all accounted for in the stock's price. Technicians believe that all the information they need about a stock can be found in its charts.

Time Horizon

Fundamental analysis takes a relatively long-term approach to analyzing the market compared to technical analysis. While technical analysis can be used on a timeframe of weeks, days or even minute's fundamental analysis often looks at data over a number of years. The different timeframes that these two approaches use is a result of the nature of the investing style to which they each adhere. It can take a long time for a company's value to be reflected in the market, so when a fundamental analyst estimates intrinsic value, a gain is not realized until the stock's market price rises to its correct value. This type of investing is called value investing and assumes that the short-term market is wrong, but that the price of a particular stock will correct itself over the long run. This long run can represent a timeframe of as long as several years, in some cases.

Furthermore, the numbers that a fundamentalist analyzes are only released over long periods of time. Financial statements are filed quarterly and changes in earnings per share don't emerge on a daily basis like price and volume information. Also remember that fundamentals are the actual characteristics of a business. New management can't implement sweeping changes overnight and it takes time to create new products, marketing campaigns, supply chains, etc. Part of the reason that fundamental analysts use a long-term timeframe, therefore, is because the data they use to analyze a stock is generated much more slowly than the price and volume data used by technical analysts.

Trading versus Investing

Not only is technical analysis more short term in nature than fundamental analysis, but the goals of a purchase (or sale) of a stock are usually different for each approach. In general, technical analysis is used for a trade, whereas fundamental analysis is used to make an investment. Investors buy assets they believe can increase in value, while traders buy

assets they believe they can sell to somebody else at a greater price. The line between a trade and an investment can be blurry, but it does characterize a difference between the two schools.

2.5.2 The Critics

Some critics see technical analysis as a form of black magic. In fact, technical analysis has only recently begun to enjoy some mainstream credibility. While most analysts on Wall Street focus on the fundamental side, just about any major brokerage now employs technical analysts as well. Much of the criticism of technical analysis has its roots in academic theory specifically the efficient market hypothesis (EMH). This theory says that the market's price is always the correct one - any past trading information is already reflected in the price of the stock and, therefore, any analysis to find undervalued securities is useless.

There are three versions of EMH. In the first, called weak form efficiency, all past price information is already included in the current price. According to weak form efficiency, technical analysis can't predict future movements because all past information has already been accounted for and, therefore, analyzing the stocks past price movements will provide no insight into its future movements. In the second, semi-strong form efficiency, fundamental analysis is also claimed to be of little use in finding investment opportunities. The third is strong form efficiency, which states that all information in the market is accounted for in a stock's price and neither technical nor fundamental analysis can provide investors with an edge. The vast majority of academics believe in at least the weak version of EMH, therefore, from their point of view, if technical analysis works, market efficiency will be called into question. There is no right answer as to who is correct. There are arguments to be made on both sides and, therefore, it's up to investors to do the homework and determine your own philosophy.

2.5.3 Can They Exist?

Although technical analysis and fundamental analysis are seen by many as polar opposites - the oil and water of investing - many market participants have experienced great success by combining the two. For example, some fundamental analysts use technical analysis techniques to figure out the best time to enter into an undervalued security. Oftentimes, this situation occurs when the security is severely oversold. By timing entry into a security,

the gains on the investment can be greatly improved. Alternatively, some technical traders might look at fundamentals to add strength to a technical signal. For example, if a sell signal is given through technical patterns and indicators, a technical trader might look to reaffirm investor's decision by looking at some key fundamental data. Oftentimes, having both the fundamentals and technical on side can provide the best-case scenario for a trade. While mixing some of the components of technical and fundamental analysis is not well received by the most devoted groups in each school, there are certainly benefits to at least understanding both schools of thought.

2.6 Efficient Market Theories

As efficient market is concerned with the pricing mechanism of securities market, it has two dimensions of price adjustment. One is the type of information reacting to and another is the speed and quality of adjustment of security to the information. As any random infusion of information instantaneously and correctly adjusted in prices, there will be no subsequent dependencies or lags that are profitable. Pricing not only should be instantaneous, but also should discount accuracy of information so that the prices fluctuate closely around its intrinsic value. So it would be clearly an add interpretation of efficiency if a doubling in price of a share were regarded as an efficient reaction to new information, simply because the movement was instantaneous, if the information in fact warranted a substantial reduction in price.

Level of Market Efficiency:

The efficient markets hypothesis predicts that market prices should incorporate all available information at any point in time. There are, however, different kinds of information that influence security values. Consequently, financial researchers distinguish among three versions of the Efficient Markets Hypothesis, depending on what is meant by the term "all available information".

Forms of efficiency	Set of Information Reflected in Securities Price
Weak	Previous price of Securities
Semi-Strong	All publicly available information
Strong	All information both Public and Private.

Weak Form Efficiency

The weak form of the efficient markets hypothesis asserts that the current price fully incorporates information contained in the past history of prices only. That is, nobody can detect mis-priced securities and "beat" the market by analyzing past prices. The weak form of the hypothesis got its name for a reason security prices are arguably the most public as well as the most easily available pieces of information. Thus, one should not be able to profit from using something that everybody else knows. On the other hand, many financial analysts attempt to generate profits by studying exactly what this hypothesis asserts is of no value - past stock price series and trading volume data. This technique is called technical analysis.

Weak-form efficiency, future prices cannot be predicted by analyzing prices from the past. Excess returns cannot be earned in the long run by using investment strategies based on historical share prices or other historical data. Technical analysis techniques will not be able to consistently produce excess returns, though some forms of fundamental analysis may still provide excess returns. Share prices exhibit no serial dependencies. This implies that future price movements are determined entirely by information not contained in the price series. Hence, prices must follow a random walk. This 'soft' EMH does not require that prices remain at or near equilibrium, but only that market participants not be able to systematically profit from market 'inefficiencies'. However, while EMH predicts that all price movement is random many studies have shown a marked tendency for the stock markets to trend over time periods of weeks or longer and that, moreover, there is a positive correlation between degree of trending and length of time period studied but note that over long time periods, the trending is sinusoidal in appearance. Various explanations for such large and apparently non-random price movements have been promulgated.

Semi-strong Form Efficiency

Semi-strong-form efficiency, it is implied that share prices adjust to publicly available new information very rapidly and in an unbiased fashion, such that no excess returns can be earned by trading on that information. Semi-strong-form efficiency implies that neither fundamental analysis nor technical analysis techniques will be able to reliably produce excess returns. To test for semi-strong-form efficiency, the adjustments to previously unknown news must be of a reasonable size and must be instantaneous. To test for this, consistent upward or downward adjustments after the initial change must be

looked for. If there are any such adjustments it would suggest that investors had interpreted the information in a biased fashion and hence in an inefficient manner.

The semi-strong-form of market efficiency hypothesis suggests that the current price fully incorporates all publicly available information. Public information includes not only past prices, but also data reported in a company's financial statements, annual reports, income statements, earnings and dividend announcements, announced merger plans, the financial situation of company's competitors, expectations regarding macroeconomic factors such as inflation, unemployment etc. In fact, the public information does not even have to be of a strictly financial nature. For example, for the analysis of pharmaceutical companies, the relevant public information may include the current state of research in pain-relieving drugs. Nevertheless, this assumption is far stronger than that of weak-form efficiency. Semi-strong efficiency of markets requires the existence of market analysts who are not only financial economists able to comprehend implications of vast financial information, but also should be surprised that investment companies analyzing many of the high-tech industries have started employing experts from many non-financial areas in order to be able to assess viability of projects undertaken by high-tech companies.

Strong-Form Efficiency

In strong-form efficiency, share prices reflect all information, public and private, and no one can earn excess returns. If there are legal barriers to private information becoming public, as with insider trading laws, strong-form efficiency is impossible, except in the case where the laws are universally ignored. To test for strong-form efficiency, a market needs to exist where investors cannot consistently earn excess returns over a long period of time.

The strong form of market efficiency hypothesis states that the current price fully incorporates all existing information, both public and private. The main difference between the semi-strong and strong efficiency hypotheses is that in the latter case, nobody should be able to systematically generate profits even if trading on information not publicly known at the time. In other words, the strong form of EMH states that a company's management are not be able to systematically gain from inside information by buying company's shares ten minutes after they decided to pursue what they perceive to be a very profitable acquisition. The rationale for strong-form market efficiency is that the market anticipates, in an unbiased manner, future developments and the stock price may have

incorporated the information and evaluated in a much more objective and informative way than the insiders.

The requirements for a security market to be an efficient market are as follows:

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

A market is efficient with respect to a particular set of information if it is impossible to make abnormal profits by using this set of information to formulated buying and selling decision.   This constitutes the world of the efficient market theory or more popularly the capital assets pricing model. These three hypotheses are not mutually exclusive; they differ only in the degree of market efficiency. It is notable point that a semi-strong efficient market encompasses the weak form of the hypothesis because price and volume data are part of the larger set of all publicly available information. Strong-form efficiency encompasses the weak and semi-strong forms and represents the highest level of market efficiency. It is true in order to the semi-strong and strong form hypothesis to be true.

