

# CHAPTER – I

## INTRODUCTION

### 1.1 Background of the Study

Understanding the origins of stock market volatility has long been an issue of considerable interest to both policy makers and market practitioners. Policy makers are interested in the main determinants of volatility and in its spillover effects on real activity. Market practitioners are mainly interested in the direct effects time-varying volatility exerts on the pricing and hedging of plain vanilla options and more exotic derivatives. In both cases, forecasting stock market volatility constitutes a formidable challenge but also a fundamental instrument to manage the risks faced by these institutions.

Indeed, there is strong evidence that stock market volatility has a very pronounced business cycle pattern, with volatility being higher during recessions than during expansions. The economy of the country largely depends upon the utilization of its resources and mobilization of capital. The lack of its proper utilization results the country to be backward ever as Nepal is facing now. The mobilization of the capital is an important tool to utilize the resources and hence it affects the overall economy directly, indirectly. The Financial institutions contribute the national economy by accumulating the capital funds to meet the financial needs of different productive sectors. They actively participate in the money market and the capital market, as both suppliers and demanders of the funds.

The relationship between stock market development and economic growth has received renewed attention of academicians and policy makers in the present decade not in the developed and developing countries. The growing importance of stock markets in the developing countries has opened up many avenues for research in the relationship between financial development and economic growth, with focus on development role of stock market.

Market price of the stock moves daily in the Nepalese securities markets. What factor affects the market price of stock? Finding the solutions of this problem, case study of the securities market is essential, cause of price change may be signaling effect, low return and high risk, lack of knowledge, low income of the investors and high price of the stock. There is close relationship between the price and volume of the stock, i.e. high price, low volume and low price high volume.

Movement of stock prices in Nepalese securities market is not normal and beyond the prediction. Various internal and external factors have affected the share price movement in the past and in present. Thus, a deep study on the movement of the share price is essential to trace out the reasons for such behavior. Eventually, the present study will try to ascertain such reasons and the movement.

## **1.2 Statement of the Problem**

Only few investors of Nepalese share market are aware of the reasons behind the movement of share price. The movement of stock price in NEPSE is the direct outcome of the inefficient market behaviour. The past prices has no impact on the current market prices since prices move randomly .Investors in Nepal are not found to active and sufficiently conscious to safeguard their fundamental rights and powers to get timely information for companies. Potential investors do not analyze the market information rather they tend to show the speculative behaviour regarding the future stock prices. This study will try to diagnose the problems of the Nepalese stock market. Usually, the price of common stock in primary market is par value but in secondary market may be in any price i.e. more than par value, less than par value and equal to par value. Stock price in the secondary market is the main issue of this study. More specifically the research is expected to answer the following research questions:

) Whether the NEPSE index and Commercial Index are rising up?

- ) Does the movement of share price depend upon the time period?
- ) Whether the internal indicators like DPS and EPS has effect on the price of the share?
- ) What are the problems and prospects of stock market that may move the share price?

### **1.3 Objectives of the Study**

The main objective of the study is to make surveillance on the movement of the stock price. The other specific objectives of the study are;

- ) To analyze the movement of NEPSE index and Commercial bank index.
- ) To examine whether the movement of stock price is seasonal.
- ) To determine the effect of earning and dividend to the stock price in NEPSE.
- ) To identify the problem and prospects of the stock market that have the capability in moving the price.

### **1.4 Significance of the Study**

This study attempts to analyze the movement of stock price. These findings may be helpful to the potential investors to make the better investment decisions. Likewise, this thesis provides the information about the position of Share Price in Share industry. Moreover, the run test analysis on changes in the price of different sample companies is helpful for the individual banks to compare with the individual banks. This information is expected to be helpful to the managers of the respective banks.

This thesis delivers different information about the share market of Nepalese Commercial Banks which may be required to the further researcher. Hence this thesis is expected to be important to the further researchers.

## **1.5 Limitations of the Study**

Due to the limitations of the time, cost and other resources, this study is limited to the following areas:

- ) The study analyzes only the movement of the share price and thus the study does not cover other financial aspects.
- ) The study examines only eight banks, and thus may not represent the whole banking industry listed in NEPSE.
- ) The study takes only five fiscal years, i.e. from 2004/05 to 2008/09, and thus may not truly reflect the past trend.
- ) The study is based Primary and Secondary Data. So the validity and reliability of the data depends upon their source.

## **1.6 Chapter Scheme**

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

### **Chapter-I: Introduction**

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

### **Chapter-II: Review of Literature**

This second chapter is the brief review of literature related to this study. It includes a discussion on the conceptual framework and review of the major studies. It gives an overview of the related literature done in the past related to this study.

### **Chapter-III: Research Methodology**

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

#### **Chapter-IV: Data Presentation and Analysis**

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

#### **Chapter-V: Summary, Conclusion and Recommendations**

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

## CHAPTER - II

### REVIEW OF LITERATURE

Review of literature is one of the most important parts of the thesis. This study has been effectively done by studying the various old thesis, dissertation, newspaper, magazines and suggestions of the experts of the related field. For studying the 'Stock Price Movement of Nepalese Commercial Banks', different available books in investment, capital structure, other financial areas has been useful in conducting this study. So, in this section report has used many books, articles, old thesis paper, dissertation & suggestions of experts to make the concrete report.

#### 2.1 Conceptual Review

##### 2.1.1 Common Stock

"Common stock refers the ownership stock from company point of view. It is one of the important sources of capital of the capital structure of the joint stock company. Common stock is also known as equally sharing represent ownership interest in the corporation." (*Charles; 1993: 44*) There are mainly two parties' trades the stock i.e.

- ) Vendor or Company.
- ) Buyer or Stockholder

“Vendor Companies issues the equity share in the security market & purchasing companies purchase theirs’ stock to be an owner of the company. These kinds of issue may be in the lump sum basis or installment basis. There are shares which don’t carry any special or preferential rights in the payment of annual dividend or repayment of capital. The rate of dividend on such shares is not fixed. Dividend on equity shares is paid out of the residual profits left after paying interest on debentures and preference shares dividend. Similarly, equity shareholders are paid at the time of winding up to receive what is left after all the prior claims have been sled. Therefore equity shareholders are the real risk bearers but they shares in the increasing profits of the company. They also enjoy voting right in the management and control of the company.” (*Dobbins; 1996: 65*) Further while issuing the equity share, company can achieve great advantage.

### **1) Permanent Capital**

“Equity shareholder provides the permanent capital to the company. There is no any obligation to return the money except at the time of liquidation of the company.” (*Ackerman; 1980: 242*)

### **2) No Obligation for Dividend**

“Equity shares do not impose an obligation to pay a fixed dividends are payable only if the company has adequate profit.” (*Ackerman; 1980: 242*)

### **3) Sources of Prestige**

“A company with substantial equity capital has a high credit standing. Creditors readily lend money to it because they regard equity capital as a safety shield.” (*Ackerman; 1980: 242*)

#### **4) Small Denomination**

“The face value of an equity share is generally quite low. i.e. Rs. 10 equity shares have a wide appeal. The company can mobilize huge funds from investors belonging to different income groups.” (*Bhattarai; 2007: 25*)

#### **5) No Charge on Assets**

“For issuing equity shares, the company is not required to mortgage or pledge its assets. The assets remain free of charge for borrowing money in future.

Stock is the ownership interest of a corporation. Each share of stock is a fraction of the rights and privileges that belongs to the owners of a business. Stock certificate is evidence of that fractional ownership; it is tangible evidence, a certificate of title, to part of the company. Common stock represents ownership interest in the corporation. The ownership capital generally referred equity, when issued to the public for subscription in the form of divisible units of equal value is termed as common stock. Unlike debt once a corporation issues common stock, generally it has no obligation to redeem the stock by purchasing it from the investor. Usually, common stock is issued with a perpetual life. These stocks are subjected to issue and trading in primary and secondary market. The original issue takes place in primary market where it is generally issued with its face value and once the stock gets



listed in the stock exchange the trading starts to take place and this particular market is called secondary market.” (*Brealey & Meyers; 1998: 82-83*)

### **2.1.2 Value of the Common Stock**

There are mainly three kinds of value of the common stock:

#### **a) Face Value**

The face value of the stock is mentioned in article of association and memorandum book of the company. The face value does not charges until there is stock split or other such initiative by the board of directors the par value of new issue is Rs. 100 as directed by company act 1993.

#### **b) Book Value**

“It represents the assets value per share after entire obligation of the corporation is met. It is calculated by dividing the total common stock on the B/S by number of equity shares outstanding.” (*Christy & Clendnin; 1985: 282*)

#### **c) Market Value**

“This value is based on market demand and supply. Market value is determined by demand and supply factors and reflects the negotiation between investors and sellers for the transaction the market value is influenced by many factors like economic and industry condition, expected earnings and dividends, speculations and other signaling effects like major events inside the country, Governments stability.” (*Christy & Clendnin; 1985: 283*)

### **2.1.3 Types of Common Stock**

On the basis of the purpose, common stocks are of the following types;

#### **a) On the Basis of Meeting the Special Needs**

“Though, most of firms have only one type of common stock, in some instances classified stock is used to meet the special needs of the company. Generally, when special classification is used, one type is designated class A another class B and so on.” *(Donald & Ronald; 2000: 95)*

##### **(i) Class A**

“Small and new established company seeks to obtain funds from outside sources frequently use different types of common stock. This stock had on voting rights for five years.” *(Donald & Ronald; 2000: 96)*

##### **(ii) Class B**

“The organizers of the company retained it. It had full voting rights for five years, but the legal terms stated that dividends couldn’t be paid on the class B stock until the company had established its earning power by building up retained earnings to designated level. Because of the use of the classified stock in conservatively financed growth company without sacrificing income, while the founders retained absolute control during the crucial early stages of the firm development. At the same time, outside the original owners protected investors against excessive withdrawals of funds. As is often the case in such situations, the class B stock was also called founders’ shares. *(Donald & Ronald; 2000: 97-98)*

## **b) On the Basis of Their Features**

Common stock can be classified on the basis of their features, among them some important are briefly explained below:

### **(i) Income Stocks**

Stocks having stable cash dividends record are often called as income stocks.

### **(ii) Blue Chip Stock**

Stocks of very large, well-established corporation have been dominant positions; strong balance sheet and size are called blue-chip stocks, for example stocks of IBM, Micro-soft, American Express Company, Citicorp etc.

### **(iii) Growth Stocks**

“Stocks whose price grows with the growth of corporation’s earnings and dividends with a comparatively higher growth than the average price appreciation.” *(Gordon; 1962: 172)*

### **(iv) Speculative Stocks**

Stocks which are viewed by investors with some speculative motives are called speculative stocks.

### **(v) Cyclical and Defensive Stocks**

“Stocks which are influenced by economic and industrial cycles are called cyclical stocks whereas stocks which are less susceptible to economic cycles are called defensive stocks.” *(Gordon; 1962: 173)*

#### **(vi) Small Stocks**

Stocks depending upon the capitalization norms are generally known as small or even blue chip stocks.

#### **(vii) Treasury Stocks**

If a corporation decides to buy back its own stock, the acquired stocks are called treasury stocks.

In Nepal, growth stocks, income stocks, and speculative stocks are generally seen in practice.

### **2.1.4 Features of Common stocks**

Study of the key features of common stocks is important to find out the causes of stock price movement. Common stockholders are the true owner of the business firm. Common stockholders are the residual owners in the sense that they receive what is left after all other claims on the firm's income have been satisfied. The main positive consideration involved in equity ownership is income and control. Common stockholders have the right of-

#### **(a) Involvement in Controlling the Firm**

“Equity shareholders are the real owner of the firm. They can directly involve in controlling the firm for its progress. They must be invited in the annual general meeting of the company in which they are provided the voting right to choose the best management team, i.e. board of directors.” (*Pandey; 1999: 48*)

The common stockholders have voting right to elect the board of directors, which in turn elects the Management Committee. The stockholders also have other voting rights on issues, which have substantial effects on the corporations, which can bring about change in their ownership percentage, any contract of financial percentage.

#### **(b) Preemptive Right**

“If a company plans to issue new stocks, existing stockholders have the rights to subscribe to new stocks, often at lower prices, before they are issued to the public.

Preemptive right allows the stockholders to maintain their proportionate ownership in the firm when new issues are made. This right permits its existing shareholders to maintain their voting control and protect against the dilution of their ownership and earnings.” (*Raghunathan; 1996: 29*)

#### **(c) Other right of the common stockholders**

“The right of common stockholders in a business firm are established by the law of the state in which the corporation is chartered and by the term of the charter. The rights of the common stockholders are as follows:

**(i) Specific Right of the Common Stockholders**

- ) The right to sell & purchase the stock
- ) The right to inspect the corporate documents.
- ) The right to vote in the manner prescribed by the corporate charter.
- ) The right to share residual assets of the corporation on its dissolution.

**(ii) Collective Right of the Common Stockholders**

- ) The right to adopt and amend by laws.
- ) The right to elect the directors of the corporation.
- ) The right to authorize the sales of fixed assets.
- ) The right to enter into the merger.
- ) The right to change the amount of authorized common stock.
- ) The right to issue preferred stock, common stock, debenture and other securities." (*Rugh; 1996: 72-74*)

**(d) Right to Income & Distribution of Other Shares**

As a matter of fact, shareholders have no right to receive income distribution from its corporation. As practice prevails, BOD declares cash dividends if enough financial resources are available. The dividends can be cash dividends, stock dividends, property dividends etc.

“Rational and high moral character and accountable behavior of institutions such as government, central bank, stock exchange board, stock exchange, organized institutions for accumulating capital from the market, mediators in

the form of manager for issuing security, creator of market , manager for investment security dealers such as brokers and investors in the form of government bondholders, ordinary shareholders, preference shareholders, debenture holders, ordinary mutual fund unit holders help to develop healthy capital market.” (Kolb & Rodriguez; 1996: 92)

### **2.1.5 Theories of Stock Price Movement**

Simply stock price movement refers to the fluctuation of the stock price in the secondary capital market, i.e. market value is more than book value or market value is less than book value. Market value is less or more than book value due to various internal and external causes. Market value can change. When we try to study Nepalese securities market, it is necessary to study the other external factors. Due to globalization, liberalization and modernization, the world has turned into a global village and one incident in any part of the globe affects other. Theory of code of conduct of explanation process is pushed further, from where a concrete thee can be derived.

In broad sense, there are three theories concerning stock price movement. The theories explain share price fluctuation in the stock market. Market efficiency is the premise for all of the theories. The theories are:

#### **2.1.5.1 Efficient Market Theories**

Efficient market theories refer the optimum price of the stock in the competitive market. Stock price is neither overvalued nor undervalued in the market like monopoly market.

The term efficiency may be defined in various ways: (a) allocate efficiency, (b) operational efficiency, and (c) informational efficiency.

“When the finance literature speaks of market efficiency, it is generally speaking exclusively about informational efficiency in pricing the stocks. A market is said to be informational efficient if the current market price instantaneously and fully reflects all relevant available information. The market value of a particular share may be under or over valued. An efficient market is one where shares are always correctly priced and it is not possible to consistently outperform the market by using the information that the market already knows, except through luck.” *(Reilly; 1986: 97)*

Thus, “an efficient market is defined as a market where there are large number of rational, profit maximizes actively competing, with each trying to predict the future market values of an individual securities, and where important current information is almost freely available to all participants.” *(Francis; 1991: 142)* An initial and very important premise of an efficient market is that there is large number of knowledgeable and profit maximizing independent buyers and sellers, new information is generated randomly and investors adjust the information rapidly. Therefore, if market is efficient it uses all available information to it in setting price. The measure of efficiency evolved from the notion of perfect competition, which assumes free and instantly available information, rational investors with no taxes and transaction cost.

“The requirements for securities market to be an efficient market are:



- (a) Prices 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.
- (b) Information must be discussed freely and quickly across the nation so all investors can react to new information.
- (c) Transaction costs such as sales commissions on securities are ignored.
- (d) Taxes are assumed to have no noticeable effect on investment policy.
- (e) Every investor is allowed to borrow or lend at the same rate.
- (f) 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 assets with relatively high returns)." (Chorafas; 2001: 37-38)

This constitutes the world of the efficient market theory or more popularly the capital assets pricing model.

"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 efficient if a doubling in price the price of 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." (Bhalla; 1986: 57-58) "Market efficiency refers to the ability of financial assets to quickly adjust and reflect all information

that is relevant to value in its price.” (*Francis; 1991: 144*) Therefore, it assumes that any given time, the market correctly prices all securities. The result, or so the theory advocates, is that securities cannot be overpriced or underpriced for a long enough period to profit there from.

Beyond the normal utility maximizing agents, the efficient- market hypothesis requires that agents have rational expectations; that on average the population is correct and whenever new relevant information appears, the agents update their expectations appropriately. Note that it is not required that the agents be rational. EMH allows that when faced with new information, some investors may overreact and some may under react. All that is required by the EMH is that investors’ reactions be random and follow a normal distribution pattern so that the net effect on market prices cannot be reliably exploited to make an abnormal profit, especially when considering transaction costs (including commissions and spreads). Thus, any one person cannot be wrong about the market- indeed, everyone can be- but the market as a whole is always right.

#### **2.1.5.1.1 Levels of Market Efficiency**

There are three levels of market efficiency depending upon types of information set impounded into the price. In other words, the forms markets are determined on the basis of how publicly available information is reflected in the market price of shares. In the early work of 1970, Fama has categorized his work on market efficiency into three categories. However, in late 1990 he published the revised version of 1970’s work, which could be summarized as follows:

### **a. Strong Form of Efficient Market Hypothesis (SEMH)**

“The strong form of EMH states that stock price reflects all information both private and public. This includes the publicly available information about the company and also inside information i.e. privately held by selected group of individuals like directors, officials, principal owners etc. This version of hypothesis is quite extreme and state that who possess inside information would not have investment information of any value. Under this extreme form of professional investors will have a zero market value because no form of search or processing of information will be effective and useful. In this market ‘insiders’ cannot earn above average return because no single participant has monopolistic access to that kind of information. 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. Even if some money managers are consistently observed to beat the market, no refutation even of strong-form efficiency follows: with hundreds of thousands of fund managers worldwide, even a normal distribution of returns (as efficiency predicts) should be expected to produce a few dozen “star” performers.” *(Pradhan; 2000: 104-106)*

### **b. Semi -Strong Form of Efficient Market Hypothesis (SSEMH)**

“In semi-strong-form efficiency, it is implied that share prices adjust to publicly available information very rapidly and in an unbiased fashion, such that no excess returns can be earned by trading on that information. Such includes information on historical as well as published financial data about companies, government data about the state of the economy, assessment of security analyst and other publicly available information relevant to the valuation of the firm. If this form of market efficiency is in effect, no form of

analysis either technical or fundamental will help to attain superior 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.” *(Edward & Magee; 1958: 82-85)*

### **c. Weak Form of Efficient Market Hypothesis (WEMH)**

“The weak form of efficient market hypothesis says that current price of stock already fully reflect all historical price and volume data. Future prices cannot be predicted by analyzing price 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, meaning that there are no “patterns” to asset prices. This implies that future price movements are determined entirely by information not contained in the price series. Therefore, historical time series data of securities provide no information that can be used to predict future price. This weak form of EMH is popularly known as the Random Walk Hypothesis, which states that path of stock’s price is not influenced by past price movement. As stocks follows the random walk in this form of EMH, there is no information in past series, which is useful in predicting the future. The significant conclusion of this form of hypothesis is investors must base their analysis on information other than the past prices.” *(Kene; 1983: 77-80)*

### 2.1.5.1.2 Random Walk Hypothesis (RWH)

The Random Walk Hypothesis (RWH) asserts that successive price changes are independent, and hence produces a random walk in price levels. In its simplest form, it states that price changes cannot be predicted from historical changes in any meaningful manner. The past history of stock price movements and the history of stock trading volume do not contain information that will allow the investor to consistently better than a buy and hold strategy in managing portfolio. The fundamental beliefs at the back of the RWH are that successive price changes of an individual stock are independent over time and that is actual price fluctuate freely overtime about its intrinsic value Random Walk Market.

Random Walk Model in share prices actually involves two main hypotheses:

- ) Successive price changes are independent, and
- ) Price changes confirm to some probability distribution.

Statistically independent probability distribution means for the price change during time period 't' is independent of the sequence of price changes during previous periods. "Out of two hypotheses of Random Walk Theory, independence of successive price changes is strong and most important to make theory valid. The second one is price changes confirms to some probability distribution but its shape or form of distribution need not be specified i.e. any distribution is consistent with the theory as long as it correctly characterizes the process generating the price changes. However, shape or form of distribution of price change knowledge is important to both the investors and researchers for determining riskiness of investment in common stock." (*Chorafas; 2001: 51-52*)

Independence is an important property of RWH. Proponent of Random Walk Theory recognizes that in general, strictly independence assumption does not exist in real world. So, they argue that small degree of dependence does not refuse the practical usefulness of RWH as long as it may not be useful to predict above normal market return. The independence assumption of the Random Walk model is valid as long as knowledge of the past behaviour of the series of price changes cannot be used to increase expected gains. That is, for practical purpose the RWH may be considered to be suitable as long as the degree of dependence in the series of price changes is not adequate to forecast the future from the past price fluctuation so as to make profit higher than they would be under naïve buy and sell policy.

Though the subject of market efficiency has been much concerned area of the study for the academicians and researchers in recent times, the advocates of the efficient market theory are matched by an equally eloquent opposing camp which argues that the stock market is neither competitive nor efficient. The critics cite that one or more of the following factors cast their shadow over the efficiency and competitiveness of the stock market.

**a. Information Inadequacy**

“Information is neither freely available nor rapidly transmitted to all the participants in the stock market. In addition, there is a calculated attempt by many companies to circulate misinformation.” (*Charles; 1993: 73*)

**b. Limited Information Processing Capabilities**

“Human information processing capabilities are sharply limited. Every human organism lives in an environment which generates millions of new information every second, but the bottleneck of perceptual apparatus certainly does not admit more than a thousand bits per second and possible much less.”  
*(Charles; 1993: 74)*

### **c. Irrational Behaviors**

“In theory, it is generally assumed that investor rationally will ensure a close correspondence between market prices and intrinsic value. In practice, this may not be true. All sorts of consideration enter into the market valuations which are in no way relevant to the prospective yields. The markets evaluation process work haphazardly almost like a blind man firing a gun. The market seems to function largely on a ‘hit-or –miss’ basis than on the basis of informed beliefs about the long term prospects of the individual enterprises.”  
*(Dobbins; 1996: 101)*

### **d. Monopolistic Influence**

“In theory, the market is regarded as highly competitive. No single buyer or seller is supposed to have undue influence over price. In practice, powerful institutions and big operators wield great influence over the market. The monopolistic power enjoyed by them diminishes the competitiveness of the market.” *(Dobbins; 1996: 102)*

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.

