

# **CHAPTER- I**

## **INTRODUCTION**

### **1.1 Background**

A stock market can be defined as a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading. In simpler words, Stock market is the market where funds are transferred from those who have excess available to those who have a shortage in encouraging higher economic efficiency. Stock market is essential for companies which have to raise large amount of capital or funds. And it is also beneficial for investors who want to invest in share of companies and benefit from dividend gain or capital gain.

Any review of the capital market would not be complete unless it focuses on the past trends, the present state in which the capital market is placed and visualize its future pattern of development. The history of capital market was started since the period of Juddha Shamsheer Rana. He set-up a holding company named Biratnagar Jute Mills under joint financing agreement with an Indian Marwari merchant Mr. Radha Krishna Chamaria with an Indian Jute Processing industry in 1936 (1993 B.S) as the first modern sector industry in the country. After that various mills of rice, cotton, sugar and other were established to mobilize economy's capital for the industrial development. In 1937 (1994 B.S) Nepal Bank Limited (NBL) as commercial bank was established. In the same year, the first industrial act was promulgated which was a favorable step to promote capital market in Nepal. But Rana family did not like the participation of public in the ownership structure of industries and all the shares of companies were gone to Rana families, the expansion of capital market to the desired level has been estimated. In 1950 (2007 B.S) democracy was established, the interim government were much busy in devising measures to recognize the sick industries and gave little attention to initiate the development of stock market until 1976 (2033 B.S) when a government owned and operated Securities Exchange Center (SEC) was established. It was established to perform the function of a stock exchange (under the Securities Exchange Act 1983) like broker, issue manager and securities market regulator but under this arrangement there

were no private brokers, dealers, investment banks and securities firms because of all this trading remain insignificant.

The need of stock market in Nepal was felt. In 1990 when democracy was resolved, the interim government in its short period initiated banking reformation and established Citizen Investment Fund (CIF). The establishment of NIDC Capital Market Limited was also a major step to improve financial system in Nepal. To reform capital market, the Nepal government converted Securities Exchange Center (SEC) into Nepal Stock Exchange limited in 1993.

### **1.1.1 A Brief Introduction of NEPSE**

Nepal Stock Exchange, in short NEPSE, is established under the company act, operating under Securities Exchange Act, 1983. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13th January 1994.

The history of securities market began with the floatation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. Introduction of the Company Act in 1964, the first issuance of Government Bond in 1964 and the establishment of Securities Exchange Center Ltd. in 1976 were other significant development relating to capital markets.

Securities Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. Nepal Government, under a program initiated to reform capital markets converted Securities Exchange Center into Nepal Stock Exchange in 1993.

NEPSE has its own Board of directors to direct, control and monitor. It consists of 9 directors in accordance with the securities Exchange Act, 1983. Government of Nepal and different institutional investors nominate six directors and two from the licensed members. The General Manager of the NEPSE is the Ex-officio director of the board.

Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and members are the shareholders of NEPSE. The authorized capital of the exchange is Rs. 50 million. The issued capital is also Rs. 50 million. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and the members subscribe Rs. 34.91 million. Government of Nepal has contributed 58.67%, Nepal Rastra Bank 34.60%, Nepal Industrial Development Corporation 6.13% and the members 0.60% on its capital.

NEPSE currently has 23 member brokers and 2 market makers, who operate on the trading floor as per the Securities Exchange Act, 1983, rules and bye-laws. Besides this, NEPSE has also granted membership to issue and sales manager securities trader (Dealer). Issue and sales manager works as manager to the issue and underwriter for public issue of securities whereas securities trader (Dealer) works as individual portfolio manager. At present there are 11 sales and issue manager and 2 dealers (Secondary market)

NEPSE operates on the 'NEPSE Automated Trading System '(NATS), a fully screen based automated trading system, which adopts the principle of an order driven market. Purchase & Sell of Physical Share certificates is done through NATS. The Automated Trading System was started from 24 August 2007.