Random walk model says that previous price changes. It means if we attempt to predict future price in absolute term using only historical price change information, we attempt to predict future price in absolute term using only historical price change information, we will not be successful i.e., successive price changes are independent. This independence implies that prices at any time will on the average reflect the intrinsic value because among other things, different insights into future prospects of firm, professional investors and astute non professional will seize upon the short- term or random deviations from the intrinsic value and through their active buying and selling of the stock in question will

force the price back to its equilibrium position. Finally, the efficient market theory holds that since price reflects all available information and since information arrives in a random fashion, there is little to be gained by any type of analysis whether fundamental or technical. It assumes that every piece of information has been collected and processed by thousands of investor and this information has been collected and processed by thousands of investor and this information is correctly reflected in the price. Returns cannot be increased by studying historical data, either fundamental or technical, since past data will have no effect on future prices.

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

2.7 Review of Thesis

There are numerous thesis reports for the partial fulfilment of Master of Business Administration, Master of Business Studies and Mater in Arts in Tribunal University. Among those thesis reports some are related to the capital market and vary few are related to the stock price in Nepal Stock Exchange. Some of those thesis reports are viewed here:

Monica, S. (2009) has made a study on "Stock price behaviour of commercial Bank and Financial Institutions in Nepal" the major objectives were,

1. To provide a quick glance at the present Nepalese Stock Market.

2. To evaluate the stock price behaviour of the commercial banks and financial institutions listed in Nepalese stock market.

3. To inspect the risk concerned in the common stock investment of the sampled commercial banks and financial institutions.

4. To study the present financial position of the commercial banks and financial institutions and at the same time examine and evaluate relationship of MPS with various financial indicators like EPS, NWPS and DPS.

5. To provide a set of recommendations based on this case study

The major findings of the studies as follows;

1. To promote a competitive and healthy share market and to check domination and undue speculation it is important to have adequate market intermediaries in the stock exchange. Although the NEPSE is in the process of increasing the stock brokers, it is important that the NEPSE would conduct a proper research to ensure that there are enough brokers and market intermediaries for a competitive functioning of the stock market.

2. The study of stock market behaviour should be done in periodic manner so that the proper results can be drawn for betterment of the stock market from the side of NEPSE.

3. In order to increase awareness on share investment among public investors various education and awareness programs including quarterly publication of newsletters must be initiated. SEBON took persuasive measures to the listed companies for their noncompliance and for timely disclosures.

4. Null Hypothesis is rejected and Alternative Hypothesis is accepted. This indicates that the change in the MPS of the commercial banks under the study is not random and that the market over reacts to the available information.

Sawed, A. (2010) has conducted the study on "Determinants of stock price of listed companies in Nepal stock exchange" the major objectives were,

1. To study and analyze the major financial indicators (DPS, EPS, BVPS) which have major influence on stock price.

2. To evaluate the relation of stock price with major financial indicators.

3. To examine the level of influence of those financial indicators on the stock price.

4. To study and evaluate whether stocks of the sampled companies are over-priced, under-priced or equilibrium price.

5. To assess different people response regarding the change of stock price.

6. To suggest concerned organizations and sector on the basis of major findings of the study.

Major Findings of the Study.

1. Pricing status analysis of the stock of sampled companies has shown that stock price of all the sample companies NABIL, BOK, NFC, LFC, SDBL and ACEDBL are underpriced during the study period because actual returns were remarkable higher than required returns. The treasury bills discount rates is in increasing trend because of in sufficient availability of liquidity in the market. This discount rate is considered as the risk free rate. In the same way few companies among the listed companies in NEPSE are performing satisfactorily, therefore NEPSE index is in declining trend, which eventually yield lower rate of market return. Thus these all are the key reasons due to which required return is significantly lower during the study period.

2. MVPS is significantly affected by company's performance such as earnings, cash dividends payment, book value, risk associated with the company and growth rate at 5% level of significance.

3. When looking at, the other relevant factors to share price such as interest rate, retention ratio, cost of equity stock dividend etc., these factors also significantly affects the share price at 5% level of significance.

3. The political, economic and environmental factors such as instability of government, cease-fire, national economy, etc. significantly affect the share price at 5% level of significance.

4. From other factor like change in management has insignificant impact on the share price.

5. Size of the company, demand and supply, rumours and whims etc significantly affect the share price.

6. While analyzing the response of capital market is not well developed in Nepal, listed companies are not serious about shareholders" interest and NEPSE and SEBON are not able to protect share holde's interest has shown significant implication at 5% level of significance.

Shrestha, S. (2011) has conducted the study on "A comparative analysis on stock price behaviour of Nepalese commercial banks" the major objectives were,

1. To analyze the market position of sample banks.

2. To examine the relationship between market price pre share and other determinants variable such as earning price per share and dividend per share.

3. To explore how the price behaves in stock market and how investors can safeguard their investment on stock market.

4. To test the efficient market hypothesis.

5. To assess the dependence or independence of successive price change with the price of historical change.

The major finding of researcher were,

1. The development of stock market is not in the satisfactory level. only the banking sector is having the high performance.

2. Most of the populations were interested to invest in shares. Regarding the preference investment sectors, major portion were found preferring to invest in banking and finance companies.

3. Correlation coefficient measures the degree of relationship between two variables whereas the regression analysis is used to measure the likely value of one variable from the known value of other variable.

4. The cause and effect relationship is dearly indicated through regression analysis than by correlation. The regression analysis shows the positive relationship between MPS with EPS and DPS respectively.

Kafle, L. (2012) has conducted the study on "Determinants of stock price in Nepal stick exchange limited" the major objectives were,

1. To identify qualitative as well as quantitative factors affecting the stock price in NEPSE with   reference to commercial banks.

2. To determine the effect of earnings and book value to the stock price.

3. To determine the effect of dividend to the stock price.

4. To make appropriate recommendations/suggestions for the betterment of the stock market on the basis of findings.

The following findings have been drawn based on the research of samapled banks taken under study.

1. From the secondary data analysis, it is found that MPS is negatively correlated with DPS where as it is positively correlated with BPS and EPS of the SCB. The relationship between MPS and DPS is not significant at 95% level of significance. The relationship of MPS with BPS and EPS is also not significant at 95% level of significance. BPS and EPS are less volatile other than MPS and DPS. In overall, SCB seems to be in good in its performance during last six year periods.

2. MPS of NBL is positively correlated with DPS, BPS and EPS. However, the relationship of MPS with EPS is not significant and also the relationship of MPS with BPS and DPS is not significant at 95% level of significance. BPS and EPS has less volatile. But MPS and DPS have high volatile. It is revealed from analysis that in overall NBL has good in its performance in last six years period.

3. While analysis secondary data of the HBL, MPS is high degree of positively correlated with BPS and EPS. The degree of correlation is very low on DPS with MPS so that these relationships are not significant at 95 % level of significance. BPS is very much consistent where as MPS, DPS and EPS are more volatile. HBL in overall seems to have satisfactory in its performance.

4. For EBL, there exists high degree of positive correlation of MPS with BPS. But MPS with DPS and EPS are positive correlation. The t-test explains that these results of MPS with DPS, BPS and EPS show not significant at 95% level of significance. The performance of BPS and EPS are good. MPS and DPS are more volatile which is not good. In overall, there is good performance of EBL in the last six years period.

5. For, SBI bank, MPS has moderate degree of correlation with BPS, high degree of positive correlation with EPS and negative correlation with DPS. From t-test analysis, it shows that MPS with EPS is significant and MPS with DPS and BPS is not significant at 95% level of significance. BPS consistent and good where as EPS, MPS and DPS has higher volatility respectively. In overall, the SBI have satisfactory performance during the period of six years.

2 .8 Research Gap

The review of the past dissertations and studies shows that similar research on the share price behaviour has been conducted by different researchers in the past. The review shows that most of the studies were focused on different listed companies and not particularly on the commercial banks. Few researches which focused on the share price behaviour of the commercial banks have tried to analyze the banking share price comparing it with its own financial indicators and with macroeconomic variables. Nepal has also followed a policy of liberalization, privatization and globalization. Considering all these facts, it is necessary to carry out a fresh research to fulfil the gap between past studies and present condition.

NEPSE have listed many types of companies, which heat directly in its index. Among them insurance company is the most important financial companies institutions which listed in NEPSE, which could be directly heat to the index. In previous research not the sample from insurance companies, researcher has conducted the research from insurance companies group. The three insurance companies are the sample for research and five year current data is based for the research. Moreover, compared to other past studies, this study has analyzed the share price behaviour from the FY 2008/09 to 2012/13

CHAPTER III

Research Methodology

3.1 Introduction

Research methodology is a way to systematically solve the research problem. It may be understood as a scientifically. We study the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind them. It is necessary for the researcher to know not only the research techniques but also the methodology. It answers about why research study has been undertaken, how the research problem has been defined, in what way and why the hypothesis has been formulated, what data have been collection and what particular method has been adopted, Why particular techniques of analysis data has been used and a host of similar other questions are usually answered when we talk of research methodology concerning a research problem or study (C.R. Kothari, 1995).