### **2.1.5.2 Fundamental Analysis Theory**

Generally fundamental analysis theories refer the formula and principle. According to the technical analyst, fundamental analysis is idealist part of analysis. So it is not perfect and market principle of analysis of stock price movement.

“Fundamental analysis approach involves working to analyze different factors such as economic influences, industry factors, governmental actions, firm’s financial statement, its competitor and pertinent company information like product demand, earnings and management in order to calculate an intrinsic value for firm’s securities. The analyst who believes on fundamental facts to determine the intrinsic value of stock is popularly known as fundamental analyst or fundamentalist.” *(Brealey & Meyers; 1998: 122)*

The value of common stock is simply the present value of all the future income which the owner of the share will receive. And the actual price should reflect intrinsic value of the stock i.e. good anticipation of cash flows and capitalization rate corresponding to future time period. But in practice, first, it is not known in advance what the appropriate discount rate should be for particular stock. Therefore, fundamentalists estimate their intrinsic value by studying the details of all matters that are relevant to the company. The study would involve examining its sales earnings, profit margins, dividends, management proficiency, industrial and business outlook, labour



competencies or any fact that would have a bearing on its performance in the future.

“Fundamentalists forecast stock price on the basis of economic industry and company statistics. The principal decision variable ultimately takes form of earnings and value with a risk-returns framework based upon earning power and the economic environment. Fundamental analysts delve into companies’ earnings, their management, economic outlook, firm’s competitor’s market conditions and many other factors.

The objective of fundamental security analysis is to appraise the intrinsic value of a security. The intrinsic value is the true economic worth of financial asset. The fundamentalists maintain that any point of time every stock has an intrinsic value which should in principle be equal to the present value of the future stream of income from that stock discounted at an appropriate risk-related rate of interest. Thus, when a new piece of news is released securities intrinsic values will change and the securities market prices will adjust towards the new values.” *(Reilly; 1986: 152-154)*

Based on such study, fundamentalists project a company’s future profits and earning capacity with reasonable accuracy what the price of a company’s share ought to be. This estimated price is termed as intrinsic value. The intrinsic value of the stock is generally away from its present market value. Thus, there is a difference or gap between them. A fundamentalist reaches an investment decision by comparing this value with current market value. If the intrinsic value is higher than the market value, it is believed that the price will rise. In such a situation, fundamentalists will acquire shares as this difference

presents them with an opportunity to make a profit. Alternatively, if the intrinsic value is lower than the market value, the share is overpriced and is an indication to the fundamentalists to sell. Following this rule, they believe, above average return can be attained, given that the market is inefficient in pricing the shares.

Though many security analysts or prospective investors make a judgment of the stock's value with a risk-return framework based upon earning power and economic environment use fundamental analysis approach, it is hard and time-consuming work. "Some of the limitations of fundamental analysis approach are as follows:

- a. The approach though sound and based on basic financial figures does suffer from drawbacks and to make this approach work effectively, one must be aware of them.
- b. It tends to ignore market behavior and assumes that the market will act rationally. The market seldom does. Prices flare or drop on the simplest of reasons.
- c. The entire fundamental approach is based on a rational scientific analysis of data. The market is rarely rational.
- d. The information and analysis itself may be incorrect.
- e. Many companies, with the help of creative/ innovative accounting and accounting cosmetics disguise real earnings.
- f. The fundamentalists estimate of intrinsic value may be incorrect. This is not only possible but also more probable as he has to often forecast growth, profit and other factors without having in his grasp of all the facts.
- g. The fundamentalist may not fully understand the economy or the industry as there are several external factors.

- h. There is also the possibility always that the market may not move in the manner a fundamentalist expects and conversely towards the intrinsic value.
- i. It is also difficult to determine corporate action.” (*Christy & Clendnin; 1985: 304-306*)

### **2.1.5.3 Technical analysis**

“Technical analysis is one of the important theory of price determination and interpretation of stock. This is the modern and practical method to analyze the price fluctuation in the security market. Technical analysis is based on the widely accepted premise that price are determined by the supply and demand of the securities.” (*Kolb & Rodriguez; 1996: 115*)

Among many tools, technical analysis is one tool designed to measure the demand and supply. Typically, technical analysis records the historical financial data on charts in an effort to find meaningful pattern and use these patterns to predict future prices. Some charting techniques are used to predict the movements of a market index and some are used to predict both the action of the individual securities and market action.

“The technician believes the forces of supply and demand are reflected in patterns of price and volume of trading. By examination of these patterns, he predicts whether prices are moving higher or lower and even by how much. Therefore, the patterns and trend in prices is the basis of technical analysis. Various charts are prepared to determine whether prices are likely to rise or fall. Technicians tend to look backward.” (*Donald & Ronald; 2000: 135*)

Technical analysts discern past 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.

Technical analysts use different kinds of tools and technique to determine and forecast the stock price based on past data and information. Technical analysis is easier, faster, more result oriented and more market oriented philosophy than fundamental analysis. Some important technique of technical analysis is studied below:

### **(1) The Dow Theory**

It is one of the oldest and famous technique propounded by Charles Dow. He was the editor of the paper 'The wall street journal' the Dow theory is used to predict reversals and trends in the market as a whole or for individual securities. According to Dow, the market is always considered as having three movements, all going at the same time. The first is the movement from day to day; second is the short swing running for two weeks ; the third movement for at least four years.

### **(2) Charts**

“Technical analysts use the three basic types of charts-line chart, bar chart and point and figure charts. Line charts are often used to connect successive day’s closing price. Bar charts are used to spoon the distance from the day’s highest price to the day’s lowest price. A small cross on the bar makes the closing

price. Point & figure chart are made on  $X_s$  &  $Y_s$  are more complex than line and bar charts. PFCS are used not only to detect reversal in trends but also to make price forecasts, called price targets." (Raghunathan; 1996: 86)

Stock market analysis relies heavily on charts for tracking market movements. Bar charts are the most commonly used. They consist of vertical bars representing a particular time period - weekly, daily, hourly, or even by the minute. The top of each bar shows the highest price for the period, the bottom is the lowest price, and the small bar to the right is the opening price and the small bar to the left is the closing price. A great deal of information can be seen in glancing at bar charts. Long bars indicate a large price spread and the position of the side bars shows whether the price rose or dropped and also the spread between opening and closing prices.

### **(3) Contrary opinion**

Contrary opinion refers to the opposite thinking of the others. It assumes that the so-called man in the street is usually wrong and that it is therefore advantageous to pursue strategies opposite to his thinking. Two different theories of contrary opinion are:

- ) The odd-lot theory
- ) Short sales

### **(4) The Confidence Index**

Confidence index is the ratio of high- grade bond yields to low grade bond yields. When bond investors grow more confident about the economy, they shift their holdings from high grade to lower grade bonds in order to obtain the high yields offered by the risk or bond.

### **(5) Breadth of Market**

It is this kind of technique of finding the breadth of market that is used to measure the underlying strength of market advance or decline.

### **(6) Moving average**

“The most popular indicator is the moving average. This shows the average price over a period of time. For a 30 day moving average you add the closing prices for each of the 30 days and divide by 30. The most common averages are 20, 30, 50, 100, and 200 days. Longer time spans are less affected by daily price fluctuations. A moving average is plotted as a line on a graph of price changes. When prices fall below the moving average they have a tendency to keep on falling. Conversely, when prices rise above the moving average they tend to keep on rising. “Moving average analysis is used by technicians who focus on the moving average of price. The moving average is used to provide a smooth, stable reference point against which daily fluctuations can be measured. Moving average analysis is used to for individual securities and market indexes.” *(Gordon; 1962: 205-207)*

#### **2.1.5.3.1 Relevance of Technical Analysis in Stock Market**

Technical indicator is the basis of technical analysis. Technical stock Analysis is a financial market technique that claims a future forecast in the direction of security. It uses the study of the post market data, price and volume. It is most commonly used among financial professionals and traders. Technical analysis works only on the assumption of price and volume that are its two most important factors determining the future and behavior of a particular stock.

The reason why volume and price are important aspects of stock technical indicators is because they are used in confirming chart patterns and trends. Price movement with relatively high volume indicates the large price movement. Therefore, you must examine the volume, if you are looking at a large price movement. Volume and price should move with the trend. There should be direct relationship between the volume and price. Like, if prices are increasing, then volume should also be increased. And, again if prices are falling, volume should decrease.

To assess a sign of weakness in the trend, you must see the relationship between the volume and the price movements. If it's deteriorating it implies a clear cut sign of downtrend.

These days the strange behavior of the stock market is giving jitters to many investors and stock brokers. The majority of people want to know what made the price to pop up or go down drastically. They are tired of trying the complex chart and graphs of upward and downward movements of the share market. In this regard, technical indicators hold much significance. Even in the volatile stock market, market analysts bank on the technical analysts to go further.

However, it is not certain that all analysis made by the technical indicators are all correct. Therefore, it is not advisable to completely rely on the advice generated by the technical indicators. Marketing sentiments must also be given equal importance together with the technical analysis of the share market.

### **2.1.6 Stock Market Analysis**

“The return that a stock can provide is often predicted with the help of technical analysis. Stock market trading tips are based on technical analysis of various parameters. Stock market analysis is science of examining stock data and predicting their future moves on the stock market. Investors who use this

style of analysis are often unconcerned about the nature or value of the companies they trade stocks in. Their holdings are usually short-term - once their projected profit is reached they drop the stock.” (*Kene; 1983: 110*)

The basis for stock market analysis is the belief that stock prices move in predictable patterns. All the factors that influence price movement - company performance, the general state of the economy, natural disasters - are supposedly reflected in the stock market with great efficiency. This efficiency, coupled with historical trends produces movements that can be analyzed and applied to future stock market movements.

“Stock market analysis is not intended for long-term investments because fundamental information concerning a company's potential for growth is not taken into account. Trades must be entered and exited at precise times, so technical analysts need to spend a great deal of time watching market movements. Most stock tips and recommendations are based on stock analysis methods.

Investors can take advantage of these stock analysis methods to track both upswings and downswings in price by deciding whether to go long or short on their portfolios. Stop-loss orders limit losses in the event that the market does not move as expected.” (*Pradhan; 2000: 144*)

There are many tools available for stock market analysis. Hundreds of stock patterns have been developed over time. Most of them, however, rely on the basic stock analysis methods of 'support' and 'resistance'. Support is the level that downward prices are expected to rise from, and Resistance is the level that upward prices are expected to reach before falling again. In other words, prices tend to bounce once they have hit support or resistance levels.



## 2.2 Review of Journals and Articles

**Hackethal and Zdantchouk** (2004), in their article, *“Share Buy-Backs In Germany Overreaction To Weak Signals?”*, have stated that the fact that implied total abnormal returns from implementing buy-back plans seem to be extraordinarily high when compared to share price effects observed for other countries poses a research puzzle. The differences in the legal requirements for conducting buy-back programs are the main determinant for international differences in average price effects.

Strong price effect on the announcement date reinforces the legal requirement for German firms to report an imminent buy-back transaction by means of a public ad-hoc disclosure. Given that the preceding, initial statement by managers to seek AGM approval also causes considerable market variations, a statement should also be subject to legal ad-hoc disclosure requirements. Otherwise, opportunities remain for trading by informed insiders which was prohibited back in 1994 by the 2nd Financial Market Promotion Act. Positive abnormal returns in the five days before the concerned voluntary statement, thus indicating that insider trading might have indeed occurred in the context of repurchase transactions by German firms.

**Fama and French** (2006), in their article, *“Average Returns, B/M, and Share Issues”*, have stated that the results for Microcap and ABM stocks diverge in one important respect. For ABM stocks, there is no reliable evidence that the true slopes for  $dMt-k,t$  and  $dBt-k,t$  differ in magnitude. In other words, though old news about changes in price and book equity is less relevant in estimates of expected returns than new news, a 1% change in book equity is as relevant

as a 1% change in price of the same age. In contrast, for Microcaps, changes in price play a much more powerful role in expected return estimates than changes in book equity.

The valuation framework equation tells that past variables contribute to expected returns because they have information about expected cash flows and/or expected returns. The high volatility of fundamentals for Microcaps may mean that past changes in fundamentals like book equity have more noise and thus less information about the future than is the case for ABM stocks. Likewise, the higher volatility of price changes for Microcaps implies more volatility in changes in expected cash flows and/or expected returns that may help make the information in changes in book equity less relevant for estimates of expected returns.

**Fornell, Mithas, Morgeson, & Krishnan (2006)**, in their article, *“Customer Satisfaction and Stock Prices: High Returns, Low Risk”*, have stated that though firms with highly satisfied customers usually generate positive abnormal returns, news about changes in customer satisfaction does not have an effect on stock prices. In other words, the primary thesis behind capitalist markets and marketing theory is borne out, but not without reservations about efficient (equity) markets theory.

Specifically, there seem to be imperfections with respect to the time it takes for stock markets to reward firms that do well by their customers and to punish firms that do not. In the wake of accounting scandals, the bursting of the stock market bubble, and the continued weakening of the relationship between balance sheet assets and future income, it would be in the interest of

securities research to pay closer attention to customer satisfaction and the strength of customer relationships. For marketing managers, it is clear that the cost of managing customer relationships and the cash flows they produce is fundamental to value creation. The principal short-term impact of the findings may be to boost security analysts' demand for customer satisfaction information. If history is a guide, however, it will be difficult for analysts to separate the "good" from the "bad" and the relevant from the irrelevant when it comes to this type of information. This will be a serious challenge because recent experience with valuing intangible assets did not turn out well.

As consumer and equity markets become more synchronized, their joint influence may contribute to less misallocation of capital, quicker deflation of stock market bubbles, fewer cases of security mispricing, and a better functioning of markets in general. Although investors fail to realize the relevance of ACSI news and equity markets exhibit imperfections in this regard, the results of this study affirm the workings of free capitalistic markets with respect to the relationship between consumer utility and the flow of investment capital.

**Baker, Greenwood & Wurgler** (2008), in their article, *"Catering Through Nominal Share Prices"*, have stated that board of directors are free to choose whatever nominal price they decide is optimal, subject only to listing requirements. Managers increase the supply of the securities that investors are willing to pay a premium for. As with catering theories of dividends and other managerial behaviors, the "friction" is limits to arbitrage that allow for mispricing, here associated with nominal share price levels.

Splits are far more common, and to lower prices, when the valuation ratios of small- and low-priced firms are high relative to the valuation ratios of large- and high-priced firms. Simple valuation ratio-based proxies of catering incentives explain a large fraction of variation in post-split share prices. They also explain a large fraction of variation in the prices chosen by newly-public firms. Finally, price management appears to take advantage of relative overvaluation of low-priced firms. When firms split more often and to lower prices, the subsequent returns on small and low-priced firms are unusually low.

**Barnes and Ma (2009)**, in their article, *“The Behavior of China’s Stock Prices in Response to the Proposal and Approval of Bonus Issues”*, have stated that A-share market can be deemed largely semi-strong form efficient for middle-bonus and large-bonus issue proposals and approvals, and the B-share market can be classified as semi-strong form efficient with respect to the announcement of middle/large-bonus issue approvals.

The A-share market reacts more strongly than the B-share market to the announcements of bonus proposals and approvals, suggesting that the A-share market is not as efficient as the B-share market. Furthermore, the small-bonus issues mean different things to Chinese and foreign shareholders, whereas large-bonus issues signal to both groups that management feels confident about the future of the firm. What determines the differential informational content of small-bonus issues to Chinese and foreign traders remain an open question.

**Brailsford, Marchesi, Simon & Tutticci** (2010), in their article, *“The determinants of share repurchase decisions in on-market buy-backs”*, have stated that the intended repurchase activity can be explained by the proportion of executive equity held in the form of dividends. That is, the findings provide consistent results for a dividend substitution effect in which the executive directors of a firm are concerned about the impact of dividends on the value of their options. This preference for distributing cash to shareholders through repurchases rather than dividends would suggest that directors’ options may not be dividend protected.

Further, more shares are intended to be repurchased by firms citing under-valuation, capital restructuring and liquidity as the reasons for the buy-back. Smaller firms intend to repurchase a greater proportion of their shares at the commencement of the buy-back while firms with fewer growth options intend to repurchase less. Rather the announcement of a buy-back effectively creates an implicit option for firms as to their payout policy.

### **2.3 Review of Thesis**

**Thapa** (2005), has conducted a study on, *“Dividend and Stock Prices: An Empirical Study.”* The main objectives of the study were as follows:

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

The major findings of the study were:

- a. The difference between dividend per share and stock prices is positive in the sample companies.
- b. Dividend per share affects the share prices variedly indifferent sectors changing dividend policy or dividend per share might help to increase the market price per share.
- c. The difference between stock prices and retained earning per share is not prominent.
- d. The difference between stock price and lagged earnings ratio is negative.

**Tamrakar** (2006), has conducted a study on, “*Dynamics of Stock Market in Nepal.*” The objectives of the research were as follows:

- a. To analyze the trend of Nepal stock market.
- b. To diagnose and compute sectorial financial status of the stocks in Nepalese stock market.
- c. To analyze the market share price of Nepalese stock market.
- d. To find out the impact of the secondary on primary market and vice versa.
- e. To recommend for the improvement of stock, market in Nepal.

The major findings of the study were:

- a. The stock market and economic activities move in similar direction. They influence each other. The development of the former is reflected in the latter.
- b. The stock market mobilizes the investment to finance the long-term large projects in the economy. The stock market therefore can be regarded as a heart of economy.
- c. The investors are interested to invest their resources in the shares of corporate sector through the stock market in the Nepalese economy. It is necessary to develop the entrepreneurship and encourage the entrepreneurs to starts the productive venture as soon as possible.

- d. A management capability of entrepreneurs is a key for better performance of the firms. Government should launch programs to enhance management capabilities of entrepreneurs, which may contribute to raise the return from investment.

**Shakya** (2007), has conducted a study on, “*Stock Price Behavior in Nepal.*” This study aims to examine the efficiency of the stock market in Nepal. The objectives of the research were as follows:

- a. To examine the serial correlation of the successive daily price change of the individuals stocks.
- b. To determine whether the sequence of price changes is consistent with changes of the series of random numbers expected under the independent Bernoulli's process.
- c. To determine the efficiency of the stock market through the theoretical model of efficient market hypothesis in Nepalese stock market.
- d. To provide feedback policy input towards institutional development of efficient market.

The major findings of the study were:

- a. The serial correlation coefficients of the daily price changes for 1 and 2 lag days, and runs of the series of daily price changes lead to conclude that the successive price changes are not independent random variables for the 30 sample stock listed in Nepal Stock Exchange Ltd. (NEPSE). Therefore, the random walk theory is not a suitable description for the stock market price behavior in Nepal.
- b. The dependence in the price changes observed imply that the price changes in the future market will not be independent from the price changes of the previous days.
- c. The information of the past price changes is helpful in predicting future price changes in a way that the speculation through technical analysis can make higher expected profit than they would be under naïve buy-

and-hold policy (i.e. average market return). Therefore, opportunities are available to sophisticated (both institutional and individual) investors to earn higher return in the market.

- d. It is realized that mostly the naïve investors have dominated in the market that can cause price to diverge significantly from intrinsic values because the very existences of the sophisticated traders cause to erase the opportunities of persistence in prices which establish independence of successive price change.

**Aryal** (2008), has conducted a study on, “*Corporate Practice in Nepal.*” The main objectives of the study were: -

- a. To explain whether companies paying larger dividends have a good financial position or not, whether the companies with higher payouts have an improved or not.
- b. Whether the companies with higher yield having an improved financial ratio or not.
- c. Whether the difference between dividends and stock price, dividend payout affect the share prices of finance and non-finance sectors differently or not.
- d. The motives of paying cash and stock dividends whether dividend is a residual decision or not.

The major findings of the study were:

- a. Stocks with larger ratio of dividend per share to book value per share have higher liquidity. However, liquidity position of stocks paying higher dividends is also more variable as compared to stocks paying lower dividends.
- b. Stocks with larger ratio of dividend per share to book value per share have lower leverage ratios. It shows that companies paying higher dividends are reluctant to employ higher degree of leverage in their



capital structure. Leverage ratios of stocks smaller dividends are also more variables as compared to stocks paying higher dividends.

- c. When the difference between dividends and profitability is studied, it revealed that stocks with larger ratio of dividend share to book value per share have higher profitability. However, these profitability ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends.
- d. Positive difference is observed between the ratio of dividend per share to book value per share and turnover ratios. However, turnover ratios of stocks paying larger dividends are also more variable that of stocks paying dividends.
- e. Stocks with higher ratio of dividend per share to book value per share also have higher interest coverage. A positive difference is found between dividend payouts and current ratio where as negative difference is found between dividends payouts and quick ratio. It may be due to more reduction of quick assets rather than current assets when more dividends are paid out.
- f. The position of quick ratio of stocks paying larger dividends whereas the position of quick ratio of stocks paying larger dividend is less variable as compared to stocks paying lower dividends. There is a negative difference observed between dividend payouts and earnings before tax to net worth. On other hand, there is a positive difference between dividend payouts and earnings before tax to total assets. However, the return on both of total assets and net worth is more variable for stock paying higher dividends.
- g. The difference between dividends payouts and turnover ratios has been observed to be positive. Stocks with larger dividend payouts have higher turnover ratios. However, turnover ratios of stocks paying larger dividend are more variable. Positive difference is also observed between dividends payouts and interest coverage. Stocks with higher dividend

payouts also have higher interest coverage. Interest coverage of stocks paying larger dividends are also has more variable.

**Bhattacharai** (2009), has conducted a study on, “*Financial Performances and Common Stock Pricing.*” The main objectives of his research were:

- a. To study and examine the difference of financial performances and stock prices.
- b. To examine the relationship of dividends and stock price.
- c. To explore the signaling effects in on stock price.

The major findings of the study were:

- a. Nepalese stock market is in infancy stage. In general it is very new and just started to develop.
- b. Dominance of banking sector is prevalent in the market due to other industries including finance companies, insurance and manufacturing is not encouraging.
- c. Corporate firm with long history have a relatively stable profitability parameters that the firms established after the economic liberalization of 1990.
- d. Older firms have been issuing bonus shares more times than the new one.
- e. Dividend per share is relatively more stable than the dividend payout ratio. That's why payout ratio and dividend yields have been fluctuating.
- f. Due to lack of proper investment opportunity most of the investors have directed their saving towards the secondary stock market. This computed by such agency.
- g. People have a misconception that the issuance bonus shares and right shares, which actually decrease the net worth per share and resultantly ought to decrease the market price of stock also, do not decrease the price and this makes them invest even at a too high price with the expectation of getting the same to increase their overall wealth.

- h. There is significant positive correlation between the dividends paid and stocks prices of banking and manufacturing industries. All other industries have not a perfect correlation between the dividends paid and stock prices.
- i. There is positive correlation between the net worth per share and stock prices of banking, airline, and hotel industries, there is no perfect correlation between the net worth per share and common stock price.