### **1.1.2 Securities Exchange Board of Nepal (SEBON)**

Established by the Government of Nepal on June 7, 1993, SEBON is an apex regulator of securities markets in Nepal. It has been regulating the market under the

Securities Act, 2007. The functions, duties and powers of SEBON as per the Act are as follows.

- J Supervise and monitor the activities of stock exchange.
- J Supervise and monitor the functions and activities of securities-dealers.
- J Offer advice to Government on matters related with the development of capital market.
- J Register the securities of corporate bodies established with the authority to make a public issue of its securities.
- J Regulate and systematize the issue, transfer, sale and exchange of registered securities.
- J Give permission to operate a stock exchange to any corporate body desirous of doing so, subject to this Act or the rules and by-rules framed under this Act.
- J Inspect whether or not any stock exchange is executing its functions and activities in accordance with this Act or the rules and by-rules framed under this Act, and to suspend or cancel the license of any stock exchange which is not found to be doing so.
- J Issue licenses to conduct the business of dealing in securities, subject to this Act, or the rules and the by-rules framed under this Act, to companies or institutions desirous of conducting the business of dealing in securities.
- J Grant permission to operate collective investment schemes and investment fund programs, and to supervise and monitor them.
- J Approve the by-rules concerning transactions in securities framed by stock exchanges and institutions engaged in the business of dealing in securities, and, for the purpose of making necessary provisions concerning the development of the capital market and protecting the interests of investors investing in securities, issue orders to have necessary alterations made in such bye-rules of stock exchange and institutions engaged in the business of dealing in securities.
- J Systematize the task of clearing accounts related to transactions in securities.
- J Supervise whether or not security dealers are behaving in the manner prescribed in this Act, or the rules and the bye-rules framed under this Act, while conducting

business of dealing in securities, and suspend the license to conduct the business of dealing in securities in case any securities dealer is not found to be behaving accordingly.

- J) Make or ensure necessary arrangements to regulate the volume of securities transacted and the procedure of conducting such transactions in order to ensure the promotion, development and clean operation of stock exchanges.
- J) Make necessary arrangements to prevent insider trading or any other offenses relating to transactions in securities in order to protect the interest of investors in securities.
- J) Review or make arrangement for reviewing the financial statements submitted by the corporate bodies issuing securities and security dealers, and issue directives deemed necessary in that connection to the concerned corporate body.
- J) Systematize and make transparent the act of acquiring the ownership of a company or gaining control over its management by purchasing its shares in a single lot or in different lots.
- J) Establish coordination and exchange cooperation with the appropriate agencies in order to supervise and regulate matters concerning securities or companies.
- J) Discharge or make arrangements for discharging such other functions as are necessary for the development of securities and the capital market.

The Governing Board of SEBON is composed of seven members including one full time chairman appointed by the Government for tenure of four years. Other members of the Board include joint secretary of Ministry of Finance, joint secretary of Ministry of Law and Justice, representative from NRB, representative from Institute of Chartered Accountants of Nepal, representative from Federation of Nepalese Chambers of Commerce and Industries, and one member appointed by the Government from amongst the experts pertaining to management of securities market, development of capital market, financial or economic sector.

There are seven departments and sixteen sections in the organization of SEBON. Under the Management Department, there are two divisions namely Human Resources

Section and Finance Section. There are also four sections under the Planning and Development Department namely Research Section, Training Section, Information Technology Section and International Affairs Section. There are also two sections under the Corporate Finance Department namely, Public Issue Section and Collective Investment Scheme Section. Likewise, Under the Regulation Department, there are two sections namely, Stock Exchange Regulation Section and Market Intermediaries Regulation Section. There are also four sections under the Surveillance Department namely, Stock Exchange Surveillance Section, Market Intermediaries Surveillance Section, Trading Surveillance Section and Corporate Surveillance Section. Finally, under Legal Department, there are two sections Research and Investigation Section and Enforcement Section.