3.2 Research design

When a particular research area has been identified, research problem defined and the related literature in the next step is to construct the research design, choosing an appropriate research design is crucially important to the success of the research project. The decision we make at this stage of our research study ultimately determines the quality of our research result. A faulty research design may miss leading finding. There are so many types of research design, which is we must use appropriate research.

3.3 Variables

A variable is anything that can take on different or varying values which can take on different quantitative value is called a variable. This research intends to identify the factors that affect share price in NEPSE. So, the market price of the share is the dependent variables. Which is affected by many variable, such variables are regarded as the independent variables in the study. The entire factors that affect the market price of shares, such as earnings, dividends, interest rate, liquidity , book value of share, economy of the nation, peace and prosperity, rumours and whims etc. are the independent variables.

3.4 Research hypothesis

Null hypothesis H_0: $p = o$ That is, That is, the variables are uncorrelated with MPS.

Alternative hypothesis H_1: $p \neq 0$ That is, the variables are correlated in with MPS.

3.5 Population and Samples.

This study intends to identify the factors affecting the stock price of Insurance companies in NEPSE up to 2012. In this study researcher has been taken 3 listed insurance companies which are given as follows:

I) National Life Insurance Company Limited

II) Life Insurance Corporation (Nepal) Limited

III) Nepal Life Insurance Company Limited

The secondary data of sample organization are analyzed to determine the relationship of earning, dividend and book value with market price of share in NEPSE.

3.6 Sources of Data

The study has conducted based on secondary data. To show the relationship between variables (share price − earnings, share price − book value, share price − dividend), data are used but to determine the factors, which affect the stock price. The data collected mainly from published sources like annual report, prospectus, balance sheet, newspaper, journal, Internet and other sources from the companies.

3.7 Data Collection Techniques

The research consists of secondary data. To collect the data, published materials are viewed in various spots. Books by different authors, unpublished thesis reports, journals, magazines, internet, AGM reports of the listed companies, SEBO/N, NEPSE etc. Trading reports of NEPSE are the major source of secondary data. To collect these secondary data, the researches visited NCC library, Central library and library of SEBO/N.

3.8 Data analysis tools and techniques

Data analysis is an important stage of the research process. The data is to change it from an unprocessed from an understandable presentation. In order to analyze the data researcher use appropriate tools and technique to analyze such data. To analyze the data in this research, the researcher has used some statistical tools, which are explained as under.

3.8.1 Average/Mean

The mean, as a single number representing a whole data set has important advantage. It is a measure that can be calculated and it is unique because every data set has one and only one mean. The mean is useful for performing statistical procedures such as comparing the means several data. There are various types of average. Arithmetic mean, median, mode, geometric mean, harmonic mean are the major types of average. The most popular and widely used measure representing the entire data by one value is the Arithmetic Mean. The value of the AM is obtained by adding together all numbers and dividing this total by the number of items. In mathematically it is writing as;

$$x̄ = \frac{\sum x}{n}$$

Where,

$x̄$ = Arithmetic mean

$\sum x$ = Sum of all the values of the variable X

n = Number of observation

3.8.2 Standard Deviation

The standard deviation is the square distances of the observation from the mean (Levin & Rubin, 1999). The standard deviation (δ) is simply the square root of the variance. Because the variance is the average of the squared distance of the observation form the mean. To calculate the variance or standard deviation we divide the sum of the squared distance between the mean and each item in the population by total number of item in the population and square the population and square root for standard deviation, in mathematical,

$$\delta = \sqrt{\delta^2} = \sqrt{\frac{\sum(X - X̄)}{N}} = \sqrt{\frac{\sum X^2}{N} - X̄^2}$$

Where,

x = Observation

$X̄$ = Population Mean

N = Total Number of Elements in the Population

$\sum$ = Sum of all Observation

δ = Standard Deviation

δ²= Variance

3.8.3 Coefficient of variance:

Coefficient of Variance is used to compare the variability between two sets of data. It is a relative measure of dispersion based on standard deviation. Coefficient of variance is abbreviated as C.V. and it is defined as

$$\text{C.V.} = \frac{\sigma^2}{\bar{X}} \times 100$$

Where,

δ²= Variance

$\bar{X}$ = Mean

It is a number expressed in percentage. For comparing the variability between two or more than two sets of data a distribution having more C.V. is considered more variable or more heterogeneous or less consistent, less uniform or less equitable or less stable etc. A distribution having lesser C. V. is considered less variable or more homogeneous or more consistent or more uniform or more equitable or more stable etc.

3.8.4 Correlation coefficient:

Correlation analysis is the statistical tool that we can use to describe the degree to which one variable is linearly related to other variables. Two or more variable are said to be correlated if change in the value of one variable appears to be related or linked with the change in the other variables. The relationship between age. Height and weight are studied by correlation. Correlation is an analysis of the covariance between two or more variable and correlation analysis deals to determine the degree of relationship between two or more variables. It refers the closeness of the relationship between two or more variables. Correlation says just degree of relationship between two or mare variables, it does not tell us anything about cause and effect relationship (Sharma and Chaudhary, 2009). The correlation can be classified into three types, simple correlation, partial correlation and multiple correlations. Among them we use simple correlation method for the study. Formulated as follows;

$$r_{12} = \frac{n\sum X_1 \sum X_2 - (\sum X_1)(\sum X_2)}{\sqrt{n\sum X_1^2 - (\sum X_1)^2} \ \sqrt{n\sum X_2^2 - (\sum X_2)^2}}$$

Where,

r_{12} =correlation coefficient between X_1 and X_2

n = number of observation

Interpretation of correlation coefficient

i) It lies always between +1 and -1.

ii) When r = +1, there is perfect positive correlation.

iii) When r = - 1, there is perfect negative correlation.

iv) When r = 0 there is no correlation.

v) When r lies between 0.7 to .999 there is high degree of positive correlation.

vi) When r lies between -0.7 to -0 .999 there is high degree of negative correlation.

vii) When r lies between 0.5 to 0.699, there is a moderate degree of positive correlation.

viii) When r is less than 0.5, there is low degree of correlation.

3.8.5 Simple Regression equation

Regression and correlation are the technical of studying how the variations in one series are related to variation in another series. Measurement of degree of relationship between two or more variable is celled correlation analysis and using the relationship between a known variable and an unknown variable to estimate the unknown. One is termed as regression analysis. there, correlation measures the degree of relationship between the variable while regression analysis shows how the variable are related Regression analysis shows how the variable are related. Regression and correlation analysis thats determination the nature and the strength of relationship between two variables (Sharma & Chaudhary; 2009).

Regression is the estimation of unknown values or prediction of unknown values or prediction of one variable from known values of other variable. It is a mathematical measure of the average relationship between two or more variables in term of the original units of the data. The regression analysis confined to the study of only two variables at a time is called simple regression.

Regression equation of Y on X

The equation of regression line where the dependent variable Y is determined by the independent variable X is

$$Y = a + bX \qquad \text{....(1)}$$

Where,

  a = Y- intercept

  b = slope of the regression line

According to the principle of least squares, two normal equation for estimating two numerical constants a and b are given by

$$\sum Y = na + b\sum X \qquad \text{...... (2)}$$

$$\sum XY = a\sum X + b\sum X^2 \quad \text{...... (3)}$$

3.8.6 Multiple regression equation

Multiple regression analysis is a logical extension of the simple linear regression analysis. In multiple regression analysis, instead of a single independent variable, two or more independent variables are used to estimate the unknown values of a dependent variable. Multiple regression and Simple   Regression are the same fundamental concept. The process for studying multiple regressions is similar to the one we have for simple regression, with the difference that the other variable are added in the regression equation. This regression model assumes that the relationship between each independent variable and the dependent variable is linear in nature and the regression line being calculated by the method of least squares. The multiple regression equation describes the average relationship between one dependent variable and two or more independent variables and this relationship is very much useful for estimating the (or predicting) the dependent variable. Thus, a multiple regression equation of X_1 on X_2 and X_3 is an equation for estimating a dependent variable X_1 from two independent variables X_2 and X_3 (Sharma & Chaudhary, 2067).

The multiple regression equation of dependent variable X_1 on two independent variables X_2 and X_3 is given by

$$X_1 = a_1 + b_1 X_2 + b_2 X_3 \qquad \text{...(I)}$$

Where,

  $a_1 = X_1$ -intercept

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= the value of X_1 when two independent variables X_2 and X_3 are zero (i.e. $X_2 = 0$, $X_3 = o$)

b_1 = the partial regression coefficient of X_1 on X_2 when X_3 is held constant.

b_2 = the partial regression coefficient of X_1 on X_3 when X_2 held constant.