**Sharma** (2010), has conducted a study on, “*The General Behavior of Stock Market Price.*” The prime objective of the study was to find the laws of price fluctuation in the stock market. However, the specific objectives of the study were as follows:

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

The major findings of the study were:

- a. The rejection of hypothesis makes clear that the knowledge of past now becomes useful in predicting the future movements in stock market prices.
- b. The investors, on the floor of exchange for securities can make high expected profits in the future based solely on those historical prices series under certain systematic trading scheme (i.e. Market average return) of the general market for securities.
- c. Anomaly of weak form tests of efficient market hypothesis has an important implication bearing behavior of security price variations in the past and in performing future research in this field.

- d. In broadly speaking the implications with respect to conclusions derived by the study are of two natures: statistical and economic.
- e. Statistically, the characteristic feature of stock market movement with respect to distribution of price change implies that the general shape has been demonstrated previously, due to higher values of standard deviations for individual price changes.
- f. Higher standard deviations are result of frequent large price fluctuation. According to this device of measuring risk, individual stock and aggregate market can be interpreted as highly risk opportunity for investment.
- g. The economic reason for higher values of standard deviations implies that the inherent instability of market, change in economic environment.

## **2.4 Research Gap**

Most of the studies on share price behavior conducted in the context of Nepal were based on secondary sources of information only. No study has been conducted on price behavior related to stock market efficiency by using share brokers and individual investors as primary sources of information. There was a need to conduct a survey with the share brokers and individual investors who are the major stakeholders of the stock market, in order to find out more subjective facts on share price behavior which cannot be tested through the use of the secondary source of information.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 Research Design**

Research design indicates a plan of action to be carried out in connection of proposed research work. It provides a guideline for research to enable him to track his action and to know that he is moving to the right direction. A research design is the arrangement of conditions for the collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. However, it is also noted that the more rigorous and sophisticated the design is, the more resources and time it consumes. So considering all the relevant factors, descriptive and analytical research design has been used.

#### **3.2 Nature and Source of Data**

This study is based on both primary and secondary sources of data. The basic purpose of primary source of information analysis is to survey the opinion of brokers and investors in NEPSE related to the movement of share price. The sources of secondary data are previous studies and reports, articles and journals, magazines, published and unpublished annual reports etc.

#### **3.3 Population and Sample size**

All the listed commercial banks in NEPSE are the population size of this study. All of them do not provide the scope for this study. Among the 21 listed

commercial banks, only eight commercial banks have been selected as sample for the study. The selected sample banks are enumerated below;

1. Nabil Bank Limited
2. Standard Chartered Bank Nepal Limited
3. Nepal SBI Bank Limited
4. Kumari Bank Limited
5. Nepal Industrial and Commercial Bank Limited
6. Nepal Investment Bank Limited
7. Everest Bank Limited
8. Lumbini Bank Limited

### **3.4 Tools Used**

To achieve the objectives of the study, both the financial and statistical tools have been extensively used.

#### **3.4.1 Financial Tools**

##### **1. NEPSE index**

It is a stock exchange index having great importance in the world of security analysis and used to evaluate the performance of institution in respect to economic variables. It is here in order to test the tendency of NEPSE index movement in six categorized sector(i.e. banking, manufacturing and processing, finance and insurance, hotel ,trading and other. It is determined through dividing the product of today's average stock price with listed shares by the product of average base market price (yesterday's market price) listed share (yesterday's listed share). NEPSE follows the Standard and Poor's Index, U.S.A. method while calculating index of share prices :

$$P_{01} \times \frac{P_1 \times Q_1}{P_0 \times Q_0} \times 100$$

## 2. Market price per share

Market price per share of stock of each sample bank denotes the monthly and the yearly-ended value and has been brought here from NEPSE Annual Report and denoted by MPS. It is the output of interacting forces of demand and supply at given time in relation to price and volume.

$$MPS = \frac{\text{Total Market Capitalization}}{\text{No. of Common Shares Outstanding}}$$

## 3. Earning Per Share

It is extracted from individual banks' annual report and is the proportion of earning after taxes divided by the number of shares outstanding. It is the most important ingredient for determining MPPS. High value of EPS results in higher market price. In this study, it is denoted by EPS.

$$EPS = \frac{\text{Total Earning of Company}}{\text{No. of Common Shares Outstanding}}$$

## 4. Dividend per Share:

Dividend per share is that portion of EPS which is distributed to the shareholders but is varied according to the company's policy. It is also another important factor affecting MPS. In short, it is denoted by DPS which is

obtained by dividing the total dividend by the number of equity shares outstanding.

$$DPS = \frac{\text{Total Dividend Paid}}{\text{No. of Common Shares Outstanding}}$$

## 5. Market Capitalization:

It is the product of closing market price and number of listed share of company. It is here denoted by MC AND brought from the annual report of NEPSE of each sample banks under the sample period.

$$MC = MPS \times \text{No. of listed shares}$$

### 3.4.2 Statistical Tools

#### 1. Arithmetical Mean

It represents the entire data by a single value. It provides the gist and gives the bird's eye view of the huge mass of unwieldy numerical data. It is calculated as:

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

Where,

X = sum of the sizes of the items

N= number of items

#### 2. Standard Deviation

Standard deviation is an important and widely used to measure dispersion. A standard deviation is the positive square root of the arithmetic mean of the squares of the deviations of the given observations from their arithmetic



mean. It is denoted by the letter  $\sigma$  (sigma). In this study standard deviation of different ratios are calculated.

$$\text{S. D.}(\sigma) = \sqrt{\frac{\sum(X - \bar{X})^2}{N}}$$

Where,

N = Number of items in the series.

$\bar{X}$  = mean

X = Variable

### 3. Coefficient of Variation

The Coefficient of variation is the most commonly used measure of relative variation. It is the relative measures of dispersion, comparable across distribution, which is defined as the ratio of the standard deviation to the mean expressed in percent. It is used in such problems where the researcher wants to compare the variability of data more than two years. A series with smaller C.V. is said to be less variable or more consistent or more homogeneous or more uniform or more stable than the others and vice versa. It is calculated as;

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

### 4. Karl Pearson's Coefficient of Correlation

Karl Pearson's Coefficient of Correlation is a statistical tool for measuring the intensity or magnitude of linear relationship between the two variables series. Karl Pearson's measure, known as Personian Correlation Coefficient between

two variables (Series) X and Y, usually denoted by 'r(X,Y)' or 'rxy' or simply 'r' can be obtained as;

$$r_{XY} = \frac{n \sum XY - \sum X \sum Y}{\sqrt{(\sum X^2 - \frac{(\sum X)^2}{n})(\sum Y^2 - \frac{(\sum Y)^2}{n})}}$$

Where,

- n : Number of observations in series X and Y
- $\sum X$  : Sum of observations in series X
- $\sum Y$  : Sum of observations in series Y
- $\sum X^2$  : Sum of squared observations in series X
- $\sum Y^2$  : Sum of squared observations in series Y
- $\sum XY$  : Sum of product of observations in series X and Y

## 5. Regression Analysis

Regression is the estimation of unknown values or prediction of one variable from known values of other variables. It is a mathematical measure of the average relationship between two or more variables in terms of the original units of the data. The known value which is used for prediction (or estimation) is called independent (or predictor or explanatory) variables and the unknown value that we are going to predict is called dependent (or regressed, predicted or explained) variable.

### Line of regression of Y on X

The line of regression of Y on X is the line which gives the best estimates of Y for any given amount of X. The regression equation is expressed as:

$$Y = a + bx$$

We shall get the normal equation for estimating 'a' and 'b' as:

$$\sum Y = na + b \sum x \dots\dots\dots(i)$$

$$\sum XY = a\sum X + b\sum x^2 \dots\dots\dots(ii)$$

Where, Y = the value of dependent variable,

a = Y-intercept

b = Slope of the trend line/coefficient of regression

X = Value of independent variable

## CHAPTER - IV

### DATA PRESENTATION AND ANALYSIS

#### 4.1 Secondary Data Analysis

Under this section of the study, the secondary data that are related to the stock price behavior have been analyzed. Further, the share price for fifteen days starting at June 24, 2010 and ending at July 15, 2010 have observed to measure the volatility.

##### 4.1.1 NEPSE Index and CB's Index

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

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

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

$$P_{01} \times \frac{P_1 \times Q_1}{P_0 \times Q_0} \times 100$$

Where,

$P_{01}$  = NEPSE Price Index

$P_1$  = Today's Stock Price

$Q_1$  = Listed Shares (i.e. no. of Shares Outstanding)

$Q_0$  = Base Listed Shares.

**Table 4.1**

**NEPSE and CB's Index**

<b>Fiscal Year</b>	<b>NEPSE Index</b>	<b>% Change in NEPSE Index</b>	<b>CB's Index</b>	<b>% Change in CB's Index</b>
2003/04	222.04	-----	231.97	-----
2004/05	286.67	29.11	304.64	31.33
2005/06	386.83	34.94	437.49	43.61
2006/07	683.95	76.81	789.21	80.39
2007/08	963.36	40.85	985.65	24.89
2008/09	749.10	-22.24	780.87	-20.78

*(Source: Annual Trading Reports, NEPSE)*

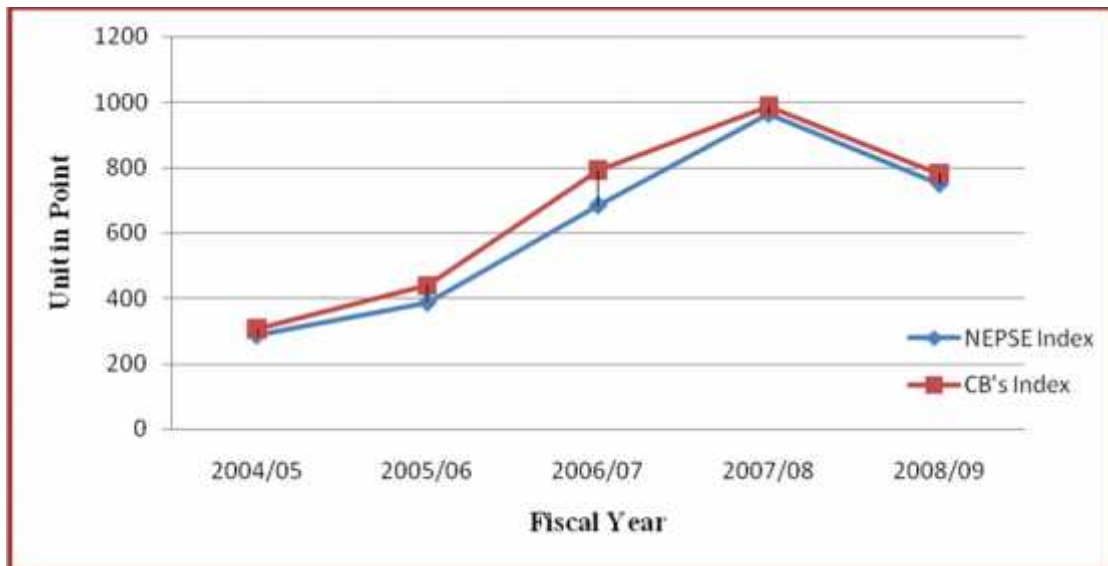
Due to a whopping increment in the share prices of banks, financial institutions, hydropower companies and development banks, the NEPSE index increased notably over the year. The restoration of peace, an improvement in listed companies' financial performance and, most importantly, the central bank's direction, dated 26 March 2007, to double

paid-up capital for banks and financial institutions contributed to a remarkable increment in share prices and subsequently the stock market indices.

The stock market opened with the NEPSE index of 286.674 points at the beginning of the FY 2004/05 and ended with 749.10 points in the FY 2008/09. The NEPSE index is highest, 963.36 points, in the fiscal year 2007/08. The NEPSE index increased highest (76.81%) in the fiscal year 2006/07 and finally decreased by 22.24% in the fiscal year 2008/09 compared to the index of previous year. As per the annual report of NEPSE, the NEPSE index reached the high of 1064.09 on 17 December 2007 within the last five years. Of the NEPSE Index, banking sub-index went up by 304.64 points in the fiscal year 2004/05 to 780.87 points in the fiscal year 2008/09. However, the banking index is highest, 985.65, in the fiscal year 2007/08. The banking sub-index measures the transactions of companies listed under commercial bank group. It touched the lowest point of 759.67 on 31 July August 2007 in the last three years. Both the NEPSE and CB's index have followed increasing trend for the first four fiscal year periods and then have decreased in the final year. However, the increment rate in CB's index is greater in the first three year compared to that of NEPSE index. This indicates that the pace of index of other listed companies is comparatively low than that of commercial banks in those periods.

**Figure 4.1**

**NEPSE and CB's Index**



#### 4.1.2 Monthly Trend Analysis

One of the suitable techniques for analyzing price trend is monthly trend analysis. For this purpose NEPSE Index and CB's Index of five years are taken during the different months.

**Table 4.2**

**NEPSE and CB's Index for Different Months**

Months	FY 2004/05		FY 2005/06		FY 2006/07		FY 2007/08		FY 2008/09	
	NEPSE Index	CB's Index	NEPSE Index	CB's Index	NEPSE Index	CB's Index	NEPSE Index	CB's Index	NEPSE Index	CB's Index
Shrawan	241.51	259.08	300.05	325.35	389.23	437.89	705.96	782.55	<b>1084.76</b>	<b>1143.62</b>
Bhadra	234.58	248.43	293.35	311.73	382.56	424.46	817.08	917.58	976.01	999.13
Ashwin	231.31	243.23	297.34	318.55	398.44	448.08	861.37	936.27	933.97	986.45
Kartik	235.08	248.22	302.39	326.13	447.43	508.20	915.38	988.39	806.90	800.35
Mangsir	236.38	249.60	303.12	329.32	508.58	584.68	<b>1025.91</b>	<b>1056.27</b>	734.85	713.19
Poush	239.61	255.01	305.50	329.02	537.09	600.72	958.91	951.26	659.81	627.39
Magh	257.29	270.86	317.69	347.81	523.94	576.90	814.43	817.63	663.52	637.98
Falgun	280.65	307.86	339.79	378.38	494.06	521.91	714.76	691.12	667.20	656.85
Chaitra	<b>293.26</b>	<b>322.02</b>	334.77	370.83	494.59	525.64	746.69	739.56	661.27	662.71
Baisakh	285.42	305.53	385.89	<b>445.80</b>	513.45	553.92	806.26	810.94	660.96	658.53
Jestha	277.79	292.22	372.01	419.41	575.04	637.22	930.65	951.33	678.74	696.78
Ashad	286.67	304.64	<b>386.83</b>	437.49	<b>683.95</b>	<b>789.21</b>	963.36	985.65	749.10	780.87

(Source: Annual Trading Reports, NEPSE)

The above table shows the NEPSE and CB's index from Shrawan to Ashad in last five fiscal years. Both the NEPSE index and CB's index are highest in the month of Chaitra in the fiscal year 2004/05. However, the NEPSE index is highest in Ashad and CB's index is highest in Baisakh in the fiscal year 2005/06. Moreover, both the NEPSE index and CB's index is highest in Ashad in the fiscal year 2006/07, in Mangsir in the fiscal year 2007/08, and in Shrawan in the fiscal year 2008/09. Summarizing the observations, it can be considered that the time period has no special effect on index. Rather other variables are responsible for the fluctuating behavior of stock price.

#### 4.1.3 Total Listed Companies and Listed Commercial Banks



The table 4.3 shows the number of listed companies in NEPSE, along with the listed commercial banks, from the fiscal year 2004/05 to 2008/09. The number of listed companies in NEPSE is 135 and number of listed commercial bank is 15 in the fiscal year 2005/06 which remains same in the fiscal year 2006/07 as well.

**Table 4.3**

**Total Listed Companies and Listed Commercial Banks**

Fiscal Year	Listed Companies		Listed CB	
	Number	% Change	Number	% Change
2003/04	114	-----	11	-----
2004/05	125	9.65	14	27.27
2005/06	135	8.00	15	7.14
2006/07	135	0.00	15	0.00
2007/08	142	5.19	17	13.33
2008/09	149	4.93	21	23.53

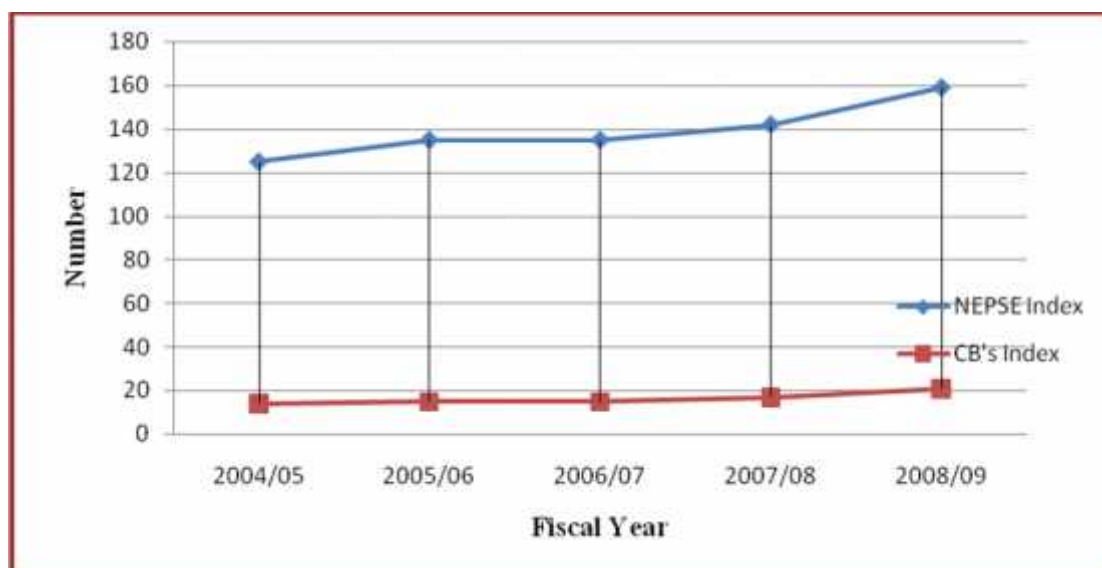
*(Source: Annual Trading Reports, NEPSE)*

The table 4.5 shows that the number of listed companies increased from 125 in the fiscal year 2004/05 to 149 in the fiscal year 2008/09. The percentage change in the number of listed companies ranged from 0% in the fiscal year 2006/07, when there is no change in number, to 9.65% in the fiscal year

2004/05. Similarly, the number of listed commercial banks has risen from 14 in the fiscal year 2004/05 to 21 in the fiscal year 2008/09. Alike in the number of listed companies, the number of listed commercial banks has remained stable in the fiscal year 2006/07, compared to that in the fiscal year 2005/06.

**Figure 4.2**

**Total Listed Companies and Listed Commercial Banks**



#### 4.1.4 Company wise Market Capitalization

The market capitalization of listed companies as per the annual report of NEPSE in fiscal year 2008/09 is presented in the table 4.4.

**Table 4.4**

**Market Capitalization of Listed Companies (2008/09)**

Sector	Mkt. Capital (in Millions)	Percentage
Commercial Bank	192611.17	37.55
Development Bank	16648.39	3.25

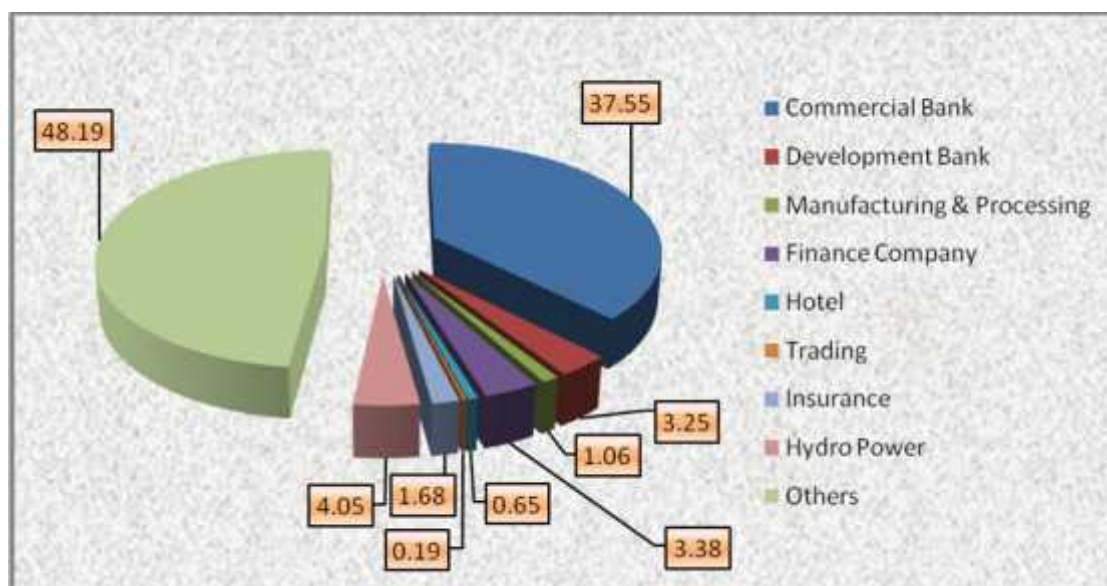
Manufacturing & Processing	5424.58	1.06
Finance Company	17342.23	3.38
Hotel	3346.41	0.65
Trading	980.70	0.19
Insurance	8640.23	1.68
Hydro Power	20769.65	4.05
Others	247175.71	48.19
<b>Total</b>	<b>512939.07</b>	<b>100.00</b>

*(Source: Annual Trading Report 2008/09, NEPSE)*

The market capitalization value of listed securities in the end of the fiscal year 2008/09 is Rs. 512939.07 millions. The table shows that the market capital of commercial banks in the fiscal year 2008/09 is Rs. 192611.17 millions, which represents 37.55% of the total market capitalization. Similarly, the market capitalization of development bank is Rs. 16648.39 millions, manufacturing and processing is Rs. 5424.58 millions, finance company is Rs. 17342.23 millions, hotel is Rs. 3346.41 millions, trading is Rs. 980.70 millions, insurance is Rs. 8640.23 millions, hydropower is Rs. 20769.65 millions, and others, which included mutual fund, preferred stock and other, is Rs. 247175.71 millions. The table clarifies that the commercial banks have greater role to augment the market capital.