## **1.2 Statement of the Problem:**

Nepal's stock market was in temporally inactive during the decades of seventies and eighties. Only few companies accessed in the stock market and investors were not interested in securities, during these periods. There have been very few analyses of Nepal Stock Exchange (NEPSE) due to which the policy makers are still unable to make the appropriate policy for the development of stock market. Most of the government efforts for the development of the stock market have poorly contributed. Market only started to progress from the early nineties, especially after the introduction of the floor transaction say reformation of Securities Exchange Center (SEC) into NEPSE. The government also took a number of measures to gear up the economy of Nepal such as privatization policy, economic liberalization policy and reform of financial sectors. Although, all these have made some positive impact for the development of stock market but these have not become sustainable because of lack of proper implementation of the policy.

The economical, intuition and regulatory framework provides the underpinnings for stock market development. At the early stage of an emerging market economy, it is important that the government create the right policy environment to facilitate the creation of a critical mass of financial instruments, issues and investors.

In this day and age, when stock market has become a global phenomenon NEPSE is only few years old and it is still in its infant stage. The quality of securities available in the stock market is very low. There is lack of professionalism in investment. An investor has to cross through a vicious security processing cycle to do the transaction of the desired security. There is lack of adequate disclosure of information for investment. The double standard regarding the regulations of the government also is hindering the progress of the stock market. The equity market and related institutions are still in their infancy. Due to the above mentioned reasons and more, there is an inadequate demand and supply for securities. Until these structural weaknesses in the capital market are corrected in Nepal, it is unlikely that the NEPSE will become an effective mechanism.

For all these reasons, this study will be carried out to study the actual status, the problems and the future prospects of stock market in Nepal.

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

Every Study is carried out with definite objectives. Similarly this study is also done with some objectives which are as follows:

- ) To find out the actual pattern of stock market growth in Nepal.
- ) To examine the views and opinions of investors on different aspects of share market in Nepal.
- ) To analyze the trend of stock market of Nepal.
- ) To find out the actual problems and future development prospects of stock market in Nepal.

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

Stock market facilitates the exchange of financial assets by bringing together the buyers and sellers of securities. It is an effective way of raising capital for business enterprises and at the same time provides an opportunity for investors to invest. This shows stock market plays a vital role in raising and properly utilizing the capital in a constructive way which helps in developing the country. Stock market is of so much

importance for developing a country economically but only a few researches have been conducted for the development of the sector. Therefore, the stock market has been up and down in terms of its growth. So, this study will help in realizing the potential of the stock market. There are different prospects available for the stock market in Nepal which needs to be recognized and changes need to be brought in order to develop the stock market. But due to the different problems facing the stock market, there are different obstacles those needs to be tackled and handled properly before taking advantage of the available prospects. So this study will help in realizing those aspects of stock market and recommend on how the stock market can be further developed. Basically, the significance of this study can be pointed out as follows:

- This study will try to show the views of different stakeholders influencing the stock market.
- The study will be helpful to the stock brokers, securities dealers and the market makers of stock market in Nepal.
- It will display the operation of the stock market and it's so valuable role towards the development of the country's economy.
- The study will be helpful to the law makers to make the share market more efficient.
- It will try to show the current government's policy towards financial markets.
- It will display the need and importance of different policies, regulatory acts and amendments to develop market efficiency.

The above mentioned things and lot more critical issues facing the stock market of Nepal are going to be tackled during the study and some valuable recommendations and suggestions are going to be made for the development of the stock market.

### **1.5 Limitations of the Study:**

This study will be performed as a partial fulfillment of the requirement for the degree of Masters of Business Studies. So, this study has the following limitations:

- This study will be done for the fulfillment of Master of business studies, so it won't totally be a comprehensive study.



- The accuracy may be highly reliable on the honesty shown by the respondents as the study will be based on the information provided by the respondents.
- This study will cover only five years.
- The study cannot be considered as a masterpiece as it is done within a limited time frame.