The value of the constants a_1, b_1, b_2 can be obtained solving following equation.

$$\sum X_1 = n\, a_1 + b_1 \sum X_2 + b_2 \sum X_3$$

$$\sum X_1 X_2 = a_1 \sum X_2 + b_1 \sum X_2{}^2 + b_2 \sum X_2 X_3$$

$$\sum X_1 X_3 = a_1 \sum X_3 + b_1 \sum X_2 X_3 + b_2 \sum X_3{}^2$$

These equations can solve the problem of variable.

3.8.7 Test of Hypothesis

To test of research hypothesis t-test have been used in this study

The test statistics discussed earlier in testing hypothesis regarding population means or population proportions can be applied if the sample size is large (i.e. $n>30$), had used z-test statistic for large samples which is based on the assumption that the population is known to be normally distributed and it's standard deviation is assumed to be known.

Let be the observed sample correlation coefficient in a sample of n pairs of observation from bivariate normal population. In order to test whether the sample correlation coefficient is significant of any correlation between the variables in the population, t-test for significance of and observed sample correlation coefficient is applied. The steps for testing of significance of an observed sample correlation coefficient are as follows;

$$r = \frac{r}{\sqrt{(1-r2)}} \times \sqrt{n-2}$$

Where, r= simple correlation coefficient

n= number of observation

CHAPTER IV

Data presentation and Analysis

Secondary data are presented in this research by researcher in systematic manner. The sources of data were company brochure, annual reports, NEPSE website, SEBO/N website and library. Those collected data are presented in systematic formats and analyzed using different appropriate tools and techniques. In this chapter, in addition to that the relationship of the variables is presented in graphs and figures. The data collected from different sources are presented in understandable and appropriate measures.

4.1 Analysis of Individual Company

From among the listed companies, the researcher has chosen three insurance companies. The summary of the financial data of the sample listed companies of the study are presented with five years data (from fiscal year 2007/2008 to 2012/13) including market price of share (MPS), Earning Per Share (EPS), Dividend Per Share (DPS) and Book Value Per Share (BPS).

Table no 4.1

BPS, EPS, DPS & MPS of sample companies

S.N	Institution	Year 2008/09 Rs.	Year 2009/10 Rs.	Year 2010/11 Rs.	Year 2011/12 Rs.	Year 2012/13 Rs.
1	**Life Insurance Company (Nepal)**					
	MPS	856.00	1,012.00	680.00	580.00	415.00
	BPS	120.00	100.00	116.00	108.00	98.00
	EPS	20.00	2.00	32.00	(3.00)	(10.00)
	DPS	-	15.00	20.00	5.00	-
2	**Nepal Life Insurance Co. Ltd.**					

	MPS	766	1,854	1,295	850	566
	BPS	123	125	105	109	110
	EPS	-	2	3	2	6
	DPS	-	-	-	-	-
3	**National Life Insurance Co. Ltd.**					
	MPS	720	900	598	486	334
	BPS	210	106	182	125	137
	EPS	21	0	18	6	38
	DPS	105	-	-	15	30

Source: SEBO/N Annual Report 2007/2008 to 20011/012

4.1.1 Relationship between EPS, DPS & BPS to MPS

To analyze the relationship of DPS, BPS and EPS to MPS, it is assumed that the market price of share is influenced with the changes in DPS, BPS and EPS. So, MPS is the dependant variable; whereas DPS, BPS & EPS are independent variables. Here in this section, relationship of DPS, BPS & EPS with MPS is determined separately to each of the sampled listed companies. The correlation analysis is performed to determine the relationship of EPS, DPS, & BPS with MPS. To determine the effect of DPS, BPS & EPS on MPS, simple correlation as well as their coefficient of determination are calculated. For the test of hypothesis of simple coefficient; calculated t-value are compared with the tabulated t-value at 95 % level of significance. To determine the magnitude of the effects of the independent variables to the dependant variable, simple regression analysis are made and the magnitude is identified after determining the regression equations.

4.1.2 Correlation & Regression Analysis of LIC

Table 4 summarizes the financial performances of LIC over last 5 years and Table 5 shows the relationship (correlation) of DPS, BPS and EPS to MPS along with the significance of such relationship.

Table 4.2

Mean, SD, and C.V on variables of LIC

Year	MPS	BPS	EPS	DPS
2008/09	856.00	120.00	20.00	-
2009/10	1,012.00	100.00	2.00	15.00
2010/11	680.00	116.00	32.00	20.00
2011/12	580.00	108.00	(3.00)	5.00
2012/13	415.00	98.00	(10.00)	-
Total	3,543.00	542.00	41.00	40.00
Mean	708.60	108.40	8.20	8.00
S.D	208.49	8.62	15.49	8.12
C.V	29.42	7.95	188.90	101.50

Source: Annex I

Table 4.3

Relationship of BPS, EPS and DPS with MPS of LIC

Variables	R	r2	t-cal	t-table	Remarks
r_{ab}	0.2281	0.052	0.4058	3.182	uncorrelated
r_{ac}	0.369	0.1362	0.6877	3.182	uncorrelated
r_{ad}	0.398	0.1584	0.7514	3.182	uncorrelated

Source: Annex II

Where,

T–table value is at 95 % level of significance (n-2=5-2=3 degree of freedom)

r_{ab} =   correlation coefficient of BPS with MPS

r_{ab} =   correlation coefficient of EPS with MPS

r^2 =   coefficient of (simple) determination

SD = standard deviation

CV   = coefficient of variation

Mean = arithmetic mean

For LIC insurance companies, MPS, DPS, EPS and BPS are volatile trend. DPS and EPS has with 101.25 and 188.90 of Coefficient of variation respectively. In comparison to this BPS is little bit less volatile with coefficient of Variation of 7.952 where as MPS is moderate volatile with CV of 29.42 in the last five year period.

Similarly, while comparing LIC with industrial benchmark of three insurances companies it is reviled that for MPS the mean MPS is lesser (708.49) then industrial mean (794.134). But standard deviation (SD) of MPS is greater (987) then industrial standard deviation MPS (337.38) which shows that its total risk is greater than industrial average total risk. Its coefficient of variation is lesser (41) than industrial average CV (118) which means pre unit risk is lesser than of industrial average per unit risk of MPS. This result shows that MPS has satisfactory performance. For EPS mean EPS of LIC is less (8.2) than industrial mean of EPS (9.11) but standard deviation (15.49) and coefficient of variation (188.90) lesser industrial average of standard deviation and coefficient of variation (13.32)and (154.48) respectively. It shows that EPS of LIC has not good preformance comparison to the industrial benchmark. For DPS, LIC mean is greater (8) than industrial average mean of DPS (12.69). But standard deviation (8.12) and coefficient of variation (101.25) are lesser then industrial average standard deviation (33.87) and coefficient of variation (161.48) of DPS, which shows that DPS of LIC also has good performance. Finally for BPS, LIC mean of BPS is greater (108.4) than industrial average mean BPS (126.94) but standard deviation (8.62) is lesser than industrial average standard deviation (27.07) and coefficient of variation (7.952) is also lesser than industrial average coefficient of variation (20.34). It shows that BPS has also good performance. Thus, in overall LIC has very good performance in last five years period.

From the simple correlation analysis, MPS of LIC is positively correlated with BPS with low degree of positive correlation (ie 0.2281) which means that increasing in BPS increased MPS and vice versa. On the other hand MPS is also positively correlated with EPS and DPS, they also low degree of positive correlation with o.369 and 398 respectively. The coefficient of simple determination shows that 5.2% of change in the

MPS is explained by BPS where 13.61% and 15.84% of change in the MPS is explained by EPS and DPS respectively.

The t-test analysis shows that the degree of correlations is not significant at 5% level of significance for all the three independent variables. It means that null hypothesis (H zero) is not accepted or insignificant in all the three cases, that is MPS is not correlated with all the three independent variables BPS, EPS & DPS.