Figure 4.3

Market Capitalization of Listed Companies (2008/09)



4.1.5 Market Prices of Commercial Banks

The closing market price of the selected banks i.e. NABIL, SCBNL, NSBL, KBL, NIC, NIBL, EBL and LBL, is presented in the tabular and graphical form as follows:

Table 4.5

Market Prices of Commercial Banks

FY	NABIL	SCBNL	NSBL	KBL	NIC	NIBL	EBL	LBL
2004/05	1505	2345	335	379	366	800	870	285
2005/06	2240	3775	612	443	496	1260	1379	368

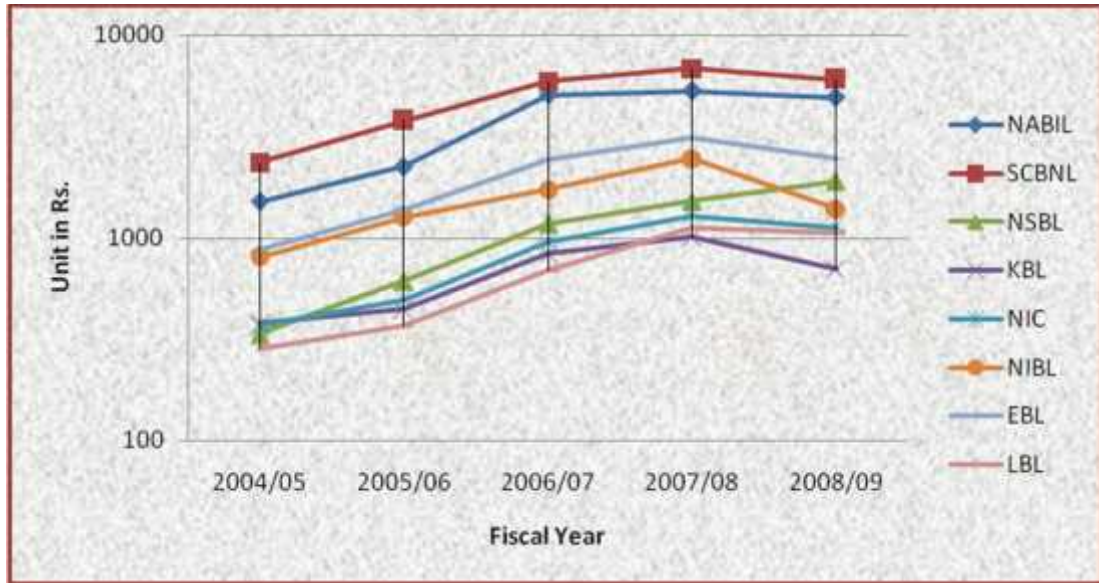
2006/07	5050	5900	1176	830	950	1729	2430	690
2007/08	5275	6830	1511	1005	1284	2450	3132	1113
2008/09	4899	6010	1900	700	1126	1388	2455	1062
<b>Mean</b>	<b>3793.80</b>	<b>4972.00</b>	<b>1106.80</b>	<b>671.40</b>	<b>844.40</b>	<b>1525.40</b>	<b>2053.20</b>	<b>703.60</b>
<b>S.D.</b>	<b>1590.37</b>	<b>1656.79</b>	<b>572.33</b>	<b>234.49</b>	<b>356.08</b>	<b>549.88</b>	<b>815.08</b>	<b>341.79</b>
<b>C.V.%</b>	<b>41.92</b>	<b>33.32</b>	<b>51.71</b>	<b>34.93</b>	<b>42.17</b>	<b>36.05</b>	<b>39.70</b>	<b>48.58</b>

*(Source: Annual Reports of Sample Banks)*

The table depicts that except in NSBL the market price per share of other six commercial banks has followed increasing trend for the first four fiscal years, and then it has decreased in the fiscal year 2008/09 due to the recession. However in NSBL, the MPS has increased in each fiscal year. The highest MPS of NABIL is Rs. 5275, SCBNL is Rs. 6830, KBL is Rs. 1005, NIC is Rs. 1284, NIBL is Rs. 2450, EBL is Rs. 3132, and LBL is Rs. 1113. However, NSBL has highest MPS, Rs. 1900, in the fiscal year 2008/09. Considering the high MPS, it can be concluded that investors give more predilection to be the part of SCBNL, and less preference to the share of KBL.

**Figure 4.4**

**Market Prices of Commercial Banks**



#### 4.1.6 Correlation and Regression Analysis

Besides the eccentric behavior of MPS, there are various factors. However, earning per share and dividend per share are considered as the most influential internal determinant of market price per share. To measure the relationship of MPS with these determinants, the correlation and regression analysis have been conducted.

##### 4.1.6.1 Correlation and Regression Analysis between MPS and EPS

The correlation coefficient and regression analysis between MPS and EPS are presented in the table below. For regression analysis, MPS is considered as the dependent variable on EPS.

**Table 4.6**

**Correlation and Regression Analysis between MPS and EPS**

Bank	r	P.E.	6 P.E.	Regression	Remarks

NABIL	0.0804	0.2997	1.7982	MPS = 2652.25+ 9.73 EPS	Insignificant
SCBNL	-0.3636	0.2618	1.5706	MPS = 8647.64 - 25.24 EPS	Insignificant
NSBL	0.8216	0.0980	0.5882	MPS = -163.33+ 46.90 EPS	Significant
KBL	0.2344	0.2851	1.7104	MPS = 290.32+ 20.00 EPS	Insignificant
NIC	0.7339	0.1392	0.8351	MPS = -684.98 + 65.67 EPS	Insignificant
NIBL	0.5704	0.2035	1.2209	MPS = 12.89+ 29.46 EPS	Insignificant
EBL	0.8915	0.0619	0.3716	MPS = -1228.33 + 42.37 EPS	Significant
LBL	0.9638	0.0214	0.1286	MPS = 88.75 + 52.97 EPS	Significant

(Source: Appendix - III)

The above table reveals the relationship between EPS and MPS of the observed banks. Except in SCBNL, the relationship between EPS and MPS is positive, which means that MPS increases with the increase in EPS. However, such relationship could not be justified, except in NSBL, EBL & LBL, since the value of 'r' is lower than the corresponding 6 P.E. The correlation coefficient between MPS and EPS of NABIL is 0.0804, SCBNL is -0.3636, NSBL is 0.8216, KBL is 0.2344, NIC is 0.7339, NIBL is 0.5704, EBL is 0.8915 and LBL is 0.9638.

Similarly, the regression equation of MPS on EPS indicates that with per rupee increase in EPS, the MPS of NABIL increases by Rs. 9.73, SCBNL decreases by Rs. 25.24, NSBL increases by Rs. 46.90, KBL increases by Rs. 20.00, NIC increases by Rs. 65.67, NIBL increases by Rs. 29.46, EBL increases by Rs. 42.37, and LBL increases by Rs. 52.97. However the relationship between EPS and MPS of only NSBL, EBL and LBL is statistically significant, and thus the role of EPS to change MPS is low in other banks.

#### 4.1.6.2 Correlation and Regression Analysis between MPS and DPS

Most investors invest their savings on share with the hope of return. DPS is one of such form of return that the investors are expecting. Generally, it is assumed that higher DPS causes MPS to increase. To examine such fact, the correlation and regression analysis have been performed.

**Table 4.7**

#### **Correlation and Regression Analysis between MPS and DPS**

Bank	r	P.E.	6 P.E.	Regression	Remarks
NABIL	0.6595	0.1705	1.0227	$MPS = -408.83 + 43.78 \text{ DPS}$	Insignificant
SCBNL	-0.1499	0.2949	1.7692	$MPS = 7241.74 - 18.30 \text{ DPS}$	Insignificant
NSBL	0.5613	0.2066	1.2397	$MPS = 821.20 + 15.08 \text{ DPS}$	Insignificant
KBL	0.2542	0.2822	1.6930	$MPS = 575.70 + 7.57 \text{ DPS}$	Insignificant
NIC	-0.1822	0.2916	1.7498	$MPS = 1041.86 - 10.03 \text{ DPS}$	Insignificant
NIBL	0.4144	0.2499	1.4991	$MPS = 1049.57 + 14.98 \text{ DPS}$	Insignificant
EBL	0.6745	0.1644	0.9864	$MPS = 1016.03 + 47.14 \text{ DPS}$	Insignificant
LBL	0.7539	0.1302	0.7811	$MPS = 537.27 + 33.27 \text{ DPS}$	Insignificant

*(Source: Appendix - III)*

The above table shows that there exists positive relationship between DPS and MPS in NABIL, NSBL, KBL, NIBL, EBL and LBL, and negative relationship



between these two variables in SCBNL and NIC. The calculated correlation coefficient between these two variables is 0.6595 in NABIL, -0.1499 in SCBNL, 0.5613 in NSBL, 0.2542 in KBL, -0.1822 in NIC, 0.4144 in NIBL, 0.6745 in EBL and 0.7539 in LBL.

The regression line of MPS on DPS indicates that with per rupee increment in DPS, the MPS of NABIL increases by Rs. 43.78, SCBNL decreases by Rs. 18.30, NSBL increases by Rs. 15.08, KBL increases by Rs. 7.57, NIC decreases by Rs. 10.03, NIBL increases by Rs. 14.98, EBL increases by Rs. 47.14 and LBL increases by Rs. 33.27. However, the relationship between these two variables is statistically insignificant in each bank. Thus MPS may not increase or decrease with same rupees as the regression line indicates.

#### 4.1.7 Trend of Price Fluctuation of Commercial Bank

Filter Rule and Run Test are germane to analyze the price fluctuation trend of share. The run test has been done observing 15 days price fluctuation, that starts at July 24, 2010 and ends at July 15, 2010 . By using filter rule and run test we can find out daily price movement of price, they are as follows:

**Table 4.8**

#### Prices Changes of NABIL Bank

Date	Day	Closing Price	Filter Rule			Run Test	
			% Change	X = 4% Buy/sell decisions	X = 8% Buy/sell decisions	Price Change (Rs.)	Set of Run
2010-6-24	1	2170	-	-	-	-	
2010-6-28	2	2127	-1.98	-	-	-43	

2010-6-29	3	2100	-1.27	-	-	-27	Run 1 -ve run
2010-6-30	4	2090	-0.48	-	-	-10	
2010-7-01	5	2205	5.50	Buy	-	115	Run 2 +ve run
2010-7-04	6	2200	-0.23	-	-	-5	Run 3 -ve run
2010-7-05	7	2160	-1.82	-	-	-40	
2010-7-06	8	2125	-1.62	-	-	-35	
2010-7-07	9	2135	0.47	-	-	10	Run 4 +ve run
2010-7-08	10	2160	1.17	-	-	25	
2010-7-11	11	2215	2.55	-	-	55	
2010-7-12	12	2125	-4.06	Sell	-	-90	Run 5 -ve run
2010-7-13	13	2150	1.18	-	-	25	Run 6 +ve run
2010-7-14	14	2230	3.72	-	-	80	
2010-7-15	15	2384	6.91	Buy	-	154	

(Source: Annual Reports, NEPSE)

On the basis of table, the price changes from day 1 to 15 shows two buy signal because the price has been increased by more than 4 percent, and one sell signal since the price decreased by more than 4 percent. But in 8 Percent, there is no any buy or sell signal, because the change in the price of all days is less than 8%.

Under the run test, in the above 15 days data of NABIL Bank, 3 positive, 3 negative run are present, as well Price from day one to four has been decreased and, while day 4 has positive run, day 5 to day 8 has negative run, day 9 to day 11 has positive run, day 12 has negative run and day 10 has positive run, Day 11 again negative run and day 13 to 15 positive run.

**Table 4.9**

### Price Changes of Standard Chartered Bank Nepal

Date	Day	Closing Price	Filter Rule			Run Test	
			% Change	X=4% Buy/sell decisions	X=8% Buy/sell decisions	Price Change (Rs.)	Set of Run
2010-6-24	1	3010	-	-	-	-	Run 1 -ve run
2010-6-28	2	2990	-0.66	-	-	-20	
2010-6-29	3	2900	-3.01	-	-	-90	
2010-6-30	4	2920	0.69	-	-	20	Run 2 +ve run
2010-7-01	5	3000	2.74	-	-	80	
2010-7-04	6	2975	-0.83	-	-	-25	Run 3 -ve run
2010-7-05	7	2998	0.77	-	-	23	Run 4 +ve run
2010-7-06	8	3146	4.94	Buy	-	148	
2010-7-07	9	2930	-6.87	Sell	-	-216	Run 5 -ve run
2010-7-08	10	2925	-0.17	-	-	-5	
2010-7-11	11	2925	0.00	-	-	0	Run 6 0 run
2010-7-12	12	3012	2.97	-	-	87	Run 7 +ve run
2010-7-13	13	3100	2.92	-	-	88	
2010-7-14	14	3060	-1.29	-	-	-40	Run 8 -ve run
2010-7-15	15	3279	7.16	Buy	-	219	Run 9 +ve run

*(Source: Annual Reports, NEPSE)*

The table shows that the MPS of SCBNL has completed 9 runs; 4 positive runs, 4 negative runs, and 1 constant run, within the fifteen days periods. This indicates greater volatility in share price behavior. The table reveals 2 buy

decision and 1 sell decision in percent filter rule. In addition, the price of the bank remains stable in day 11, when the price is Rs. 2925. Further the price has changed maximally by Rs. 216 in day 9, which implies sell decision. In 8% filter rule, there is no buy and sell decision, since the change in MPS is lower than 8%.

**Table 4.10**

**Price Changes of Nepal SBI Bank**

Date	Day	Closing Price	Filter Rule			Run Test	
			% Change	X=4% Buy/sell decisions	X=8% Buy/sell decisions	Price Change (Rs.)	Set of Run
2010-6-24	1	751	-	-	-	-	Run 1 -ve run
2010-6-28	2	742	-1.20	-	-	-9	
2010-6-29	3	730	-1.62	-	-	-12	
2010-6-30	4	731	0.14	-	-	1	Run 2 +ve run
2010-7-01	5	744	1.78	-	-	13	
2010-7-04	6	730	-1.88	-	-	-14	Run 3 -ve run
2010-7-05	7	727	-0.41	-	-	-3	
2010-7-06	8	745	2.48	-	-	18	Run 4 +ve run
2010-7-07	9	749	0.54	-	-	4	
2010-7-08	10	750	0.13	-	-	1	
2010-7-11	11	740	-1.33	-	-	-10	Run 5 -ve run

2010-7-12	12	740	0.00	-	-	0	Run 6 0 run
2010-7-13	13	750	1.35	-	-	10	Run 7 +ve run
2010-7-14	14	742	-1.07	-	-	-8	Run 8 -ve run
2010-7-15	15	741	-0.13	-	-	-1	

(Source: Annual Reports, NEPSE)

In the above table, the price of NSBL is also in fluctuating trend. Under the run test, there are 8 runs; 4 negative runs, 3 positive runs, and 1 constant run. There is no buying and selling signal in both 4 percent and 8 percent filter rule, this means that the change in MPS is lower than 4% within the 15 days. The MPS has changed by Rs. 18 in day 8, which is just 2.48% fluctuation. The lower percent change implies that there is no so much significant change in MPS within the 15 days periods.

**Table 4.11**

**Price Changes of Kumari Bank Limited**

Date	Day	Closing Price	Filter Rule			Run Test	
			% Change	X=4% Buy/sell decisions	X=8% Buy/sell decisions	Price Change (Rs.)	Set of Run

2010-6-24	1	440	-	-	-	-	Run 1 0 run
2010-6-28	2	440	0.00	-	-	0	
2010-6-29	3	437	-0.68	-	-	-3	Run 2 -ve run
2010-6-30	4	430	-1.60	-	-	-7	
2010-7-01	5	448	4.19	Buy	-	18	Run 3 +ve run
2010-7-04	6	443	-1.12	-	-	-5	Run 4 -ve run
2010-7-05	7	427	-3.61	-	-	-16	
2010-7-06	8	459	7.49	Buy	-	32	Run 5 +ve run
2010-7-07	9	440	-4.14	-	-	-19	Run 6 -ve run
2010-7-08	10	430	-2.27	-	-	-10	
2010-7-11	11	435	1.16	-	-	5	Run 7 +ve run
2010-7-12	12	448	2.99	-	-	13	
2010-7-13	13	435	-2.90	-	-	-13	Run 8 -ve run
2010-7-14	14	435	0.00	-	-	0	Run 9 0 run
2010-7-15	15	468	7.59	Buy	-	33	Run 10 +ve run

*(Source: Annual Reports, NEPSE)*

By the above table, in the filter rule  $X = 4\%$  from 1 to 15 days shows 3 buy decisions at day 5, day 8 and day 15, and no sell decision within the periods. Under the run test there are 10 run set up, where 2 is constants, 4 is positive run and 4 is negative run. Higher the number of runs indicates high volatility in stock price behavior of KBL. The MPS of KBL has changed by Rs. 33 in highest in day 15.

**Table 4.12**

**Price Changes of Nepal Industrial and Commercial Bank**

Date	Day	Closing Price	Filter Rule			Run Test	
			% Change	X=4% Buy/sell decisions	X=8% Buy/sell decisions	Price Change (Rs.)	Set of Run
2010-6-24	1	650	-	-	-	-	Run 1 -ve run
2010-6-28	2	647	-0.46	-	-	-3	
2010-6-29	3	625	-3.40	-	-	-22	
2010-6-30	4	625	0.00	-	-	0	Run 2 0 run
2010-7-01	5	645	3.20	-	-	20	Run 3 +ve run
2010-7-04	6	630	-2.33	-	-	-15	Run 4 -ve run
2010-7-05	7	630	0.00	-	-	0	Run 5 0 run
2010-7-06	8	630	0.00	-	-	0	
2010-7-07	9	635	0.79	-	-	5	Run 6 +ve run
2010-7-08	10	635	0.00	-	-	0	Run 7 0 run
2010-7-11	11	635	0.00	-	-	0	
2010-7-12	12	630	-0.79	-	-	-5	Run 8 -ve run

2010-7-13	13	630	0.00	-	-	0	Run 9 0 run
2010-7-14	14	630	0.00	-	-	0	
2010-7-15	15	626	-0.63	-	-	-4	Run 10 –ve run

(Source: Annual Reports, NEPSE)

From the above table, the filter rule X = 4% from 1 to 15 days shows no buy and no sell decision because the price changes is lower than 4 % and 8 %. While there are 10 runs; 4 zero runs, 4 negative runs and 2 positive runs, in fifteen days. Though the number of runs in market price is more, the volatility in MPS is not so significant, and thus the MPS has changed by Rs. 22 only in highest in day 3.

**Table 4.13**

**Price Changes of Nepal Investment Bank Limited**

Date	Day	Closing Price	Filter Rule			Run Test	
			% Change	X=4% Buy/sell decisions	X=8% Buy/sell decisions	Price Change (Rs.)	Set of Run
2010-6-24	1	750	-	-	-	-	Run 1 -ve run
2010-6-28	2	735	-2.00	-	-	-15	
2010-6-29	3	696	-5.31	Sell	-	-39	
2010-6-30	4	695	-0.14	-	-	-1	
2010-7-01	5	720	3.60	-	-	25	Run 2 +ve run
2010-7-04	6	719	-0.14	-	-	-1	Run 3 -ve run
2010-7-05	7	710	-1.25	-	-	-9	



2010-7-06	8	701	-1.27	-	-	-9	
2010-7-07	9	710	1.28	-	-	9	Run 4 +ve run
2010-7-08	10	710	0.00	-	-	0	Run 5 0 run
2010-7-11	11	715	0.70	-	-	5	Run 6 +ve run
2010-7-12	12	704	-1.54	-	-	-11	Run 7 -ve run
2010-7-13	13	704	0.00	-	-	0	Run 8 0 run
2010-7-14	14	705	0.14	-	-	1	Run 9 +ve run
2010-7-15	15	705	0.00	-	-	0	Run 10 0 run

(Source: Annual Reports, NEPSE)

Similarly in NIBL, the market price per share has completed 10 runs within 15 days. There are 4 positive runs, 3 negative runs and 3 zero runs. In day 10, day 13 and day 15, the MPS of the bank remains constant. The MPS of the bank has ranged from Rs. 695 to Rs. 735. In addition, there is no buy decision in the periods in both 4% and 8% filter rule, which means that the increment in MPS, compared to that in previous day, is lower than 4%, while there is 1 sell decision in day 3, when the MPS has decreased by 5.31%. Further, the highest change in MPS is Rs. 39 in day 3.

**Table 4.14**

**Price Changes of Everest Bank Limited**

Date	Day	Closing Price	Filter Rule			Run Test	
			% Change	X=4% Buy/sell decisions	X=8% Buy/sell decisions	Price Change (Rs.)	Set of Run
2010-6-24	1	1475	-	-	-	-	

2010-6-28	2	1480	0.34	-	-	5	Run 1 +ve run
2010-6-29	3	1525	3.04	-	-	45	
2010-6-30	4	1495	-1.97	-	-	-30	Run 2 -ve run
2010-7-01	5	1530	2.34	-	-	35	Run 3 +ve run
2010-7-04	6	1600	4.58	Buy	-	70	
2010-7-05	7	1499	-6.31	Sell	-	-101	Run 4 -ve run
2010-7-06	8	1498	-0.07	-	-	-1	
2010-7-07	9	1600	6.81	Buy	-	102	Run 5 +ve run
2010-7-08	10	1500	-6.25	Sell	-	-100	Run 6 -ve run
2010-7-11	11	1497	-0.20	-	-	-3	
2010-7-12	12	1528	2.07	-	-	31	Run 7 +ve run
2010-7-13	13	1557	1.90	-	-	29	
2010-7-14	14	1609	3.34	-	-	52	
2010-7-15	15	1630	1.31	-	-	21	

(Source: Annual Reports, NEPSE)

Likewise, altogether the market price of EBL has completed 7 runs in 15 days. The MPS has revolved 4 positive runs and 3 negative runs. The price change at 4% filter rule indicates 2 buy decisions in day 6, when the price has increased by 4.58%, and in day 9, when the price has increased by 6.81%, and 2 sale decisions in day 7 when the price has decreased by 6.31%, and in day 10 when the price has decreased by 6.25%. The highest change in MPS of the bank is Rs. 102 in day 9. However, the table indicates no buy and no sale decision at 8% level of filter rule.

**Table 4.15**

**Price Changes of Lumbini Bank Limited**

Date	Day	Closing Price	Filter Rule			Run Test	
			% Change	X=4% Buy/sell decisions	X=8% Buy/sell decisions	Price Change (Rs.)	Set of Run
2010-6-24	1	303	-	-	-	-	Run 1 -ve run
2010-6-28	2	295	-2.64	-	-	-8	
2010-6-29	3	285	-3.39	-	-	-10	
2010-6-30	4	283	-0.70	-	-	-2	
2010-7-01	5	290	2.47	-	-	7	Run 2 +ve run
2010-7-04	6	286	-1.38	-	-	-4	Run 3 -ve run
2010-7-05	7	290	1.40	-	-	4	Run 4 +ve run
2010-7-06	8	289	-0.34	-	-	-1	Run 5 -ve run
2010-7-07	9	285	-1.38	-	-	-4	
2010-7-08	10	290	1.75	-	-	5	Run 6 +ve run
2010-7-11	11	289	-0.34	-	-	-1	Run 7 -ve run
2010-7-12	12	294	1.73	-	-	5	Run 8 +ve run
2010-7-13	13	294	0.00	-	-	0	Run 9 0 run
2010-7-14	14	294	0.00	-	-	0	
2010-7-15	15	303	3.06	-	-	9	Run 10 +ve run

*(Source: Annual Reports, NEPSE)*

The market price per share of LBL has also completed 10 runs within 15 days. There is 5 positive runs, 4 negative runs, and 1 zero run in this period.