The conclusion put forward by this research work may not be universally applicable and may be disagreed by many due to the limited sample studied.

## **1.6 Organization of the Study:**

The study will be divided into five chapters. They are Introduction, Review of Literature, Research Methodology, Presentation and Analysis of Data and Summary, Conclusions and Recommendations. The first chapter i.e. Introduction will deal with the background of the study, objectives of the study, statement of the problem, significance of the study, limitations of the study, and organization of the study. The second chapter Review of Literature will involve different articles, books, journals, past researches conducted and the masters' thesis on the related field will be reviewed. Likewise the third chapter Research Methodology will contain research design, data collection procedure, sources of information, population and sample, tools for analysis, method of analysis and presentation and plan of the study. After the third chapter, considered the main chapter of the study, Presentation and Analysis of Data will include descriptive analysis of the collected data primary as well as secondary data using statistical and financial tools. It will also include the major findings of the research. Finally the last chapter Summary, Conclusions and Recommendations will consist of the summary, conclusions and recommendations of the study. Summary and conclusions of the study will be provided and some valuable recommendations will be given as according to the findings of the study. Bibliographies, References, Appendices and the abstracts will be attached at the end of the report.

## **CHAPTER- II**

### **REVIEW OF LITERATURE**

This chapter will be devoted to review some of the existing literature concerning the stock markets. In this regard, various books, journal and articles concerned to this topic have been reviewed.

#### **2.1 Conceptual Frameworks**

##### **2.1.1 Securities**

Securities are the piece of paper that represents the investors' rights to certain prospectus or property and the conditions under which he or she may exercise those rights. It may be transferred to another investor and if it is, all rights and conditions are transferred as well. Examples of securities are common stock, bond, treasury bills, commercial paper, preferred stock, etc.

##### **2.1.2 Securities Markets**

Securities market is an economic institute within which take place sale and purchase transactions of securities between subjects of economy on the base of demand and supply. Also we can say that securities market is a system of interconnection between all participants (professional and nonprofessional) that provides effective conditions: to buy and sell securities,

- ) to attract new capital by means of issuance new security (securitization of debt),
- ) to transfer real asset into financial asset,
- ) to invest money for short or long term periods with the aim of deriving profit.

It can be defined as a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading. It has defined by Frederic S. Miskin as “financial markets are the ones in which funds are transferred from those who have excess available to those who have a shortage in encouraging higher economic efficiency.”

Securities may or may not have physical location. The function of financial market is the exchange of one financial asset with another. This is done either directly or through financial intermediaries. The major participants of the financial markets are investors (the suppliers) and the users of funds. In conclusion it can be said that security market is a market, where financial assets are traded.

There are several functions of securities markets. However they have been divided into the common and specific functions as follows:

**The common market functions of securities market:**

- ) commercial function (to derive profit from operation on this market)
- ) Price determination (Demand and Supply balancing, the continuous process of prices movements guarantees to state correct price for each security (So, the market corrects mispriced securities)
- ) Informative function (market provides all participants with market information about participants and traded instruments)
- ) Regulation function (securities market creates the rules of trade, contention regulation, priorities determination)

**Specific functions of the securities market**

- ) Transfer of ownership (securities markets transfer existing stocks and bonds from owners who no longer desire to maintain their investments to buyers who wish to increase those specific investments. There is no net change in the number of securities in existence, for there is only a transfer of ownership. The role of securities market is to facilitate this transfer of ownership. This transfer of securities is extremely important, for securities holders know that a secondary market exists in which they may sell their securities holdings. The ease with which securities may be sold and converted into cash increases the willingness of people to hold stocks and bonds and thus increases the ability of firms to issue securities)
- ) Insurance (hedging) of operations through securities market (options, futures, ...)