The linear relationship of DPS, BPS, EPS and MPS of LIC is presented in the Figure 1

Figure 4.1

Relationship of DPS, BPS & EPS with MPS of LIC
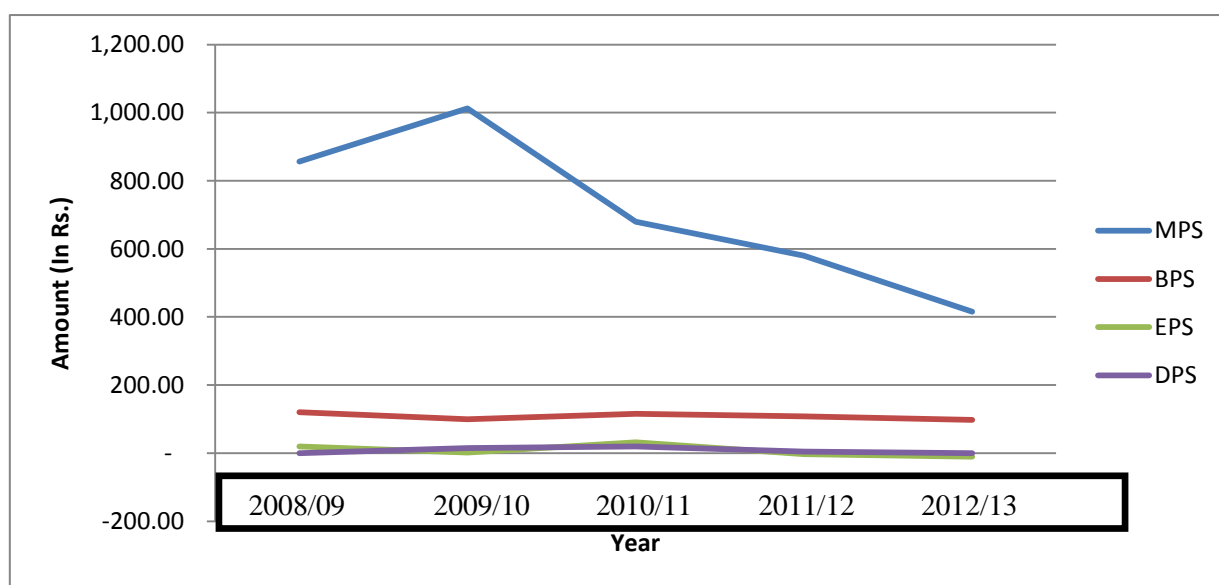
Source: Annex I

From the simple regression analysis, the regression equations are found (MPS being dependant variables)

MPS on BPS

MPS = 91.9142 + 5.5194 BPS

The regression equation MPS = 91.9142 +5.5194 BPS means constants 91.9142 implies that when BPS is zero, MPS 91.9142. The coefficient for BPS 5.5194 implies that when BPS increases by Rs 1, MPS increase by Rs 5.5194 and vice versa. The simple correlation coefficient is 0.2281 it means low degree of correlation of BPS with MPS with 0.052 coefficient of determination.

MPS on EPS

MPS = 667.89+ 4.9645 EPS

The regression equation MPS = 667.89 + 4.9645 EPS means constants 667.89 implies that when BPS is zero, MPS is 667.89. The coefficient for BPS 4.9645 implies that EPS increase by Rs1, MPS increase by 4.9645 and vice versa. The simple correlation coefficient is 0.369 it means low degree of correlation of EPS with 0.1362 coefficient of determination.

MPS = DPS

MPS = 627.7272 + 10.1091 DPS.

The regression equation MPS = 627.7272 + 10.1091 means constant 627.7272 implies that when DPS is zero, MPS is 627.7272. The coefficient for DPS 10.1091 implies that DPS increase by Rs 1, MPS increase by Rs 10.1091 and vice versa. The simple correlation coefficient is 0.398 means it has low degree of positive correlation DPS with MPS, with 0.1584 coefficient of determination.

The multiple regression analysis of LIC gives the multiple regression equation (MPS, being dependent variable and BPS, EPS, and DPS being independent variables).

MPS on BPS, EPS, & DPS,

MPS = 686.62 - 53.64 BPS + 353.12EPS + 640 DPS

Where,

686.62 = Multiple regression constant (intercept)

-53.64 = Partial Regression Coefficient of dependent variable (MPS) on BPS when EPS and DPS are hold constant.

353.12 = Partial regression coefficient of dependant variable (MPS) on EPS when BPS & DPS are hold constant.

640 = Partial regression coefficient of dependant variable (MPS) on DPS when BPS and EPS are hold constant.

From the above equation implies that the multiple regression is constants 686.62 which suggest that when BPS, EPS and DPS are zero, MPS would be 686.62. The coefficient for -53.64 implies that when BPS increases by RS 1, MPS decreases by RS 53.64, the coefficient for EPS is 353.12, implies that when EPS increase by RS 1, MPS increases by

RS 53.64 and the coefficient for DPS is 604, implies that when DPS increases by RS 1, MPS increases by RS 640 and vice versa.

4.1.3 Correlation and Regression Analysis of NLIC

Table 6 summarizes the financial performances of NLIC over last five years and Table 7 shows the relationship (correlation) of BPS, EPS and DPS to MPS along with the significance of such relationship.

Table 4.4

Mean, SD, and C.V on variables of NLIC

Year	MPS	BPS	EPS	DPS
2008/09	766.00	122.68	-	-
2009/10	1,854.00	124.56	1.88	-
2010/11	1,295.00	105.48	2.68	-
2011/12	850.00	109.29	1.69	-
2012/13	566.00	109.82	5.88	-
Total	5,331.00	571.83	12.13	-
Mean	1,066.20	114.37	2.43	-
S.D	460.44	7.73	1.93	-
C.V	43.19	6.75	79.55	-

Source: Annex I

Table 4.5

Relationship of BPS, EPS and DPS with MPS of NLIC

Variables	R	r2	t-cal	t-table	Remarks
r_{ab}	0.3247	0.10543	0.5946	3.182	Uncorrelated
r_{ac}	-0.2781	0.07734	0.0516	3.182	Uncorrelated
r_{ad}	0	0	0	3.182	Uncorrelated

Source: Annex II

Where,

T–table value is at 95 % level of significance (n-2=5-2=3 degree of freedom)

r_{ab} = Correlation coefficient of BPS with MPS

r_{ac} = Correlation coefficient of BPS with MPS

r_{ad} = Correlation coefficient of BPS with MPS

r^2 = coefficient of (simple) determination

SD = standard deviation

CV = coefficient of variation

Mean = arithmetic mean

For NLIC insurance companies, EPS is more volatile trend with 79.43 in comparison to MPS and DPS. MPS has moderate volatile then EPS and BPS with 42.19 coefficient of variation and BPS is less volatile with 6.75 Coefficient of variation in the last five year period. Similarly, while comparing NLIC with industrial benchmark of three insurances companies it is reviled that for MPS the mean MPS is higher (1066.2) then industrial mean (794.139) so it has satisfactory performance. Standard deviation (SD) of MPS is greater (460.44) then industrial standard deviation MPS (337.38) which shows that its total risk is greater than industrial average total risk. Its coefficient of variation is nearly equal (42.19) with industrial average coefficient of variation (43.05) which means pre unit risk is nearly equal with industrial average per unit risk of MPS. This result shows that MPS has satisfactory performance. For EPS mean EPS of NLIC is less (2.43) than industrial mean of EPS (9.11) but standard deviation (1.93) and coefficient of variation (79.43) lesser industrial average of standard deviation and coefficient of variation (13.32)and (154.48) respectively. It shows that EPS of NLIC has not good performance comparison to the industrial benchmark. For BPS, NLIC mean is greater (114.37) than industrial average mean of BPS (126.94). But standard deviation (7.725) and coefficient of variation (6.72) are lesser then industrial average standard deviation (27.07) and coefficient of variation (20.34) of BPS, which shows that BPS of N LIC also has good performance. In case of DPS of NLIC there are no dividends during the sample period.

From the simple correlation analysis, MPS of NLIC is positively correlated with BPS with low degree of positive correlation (ie 0.3247) which means that increasing in BPS increased MPS and vice versa. On the other hand MPS is also positively correlated with

EPS , it also low degree of positive correlation with o.2781, but no relation with DPS. The coefficient of simple determination shows that 10.54% of change in the MPS is explained by BPS where 7.73% of change in the MPS is explained by EPS.

The t-test analysis shows that the degree of correlations is not significant at 5% level of significance for all the three independent variables. It means that null hypothesis (H zero) is not accepted or insignificant in all the three cases, that is MPS is not correlated with all the three independent variables BPS, EPS & DPS.

The linear relationship of DPS, BPS and EPS to MPS of NLIC are presented in Figure 2.