However, the table suggests no buy and sale decision in both 4% and 8% significant rule, which indicates that the change in market price is not so significant. The MPS has changed by Rs. 10 only in highest in day 3, which is not so eccentric.

Comparing the observed banks, it can be concluded that the stock price behavior of LBL, NIBL, NIC and KBL is most volatile than in other banks, since the number of runs in these banks is highest, i.e. 10 runs. However, LBL has low zero run among these banks, the stock price behavior of LBL can be considered most volatile. In contrast, NABIL has the lowest runs, i.e. 6 runs, thus it can be concluded that NABIL market price is least volatile.

#### 4.2 Primary Data Analysis

As the study is based on primary data, information is collected through developing a questionnaire and it is distributed to Share Brokers, Professional Investors and Potential Investors. A set of questionnaire related to the objectives of the study has been prepared for 45 respondents each. Among the distributed questionnaire, only 36 are answered, i.e. the respondent rate is 80% of the total targeted respondents.

**Table 4.16**

#### **List of Distributed Questionnaire**

<b>Group</b>	<b>Respondents</b>	<b>Sample Size</b>	<b>Percentage</b>
A.	Share Brokers	10	22
B.	Professional Investors	15	33
C.	Potential Investors	20	45

	<b>Total</b>	<b>45</b>	<b>100</b>
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(Source: Opinion Survey, 2010)

The number of respondents who have shown interest in responding the questionnaire is presented in the following table 4.17.

**Table 4.17**

**List of Questionnaire Collected**

<b>Group</b>	<b>Respondents</b>	<b>Sample Size</b>	<b>Percentage</b>
A.	Brokers	7	19
B.	Professional Investors	15	42
C.	Potential Investors	14	39
	<b>Total</b>	<b>36</b>	<b>100</b>

(Source: Opinion Survey, 2010)

**4.2.1 Satisfaction on Market Price Behavior**

To investigate the level of satisfaction on the present market price behavior of stock, the respondents were asked whether they are satisfied with the fluctuation. The responses achieved from them are presented in the following table.

**Table 4.18**

**Satisfaction on Market Price Behavior**

<b>Satisfaction</b>	<b>Responses</b>			<b>Total</b>	
	<b>Brokers</b>	<b>Prof. Investors</b>	<b>Pot. Investors</b>	<b>No.</b>	<b>%</b>
Yes	6	9	8	<b>23</b>	<b>64</b>
No	1	6	4	<b>11</b>	<b>31</b>

Don't Know	0	0	2	2	6
<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>36</b>	<b>100</b>

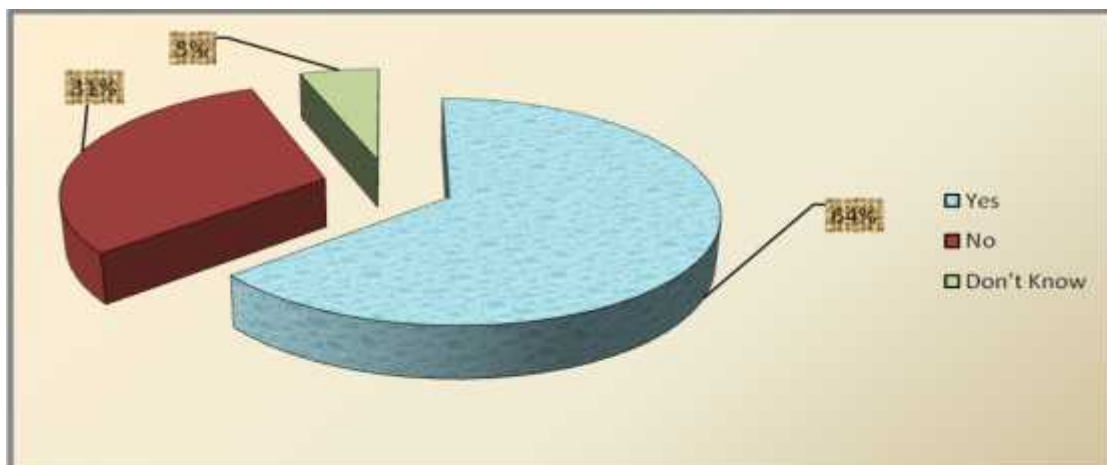
(Source: Opinion Survey, 2010)

The above table showed that out of 7 Brokers, 6 Brokers are satisfied with the existing market price fluctuation, however 1 is not satisfied with the fluctuation. Similarly, 9 Professional Investors are satisfied and 6 are not satisfied and 8 Potential Investors are satisfied, 4 are not satisfied and 2 remained neutral on the existing market price fluctuation.

In overall, 64% of the respondents are satisfied, 31% are not satisfied and 6% remained neutral. As the majority of the respondents, 23 out of 36, are satisfied with the market price fluctuation, it can be considered that the appropriate trading system is followed in NEPSE and there is good prospect of stock market in future as well.

**Figure 4.5**

**Satisfaction on Market Price Behavior**



**4.2.2 Problems of Stock Market Growth**

Many factors are hindering the stock trading in Nepal. To detect which factor barricades most in the stock trading system of Nepal, the respondents are asked to express their view. The obtained responses from them are presented in the following table 4.19.

**Table 4.19**

**Problems of Stock Market Growth**

Problems	Basis	Rank						Total	Weight	Mean Wt.	Overall Rank
		1	2	3	4	5	6				
Small Capital Market	Total	8	15	6	7	0	0	36	84	2.33	2
	Brokers	2	4	1	0	0	0	7	13	1.86	2
	Professional Investor	4	4	3	4	0	0	15	37	2.47	2
	Potential Investor	2	7	2	3	0	0	14	34	2.43	2
Lack of Investor's Confidence	Total	20	14	2	0	0	0	36	54	1.50	1
	Brokers	4	3	0	0	0	0	7	10	1.43	1
	Professional Investor	7	8	0	0	0	0	15	23	1.53	1
	Potential Investor	9	3	2	0	0	0	14	21	1.50	1
Lack of Proper Knowledge	Total	0	0	4	7	14	11	36	176	4.89	6
	Brokers	0	0	2	0	3	2	7	33	4.71	5
	Professional Investor	0	0	0	4	7	4	15	75	5.00	6
	Potential Investor	0	0	2	3	4	5	14	68	4.86	5
Lack of Coordination	Total	0	1	5	8	5	17	36	176	4.89	5
	Brokers	0	0	1	3	1	2	7	32	4.57	4
	Professional Investor	0	1	3	1	2	8	15	73	4.87	5

	<b>Potential Investor</b>	0	0	1	4	2	7	14	71	5.07	6
<b>Inappropriate Rules and regulations</b>	<b>Total</b>	4	4	11	9	3	3	36	120	3.33	3
	<b>Brokers</b>	0	0	2	4	1	0	7	27	3.86	3
	<b>Professional Investor</b>	1	0	5	4	2	3	15	60	4.00	4
	<b>Potential Investor</b>	3	4	6	1	0	0	14	33	2.36	3
<b>Restriction on Foreign Investors</b>	<b>Total</b>	4	2	6	5	14	5	36	146	4.06	4
	<b>Brokers</b>	1	0	1	0	2	3	7	32	4.57	4
	<b>Professional Investor</b>	3	2	4	2	4	0	15	47	3.13	3
	<b>Potential Investor</b>	0	0	1	3	8	2	14	67	4.79	4

(Source: Opinion Survey, 2010)

The above table shows that lack of investor's confidence is the major problem that is barricading the stock trading system in Nepal. The respondents have ranked 1 for lack of investor's confidence, 2 for small capital market, 3 for Inappropriate rules and regulations, 4 for restriction of foreign investors, 5 for lack of coordination among monitoring bodies of stock market and 6 for lack of proper knowledge on investors. Looking individually as well, the majority of each group, 4 out of 7 brokers, 7 out of 15 professional investors and 9 out of 14 potential investors, ranked 1 for lack of confidence in investors, which has indicated that the lack of investor's confidence is the major hindrance in stock trading system of Nepal. Besides this, small capital market is also the next problem of trading system.

#### 4.2.3 Prospects of Stock Market



NEPSE has adopted various techniques for the enhancement of stock market in Nepal. So to examine which method is appropriate for the amelioration of stock trading system, the respondents are asked to express their opinions. The obtained responses from them are presented in the following table 4.20.

**Table 4.20**  
**Prospects of Stock Market**

Prospects	Basis	Rank											Total	Weight	Mean Wt.	Overall Rank
		1	2	3	4	5	6	7	8	9	10	11				
Automated Trading System	<b>Total</b>	3	2	4	9	11	4	3	0	0	0	0	36	155	4.31	4
	Brokers	1	1	1	2	2	0	0	0	0	0	0	7	24	3.43	4
	Pro. Investor	2	1	0	5	3	2	2	0	0	0	0	15	65	4.33	4
	Pot. Investor	0	0	3	2	6	2	1	0	0	0	0	14	66	4.71	4
Recruitment of New Employee	<b>Total</b>	0	0	1	1	5	15	6	6	2	0	0	36	230	6.39	6
	Brokers	0	0	1	0	0	1	2	2	1	0	0	7	48	6.86	7
	Pro. Investor	0	0	0	1	3	6	2	3	0	0	0	15	93	6.20	6
	Pot. Investor	0	0	0	0	2	8	2	1	1	0	0	14	89	6.36	5
Trading through WAN	<b>Total</b>	0	0	0	1	7	7	10	5	3	3	0	36	248	6.89	7
	Brokers	0	0	0	0	1	3	3	0	0	0	0	7	44	6.29	6
	Pro. Investor	0	0	0	0	3	3	5	1	3	0	0	15	103	6.87	7
	Pot. Investor	0	0	0	1	3	1	2	4	0	3	0	14	101	7.21	6
Market Halt Introduced	<b>Total</b>	0	0	0	0	4	0	3	7	4	11	7	36	320	8.89	9
	Brokers	0	0	0	0	1	0	1	2	0	3	0	7	58	8.29	9
	Pro. Investor	0	0	0	0	2	0	1	5	1	6	0	15	126	8.40	9
	Pot. Investor	0	0	0	0	1	0	1	0	3	2	7	14	136	9.71	9
Extended Trading Hours	<b>Total</b>	3	1	8	10	4	4	2	0	2	0	2	36	167	4.64	5
	Brokers	0	0	0	2	1	2	1	0	1	0	0	7	41	5.86	5

	<b>Pro. Investor</b>	1	0	4	4	3	0	0	0	1	0	2	15	75	5.00	5
	<b>Pot. Investor</b>	2	1	4	4	0	2	1	0	0	0	0	14	51	3.64	3
<b>Real Time Information</b>	<b>Total</b>	0	0	0	0	0	0	2	1	11	15	7	36	348	9.67	10
	<b>Brokers</b>	0	0	0	0	0	0	0	0	4	2	1	7	67	9.57	10
	<b>Pro. Investor</b>	0	0	0	0	0	0	0	1	3	7	4	15	149	9.93	10
	<b>Pot. Investor</b>	0	0	0	0	0	0	2	0	4	6	2	14	132	9.43	8
<b>Promoter's shares Traded</b>	<b>Total</b>	0	0	0	0	1	5	8	14	7	1	0	36	276	7.67	8
	<b>Brokers</b>	0	0	0	0	1	1	0	3	1	1	0	7	54	7.71	8
	<b>Pro. Investor</b>	0	0	0	0	0	4	3	5	3	0	0	15	112	7.47	8
	<b>Pot. Investor</b>	0	0	0	0	0	0	5	6	3	0	0	14	110	7.86	7
<b>OTC Market Started</b>	<b>Total</b>	6	4	9	11	3	1	2	0	0	0	0	36	120	3.33	3
	<b>Brokers</b>	1	1	2	2	1	0	0	0	0	0	0	7	22	3.14	3
	<b>Pro. Investor</b>	3	2	6	2	0	0	2	0	0	0	0	15	47	3.13	3
	<b>Pot. Investor</b>	2	1	1	7	2	1	0	0	0	0	0	14	51	3.64	3
<b>Profit Seeking NEPSE</b>	<b>Total</b>	10	11	11	3	1	0	0	0	0	0	0	36	82	2.28	2
	<b>Brokers</b>	2	1	3	1	0	0	0	0	0	0	0	7	17	2.43	2
	<b>Pro. Investor</b>	4	5	3	2	1	0	0	0	0	0	0	15	36	2.40	2
	<b>Pot. Investor</b>	4	5	5	0	0	0	0	0	0	0	0	14	29	2.07	2
<b>Monthly Publication</b>	<b>Total</b>	0	0	0	0	0	0	0	3	7	6	20	36	367	10.19	11
	<b>Brokers</b>	0	0	0	0	0	0	0	0	0	1	6	7	76	10.86	11
	<b>Pro. Investor</b>	0	0	0	0	0	0	0	0	4	2	9	15	155	10.33	11
	<b>Pot. Investor</b>	0	0	0	0	0	0	0	3	3	3	5	14	136	9.71	10
<b>Increasing Interest</b>	<b>Total</b>	14	18	3	1	0	0	0	0	0	0	0	36	63	1.75	1
	<b>Brokers</b>	3	4	0	0	0	0	0	0	0	0	0	7	11	1.57	1
	<b>Pro. Investor</b>	5	7	2	1	0	0	0	0	0	0	0	15	29	1.93	1
	<b>Pot. Investor</b>	6	7	1	0	0	0	0	0	0	0	0	14	23	1.64	1

(Source: Opinion Survey, 2010)

The above table has shown that the increasing interest of investors on stock is the most important prospects of stock market in Nepal. The respondents have ranked 1 for increasing interest of investors, 2 for the conversion of NEPSE into profit oriented, 3 for the starting of OTC market, 4 for launching automated trading system, 5 for extending trading hours, 6 for recruitment of new employee, 7 for trading through WAN system, 8 for trading of Promoter's share, 9 for the introduction of Market Halt system, 10 for the dissemination of real time and 11 for monthly market review publication. In overall, the majority of the respondents, 14 out of 36, have opined that the increasing interest of educated people toward stock is the most important factor for raising the prospect of stock market in Nepal.

#### **4.2.4 Malpractices in Stock Market**

The malpractices in share market have provoked the uncertainty in the stock price. General investors are facing huge losses from the malpractices existing in the stock market and obviously abolishing the effective securities trading system. To examine which of the major malpractices is causing problem in the securities trading system, the respondents are asked to express their opinions on the basis of their past experience in security trade. The obtained responses from them are presented in the following table 4.21.

**Table 4.21**

**Malpractices in Security Market**

Malpractices	Basis	Rank						Total	Weight	Mean Wt.	Overall Rank
		1	2	3	4	5	6				
Pooling	<b>Total</b>	18	11	5	2	0	0	36	63	1.75	1
	Brokers	4	2	1	0	0	0	7	11	1.57	1
	Professional Investor	8	5	1	1	0	0	15	25	1.67	1
	Potential Investor	6	4	3	1	0	0	14	27	1.93	1
Cornering or Warehousing	<b>Total</b>	2	1	7	15	9	2	36	142	3.94	4
	Brokers	0	0	1	4	2	0	7	29	4.14	4
	Professional Investor	1	0	3	4	5	2	15	63	4.20	5
	Potential Investor	1	1	3	7	2	0	14	50	3.57	3
Organized Runs	<b>Total</b>	5	6	11	12	2	0	36	108	3.00	3
	Brokers	1	1	3	2	0	0	7	20	2.86	3
	Professional Investor	2	2	3	7	1	0	15	48	3.20	3
	Potential Investor	2	3	5	3	1	0	14	40	2.86	2
Ramping	<b>Total</b>	0	0	0	1	7	28	36	207	5.75	6
	Brokers	0	0	0	0	2	5	7	40	5.71	6
	Professional Investor	0	0	0	1	2	12	15	86	5.73	6
	Potential Investor	0	0	0	0	3	11	14	81	5.79	5
Washsale	<b>Total</b>	10	16	7	1	2	0	36	77	2.14	2
	Brokers	2	4	1	0	0	0	7	13	1.86	2
	Professional	3	6	4	0	2	0	15	37	2.47	2

	Investor										
	Potential Investor	5	6	2	1	0	0	14	27	1.93	1
Insider Training	<b>Total</b>	<b>1</b>	<b>2</b>	<b>6</b>	<b>5</b>	<b>16</b>	<b>6</b>	<b>36</b>	<b>159</b>	<b>4.42</b>	<b>5</b>
	Brokers	0	0	1	1	3	2	7	34	4.86	5
	Professional Investor	1	2	4	2	5	1	15	56	3.73	4
	Potential Investor	0	0	1	2	8	3	14	69	4.93	4

*(Source: Opinion Survey, 2010)*

The above table showed that pooling, buying and selling shares within a group, is a major malpractice in the existing stock market. The respondents ranked 1 for pooling, 2 for washsale, 3 for organized runs, 4 for cornering or warehousing, 5 for insider training and 6 for ramping. The stock exchange of Nepal should introduce new rule and regulations to control such malpractice. The introduction of fines and penalties is essential for the person committing such malpractice. Effective administration by NEPSE can control such malpractices and also keeping very confidential the unpublicized decision of the listed company can also control the malpractice like insider training.

#### **4.2.5 Influencing Factor of Market Price**

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

**Table 4.22****Influencing Factor of Market Price**

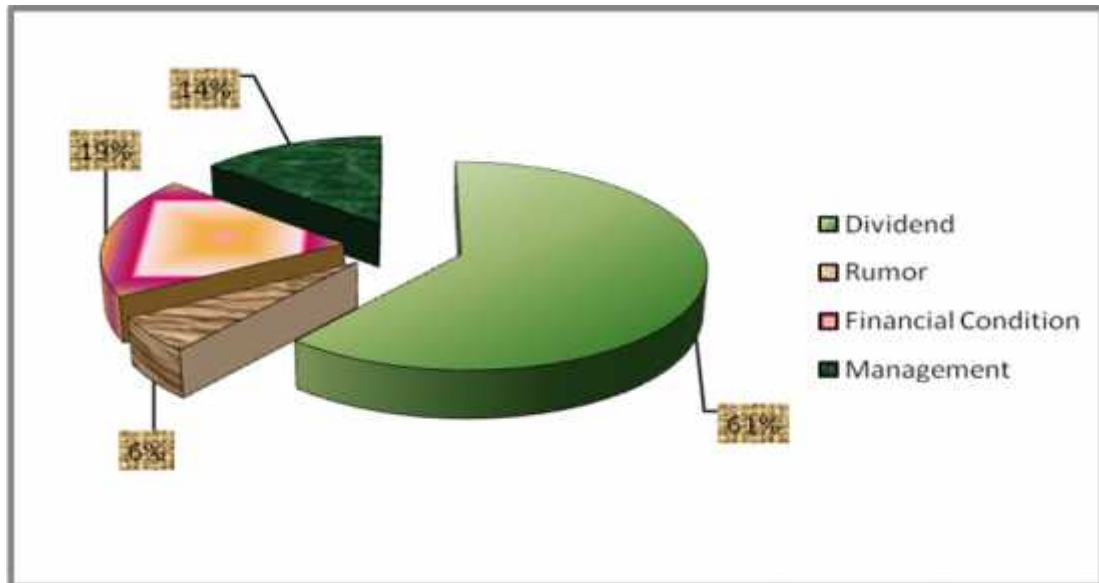
Factor	Responses			Total	
	Brokers	Prof. Investors	Pot. Investors	No.	%
Dividend	4	10	8	22	61
Rumor	0	0	2	2	6
Financial Condition	2	2	3	7	19
Management	1	3	1	5	14
<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>36</b>	<b>100</b>

*Source: Opinion Survey, 2010*

The above table showed that the majority of the respondents, 22 out of 36 (61%), stated that dividend is the most influencing factor of market price. Similarly, 6%, 19% and 14% of the respondents affirmed that rumor, financial situation of the company and management of the company respectively are the influencing factors of the market price. Gazing in each category, the majority of each category; 4 out of 7 brokers, 10 out of 15 professional investors and 8 out of 14 investors, stated that dividend is the main factor that moves the market price. Hence, it can be concluded that dividend distribution pattern of the company is the major motive behind investing on the share of certain company and which raises or falls the market price.

Figure 4.6

Influencing Factor of Market Price



4.2.6 Motives on Investment

Each investor has different motive in investing on the share of the company. To trace out the main motive on the basis of which the investors makes investment on stock, the professional investors are asked about their motive of investment. As the question is related with the professional investors only, the other respondents were ignored on this question. The obtained responses from the professional investors are depicted in the following table.

Table 4.23

Motives on Investment

Motives	Professional Investors	
	Responses	Percentage
Social Status	1	7

Dividend	10	66
Friend and Family	1	7
Stock Broker	1	7
Marketability	2	13
<b>Total</b>	<b>15</b>	<b>100</b>

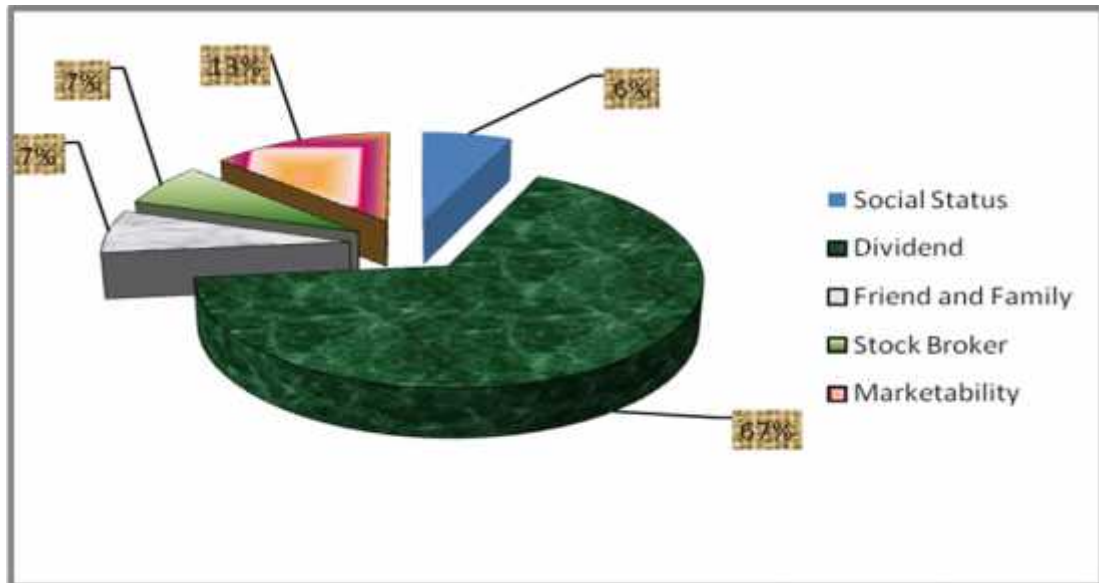
*(Source: Opinion Survey, 2010)*

The above table shows that the majority of the professional investors make decision on the basis of dividend distribution pattern of the company. About 66% of the professional investors are motivated to invest on stock market by the dividend. Similarly, 1 out of 15 (7%) makes investment to gain social status, 1 out of 15 (7%) makes investment on the suggestions of friend and family, 1 out of 15 (7%) makes investment on the advice of stock broker and 2 out of 15 (13%) makes investment by analyzing the ease marketability of the stock. Thus, on the basis of the majority, it can be concluded that the investors are highly motivated to invest by dividend structure of the company and eventually to generate income.