## **2.1.3 Levels of Securities Market**

### **2.1.3.1 Primary Market**

**The primary market** is that part of the capital markets that deals with the issue of new securities. Companies, governments or public sector institutions can obtain funding through the sale of a new stock or bond issue. This is typically done through a syndicate of securities dealers. The process of selling new issues to investors is called underwriting. In the case of a new stock issue, this sale is an initial public offering (IPO). Dealers earn a commission that is built into the price of the security offering, though it can be found in the prospectus. A primary market creates long term instruments through which corporate entities borrow from capital market.

#### **Features of primary markets are:**

- ) This is the market for new long term equity capital. The primary market is the market where the securities are sold for the first time. Therefore it is also called the new issue market (NIM).
- ) In a primary issue, the securities are issued by the company directly to investors.
- ) The company receives the money and issues new security certificates to the investors.
- ) Primary issues are used by companies for the purpose of setting up new business or for expanding or modernizing the existing business.
- ) The primary market performs the crucial function of facilitating capital formation in the economy.
- ) The new issue market does not include certain other sources of new long term external finance, such as loans from financial institutions. Borrowers in the new issue market may be raising capital for converting private capital into public capital; this is known as "going public."
- ) The financial assets sold can only be redeemed by the original holder.

#### **Methods of issuing securities in the primary market are:**

- ) Initial public offerings

- ) Further public offerings
- ) Right Issue(for existing companies);
- ) Preferential issue.

### **2.1.3.2 Secondary Market**

Also known as the aftermarket, **Secondary Market** is the financial market where previously issued securities and financial instruments such as stock, bonds, options, and futures are bought and sold. It is the market where already issued or outstanding securities are traded. It is the base for primary market. Securities once purchased through the primary market are traded in the secondary market. Thus existence of secondary market provides the liquidity the financial assets. People are attracted towards the primary market due to the existence of secondary markets. Another main function of the market is to fix the price of the security. Secondary markets may be organized or unorganized. In Nepal, Nepal Stock Exchange (NEPSE) is the organized secondary market where thousands of securities are traded daily.

With primary issuances of securities or financial instruments, or the primary market, investors purchase these securities directly from issuers such as corporations issuing shares in an IPO or private placement, or directly from the federal government in the case of treasuries. After the initial issuance, investors can purchase from other investors in the secondary market. Secondary markets can be classified as follows:

#### **a) Organized Stock Exchange**

**Organized Stock Market** has particular physical locations where securities are traded under the set of rules and regulations. The company must be listed at securities exchange. NEPSE, NYSE, Tokyo Stock Exchange are the organized stock exchanges.

## b) Over the Counter Market (OTC)

**Over the Counter Market (OTC) or off-exchange trading** is to trade financial instruments such as stocks, bonds, commodities or derivatives directly between two parties. It is contrasted with exchange trading, which occurs via facilities constructed for the purpose of trading (i.e., exchanges), such as futures exchanges or stock exchanges. It is not a formal having a physical trading place exchange like organized stock exchanges. OTC neither requires membership nor listing of securities for trading. They use to trade more on bonds and debentures than common stock. The prices of bonds in this market depend on the rating of bonds made by internationally recognized rating agencies. Most of the securities which are not listed in the organized stock exchange are traded here. The OTC market competes with investment bankers and the organized exchange because OTC dealers can operate in the both primary and secondary market.

The OTC market is not physically located in any one place, rather it consists of a number of brokers, dealers and market makers are linked together through their communication network. Though OTC market is not organized by registering in the government agency but it is more organized in the sense that large numbers of securities traders are connected through information media and are able to complete the transaction within a short span of period.

### **2.1.4 Financial Intermediaries**

Financial Intermediaries are middlemen who stand between user and supplier of fund. Financial Intermediaries are investment companies and other financial institutions that collect funds from small investors and or savers and lend considerable sum to large borrowers. All these firms offer various advantages in addition to playing middlemen role.

Generally corporation can obtain funds directly from public through the direct placement. Alternatively, they can obtain funds indirectly from the general public using financial intermediaries.