Figure 4.2

Relationship of DPS, BPS & EPS with MPS of NLIC
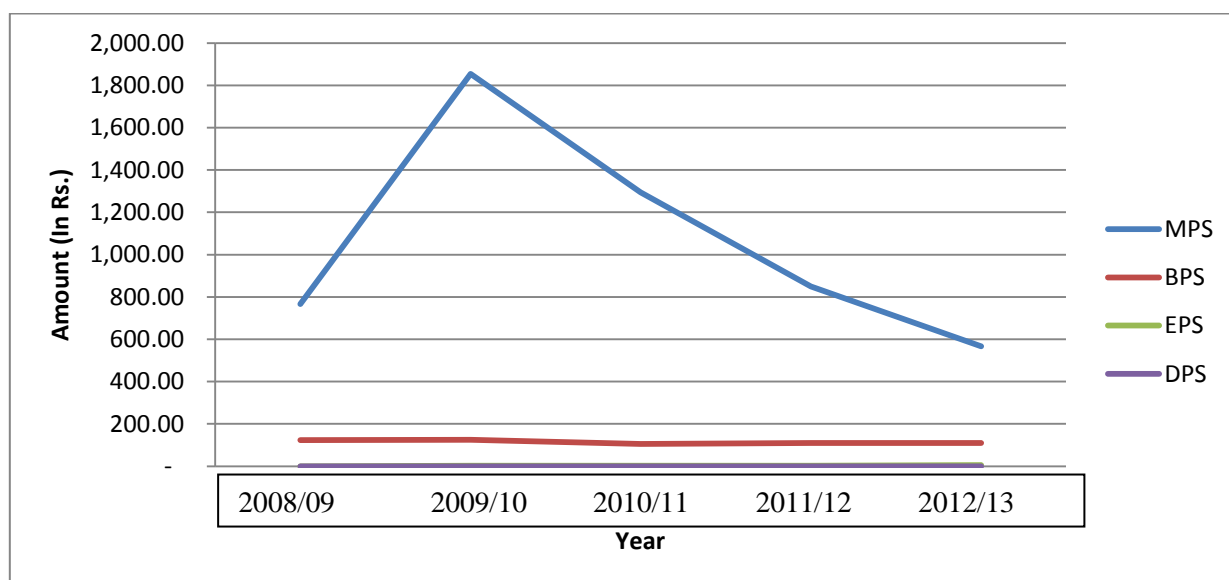
Source: Annex I

From the simple regression analysis, the regression equations are found (MPS being dependant variable).

MPS on BPS

MPS = - 1564.22 + 23BPS

The regression equation MPS = - 1564.22 + 23BPS means constants -1564.22 implies that, when BPS is zero, MPS -1564.22. The coefficient for BPS 23 implies that when BPS increases by Rs1, MPS increase by Rs 23 and vice versa. The simple correlation

coefficient is 0.3247 it means low degree of correlation of BPS with MPS with 0.1054 coefficient of determination.

MPS on EPS

MPS = 1223.31 − 64.76 EPS

The regression equation MPS = 1223.31 − 64.76 EPS means constants 1223.31 implies that when BPS is zero, MPS is 1223.31. The coefficient for BPS 64.76 implies that EPS increase by Rs1, MPS decrease by 64.76 and vice versa. The simple correlation coefficient is -0.2781 it means low degree of negative correlation of EPS with 0.0773 coefficient of determination.

MPS = DPS

In the MPS on DPS of NLIC the dependent variables are zero so, not any relation with MPS.

MPS on BPS, EPS, & DPS,

MPS = 816.723 + 21.964 BPS − 7.1149EPS + 0 DPS

Where,

816.723 = Multiple regression constant (intercept)

21.964 = Partial Regression Coefficient of dependent variable (MPS) on BPS when EPS and DPS is hold constant.

7.1149 = Partial regression coefficient of dependant variable (MPS) on EPS when BPS & DPS are hold constant.

0 = Partial regression coefficient of dependant variable (MPS) on DPS when BPS and EPS are hold constant

From the above equation implies that the multiple regression constants is 816.723 which suggest that when BPS, EPS and DPS are zero, MPS would be 816.723. The coefficient for 21.964 implies that when BPS increases by RS 1, MPS increase by RS 21.964, the coefficient for EPS is − 7.1149, implies that when EPS increase by RS1, MPS decreases by 7.1149 and the coefficient for DPS not provided during observation period.

4.1.4 Correlation and Regression Analysis of NLG

Table 8 summarizes the financial performances of NLG over last 5 six years and Table 9 shows the relationship (correlation) of DPS, BPS & EPS to MPS along with the significance of such relationship.

Table 4.6

Mean, SD, & C.V on variables of NLG

Year	MPS	BPS	EPS	DPS
2008/09	720.00	210.45	21.28	105.26
2009/10	900.00	105.55	0.33	-
2010/11	598.00	182.31	18.15	-
2011/12	486.00	125.36	6.17	15.00
2012/13	334.00	136.61	37.56	30.00
Total	3,038.00	760.28	83.49	150.26
Mean	607.60	152.06	16.70	30.05
S.D	143.29	38.57	12.94	39.21
C.V	23.58	25.37	77.49	130.47

Source: Annex I

Table 4.7

Relationship of BPS, EPS and DPS with MPS of NLG

Variables	r	r2	t-cal	t-table	Remarks
r_{ab}	0.0039	0	0.0068	3.182	uncorrelated
r_{ac}	-0.6948	0.482747	1.6731	3.182	uncorrelated
r_{ad}	-0.0473	0.002237	1.082	3.182	uncorrelated

Source: Annex II

Where,

T–table value is at 95 % level of significance (n-2=5-2=3 degree of freedom)

r_{ab} = correlation coefficient of BPS with MPS

r_{ac} = correlation coefficient of EPS with MPS

r_{ad} = correlation coefficient of DPS with MPS

r^2 = coefficient of (simple) determination

SD = standard deviation

CV = coefficient of variation

Mean = arithmetic mean

For NLG insurance companies, MPS, DPS, EPS and BPS are volatile trend. DPS and EPS has 130.38 and 80.52 Coefficient of variation respectively. In comparison to this, MPS and BPS has little bit moderate volatile with CV of 23.58 and 25.37 in the last five year period respectively.

Similarly, while comparing NLG with industrial benchmark of three insurances companies it is reviled that for MPS the mean MPS is lesser (607.60) then industrial mean (794.134). But standard deviation (SD) of MPS is lesser (143.29) then industrial standard deviation MPS (337.38) which shows that its total risk is less than industrial average total risk. Its coefficient of variation is lesser (23.58) than industrial average CV (43.05) which means pre unit risk is lesser than of industrial average per unit risk of MPS. This result shows that MPS has satisfactory performance. For BPS mean BPS of NLG is greater (152.06) than industrial mean of BPS (126.94) but standard deviation (38.57) and coefficient of variation (25.37) lesser higher then industrial average of standard deviation and coefficient of variation (27.07)and (20.34) respectively. It shows that BPS of NLG has not good performance comparison to the industrial benchmark. For EPS, NLG mean is greater (16.70) than industrial average mean of EPS (9.11). But standard deviation (12.94) and coefficient of variation (80.52) are lesser then industrial average standard deviation (13.32) and coefficient of variation (154.48) of EPS, which shows that EPS of NLG also has good performance. Finally for DPS, NLG mean of DPS is greater (30.052) than industrial average mean DPS (12.69) but standard deviation (39.21) is greater than industrial average standard deviation (33.87) and coefficient of variation (130.38) is also lesser than industrial average coefficient of variation (161.476). It shows that DPS has also good performance. Thus, in overall NLG has very good performance in last five years period.

From the simple correlation analysis, MPS of NLG is positively correlated with BPS and DPS with low degree of positive correlation (ie 0.0039 & 0.0473) which means that increasing in BPS and DPS increased MPS and vice versa. On the other hand MPS has negative correlated with 0.6948, it is low degree of negative correlation. The coefficient of simple determination shows that 48.27% of change in the MPS is explained by EPS where 0.0015% and 0.2237 % of change in the MPS is explained by BPS and DPS respectively.

The t-test analysis shows that the degree of correlations is not significant at 5% level of significance for all the three independent variables. It means that null hypothesis (H zero) is not accepted or insignificant in all the three cases, that is MPS is not correlated with all the three independent variables BPS, EPS & DPS.

The linear relationship of DPS, BPS and EPS to MPS of NLG are presented in Figure 3.

Figure 4.3

Relationship of DPS, BPS & EPS with MPS of NLG
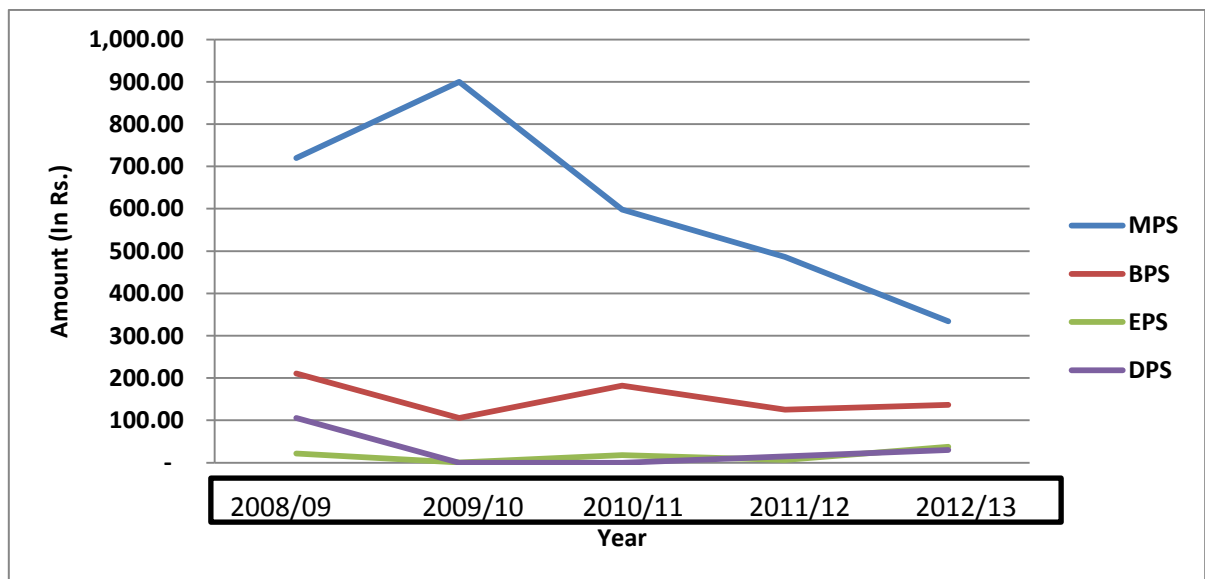
Source: Annex I

From the simple regression analysis, the regression equations are found (MPS being dependant variable).