Figure 4.7

Motives on Investment



4.2.7 Effects of Rules and Regulations of SEBON

To determine whether the rules and regulations of SEBON affect the market price per share, the respondents are asked on this matter. The achieved answers from them have been presented in the following table.

Table 4.24

Effects of SEBON

Opinion	Responses			Total	
	Brokers	Prof. Investors	Pot. Investors	No.	%
Yes	4	8	5	17	47
No	2	3	6	11	31
Don't Know	1	4	3	8	22

<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>36</b>	<b>100</b>
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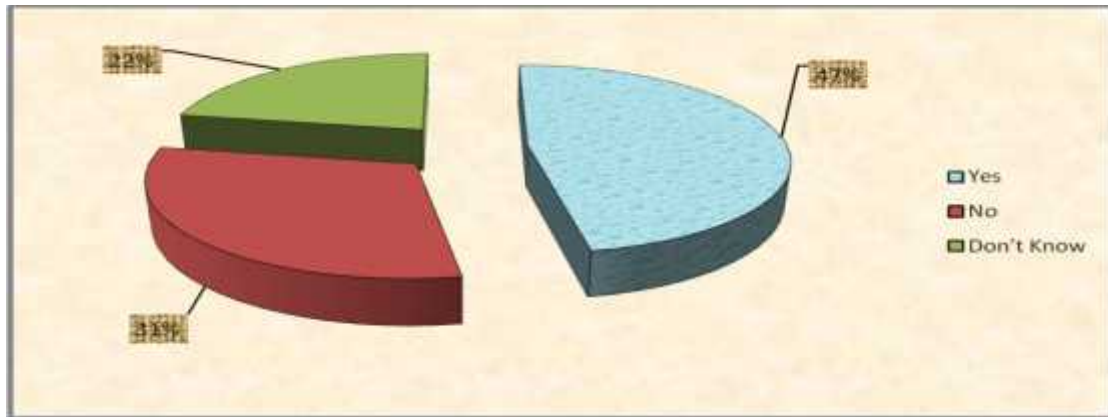
*(Source: Opinion Survey, 2010)*

The table shows that the majority of the respondents, 17 out of 36, have stated that the rules and regulations of SEBON causes rise or fall on MPS of the company. However, 31% respondents (11 out of 36) affirmed that there is no relationship between rules and regulations of SEBON and the market value of stock. Likewise, 22% respondents (8 out of 36) have remained neutral on this matter.

Looking each category, the majority of brokers, 4 out of 7, and professional investors, 8 out of 15, opined that the rules and regulations affect the MPS. However, the majority of the potential investors, 6 out of 14, stated that stock value is not affected by such rules and regulations. Rather mixed opinion has been obtained in this matter. Hence, gazing the overall majority, 47% respondents and the experience of respondents engaged in share transactions, it can be concluded that the rules and regulations of SEBON directly affect the MPS.

**Figure 4.8**

**Effects of Rules and Regulations of SEBON**



**4.2.8 Awareness of Investors**

Full Awareness of investors about the stock trading system is most crucial for the growth of MPS. Hence, to examine whether investors are fully aware about the Stock Trading System, the respondents are asked to express their view on this regard. The different opinions obtained from the respondents are presented in the following table.

**Table 4.25**

**Awareness of Investors**

Opinion	Responses			Total	
	Brokers	Prof. Investors	Pot. Investors	No.	%
Yes	4	6	5	15	42
No	3	8	7	18	50
Don't Know	0	1	2	3	8

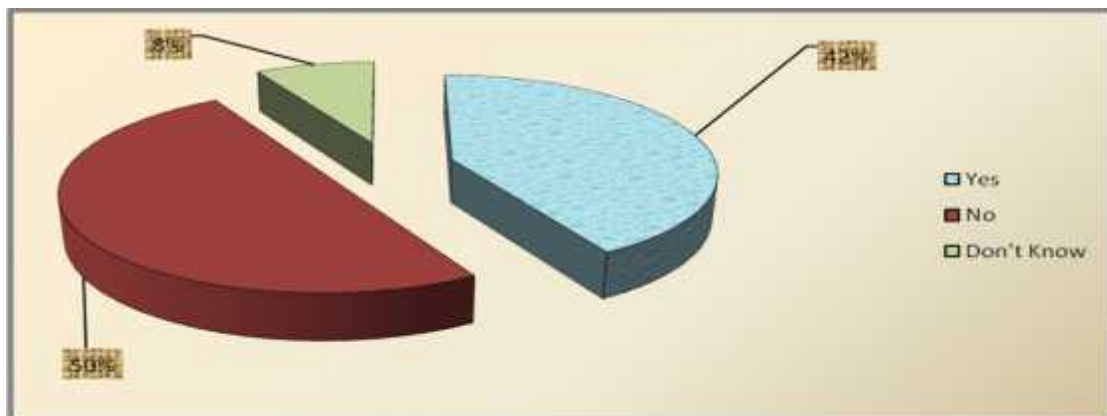
<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>36</b>	<b>100</b>
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(Source: Opinion Survey, 2010)

The above table shows that the majority of the respondents, 18 out of 36, opined that the investors are not fully aware about the stock trading system. However, the majority of the brokers, 4 out of 7, affirmed that the investors are fully aware about the trading system. In contrast, the majority of the professional investors, 8 out of 15, and the majority of the potential investors, 7 out of 14, strongly stated that the investors are not fully aware about the trading system. Hence, mixed opinion is obtained on the full awareness of investors. Eventually, considering the overall majority (50%), half of the respondents, it can be concluded that the investors are not fully aware about Stock Trading System and thus SEBON should conduct different programs and seminars to fully aware investors and eventually increase turnover.

**Figure 4.9**

**Awareness of Investors**



**4.2.9 Basis to Invest in Secondary Market**

To know the basis of investment in the Secondary Market, both investors, professional and potential are asked on this matter. To draw the exact basis, the brokers have been excluded from this question. The different opinions obtained from the investors are presented in the following table.

**Table 4.26**

**Basis to Invest in Secondary Market**

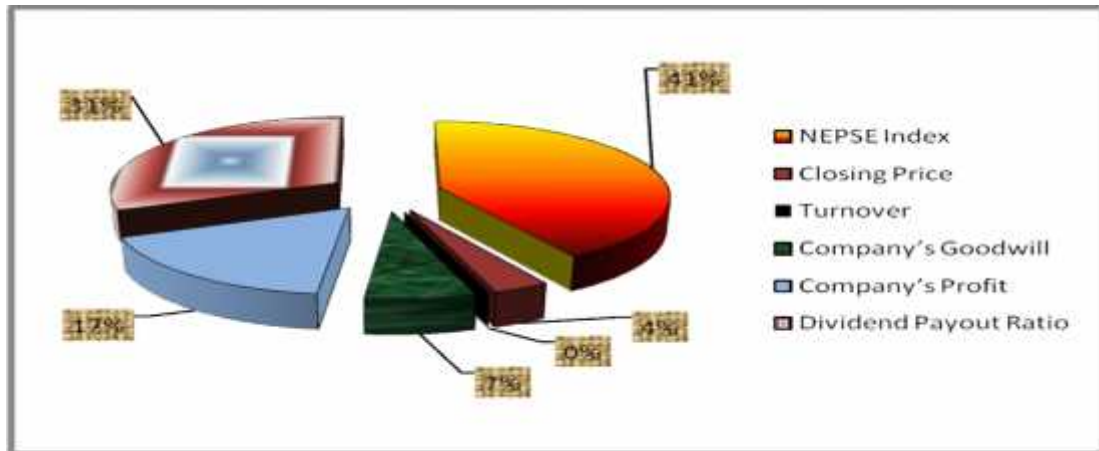
<b>Basis</b>	<b>Responses</b>		<b>Total</b>	
	<b>Prof. Investors</b>	<b>Pot. Investors</b>	<b>No.</b>	<b>%</b>
NEPSE Index	6	6	12	41
Closing Price	1	0	1	3
Turnover	0	0	0	0
Company's Goodwill	1	1	2	7
Company's Profit	3	2	5	17
Dividend Payout Ratio	4	5	9	31
<b>Total</b>	<b>15</b>	<b>14</b>	<b>29</b>	<b>100</b>

*(Source: Opinion Survey, 2010)*

The above table shows that 12 investors invest on secondary market by overlooking the trend of NEPSE index. Similarly, 9 investors invest by gazing the dividend payout ratio of the company, 5 investors invest by analyzing the considering the company's profit, 2 investors invest on the basis of company's goodwill and 1 on the basis of closing price. Since, the majority of the investors (41%) invest on the basis of NEPSE Index, it can be considered that NEPSE index is the major indicator for share investment in secondary market.

Figure 4.10

**Basis to Invest in Secondary Market**



**4.2.10 Efficiency of Security Market**

To detect whether the security market provides up to date information and it is operating efficiently, the respondents were requested to express their feelings. The different opinions obtained from them are presented in the following table.

Table 4.27

**Efficiency of Security Market**

Efficiency	Responses				%
	Brokers	Prof. Investors	Pot. Investors	Total	
Yes	6	12	9	27	75
No	1	2	2	5	14
Don't Know	0	1	3	4	11

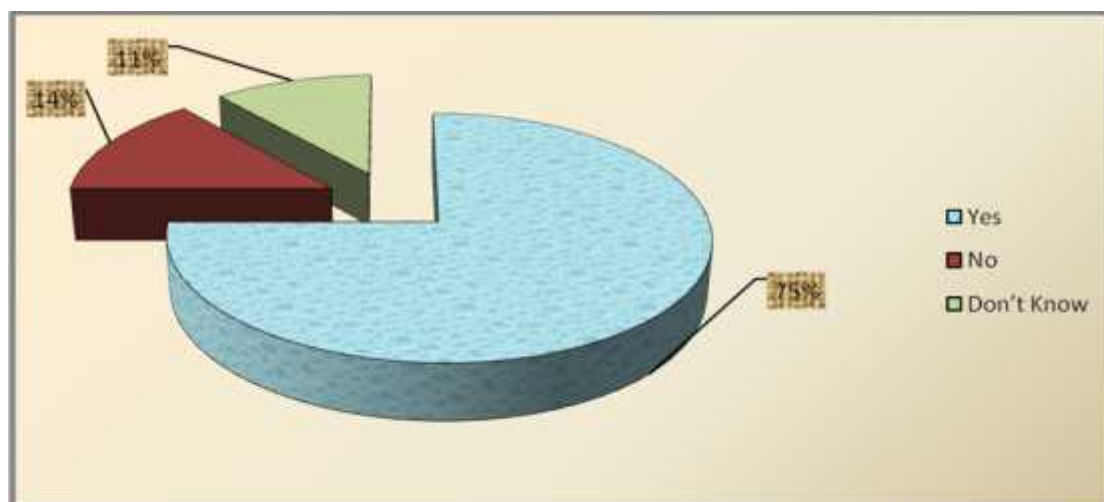
<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>36</b>	<b>100</b>
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(Source: Opinion Survey, 2010)

The above table shows that the majority of the respondents, 27 out of 36, have said that the Nepalese Security market is informational and operationally efficient. Look on each category, the majority of each group; 6 out of 7 brokers, 12 out of 15 professional investors, 9 out of 14 potential investors, strongly affirmed that Nepalese security market is efficient. Only 14% of the respondents said that the security market is not efficient in operation and does not provide effective information. However, 11% respondents remained neutral on this query. Considering the majority, 75% respondents, it can be concluded that the stock market of Nepal is informational and operationally efficient in the present context and thus should be enhanced in the future.

**Figure 4.11**

**Efficiency of Security Market**



**4.2.11 Responsible for Appropriate Trading System**

To know who is most responsible for the appropriate trading system in the security market, the respondents are asked to opine their views. The opinions obtained from them are depicted in the following table.

**Table 4.28**

**Responsible for Appropriate Trading System**

Responsible	Responses			Total	
	Brokers	Prof. Investors	Pot. Investors	No.	%
Investors	0	0	0	0	0
Brokers	0	1	0	1	3
NEPSE	3	5	6	14	39
SEBON	4	9	8	21	58
<b>Total</b>	<b>7</b>	<b>15</b>	<b>14</b>	<b>36</b>	<b>100</b>

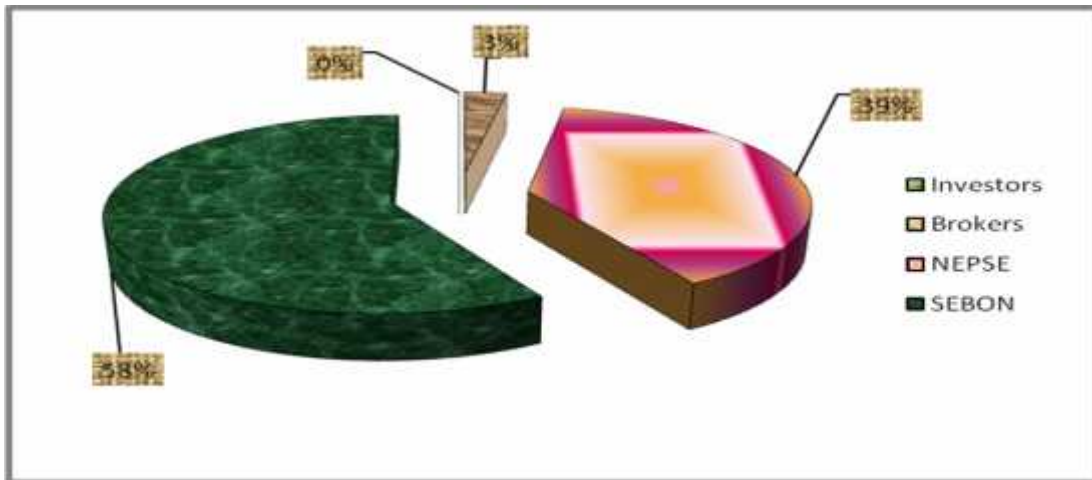
*(Source: Opinion Survey, 2010)*

The above table shows that the majority of the respondents, 21 out of 36, have strongly stated that SEBON should be responsible for appropriate trading system in the security market. However, 14 out of 36 (39%) said that NEPSE should be responsible and 1 professional investor (3%) blamed that Broker should be responsible for appropriate trading system in the security market. Also looking each category, the majority in each group, 4 out of 7 brokers, 9 out of 15 professional investors and 8 out of 14 potential investors, pointed out SEBON to be responsible for appropriate trading practices in the stock market. Hence, looking the overall majority (58%), it can be concluded that SEBON is the major regulating body in effective trading system, however, the responsibility of other bodies cannot be neglected completely. So, for appropriate system each participant should contribute equally.



Figure 4.12

**Responsible for Appropriate Trading System**



**4.3 Major Findings of the Study**

On the basis of the data analysis, the following major findings have been drawn;

**Findings from Secondary Data Analysis**

- ) The increment rate in CB's index is greater in the first three year compared to that of NEPSE index. This indicates that the pace of index of other listed companies is comparatively low than that of commercial banks in those periods.
- ) The monthly time period has no special effect on index. Rather other variables are responsible for the fluctuating behavior of stock price.
- ) The number of listed companies in NEPSE has risen from 125 in the fiscal year 2004/05 to 159 in the fiscal year 2008/09. Likewise the number of commercial banks has risen from 14 to 21 in the same period.

- ) The commercial banks have greater role to augment the market capital. Commercial bank occupies 37.55% of the total market capital of NEPSE.
- ) SCBNL has the highest MPS and KBL has the lowest MPS. Considering the high MPS, it can be said that investors give more preference to be the part of SCBNL, and less preference to the share of KBL.
- ) The relationship between EPS and MPS of only NSBL, EBL and LBL is statistically significant, and thus the role of EPS to change MPS is low in other banks.
- ) Similarly, the relationship between these DPS and MPS is statistically insignificant in observed banks. Thus MPS may not increase or decrease with same rupees as the regression line indicates.
- ) NABIL has the lowest runs, i.e. 6 runs, thus it can be concluded that NABIL market price is least volatile. However, the stock price behavior of LBL, NIBL, NIC and KBL is most volatile than in other banks, since the number of runs in these banks is highest, i.e. 10 runs.

### **Findings from Primary Data Analysis**

- ) 64% of the respondents have said that the investors are satisfied with the existing stock trading system. Similarly, lack of investor's confidence is the major problem of stock trading system. Also, the growing interest of the educated people in the security market is the major prospects of stock market in Nepal.
- ) 66% of the professional said that they invest share to gain dividend and also dividend is the most influencing factor that fluctuates market price per share.
- ) The major malpractice, pooling, is widespread in stock market and thus is creating uncertainty in market price. Besides pooling, washsale is also equally practiced.

- ) 41% of the investors gaze NEPSE index before making investment in the secondary market and 58% of the respondents stated that SEBON should be responsible for appropriate stock trading system.
- ) 47% of the respondents are of the opinion that the rules and regulations of SEBON affect the market value of share. Likewise, 50% of the respondents said that the investors are not fully aware about the stock trading system.

## CHAPTER – V

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Summary

A stock market or equity market is a public market (a loose network of economic transactions, not a physical facility or discrete entity) for the trading of company stock and derivatives at an agreed price; these are securities listed on a stock exchange as well as those only traded privately. The stocks are listed and traded on stock exchanges which are entities of a corporation or mutual organization specialized in the business of bringing buyers and sellers of the organizations to a listing of stocks and securities together. The largest stock market in the United States, by market cap, is the New York Stock Exchange, NYSE. In Nepal, NEPSE conducts such performance.

Stocks and other securities can be battered or buoyed by any number of fast market-changing events, making the stock market behavior difficult to predict. Emotions can drive prices up and down, people are generally not as rational as they think, and the reasons for buying and selling are generally obscure. Behaviorists argue that investors often behave 'irrationally' when making investment decisions thereby incorrectly pricing securities, which causes market inefficiencies, which, in turn, are opportunities to make money. In parallel with various economic factors, a reason for stock market crashes is also due to panic and investing public's loss of confidence. Often, stock market crashes end speculative economic bubbles. There have been famous stock market crashes that have ended in the loss of billions of dollars and wealth destruction on a massive scale. An increasing number of people are involved in the stock market, especially since the social security and retirement plans are being increasingly privatized and linked to stocks and bonds and other elements of the market.

Some believe that it isn't possible to predict how stocks will change in price while others think that by drawing charts and looking at past price movements, you can determine when to buy and sell. The only thing we do know as a certainty is that stocks are volatile and can change in price extremely rapidly. Theoretically earnings are what affect investors' valuation of a company, but there are other indicators that investors use to predict stock price. At the most fundamental level, supply and demand in the market determine stock price. Price times the number of shares outstanding (market capitalization) is the value of a company. Comparing just the share price of two companies is meaningless. Remember, it is investors' sentiments, attitudes, and expectations that ultimately affect stock prices. There are many theories that try to explain the way stock prices move the way they do. Unfortunately, there is no one theory that can explain everything.

To examine the behavior of stock price depicted by the commercial banks of Nepal, and the impact of earnings on the stock price, the present study has been conducted. The study further collects the opinions of the various share related personalities on the behaviors of stock price and the investors awareness, and finally the steps to be adopted by the SEBON and NEPSE for the smooth operation of the stock market.

## **5.2 Conclusion**

Apparently the pace of growth in stock price index of commercial banks is higher than the growth of NEPSE Index within the observed periods, which tacitly indicates greater crave in investors to buy the stock of commercial banks than that of other listed companies. In addition, the monthly trend of both the NEPSE index and commercial banks sub-index enlightens that the index is not seasonal and thus does not rely totally on the time period, which indicates that the fluctuating behavior of both the NESPE index and CB's index has been caused by other variables. Moreover, in most of the fiscal years, the percentage increment in the listed companies of CB's is greater than the percentage

increment in total listed companies of NEPSE. In addition, it can be inferred that the stock market of the commercial banks occupies major portion of the total market capitalization.

Among the eight observed banks, it has been found that the global recession has no impact on the share price behavior of NSBL, since the MPS of NSBL has followed increasing trend in the recession affected year as well, while the MPS of other banks have decreased in the recession affected year. However, it can be inferred that the desire on investors to be the part of the SCBNL is highest, as a result the MPS of SCBNL has remained highest at all the time. Next to SCBNL, the demand on share transaction of NABIL is greatest. To quest the reason behind such behavior of stock price, the relationship between EPS and MPS has been evaluated, which has indicated that EPS has significant relationship to MPS only in some limited banks. Similarly, the DPS of the banks has no significant relationship with the MPS, which drives to contemplate that the behavior of stock price of CB could have been driven by some other external forces, in such various macroeconomic variables like inflation, increase in per capita income and others.

Further, after observing the trend of MPS for the fifteen days periods, it can be concluded that the stock price behavior of LBL, NIBL, NIC and KBL is most volatile than in other banks, since the number of runs in these banks is highest, i.e. 10 runs. However, LBL has low zero run among these banks, the stock price behavior of LBL can be considered most volatile. In contrast, NABIL has the lowest runs, i.e. 6 runs, thus it can be concluded that NABIL market price is least volatile.

Similarly, the primary data analysis aid to conclude that the investors are satisfied with the existing stock trading system and lack of investor's confidence is the major problem of stock trading system. Also, the growing interest of the educated people in the security market is the major prospects of

stock market in Nepal. Similarly, the professional investors invest share to gain dividend and also dividend is the most influencing factor that fluctuates market price per share. In addition, pooling, the major malpractice, is widespread in stock market and thus is creating uncertainty in market price. Besides pooling, washsale is also equally practiced. Moreover, it has been ascertained that investors analyze NEPSE index before making investment in the secondary market. However, SEBON should be most onus for appropriate stock trading system, and undoubtedly the rules and regulations of SEBON affect the market value of share. And palpably, the investors are not fully aware about the stock trading system.

### **5.3 Recommendations**

On the basis of major findings and conclusion drawn, the following recommendations have been provided for the enhancement of stock market of Nepal;

- ) Increase awareness amongst the general public about the capital market, regarding nature of risk and return, through promotional campaigns, seminars, publications and programs in FM/TV etc.
- ) NEPSE index plays major role for creating investment prosperity. So for removing stock market difficulties such as transaction facilities should be managed in effective way by formulating investor's protection act.
- ) NEPSE can expand its services to the regional levels rather than just concentrating solely in the valley. They should also replace the old and outdated open cry system with on-line trading system following international standards.
- ) The price fluctuation trend is not predictable by general investors so technician facilities should be realized by Nepal Stock Exchange Ltd., so that general investors should also get benefit from the Nepal Security Exchange Centre Ltd.,
- ) Approval process should be streamlined to make it easy and hassle free. If possible, one window policy should be adopted in providing approval.