➤ **Stock Brokers**

A stock broker is a regulated professional broker who buys and sells shares and other securities through market makers or Agency Only Firms. A broker is an individual or party (brokerage firm) that arranges transactions between a buyer and a seller, and gets a commission when the deal is executed. A broker who also acts as a seller or as a buyer becomes a principal party to the deal. A broker acts as a middleman who matches buying and selling order, thereby securing both buyers and sellers. A broker does not take title to the securities involved in the transaction. A commission is charged by the broker for his assistance in consummating the transaction.

**Conditions for Granting of Certificates to Stockbrokers**

The rules stipulate the registration is necessary for action as broker or sub-broker. The conditions for grant of a certificate of registration to act as stock broker are:

- a. He holds the membership of a stock exchange Act.
- b. He shall abide by the rules, regulations and buy-laws of the sock Exchange of which he is a member.
- c. He shall pay the amount of fees for registration.

A stock broker is expected to maintain high standers of integrity, promptitude and fairness in the conduct of his business. He is expected to exercise due to skill, diligence, and comply with statutory requirements and not to indulge in manipulations and practices.

➤ **Commission Broker**

Almost all members act as commission brokers. The commission broker executes on the floor of the exchange buying and selling orders placed by his constituents to whom he renders contracts containing a charge for commission at rates no exceeding the official scale of brokerage.

➤ **Floor Broker**

A **floor broker** is an independent member of an exchange who can act as a broker for other members who become overloaded with orders, as an agent on the floor of the exchange. The floor broker receives an order via teletype machine from his firm's trading department and then proceeds to the appropriate trading post on the exchange floor. There he joins other brokers and the specialists in the security being bought or sold and executes the trade at the best competitive price available. On completion of the transaction the customer is notified through his registered representative back at the firm and the trade is printed on the consolidated ticker tape which is displayed electronically around the country. A floor broker should not be confused with a floor trader who trades as a principal for his or her own account, rather than as a broker.

The floor brokers, not large in number, are officially attached to other member. The floor broker executes order for any members and receives as his compensation a share of the brokerage charge by the commission broker to his constituents.

Floor brokers may be described as brokers. They are simply members of the exchange not brokers for a member firm. At peak activity periods, they will accept orders from other broker, execute them, and receive part of the commission in return. Floor brokers are useful in that they present backlogs of orders, and they allow many firms to operate with fewer exchange memberships than would be needed without their services.

➤ **Security Dealer**

A dealer buys securities at one price and expects to sell them at a higher price. Dealer trade solely for themselves and are prohibited from handling public orders. Since dealers have access on the floor and can own securities on their own name. They benefit from buying at low and selling at high prices. The benefit of the dealers to the market is that their buy and sells actions added up liquidity of the securities.

Obviously, when an OTC broker receives an order for a security in which a market is not maintained, they may act as both broker and dealer in executing the trade. However, this does not eliminate the obligation to obtain the best price for the customer.



➤ **Market Makers**

A **market maker** is a company, or an individual, that quotes both a buy and a sell price in a financial instrument or commodity held in inventory, hoping to make a profit on the bid-offer spread, or turn. From a market microstructure theory standpoint, market makers are net sellers of an option to be adversely selected at a premium proportional to the trading range at which they are willing to provide liquidity.

Market makers, also known as specialists, facilitate the trading of securities by maintaining inventory in particular securities. They are similar to dealer in many ways except that they always stand ready to buy and sell securities at their bid and asked price for which they are market makers.

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

## **Price and Trading Procedure**

The shares price is determined in the floor by the interaction of market forces i.e. demand and supply. The price is determined by the point of equilibrium between supply and demand, the shifting of this balance results in incessant adjusting of price in search of the ever changing new equilibrium. Then market price moves upward and downward independently.

There are many reasons that causes the stock price fluctuation, major of them are economic, non-economic and market factors.