MPS on BPS

MPS = 603.37 + 0.0278 BPS

The regression equation MPS = 603.37 +0.0278 BPS means constants 603.37 implies that When BPS is zero, MPS 603.37. The coefficient for BPS 0.0278 implies that when BPS

increases by Rs1, MPS increase by Rs 0.0278 and vice versa. The simple correlation coefficient is 0.0039it means low degree of correlation of BPS with MPS with 0.00015 coefficient of determination.

MPS on EPS

MPS = 718.29 - 10.40 EPS

The regression equation MPS = 718.29 - 10.40 EPS means constants 718.29 implies that when BPS is zero , MPS is 718.29. The coefficient for BPS -10.40 implies that EPS increase by Rs 1, MPS decrease by 10.40 and vice versa. The simple correlation coefficient is -0.6948 it means high degree of negative correlation of EPS with 0.4827 coefficient of determination.

MPS = DPS

MPS = 600.48 + 0.2368 DPS.

The regression equation MPS = 600.48 + 0.2368 means constant 600.48 implies that when DPS is zero, MPS is 600.48. The coefficient for DPS 0.2368 implies that DPS increase by Rs 1, MPS increase by Rs 0.2368 and vice versa. The simple correlation coefficient is 0.0473 means it has low degree of positive correlation DPS with MPS, with 0.0022 coefficient of determination.

The multiple regression analysis of NLG gives the multiple regression equation (MPS, being dependent variable and BPS, EPS, and DPS being independent variables).

MPS on BPS, EPS, & DPS,

MPS = 501.73 + 28.64 BPS + 471.52EPS - 54.63 DPS

Where,

501.73 = Multiple regression constant (intercept)

28.64 = Partial Regression Coefficient of dependent variable (MPS) on BPS when EPS and DPS are hold constant.

471.52 = Partial regression coefficient of dependant variable (MPS) on EPS when BPS & DPS are hold constant.

-54.63 = Partial regression coefficient of dependant variable (MPS) on DPS when BPS and EPS are hold constant

From the above equation implies that the multiple regression constants is 501.73 which suggest that when BPS, EPS and DPS are zero, MPS would be 501.73. The coefficient for 28.64 implies that when BPS increases by RS 1, MPS increase by RS 28.64, the coefficient for EPS is 471.52, implies that when EPS increase by RS 1, MPS increases by RS 471.52 and the coefficient for DPS is -54.63, implies that when DPS decrease by RS 1, MPS increases by RS 54.63 and vice versa.

4.3 Coefficient of Variation Analysis

As the coefficient of variation is used to check the consistency in the data we have used CV to check the consistency in MPS, BPS, EPS and DPS of three sampled Insurance companies chosen for this study.

Table no 4.8

Coefficient of Variation

Institutions	MPS (A)	BPS (B)	EPS (C)	DPS (D)
LIC	29.46	7.95	188.9	101.25
NLIC	42.19	6.75	79.43	-
NLG	23.58	25.37	80.52	130.38

Coefficient of Variation analysis reviled that the MPS and BPS are more consistence for the all insurance companies but less consistence in EPS and DPS.

4.4 Major Finding of the study

The researcher, with the help of the relationship of Market Price per Share with dividend, earning as well as well book value was determined. Here, the empirical findings from secondary data analysis are presented as follows:

- In the research period LIC, EPS is much volatile in comparison to MPS, BPS, and DPS. And BPS is less volatile. LIC has positive correlation with between their Market Price per Share and BPS, EPS and DPS. This indicates that they directly affect the Share Price positively.
- The dividend not paid during the research period for NLIG. EPS is much volatile then MPS and BPS, MPS is moderate volatile and BPS is less volatile among them.

BPS is positive correlated with MPS and EPS is negative correlated with MPS, it means increase of BPS and decrease of EPS if MPS be increase and vice versa.

- On the other sample companies of NLG DPS has much volatile then MPS, BPS and EPS. And EPS is moderate volatile and MPS and BPS is less volatile among MPS and EPS and DPS are negative correlation with MPS.

- During the study, average MPS is highest in NLIG and lowest in NLG, causes will be effect in the demand of share. But there is no dividend in NLIG during the study causes will be effect in demand of share. It means NLIC is the most appreciable institutions with its high demand for the aggressive investors.

- The EPS of the insurance companies under the study, LIC has negative earnings but NLIC and NLG has positive earnings. NLIC and NLG are adequately on its share which is and indicator for a positive demand of the stock of those companies. The EPS of the NLG is the highest where as that of NLIC is the lowest among the companies during the study. From the analysis, it shows that the earning capacity of the NLG is most satisfactory than that of the LIC and NLIC.

- The DPS during the study has not regular for LIC, it has negative earning in the 2011/12but paying dividend, it may cause of demand of stock. NLIC has not paying dividend, it may be negative effect in the demand of stock. NLG has average highest DPS during the study period, it may positive effect in demand of stock efficient of Variation analysis reviled that the MPS and BPS are more consistence for the all insurance companies but less consistence in EPS and DPS.

- Regression analysis shows the positive relation between MPS with BPS, EPS and DPS of the LIC.

- Regression analysis shows the positive relation between MPS with BPS and EPS of the NLIC.

- Regression analysis shows the positive relation between MPS with BPS and DPS and negative relation with EPS of the NLG.

- According to the t-test explains MPS on BPS, EPS and DPS so not show significance of at 95% level of significance for all the companies.

- The effect differed from companies to companies. Although DPS, BPS and EPS jointly had in significant effect on the share price, these financial indicators individually did not have consistent relationship with MPS which indicated that there be other factors influencing and determining the share prices significantly.

- Market price is the all companies were overpriced. From the research also concluded that the NEPSE stock market was in an infant stage and there was a gap between theory and practice of investment in Nepalese stock market due to lack of proper study of stock market.

CHAPTER V

Summary, Conclusions & Recommendations

5.1 Summary

Capital markets are financial markets for the buying and selling of long-term debt or equity capital. In the capitalist system, financial markets play a central role in the allocation of capital resources. The existence of bank and other non bank financial institution in a formal and organized way is collectively known as the financial system of a country. That entire functional behaviour of all the players involved is known as financial system which is most important for development for capital market. Capital is assets very much important for development of all kind of business and non business activities. We stated earlier that real assets determine the wealth an economic, while financial assets represent claims on real assets. Financial assets and the market in which they trade play several crucial roles in developed economies. Financial assets allow us to make the most of the economy's real assets.

Nepalese Stock Market is in developing stage. Most of the general public i.e. average citizens are still unaware about it. Though Share Market plays a vital role on the mobilization of capital in national economy, in the case of Nepal, it is still crawling towards the betterment. The history of Security Market in Nepal is not old. It was started with the floatation of Shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction Company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange Centre Ltd. in 1976 were other significant developments regarding the Capital Market.

Financial Market can be defined as the centre which provides and facilities for buying and selling of financial claims and services. It includes the trading activities of financial instruments like Share (Stock), Bond, Debenture, etc. Hence it actually refers to the money market and capital market which facilitates the transfer of funds from the savers to those who really need it. Money Market deals with the short term financial market which facilitates liquidity and marketability of securities. It provides an institutional mechanism for the transactions of short term securities. Commercial Banks, Development Banks, Insurance Companies, Finance Companies and other saving/credit unions are the Money Market makers. Capital Market deals with the long term financial market facilitating the

allocation of funds between savers and borrowers. It is the place where financial claims and obligations are brought and sold which have maturity period of more than one year. It can be further divided in to two types, Primary Market and Secondary Market.