- ) Discourage the possibilities of insider's trading through improved corporate governance and initiate strict corrective measures for compliance.
- ) Signaling factors should be analyzed so that future movements of price can be predicted from the side of analyst and from the side of investors.
- ) The study of stock market behavior should be done in periodic manner so that proper results can be drawn for betterment of stock market from the side of NEPSE.
- ) The implementation of computer assisted trading system in NEPSE trading floor was found to be very necessary since it was realized by many respondents of these sectors. Such system should be modified as per the necessity of the market.
- ) The listed companies' data their performance appraisal, their conduction of work, their productivity, their commitment to NEPSE should be updated and analyzed in time and again. If any company is found in doing works against NEPSE should immediately take action on it.
- ) Government of the nation should formulate proper and perfect rules, regulation, articles of association and code of conduct to develop the capital market of the country. For this purpose national and international stock experts should hire to develop the system.
- ) The stock market lacks the existence of sophisticated investors, it is recommended to regulatory bodies to carry out programs using various media and spot program to inform and attract the potential investors in investing its shares.



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# APPENDIX - I

## Questionnaire

Dear Sir/Madam,

I am conducting a research on “*Stock Price Movement of Nepalese Commercial Banks*”, in partial fulfillment for the requirement of Degree of Master of Business Studies (MBS). I am preparing some questions about the study, which will help to analyze the share price movement. I request you to fill up this questionnaire from your side, which can be great help for me to conduct the research in this topic. I would be grateful to you for the contribution of your valuable time and effort.

Name : \_\_\_\_\_ Sex : M [ ] F [ ] Age : \_\_\_\_\_

### Occupation (Tick One):

- Professional Investor
- Potential Investor
- Brokers

### Questions:

1. Are you satisfied with the market price behavior of stock?  
i) Yes                       ii) No                       iii) Don't Know
  
2. In your opinion what are the problems of stock market growth (Rank 1 for the most)?
  - i) Small capital market
  - ii) Lack of investor's confidence
  - iii) Lack of proper knowledge on investor
  - iv) Lack of coordination between monitoring body of stock market
  - v) Inappropriate rules and regulations
  - vi) Restriction of foreign investor
  
3. Rank the following prospects of Stock Market (No. 1 for the most important)
  - i) Trading System Automated
  - ii) Recruitment of New Employees
  - iii) Trading through WAN started
  - iv) Market Halt System Introduced
  - v) Trading Hours Extended
  - vi) Real Time Information Disseminated
  - vii) Trading of Promoter's Share

- viii) OTC Market Started
  - ix) NEPSE converted Profit Seeking
  - x) Monthly market review publication
  - xi) Increasing interest of educated people toward stock market
4. In your opinion which of the following malpractices is major problem in stock market? (Rank 1 for the most important)
- i) Pooling
  - ii) Cornering or Warehousing
  - iii) Organized Runs
  - iv) Ramping
  - v) Washsale
  - vi) Insider Training
5. In your opinion which of the following is the main influencing factor of market price per share?
- i) Dividend
  - ii) Rumor
  - iii) Financial situation of the company
  - iv) Management of the company
6. What factors motive you to make investment in share market?
- i) Social status
  - ii) Dividend
  - iii) Friends and Family
  - iv) Stock Broker
  - v) Marketability
7. Does SEBON rules and regulation affect the market value of share?
- i) Yes                       ii) No                       iii) Don't Know
8. Do you think that investors are fully aware about the stock market?
- i) Yes                       ii) No                       iii) Don't Know
9. On what basis do you make decision to invest in share in the secondary market?
- i) NEPSE Index
  - ii) Closing Price
  - iii) Turnover
  - iv) Company's Goodwill

- v) Company's Profit
- vi) Dividend Payout ratio

10. Do you think that Nepalese security market is informational and operationally efficient?

- i) Yes       ii) No       iii) Don't Know

11. Who is most responsible for appropriated trading system in security market?

- i) Investors
- ii) Brokers
- iii) NEPSE
- iv) SEBON

Thank You.

## APPENDIX - II

### a) Calculation of Mean, S.D. and C.V. of NABIL, SCBNL & NSBL

Year	NABIL X	SCBNL Y	NSBL Z	$x = X - \bar{X}$	$y = Y - \bar{Y}$	$z = Z - \bar{Z}$	$x^2$	$y^2$	$z^2$
2004/05	1505	2345	335	-2288.80	-2627.00	-771.80	5238605	6901129	595675
2005/06	2240	3775	612	-1553.80	-1197.00	-494.80	2414294	1432809	244827
2006/07	5050	5900	1176	1256.20	928.00	69.20	1578038	861184	4789
2007/08	5275	6830	1511	1481.20	1858.00	404.20	2193953	3452164	163378
2008/09	4899	6010	1900	1105.20	1038.00	793.20	1221467	1077444	629166
<b>Total</b>	<b>18969</b>	<b>24860</b>	<b>5534</b>				<b>12646359</b>	<b>13724730</b>	<b>1637835</b>

#### i) Calculation of Mean

$$\begin{array}{l} \text{For NABIL} \\ \text{Mean } \bar{X} = X/5 = 3793.80 \end{array} \qquad \begin{array}{l} \text{For SCBNL} \\ \bar{Y} = Y/5 = 4972.00 \end{array}$$

$$\begin{array}{l} \text{For NSBL} \\ \text{Mean } \bar{Z} = Z/5 = 1107 \end{array}$$

#### ii) Calculation of Standard Deviation ( )

For NABIL

$$\begin{aligned} x &= \sqrt{\frac{x^2}{N}} = \sqrt{\frac{12646359}{5}} \\ &= 1590.37 \end{aligned}$$

For SCBNL

$$\begin{aligned} y &= \sqrt{\frac{y^2}{N}} = \sqrt{\frac{13724730}{5}} \\ &= 1656.79 \end{aligned}$$

For NSBL

$$\begin{aligned} z &= \sqrt{\frac{z^2}{N}} = \sqrt{\frac{1637835}{5}} \\ &= 572.33 \end{aligned}$$

#### iii) Calculation of Coefficient of Variation (C.V.)

For NABIL

$$\begin{aligned} \text{C.V.}x &= \frac{x}{\bar{X}} = \frac{1590.37}{3793.80} \\ &= 41.92 \end{aligned}$$

For SCBNL

$$\begin{aligned} \text{C.V.}x &= \frac{y}{\bar{Y}} = \frac{1656.79}{4972.00} \\ &= 33.32 \end{aligned}$$

For NSBL

$$\begin{aligned} \text{C.V.}z &= \frac{z}{\bar{Z}} = \frac{572.33}{1106.80} \\ &= 51.71 \end{aligned}$$

Note: i) Data have extracted from the annual report of NABIL, SCBNL & NSBL.



**b) Calculation of Mean, S.D. and C.V. of KBL, NIC & NIBL**

Year	KBL X	NIC Y	NIBL Z	$x = X - \bar{X}$	$y = Y - \bar{Y}$	$z = Z - \bar{Z}$	$x^2$	$y^2$	$z^2$
2004/05	379	366	800	-292.40	-478.40	-725.40	85498	228867	526205
2005/06	443	496	1260	-228.40	-348.40	-265.40	52167	121383	70437
2006/07	830	950	1729	158.60	105.60	203.60	25154	11151	41453
2007/08	1005	1284	2450	333.60	439.60	924.60	111289	193248	854885
2008/09	700	1126	1388	28.60	281.60	-137.40	818	79299	18879
<b>Total</b>	<b>3357</b>	<b>4222</b>	<b>7627</b>				<b>274925</b>	<b>633947</b>	<b>1511859</b>

i) Calculation of Mean

$$\begin{array}{l} \text{For KBL} \\ \text{Mean } \bar{X} = X/5 = 671.40 \end{array} \quad \begin{array}{l} \text{For NIC} \\ \bar{Y} = Y/5 = 844.40 \end{array}$$

$$\begin{array}{l} \text{For NIBL} \\ \text{Mean } \bar{Z} = Z/5 = 1525 \end{array}$$

ii) Calculation of Standard Deviation ( )

For KBL

$$\begin{aligned} x &= \sqrt{\frac{x^2}{N}} = \sqrt{\frac{274925}{5}} \\ &= 234.49 \end{aligned}$$

For NIC

$$\begin{aligned} y &= \sqrt{\frac{y^2}{N}} = \sqrt{\frac{633947}{5}} \\ &= 356.08 \end{aligned}$$

For NIBL

$$\begin{aligned} z &= \sqrt{\frac{z^2}{N}} = \sqrt{\frac{1511859}{5}} \\ &= 549.88 \end{aligned}$$

iii) Calculation of Coefficient of Variation (C.V.)

For KBL

$$\begin{aligned} \text{C.V. } x &= \frac{x}{\bar{X}} = \frac{234.49}{671.40} \\ &= 34.93 \end{aligned}$$

For NIC

$$\begin{aligned} \text{C.V. } x &= \frac{y}{\bar{Y}} = \frac{356.08}{844.40} \\ &= 42.17 \end{aligned}$$

For NIBL

$$\begin{aligned} \text{C.V. } z &= \frac{z}{\bar{Z}} = \frac{549.88}{1525.40} \\ &= 36.05 \end{aligned}$$

Note: i) Same Process has been adopted to calculate the mean, standard deviation and coefficient of variation of MPS in EBL & LBL.

ii) Data have extracted from the annual report of KBL, NIC & NIBL.

## APPENDIX - III

### A) Calculation of Correlation Coefficient and Regression line of MPS on EPS of NABIL

Year	EPS X	MPS Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	$x^2$	$y^2$	xy
2004/05	105.49	1505	-11.88	-2288.80	141.13	5238605	27190.94
2005/06	129.21	2240	11.84	-1553.80	140.19	2414294	-18396.99
2006/07	137.08	5050	19.71	1256.20	388.48	1578038	24759.70
2007/08	108.31	5275	-9.06	1481.20	82.08	2193953	-13419.67
2008/09	106.76	4899	-10.61	1105.20	112.57	1221467	-11726.17
<b>Total</b>	<b>586.85</b>	<b>18969.00</b>			<b>864.46</b>	<b>12646359</b>	<b>8407.81</b>

i) Calculation of Mean

$$\begin{array}{l} \text{For EPS} \\ \text{Mean } \bar{X} = X/5 = 117.37 \end{array} \qquad \begin{array}{l} \text{For MPS} \\ \bar{Y} = Y/5 = 3793.80 \end{array}$$

ii) Calculation of Correlation Coefficient between EPS and MPS

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{8407.81}{\sqrt{104557.49}} = 0.0804$$

iii) Calculation of Standard Deviation ( )

$$\begin{array}{l} \text{For EPS} \\ x = \sqrt{\frac{\sum (x-\bar{x})^2}{N-1}} = \sqrt{\frac{864}{5}} \\ = 13.15 \end{array} \qquad \begin{array}{l} \text{For MPS} \\ y = \sqrt{\frac{\sum (y-\bar{y})^2}{N-1}} = \sqrt{\frac{12646358.8}{5}} \\ = 1590.37 \end{array}$$

iv) Simple Regression Equation of MPS on EPS

$$\begin{aligned} \bar{Y} - \bar{Y} &= \frac{r \sum x y (X - \bar{X})}{\sum x^2} \\ \text{or, } Y - 3793.80 &= \frac{0.0804 \times 1590.37 (X - 117.37)}{13.15} \end{aligned}$$

$$\text{or, } Y - 3793.80 = 9.73 X - 1141.55$$

$$\text{or, } Y = -2652.25 + 9.73 X$$

v) Calculation of Probable Error (P.E.)

$$P.E. = \frac{0.6745 \times (1 - r^2)}{\sqrt{N}}$$

Here,

$r^2$	$1 - r^2$	$0.6745 \times (1 - r^2)$	$\sqrt{5}$	P.E.	6 P.E.
0.0065	0.9935	0.6701	2.2361	0.2997	1.7982

**B) Calculation of Correlation Coefficient and Regression line of MPS on EPS of SCBNL**

Year	EPS X	MPS Y	$x = X - \bar{X}$	$y = Y - \bar{Y}$	$x^2$	$y^2$	xy
2004/05	143.14	2345	-2.51	-2627.00	6.31	6901129	6599.02
2005/06	175.84	3775	30.19	-1197.00	911.32	1432809	-36135.04
2006/07	167.37	5900	21.72	928.00	471.67	861184	20154.30
2007/08	131.92	6830	-13.73	1858.00	188.57	3452164	-25514.06
2008/09	109.99	6010	-35.66	1038.00	1271.78	1077444	-37017.16
<b>Total</b>	<b>728.26</b>	<b>24860.00</b>			<b>2849.64</b>	<b>13724730</b>	<b>-71912.92</b>

i) Calculation of Mean

$$\text{For EPS} \quad \bar{X} = X/5 = 145.65 \quad \text{For MPS} \quad \bar{Y} = Y/5 = 4972.00$$

ii) Calculation of Correlation Coefficient between EPS and MPS

$$r = \frac{\sum xy}{\sqrt{\sum x^2 \sum y^2}} = \frac{-71912.92}{\sqrt{2849.64 \times 13724730}} = -0.3636$$

iii) Calculation of Standard Deviation ( )

$$\text{For EPS} \quad s_x = \sqrt{\frac{\sum (x-\bar{x})^2}{N-1}} = \sqrt{\frac{2850}{5}} = 23.87$$

$$\text{For MPS} \quad s_y = \sqrt{\frac{\sum (y-\bar{y})^2}{N-1}} = \sqrt{\frac{13724730.0}{5}} = 1656.79$$

iv) Simple Regression Equation of MPS on EPS

$$\bar{Y} - \bar{Y} = \frac{r \sum x y (X - \bar{X})}{\sum x^2}$$

$$\text{or, } Y - 4972 = \frac{-0.3636 \times 1656.79 (X - 145.65)}{23.87}$$

$$\text{or, } Y - 4972 = -25.24 X + 3675.64$$

$$\text{or, } Y = 8647.64 - 25.24 X$$

v) Calculation of Probable Error (P.E.)

$$P.E. = \frac{0.6745 \times (1 - r^2)}{\sqrt{N}}$$

Here,

$r^2$	$1 - r^2$	$0.6745 \times (1 - r^2)$	$\sqrt{5}$	P.E.	6 P.E.
0.1322	0.8678	0.5853	2.2361	0.2618	1.5706

Note: Same Process has been applied to find out the relationship between MPS and EPS of other banks.

**APPENDIX - IV**

**Nepal Stock Exchange Limited**  
**Comparative Summary Sheet of Transactions with Previous Years**  
**16 July 2008- 15 July 2009**  
**F/Y 2065/66**

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

**APPENDIX - V**  
**NEPSE Index**  
**Mid July 2008- Mid July 2009**

Date	Commercial	Manufact-	Hotel	Other	Hydro	Trading	Insurance	Finance	Dev.	NEPSE
	Bank	& Pros.			Power				Bank	INDEX
16-Jul-08	1011.09	423.66	360.15	769.21	1311.43	204.08	819.94	1159.18	1346.36	982.12
17-Jul-08	1024.90	423.66	347.41	769.21	1314.22	204.08	823.21	1164.88	1323.56	991.91
20-Jul-08	1016.16	423.66	340.70	769.21	1294.15	204.08	831.13	1168.01	1325.95	985.24
21-Jul-08	999.44	423.66	340.70	769.21	1271.38	204.08	831.95	1171.77	1338.97	973.30
22-Jul-08	986.39	423.66	340.70	769.21	1253.93	204.08	830.33	1164.17	1342.76	962.78
23-Jul-08	1001.81	423.66	340.70	769.21	1249.33	204.08	828.58	1125.42	1347.22	972.47
27-Jul-08	1012.61	423.66	339.55	769.21	1232.04	204.08	830.39	1134.61	1371.88	980.81
28-Jul-08	1014.07	423.66	339.55	769.21	1232.53	204.08	831.30	1140.79	1388.07	983.07
29-Jul-08	1038.18	423.66	341.56	769.21	1230.05	204.08	831.30	1153.58	1422.11	1001.99
30-Jul-08	1065.14	423.66	343.57	769.21	1221.18	204.08	819.13	1155.24	1430.62	1020.05
31-Jul-08	1081.05	423.66	343.57	769.21	1249.45	200.31	813.58	1173.09	1434.39	1034.02
3-Aug-08	1095.64	423.66	343.57	769.21	1267.84	200.31	812.59	1188.97	1467.40	1047.67
4-Aug-08	1131.15	423.66	343.57	769.21	1320.95	200.31	797.14	1195.33	1485.39	1075.34
5-Aug-08	1168.28	423.66	343.57	769.21	1326.12	200.31	798.05	1201.84	1497.96	1102.10
6-Aug-08	1204.79	423.66	343.57	769.21	1326.12	200.31	803.50	1207.00	1508.77	1128.13
7-Aug-08	1166.98	423.66	345.58	769.21	1311.54	200.31	803.38	1201.21	1455.85	1101.36
10-Aug-08	1132.95	423.66	346.74	769.21	1306.37	200.31	798.79	1184.70	1439.83	1075.51
11-Aug-08	1151.82	423.66	346.74	769.21	1296.21	200.31	798.52	1191.86	1448.69	1088.91
12-Aug-08	1145.88	423.66	345.58	769.21	1305.00	200.31	805.67	1193.31	1433.15	1085.03
13-Aug-08	1139.59	423.66	346.74	769.21	1293.43	200.31	820.57	1179.62	1438.26	1079.58
14-Aug-08	1143.62	426.25	349.42	769.21	1297.36	203.14	820.57	1193.74	1452.53	1084.76

Date	Commercial	Manufact-	Hotel	Other	Hydro	Trading	Insurance	Finance	Dev.	NEPSE
	Bank	& Pros.			Power				Bank	INDEX
18-Aug-08	1127.14	426.25	357.47	769.21	1286.97	203.14	840.33	1198.21	1487.86	1075.87
19-Aug-08	1101.18	428.85	360.15	769.21	1285.16	203.14	840.94	1192.00	1483.13	1057.53
20-Aug-08	1111.07	433.00	360.15	769.21	1286.95	203.14	841.05	1191.42	1478.09	1064.28
21-Aug-08	1107.65	441.92	360.15	769.21	1284.80	203.14	859.77	1184.18	1479.29	1062.24
24-Aug-08	1098.52	441.92	360.15	769.21	1285.16	203.14	890.78	1178.84	1498.08	1057.36
25-Aug-08	1099.88	441.92	355.14	1104.29	1268.37	203.14	882.55	1172.49	1497.76	1068.17
26-Aug-08	1086.88	441.92	354.37	1214.71	1264.78	210.59	879.75	1164.09	1493.48	1087.80
27-Aug-08	1026.05	441.92	354.37	1335.70	1238.92	210.59	879.93	1167.65	1508.92	1086.19
28-Aug-08	1040.91	441.92	352.44	1439.06	1244.45	210.59	879.61	1175.91	1503.83	1119.65
31-Aug-08	1079.38	441.92	353.11	1582.37	1236.62	210.59	881.46	1183.91	1518.74	1175.38
1-Sep-08	1074.72	441.92	354.27	1424.97	1232.53	210.60	880.91	1185.39	1518.78	1134.39
2-Sep-08	1080.42	441.92	351.96	1282.84	1225.41	210.60	848.26	1193.92	1532.76	1102.39
3-Sep-08	1065.81	441.92	351.96	1154.80	1212.34	210.60	844.41	1200.65	1517.82	1064.01
4-Sep-08	1065.13	441.92	354.65	1165.37	1229.15	210.60	833.89	1202.57	1529.82	1067.20
7-Sep-08	1067.26	441.92	355.80	1174.77	1230.38	210.60	814.99	1206.79	1547.67	1071.08
8-Sep-08	1060.91	441.92	357.35	1151.28	1229.16	210.60	814.55	1202.57	1453.12	1058.64
9-Sep-08	1064.72	441.92	357.35	1116.04	1226.66	210.60	813.74	1199.53	1440.12	1051.20

10-Sep-08	1053.27	441.92	357.35	1053.79	1219.96	210.60	811.00	1202.09	1435.99	1029.85
11-Sep-08	1050.34	441.92	352.72	1054.96	1220.68	210.60	814.03	1203.65	1428.51	1028.50
15-Sep-08	1003.31	441.92	357.35	1022.07	1222.20	210.60	815.97	1199.97	1423.01	996.09
16-Sep-08	999.13	441.92	359.66	945.72	1219.68	210.60	810.01	1211.07	1425.28	976.01

Date	Commercial	Manufact-	Hotel	Other	Hydro	Trading	Insurance	Finance	Dev.	NEPSE
	Bank	& Pros.			Power				Bank	INDEX
17-Sep-08	991.93	441.92	365.06	998.58	1224.21	210.60	807.92	1212.38	1412.34	985.16
18-Sep-08	1011.80	441.92	362.74	1027.94	1233.19	210.60	814.10	1220.43	1433.53	1004.28
21-Sep-08	1010.81	441.92	360.82	925.75	1184.89	210.60	811.28	1220.29	1432.20	976.81
22-Sep-08	1009.07	441.92	361.97	834.13	1178.91	210.60	811.63	1218.44	1415.47	952.64
23-Sep-08	997.99	441.92	364.67	847.05	1170.04	210.60	824.63	1218.26	1448.99	951.28
24-Sep-08	994.68	441.92	361.99	834.13	1160.85	210.60	817.24	1216.14	1431.12	945.07
25-Sep-08	988.94	441.92	363.15	834.13	1146.33	210.60	816.47	1216.89	1414.95	941.12
28-Sep-08	1002.44	441.92	361.99	851.75	1145.59	210.60	816.00	1245.77	1418.42	954.60
29-Sep-08	1019.15	441.92	361.99	845.88	1145.59	214.46	818.65	1249.66	1430.85	962.55
1-Oct-08	1031.82	441.92	361.60	851.75	1145.59	214.46	818.69	1244.49	1435.22	970.23
5-Oct-08	1024.33	441.92	356.98	881.12	1145.23	214.46	819.06	1246.30	1437.18	973.65
12-Oct-08	1017.61	441.92	355.82	881.12	1145.23	214.46	819.06	1239.59	1434.35	969.56
13-Oct-08	1008.94	437.31	356.98	851.75	1141.87	214.46	821.56	1234.67	1432.80	957.33
15-Oct-08	992.37	437.31	359.29	817.69	1140.06	214.46	821.57	1209.93	1424.06	938.31
16-Oct-08	986.45	437.31	359.29	811.81	1139.70	214.46	822.48	1211.81	1423.17	933.97