One basis for the determination of stock prices is dividends. Dividends are strongly influenced by the earning power of the enterprises. There is a very close correlation between corporate earnings and dividends. Earning power, in term, is strongly

influenced by changing economic trends, which are closely related to interest rates in this way, the most fundamental factor in stock price fluctuations lies in changes in corporate earnings, which, together with interest rates and business cycle trends, contribute to making up the economic factors influencing stock price.

The next major influencing factors are non economic factors, including changes in political conditions, such as war or administrative changes, changes in the weather and other natural conditions, and changes in cultural conditions, such as technological advances and the like.

Market factors, or internal factors of the market, consisting of the tone of the market and supply-demand relations, may be cited as the third category that influences the stock prices. The tone market is a phenomenon of excessive expectations which takes the form of over- estimating the intrinsic value of stock when stock price is high because of business prosperity while underestimating its value at the time of market decline. The relationships of supply- demand are reflected directly in the volume of transactions, but there is also considerable effect from the actions of institutional investors, margin transactions, etc. although margin transactions increase purchases when stock price is going up , once the price begins to fall they become a selling factor and accelerate price decline. The practice of margin finance has not been introduced, so far, in Nepal.

The buying and selling of securities takes place in the floor of the Nepal stock Exchange limited. The transactions are carried out only through licensed brokers and market makers. However, broker can not transact shares in their own account. Market makers are no allowed to do transaction on behalf of other investors. In the floor, trading is carried out on “open out cry system” Each broker’s representative should be present in the floor and participate through written bids and offers. The trading reports are published after the floor is closed.

## 2.2 Review of Related Studies

Articles and journals are not full research framework for giving complete direction to the researcher; however it gives certain glimpse to the researcher. So it is taken into the account for the literature review.

**Melecky (2003)** in his article, “Dynamic of Intrinsic Value and Actual Price of Stock in the Markets”, has revealed the behavior of market participants at undervalued and overvalued markets. The model construction is based on characterization market participant’s behavior and on relationship between stock market and economic environment. His aim is to contribute to study of processes, which influence the price dynamics at the stock markets.

**Basnet (2004)** in “*Capital Formation*” suggests that Capital market is a crucial element in the national economy. Its role in reinvigorating and boosting the economy activities in the country holds significant. The strategic plan released by security board can, to a great extent, energize the investor’s dealer by increasing investor interest in it. Security market experienced both boom and boast soon after the beginning of securities trading through brokers’ members in the stock exchange floor. Though the market started to function quickly boosting the prices of shares to an unexpected level, it could not sustained.

There is an urgent need for proficient development of the market standard and information dissemination system focused mainly on corporate financial disclosure practices and transparency, corporate accounting and auditing securities markets regulation and corporate governance. To implement the above, Security Board has a great responsibility as to reviewing and developing regulatory standers to make them a relevant with the need of issuers, investors along with promoting efficient capital formation”

**Mahat (2008)** in his article, “Capital Market Financial Flow and Industrial Finance in Nepal”, has revealed that Nepalese stock market is still in infancy stage and some drawbacks to the development of stock markets are strong historical and social reasons as well as mass poverty and illiteracy in Nepalese society. He further points out that some conscious and educated people of urban areas are also not investing in the industrial sector instead they are investing on the real estate especially building construction. Although the book is written in the early stage of the development of stock market, the limitations of Nepalese society regarding the investment in stock market is still reality of Nepalese capital market.

**Upadhyaya (2009)** in his article entitled “Regulation of Nepalese Capital Market and Investors Protection” had discussed on regulatory aspect of existing legislative frameworks and also highlighted major deficiencies of existing provisions and proposed suggestions for further improvements. The study concluded that with a view to professionalizing the existing members of SEBON, Stock Exchange and concerned authorities must conduct from time to time refresher course and concerned persons should have reasonable background in corporate finance, capital market, economics and financial engineering, etc.