Human life is full of risks and uncertainty. Each and every step of life is full of risks. We can't eliminate risk. However, we can make provision for financial security against risk. Insurance is the means to get financial security against risk. Insurances is a way of reducing uncertainty of occurrence of an event. Insurance is an investment, from which we get return only when certain loss occurred from predetermined incident, Insurance is a emerging business for Nepal. Modern insurance business started by some Indian insurance companies in the early times. They were mainly focused in providing insurance facilities especially for import export business with India. Nepal goods Transport and insurance company limited (Nepal Mal Chalani Tatha Bima company Limited) was established in 1948 AD with authorized capital of five lakhs as the first insurance company of Nepal, this insurance company is the milestone of Nepalese insurance history. After that that company converted in to Nepal insurance and transport company Pvt. Ltd. In 1992 AD. This was again reorganized the Nepal Insurance Company Ltd. In 1992 AD. Then immediately the HMG established Rastrya Bima Sansthan under the insurance act 2025. This insurance company is totally financed by the government to provide all types of insurance perils. This insurance company has alone provided various types of insurance facilities for about 2decades in Nepal. In the context of Nepal insurance companies has very important role to develop the capital market in the NEPSE. There are 25 insurance companies, among them 21 companies are listed in NEPSE.

The prime objective of this study is to find out the major determinants of Share Price of listed companies in NEPSE. Hence, 3 companies listed in NEPSE are taken in consideration for the purpose. Market Price of these institutions has been analytically tested here to compare with other financial indicators like DPS, EPS and BPS. For such analysis, secondary data has been gathered from the different sources and different statistical tools and financial tools have been used to analyze these. The result of the response has been analyzed thoroughly in this thesis. The main objective of this research is determinants of stock in Nepal stock exchange. From This study the main objective is show the relationship of BPS, EPS and DPS with MPS. Therefore, this study aims to identify the factors responsible for determinants of stock price and their relationship with the stock price, so that it will give a better insight into the stock price.

In the stock market, share prices are also depends on many factors that are directly influence the share prices. The price is directly affected by the trend of stock market trading, if more people are buying certain stock the price of that stock increases and when more people are selling the stock prices falls. Stock price may the affected by economic factors, government policy, investment sentiment and technical influences etc heat directly to the stock price. There are two analysis technique fundamental and technical analysis. By analyzing balance sheet, cash flow statement and income statement used for fundamental analysis and technical analysis is the study of the market itself and not of those external factors which are reflected in the market.

In order to analyze the data from secondary sources researcher can use appropriate tools and technique to analyze such data. For the study only statistical tools has been used for this research. The mean is useful for performing statistical procedures such as comparing the means several data. There are various types of average. Arithmetic mean, median, mode, geometric mean, harmonic mean are the major types of average. Coefficient of Variance has used to compare the variability between two sets of data. It is a relative measure of dispersion based on standard deviation. Correlation is an analysis of the covariance between two or more variable and correlation analysis deals to determine the degree of relationship between two or more variables. It refers the closeness of the relationship between two or more variables. Correlation says just degree of relationship between two or mare variables, it does not tell us anything about cause and effect relationship. Regression and Correlation analysis determined the nature and the strength of relationship between two variables. The t-test has been used for this research due to the population size is less than 30 for the sample of three companies.

In the research period LIC, EPS is much volatile in comparison to MPS, BPS, and DPS, has positive correlation with between their Market Price per Share and BPS, EPS and DPS. The dividend not paid during the research period for NLIG. EPS is much volatile then MPS and BPS, MPS is moderate volatile and BPS is less volatile among them. On the other sample companies of NLG DPS has much volatile then MPS, BPS and EPS, and EPS and DPS are negative correlation with MPS. From the analysis, it shows that the earning capacity of the NLG is most satisfactory than that of the LIC and NLIC.

5.2 Conclusion

The research concluded that companies performance, disclosure of financial information, timely Annual General Meeting (AGM), political stability, national economy, demand and supply situation, security situation of the country were the major factors affecting the share price in NEPSE. However, interest rate, retention ratio, cost of equity, tax rate, gold price, exchange rate of global economy, market liquidity and change in management of the company did not significantly affected the share price in NEPSE.

For the LIC all variables are volatile trend. EPS and DPS are more volatile but MPS and BPS are more volatile then EPS and DPS. The MPS is positively correlated with all variables.

For the NLIC all variables are volatile trend. EPS is more volatile but MPS and BPS are more volatile then EPS and DPS. The MPS is positively correlated with all variables.

For NLG all variables are volatile trend. EPS and DPS are more volatile but MPS and BPS are more volatile then EPS and DPS. The MPS is positively correlated with all variables.

Market Price per Share of Most of the insurance companies are insignificantly uncorrelated with all the indicators (DPS, BPS and EPS) in most of the cases. This implies that they individually don't influence the share price but they dots not influence the Share Price. There can be other factors to which influence the share price.

Most of the listed companies do not provide sufficient and timely information to NEPSE as well as their shareholders. And even the supplied information does not have similarity among NEPSE, annual report and their particular websites.

Due to poor rules and regulations as well as effective regularity mechanism, one the one hand, shareholders are not confident enough to invest in the share whereas on the other hand, capital market has not been growing as per expectation. Similarly, lack of political stability, peace and moist revolution has constrained the smooth development of security market.

5.3 Recommendations

Securities market is a fundamental part of the financial development and economic development of the country. It provides an alternative medium for financial resource mobilization. In developing countries like Nepal, there is a strong need of financial

resources for the overall development of the country. Based on the research work, the researcher has reached the following recommendations:

- The investor should be clear of their motive before investing in the stocks. If any investors wanted to buy the stock of insurance companies by under the study, then the investor whose main concern is the preservation of capital should invest in stocks of LIC.

- In the Nepalese context due political situation stock price fluctuated. But there are many sectors to investments in securities provable to get the profit. Among them insurance companies securities is to be best for invest. Most of the general investors searching the stock with the noise market they must have analyze the stock and related companies for the investment of stocks, if they do that, investors should be success in investment horizon.

- On seeing the investment priority of investors, majority of investors were found attached with banking/finance. Therefore, the diversification of investment in other sector must be done by taking action towards the unproductive manufacturing, trading, insurance and others.

- The market intermediaries including the brokers should follow the market ethics and trade practically. Insiders trading and assumption has been one of the important features of NEPSE. It is important that the brokers, individual companies and other market players understand that the insiders trading approach might be beneficial to few individuals in a short run, however, in the long run it will not be beneficial to the overall economic growth and capital market.

- The government should implement regulations to check insider trading and to develop good corporate governance. Brokers are suggested not only to look at their interests but also be sincere and cooperate with investors. Since they have greater level of practical knowledge they should provide rational and accurate advices to their clients/investors and foster professionalism.

- SEBON should work for developing issuer and investor friendly securities registration and issue regulation by incorporating the provisions for encouraging the real sector enterprises for fulfilling funds requirements through capital market and promulgating mutual fund regulation for the regulatory provision for the registration and operation of mutual funds.

- SEBON and NEPSE should conduct a comprehensive research on the performance or implementation of the NEPSE and introduce appropriate measures for reforming the weaknesses. The government and public companies should encourage researchers to conduct timely research on the functioning of the overall stock market by providing proper motivation and incentive.

- To promote a competitive and healthy share market and to check domination and undue speculation it is important to have adequate market intermediaries in the stock exchange. Although the NEPSE is in the process of increasing the stock brokers, it is important that the NEPSE would conduct a proper research to ensure that there are enough brokers and market intermediaries for a competitive functioning of the stock market. Perfect markets require that all information concerning future risks and returns of securities be readily available to all investors.

- As there exists various market imperfections, relevant information are not easily available to the investors. They are often published in national dailies, but most of the information is highly aggregated and not reliable. Because of the lack of technical knowledge, majority of the investors is unable to analyze the available information. As such, a single buyer and a single seller can affect the price of securities.

- NEPSE has to insure listed companies relevant information. Similarly, NEPSE can expand its service to regional and local level so that it gives the equal opportunity to all the potential investors. Investors should be provided with investment guidelines and relevant information through media as soon as possible. It should monitor the activities of brokers as well as listed companies.

- Listed companies are requested to avail the accurate and timely information to concerned authorities as well as to investors. They should conduct timely AGM, and fulfil the requirement of concerned authorities. They should not provide gimmicks to attract the potential investors.

- In the Nepalese context political situation affect the securities, due to political situation, if the companies earning increasing but stocks price decreasing. Government should ensure that there is a constructive legal environment for developing healthy and competitive stock market. The government should bring policies that provide fiscal incentives and that helps in minimizing the costs of

companies to go public. However, the regulation should be given stronger and ongoing powers to implement legislations.

- The legal environment should be such that the regulation of markets and the financial sector is an ongoing exercise, not just a reaction to a problem. Government should formulate as well as implement effective rules and regulations, code of conduct, for the gradual development of capital market. For this purpose national as well as international stock experts should be consulted. Government should encourage the concerned body to organize programs, seminars time to time to create awareness among the investors.

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