Date	Commercial	Manufact-	Hotel	Other	Hydro	Trading	Insurance	Finance	Dev.	NEPSE
	Bank	& Pros.			Power				Bank	INDEX
19-Oct-08	965.29	432.79	359.29	797.72	1139.33	214.46	828.48	1211.26	1392.73	918.62
20-Oct-08	940.96	432.79	366.23	782.45	1119.16	218.40	809.58	1199.02	1379.09	899.99
21-Oct-08	954.06	432.79	364.69	787.15	1117.29	218.40	795.89	1197.33	1393.59	907.73
22-Oct-08	959.62	432.79	364.69	802.42	1112.84	214.37	796.42	1196.40	1391.93	914.00
23-Oct-08	966.40	432.79	364.69	804.76	1105.37	218.31	797.30	1214.39	1395.59	919.33
26-Oct-08	965.86	432.79	364.69	834.13	1092.37	218.31	797.53	1111.55	1403.05	918.15
27-Oct-08	899.06	432.79	364.69	832.96	1062.51	218.31	802.44	1104.01	1397.78	881.86
2-Nov-08	845.05	432.79	364.69	829.43	1066.54	218.31	802.26	1103.76	1389.97	853.16
3-Nov-08	843.18	432.79	364.69	822.39	1066.18	218.31	798.80	1094.98	1381.61	849.44
5-Nov-08	840.22	432.79	364.69	823.56	1077.74	218.31	789.90	1093.05	1379.45	848.18
6-Nov-08	826.56	432.79	364.69	788.32	1081.37	220.28	790.79	1069.03	1252.76	832.59
9-Nov-08	800.18	432.79	364.69	763.66	1079.22	220.28	790.79	1047.66	1235.69	810.81
10-Nov-08	765.24	432.79	364.69	730.77	1049.13	220.28	780.07	1032.08	1168.09	779.78
11-Nov-08	792.56	432.79	365.84	757.78	1053.47	220.54	780.07	1038.05	1200.95	802.11
12-Nov-08	808.66	432.79	365.84	781.28	1056.77	220.54	780.07	1031.07	1205.54	815.63
13-Nov-08	800.35	432.79	364.30	766.01	1054.18	220.54	780.07	1029.67	1190.84	806.90

Date	Commercial	Manufact-	Hotel	Other	Hydro	Trading	Insurance	Finance	Dev.	NEPSE
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	Bank	& Pros.			Power				Bank	INDEX
16-Nov-08	784.19	432.79	364.30	763.66	998.92	220.54	780.07	1019.37	1156.50	793.86
17-Nov-08	770.30	432.79	364.30	726.07	982.08	208.72	779.79	1003.37	1118.93	774.18
18-Nov-08	771.77	432.79	364.30	734.29	968.26	208.72	780.16	995.77	1123.95	775.99
19-Nov-08	769.75	432.79	364.30	751.91	934.81	208.72	781.16	985.72	1109.76	776.58
20-Nov-08	764.94	432.79	364.30	738.99	929.20	208.72	781.09	982.76	1104.43	770.37
23-Nov-08	738.17	432.79	364.30	722.54	888.19	208.72	782.43	969.76	1107.58	750.51
24-Nov-08	709.44	432.79	364.30	693.18	874.14	208.72	778.64	962.32	1077.59	726.47
25-Nov-08	686.91	432.79	364.30	634.45	860.81	208.72	774.84	959.64	1044.92	698.81
26-Nov-08	718.40	432.79	364.30	684.96	889.21	208.72	774.92	964.81	1051.36	728.57
27-Nov-08	725.10	432.79	364.30	681.43	896.68	208.72	771.35	963.23	1075.59	732.18
30-Nov-08	745.06	432.79	364.30	704.93	912.74	208.72	771.72	968.17	1118.74	750.71
1-Dec-08	760.42	437.15	364.30	728.42	927.00	208.72	756.50	975.02	1138.07	765.76
2-Dec-08	754.86	437.15	364.30	722.54	944.69	208.72	756.58	978.10	1119.62	761.67
3-Dec-08	749.07	437.15	364.30	716.67	950.95	206.40	756.39	978.44	1131.86	758.08
4-Dec-08	741.85	437.15	364.30	716.67	950.23	206.40	759.57	980.77	1137.28	754.91
7-Dec-08	734.90	437.15	364.30	726.07	950.95	206.40	756.69	988.66	1138.01	754.29
8-Dec-08	726.13	432.74	365.46	716.67	953.96	202.63	754.05	984.20	1152.12	747.72

Date	Commercial	Manufact-	Hotel	Other	Hydro	Trading	Insurance	Finance	Dev.	NEPSE
	Bank	& Pros.			Power				Bank	INDEX
10-Dec-08	725.07	432.74	365.46	699.05	930.70	202.63	752.85	987.66	1152.41	742.36
11-Dec-08	725.20	432.74	365.46	703.75	923.54	202.63	751.22	993.73	1140.54	743.25
14-Dec-08	725.47	432.74	363.92	704.93	921.03	202.63	744.33	993.55	1109.55	742.04
15-Dec-08	713.19	432.74	363.92	702.58	939.45	202.63	734.34	986.04	1104.11	734.85

Date	Commercial	Manufact-	Hotel	Other	Hydro	Trading	Insurance	Finance	Dev.	NEPSE
	Bank	& Pros.			Power				Bank	INDEX
16-Dec-08	706.17	432.74	363.92	694.35	948.10	206.32	739.96	979.18	1103.25	729.24
17-Dec-08	700.73	432.74	363.92	704.93	947.39	206.32	736.40	978.17	1104.38	728.88
18-Dec-08	694.17	432.74	361.22	693.18	918.82	206.32	731.34	971.04	1094.89	720.52
21-Dec-08	674.57	432.74	365.07	686.13	907.05	206.45	731.63	966.43	1092.18	708.12
22-Dec-08	662.67	432.74	365.07	686.13	899.22	206.45	727.72	969.92	1083.30	701.64
23-Dec-08	653.86	432.74	365.07	707.27	903.52	206.45	722.03	964.12	1084.36	701.85
24-Dec-08	665.07	432.74	365.07	699.05	898.13	206.45	722.53	967.96	1073.61	705.21
28-Dec-08	658.86	432.74	365.07	693.18	881.11	206.45	716.10	959.85	1082.90	699.20
29-Dec-08	661.63	432.74	365.07	692.00	880.40	206.45	716.62	962.16	1083.90	700.57
31-Dec-08	657.10	431.44	365.07	677.91	897.49	206.45	710.47	962.40	1087.02	695.50
1-Jan-09	657.93	431.44	365.07	677.91	904.24	206.45	711.84	941.68	1069.95	693.81
4-Jan-09	657.30	431.44	365.07	690.83	904.24	206.45	708.09	937.60	1073.44	696.21
5-Jan-09	653.64	431.44	365.07	684.96	899.43	206.45	700.93	934.15	1040.75	690.97
6-Jan-09	651.56	431.44	365.07	675.56	917.39	206.45	699.58	926.81	1038.68	687.63
7-Jan-09	650.23	433.21	365.07	657.94	916.67	206.45	694.87	921.85	1037.50	682.29
8-Jan-09	646.94	433.21	365.07	634.45	916.24	206.45	675.75	923.60	1027.04	674.32
11-Jan-09	628.24	433.21	365.07	628.57	916.24	206.45	679.85	921.19	1046.72	664.02
12-Jan-09	624.99	433.21	365.07	622.70	916.24	206.45	687.19	919.23	1031.62	660.40
13-Jan-09	627.39	428.85	365.07	616.83	916.24	206.45	682.68	916.50	1032.17	659.81

Date	Commercial	Manufact-	Hotel	Other	Hydro	Trading	Insurance	Finance	Dev.	NEPSE
	Bank	& Pros.			Power				Bank	INDEX
15-Jan-09	611.17	428.85	365.07	628.57	916.24	206.45	682.85	897.41	997.86	651.22
18-Jan-09	611.55	428.85	365.07	628.57	919.26	206.45	677.45	890.37	996.08	650.73
19-Jan-09	610.15	428.85	365.07	616.83	919.98	206.45	678.19	888.32	999.67	647.29
20-Jan-09	600.50	428.85	365.07	615.65	918.97	206.45	678.25	882.90	986.94	641.05
21-Jan-09	580.89	428.85	365.07	606.26	902.54	206.45	692.48	872.58	940.09	625.79
22-Jan-09	561.03	420.23	368.34	599.21	843.25	202.68	690.86	865.72	903.82	609.46
25-Jan-09	568.70	416.08	368.34	610.96	830.15	202.68	695.74	867.31	912.13	616.15
26-Jan-09	594.84	416.08	368.34	672.04	820.88	202.68	694.14	867.70	956.26	645.32
28-Jan-09	617.46	416.08	364.48	667.34	840.01	202.68	715.16	873.78	987.90	658.83
1-Feb-09	602.41	411.98	364.48	625.05	810.44	202.68	711.91	866.10	968.00	638.51
2-Feb-09	605.76	411.98	368.34	616.83	802.92	210.13	693.42	857.66	950.04	636.31
3-Feb-09	600.57	404.10	368.34	634.45	804.79	210.13	673.50	851.95	953.78	636.70
4-Feb-09	605.18	404.10	366.80	646.19	816.40	213.99	650.15	853.58	951.42	641.64
5-Feb-09	619.49	404.10	366.80	669.69	821.29	217.93	652.92	857.28	975.34	656.06
8-Feb-09	641.76	404.10	366.80	695.53	820.93	217.93	652.96	766.92	973.87	671.71
9-Feb-09	641.84	404.10	366.80	682.61	830.27	217.93	648.77	795.54	967.58	668.82
10-Feb-09	636.33	404.10	369.87	681.43	829.55	217.93	649.86	791.79	962.43	665.15
11-Feb-09	637.98	404.10	369.87	668.51	842.19	213.90	648.82	791.60	960.41	663.52
12-Feb-09	649.62	404.10	345.05	675.56	848.94	213.90	651.38	794.34	968.47	671.49
15-Feb-09	649.86	404.10	346.59	672.04	831.77	213.90	661.47	786.49	967.95	669.75
16-Feb-09	656.15	404.11	346.59	669.69	856.27	213.90	661.41	787.57	969.00	673.51
17-Feb-09	677.03	404.10	346.59	693.18	842.90	213.90	658.00	794.09	984.46	690.25
19-Feb-09	692.16	404.10	346.59	699.05	834.01	213.90	672.15	796.15	981.28	699.60
22-Feb-09	696.47	404.10	346.59	704.93	842.57	217.85	670.68	796.69	997.68	704.10
24-Feb-09	683.77	404.10	346.59	697.88	850.99	217.85	678.06	796.33	986.96	695.92
26-Feb-09	668.61	404.10	346.59	659.11	838.78	221.96	693.72	795.81	931.65	677.52

Date	Commercial	Manufact-	Hotel	Other	Hydro	Trading	Insurance	Finance	Dev.	NEPSE
	Bank	& Pros.			Power				Bank	INDEX
1-Mar-09	661.34	404.10	348.61	672.04	830.31	221.96	692.82	794.12	939.19	676.30
2-Mar-09	656.74	404.10	348.61	669.69	823.30	221.96	683.74	795.25	955.60	673.70
3-Mar-09	660.87	404.10	348.61	669.69	829.55	221.96	678.66	794.76	952.48	675.77
4-Mar-09	662.94	404.10	348.61	652.07	834.80	221.96	675.43	796.93	940.88	672.99
5-Mar-09	662.75	404.10	348.61	640.32	831.06	221.96	680.42	796.08	950.17	670.68
8-Mar-09	665.43	404.10	348.61	635.62	839.96	221.96	680.82	795.60	950.36	671.35
9-Mar-09	664.81	404.10	348.61	640.32	838.52	213.82	681.63	792.96	945.29	671.44
11-Mar-09	661.02	404.10	348.61	640.32	839.60	213.82	683.01	793.44	962.06	670.23
12-Mar-09	656.85	404.10	348.61	637.97	838.07	213.82	681.47	792.55	958.09	667.20

Date	Commercial	Manufact-	Hotel	Other	Hydro	Trading	Insurance	Finance	Dev.	NEPSE
	Bank	& Pros.			Power				Bank	INDEX
15-Mar-09	656.47	404.10	347.06	646.19	863.34	213.82	680.93	792.38	951.37	669.23
16-Mar-09	657.69	404.10	347.06	656.77	870.71	213.82	668.99	782.54	947.33	670.86
17-Mar-09	656.57	404.10	352.88	645.02	880.38	213.82	670.57	782.20	906.76	667.66



18-Mar-09	657.23	404.10	352.88	641.50	881.53	213.82	664.83	779.44	907.57	667.13
19-Mar-09	656.36	404.10	352.88	640.32	887.86	213.82	661.14	779.12	909.81	666.59
22-Mar-09	674.29	404.10	352.88	669.69	898.60	213.82	661.70	783.61	921.94	683.50
23-Mar-09	668.90	404.10	352.88	652.07	907.19	213.82	662.96	779.81	908.00	676.31
24-Mar-09	670.73	415.82	352.88	657.94	907.19	213.82	657.82	776.02	901.16	678.00
25-Mar-09	669.71	419.87	352.88	657.94	891.10	213.82	656.59	772.18	870.76	675.30
29-Mar-09	663.68	419.87	355.05	646.19	901.59	213.82	654.40	772.12	865.03	669.74
30-Mar-09	664.68	428.28	355.05	622.70	899.72	214.08	656.84	771.70	865.36	665.66
31-Mar-09	660.39	428.28	355.05	626.23	898.54	214.08	657.22	772.04	866.02	664.13
1-Apr-09	660.11	428.28	355.05	627.40	911.27	214.08	661.27	772.32	872.65	665.04
2-Apr-09	658.40	432.58	355.62	618.00	890.10	214.08	664.79	772.98	875.46	661.96
5-Apr-09	664.18	432.58	355.62	619.18	874.79	214.08	669.98	772.57	871.74	664.73
6-Apr-09	660.38	432.58	352.97	623.88	874.79	214.08	667.48	770.57	874.45	663.46
7-Apr-09	656.09	432.58	359.49	616.83	876.66	214.08	666.04	767.88	872.64	659.54
8-Apr-09	659.74	428.38	359.49	616.83	875.50	214.08	664.26	766.11	857.31	661.28
9-Apr-09	660.86	427.78	359.49	610.96	875.50	214.08	661.55	763.32	857.82	660.36
12-Apr-09	660.26	427.78	361.66	618.00	867.32	214.08	660.04	760.51	841.31	660.15
13-Apr-09	662.71	428.86	361.66	616.83	865.88	214.08	658.71	761.59	840.90	661.27

Date	Commercial Bank	Manufact- & Pros.	Hotel	Other	Hydro Power	Trading	Insurance	Finance	Dev. Bank	NEPSE INDEX
16-Apr-09	664.72	434.05	361.66	618.00	864.45	214.08	657.47	761.35	842.51	662.71
19-Apr-09	661.33	436.65	361.66	610.96	863.73	218.02	656.75	763.46	846.63	659.95
20-Apr-09	664.14	436.65	361.66	606.26	860.00	218.02	656.89	760.08	845.55	660.01
21-Apr-09	664.40	436.65	363.11	601.56	860.00	218.02	657.43	760.75	839.95	659.06
22-Apr-09	662.52	436.65	363.11	599.21	859.28	218.02	651.71	760.98	837.61	657.33
23-Apr-09	662.38	433.28	363.11	599.21	860.36	218.02	651.59	756.20	829.03	657.02
26-Apr-09	651.39	433.28	363.11	599.21	858.06	218.02	648.47	740.18	823.55	649.04
27-Apr-09	643.85	433.28	363.11	587.46	846.13	218.02	638.80	725.15	816.90	640.16
28-Apr-09	643.15	433.28	363.11	590.99	844.34	218.02	638.98	733.28	823.87	641.64
29-Apr-09	642.66	433.28	363.11	602.73	845.06	218.02	636.09	730.92	824.53	643.44
Date	Commercial Bank	Manufact- & Pros.	Hotel	Other	Hydro Power	Trading	Insurance	Finance	Dev. Bank	NEPSE INDEX
30-Apr-09	649.56	438.21	363.11	605.08	843.63	218.02	636.88	732.75	821.93	647.78
3-May-09	640.06	438.21	363.11	605.08	843.63	218.02	637.55	728.77	816.54	642.04
4-May-09	641.59	433.69	363.11	605.08	843.63	218.02	635.79	736.60	761.92	640.89
5-May-09	650.37	436.65	363.11	616.83	809.86	218.02	636.47	748.13	769.27	648.57
6-May-09	653.41	432.13	363.11	622.70	812.44	218.02	636.25	745.44	772.11	651.16
7-May-09	658.49	432.13	363.11	622.70	822.77	218.02	635.17	743.75	773.44	654.05
10-May-09	660.83	432.13	363.11	645.02	828.08	218.02	634.92	748.51	773.74	660.42
11-May-09	657.15	432.13	363.11	646.19	831.47	214.08	631.50	752.20	775.98	659.17
12-May-09	655.48	432.13	363.11	652.07	856.15	214.08	630.85	750.46	776.89	660.05
13-May-09	658.40	432.13	363.11	646.19	867.86	230.36	628.40	754.38	782.22	661.55
14-May-09	658.53	432.13	363.11	643.84	875.07	234.64	626.07	752.10	779.10	660.96

Date	Commercial	Manufact-	Hotel	Other	Hydro	Trading	Insurance	Finance	Dev.	NEPSE
	Bank	& Pros.			Power				Bank	INDEX
17-May-09	668.02	432.13	363.11	646.19	873.30	239.01	625.87	761.19	743.07	665.70
18-May-09	689.87	432.13	363.11	669.69	874.81	243.47	628.80	771.37	756.29	683.92
19-May-09	682.44	432.13	363.11	669.69	852.12	243.47	631.42	770.79	742.64	678.61
20-May-09	676.64	431.46	363.11	680.26	852.87	259.50	640.21	768.83	730.42	677.20
21-May-09	676.11	431.46	363.11	681.43	844.71	271.66	642.95	766.37	726.83	676.64
24-May-09	691.52	431.46	363.11	693.18	852.55	271.66	644.37	771.63	727.42	688.07
25-May-09	712.14	431.46	363.11	710.80	863.38	276.72	641.76	756.73	731.26	701.51
26-May-09	731.78	431.46	365.00	716.67	885.04	276.72	640.56	758.13	746.84	714.72
27-May-09	768.92	431.46	365.00	730.77	918.66	276.72	640.56	765.63	761.68	739.89
28-May-09	736.55	434.32	365.00	716.67	888.66	281.78	650.78	761.87	756.52	718.62
31-May-09	722.72	434.32	366.45	699.05	887.48	281.78	651.97	762.99	756.91	707.89
1-Jun-09	719.60	434.32	366.45	672.04	865.34	281.78	651.91	758.97	761.47	699.95
2-Jun-09	723.55	434.32	366.45	669.69	868.35	281.78	651.79	773.26	775.97	703.01
3-Jun-09	724.19	434.32	366.45	652.07	869.51	281.78	650.29	773.47	770.90	699.62
4-Jun-09	717.11	434.32	366.45	675.56	861.39	281.78	644.35	761.25	769.97	698.88
7-Jun-09	702.53	434.32	366.45	657.94	859.12	281.78	643.72	753.96	749.41	685.61
8-Jun-09	695.06	434.32	366.45	652.07	867.74	281.78	648.78	747.19	741.43	679.73
9-Jun-09	705.60	434.32	369.35	646.19	905.02	281.78	648.89	741.65	737.19	684.88
10-Jun-09	709.36	434.32	369.35	646.19	882.81	281.78	648.70	738.05	739.55	686.07
11-Jun-09	706.12	434.32	369.35	646.19	888.41	281.78	648.77	736.72	740.69	684.39
14-Jun-09	696.78	434.32	369.35	646.19	861.22	281.78	646.43	732.86	732.62	678.74

Date	Com.	Manufact-	Hotel	Other	Hydro	Trading	Insurance	Finance	Dev.	NEPSE
	Bank	& Pros.			Power				Bank	INDEX
15-Jun-09	697.01	434.32	369.35	633.27	868.35	281.78	641.10	730.87	718.12	676.41
16-Jun-09	698.82	434.32	369.35	652.07	887.73	281.78	642.74	731.00	722.95	681.83
17-Jun-09	703.05	434.32	369.35	646.19	878.93	281.78	642.51	730.17	723.41	682.80
18-Jun-09	704.35	434.32	368.63	646.19	883.53	290.35	644.27	731.04	720.63	683.71
21-Jun-09	697.28	434.32	368.63	646.19	878.88	290.35	642.36	729.58	717.39	679.23
22-Jun-09	695.08	434.32	368.63	646.19	906.90	290.35	638.66	729.55	713.25	678.52
23-Jun-09	688.66	434.32	368.63	652.07	907.47	290.35	633.17	686.56	701.96	671.47
24-Jun-09	689.15	434.32	368.63	646.19	897.04	290.52	632.24	685.71	702.26	670.25
25-Jun-09	690.21	434.32	365.98	646.19	897.71	290.35	634.12	683.75	700.76	670.61
28-Jun-09	683.37	434.32	365.98	646.19	897.71	295.83	633.07	680.89	697.78	666.35
29-Jun-09	681.71	434.32	365.98	641.50	889.21	295.83	632.56	677.94	696.81	663.96
30-Jun-09	679.64	434.32	367.42	640.32	894.55	295.83	630.79	679.61	692.31	662.63
1-Jul-09	680.10	434.32	367.42	634.45	893.44	295.83	631.18	679.48	692.69	661.78

Date	Com.	Manufact-	Hotel	Other	Hydro	Trading	Insurance	Finance	Dev.	NEPSE
	Bank	& Pros.			Power				Bank	INDEX
2-Jul-09	685.03	434.32	367.42	646.19	904.62	295.83	631.05	678.82	700.35	667.43
5-Jul-09	695.77	434.32	367.42	653.24	915.44	295.83	630.90	674.29	708.55	675.16
6-Jul-09	697.42	434.32	367.42	652.07	904.09	295.83	629.31	675.37	719.28	676.14
7-Jul-09	711.03	434.32	367.42	655.59	916.55	295.83	630.56	677.53	728.16	685.55
8-Jul-09	729.87	434.32	367.42	652.07	912.74	295.83	627.40	679.33	740.44	696.16
9-Jul-09	736.57	434.32	367.42	663.81	919.18	295.83	631.13	682.01	744.66	702.88
12-Jul-09	750.96	434.32	367.42	663.81	910.97	295.83	635.67	684.45	743.94	711.06
13-Jul-09	754.67	434.32	367.42	681.43	912.75	295.83	635.48	690.89	751.45	717.46
14-Jul-09	780.24	434.32	367.42	723.72	980.45	295.83	656.41	696.86	767.44	743.69
15-Jul-09	780.87	434.32	367.42	738.99	1044.81	295.83	656.41	697.61	772.56	749.10