**Pinsent (2009)** in his article, “Don’t Let Stock Prices Fool You”, has mentioned that some investors may focus on share price when looking at a stock, because it is the most visible number in the financial press. Prices play an important role in dividing companies into units, but investors should not get fixated on share price alone, because companies can change share prices dramatically without changing fundamentals. Dig a little deeper when thinking about your next investment and remember that a stock with a high price can go much higher under the right circumstances, just as a stock with a low price can sink even further if it isn't really a good value.

**Satyal (2010)** in his article “ Investors’ Protection and Securities Law in Nepal” had discussed on various aspects of investors’ protection such as insider and information of disclosure, legal protection of investor, WTO and securities market, role of judiciary, etc. In concluding remarks study concluded that a suitable regulatory framework need to

be established to ensure competitive, welfare maximizing behavior on the part of the investors. A sound securities law can contribute to securing an attractive for investors, Securities Law should be capable of providing safeguards against possible frauds intermediaries and market maker. The law should provide SEBO have a comprehensive investigation and surveillance authority.

**Rai (2010)** in his article entitled “Primary Market Development in Nepal: Issues and Challenges” had highlighted the primary market scenario, relevant issues in the primary market and envisioned reforms. The study believed that empowerment of regulator enables it to move towards standard practices, restructuring processes and opens up market to outside investments, which has become important in the wake of regional co-operational and WTO accession. The recent issuance of securities ordinance is important in terms of empowering the regulator and facilitating capital market reform. Moreover the planned implementation of the Ordinance will emerge as a challenge.

**Adhikari (2010)** in his article entitled “Securities Markets Development in Nepal” had highlighted major issues regarding development of securities market and dealt possible suggestive measures. The study believed that Nepalese securities market does not adequately developed due to the legal inadequacy, low resource to regulator, poor liquidity, poor corporate governance practices, poor disclosure practices, low involvement of institutional investors, high cost of public issue, high transaction cost, and lack of accounting and auditing standard, etc. In concluding remarks study concluded that the present status of securities market should be improved and developed as an important source of long term financing by introducing new legislations and implementing them effectively.

**According to the journal of SEBON named as “Meeting the Challenges ahead (2054-2069):** clearly defined the policy development regarding to the growth of the market. As an apex regulatory body for the Nepalese securities Market, the securities board has adopted following set of strategies policies to handle the strategic issues that are inhibiting the growth and development of the market. These policies consist of:

- Improvement in the statutory and regulatory framework of the capital market.

- Development of widely participated capital market. Improvement in the securities board's institutional capacity.

SEBON has also made some improvements in the statutory and regulatory framework of the capital market. Such improvements contribute to the development of capital market in the following ways:-

- Bringing clear demarcation in the role and responsibilities some by the securities board and other regulatory agencies i.e. stock exchange, NRB etc.
  - Reduce the duplication in the role and responsibilities of Board and other regulatory agencies.
  - Show the ways of coordination between the services Board and other regulatory agencies.
  - Promote public confidence in the regulatory system and market structure.
  - Introduce a system of recognizing self-regulatory bodies by encouraging them to share and take responsibilities in certain areas.
  - Establish securities board as a central market regulator and rest in with wider investigation and enforcement power.
  - Empower the securities board to audit the registered corporate bodies, mutual funds, as custodians and clearing house in relation to their financial reporting issues.
  - Promote the development of 'full survive' securities house and,
  - Gives focused attentions for the establishment and up grading of necessary
- Nepalese capital market offers a wide range of financial services and instruments. It also has to provide the opportunity for a large number of investors to participate directly or through mutual savings schemes. While implementing this policy the securities board:
- Advises the government regarding the development of a secondary market for government securities and the opening of foreign portfolio investment.
  - Coordinates with NRB to formulate prudential standards for the primary issue as well as secondary trading of government bonds.
  - Studies the possibility of introducing as over the counter exchange system and brings in the concept of introducing broker in order to facilitate easy entry and exit process for the benefit of investors.

**According to The Kathmandu Post, July 25<sup>th</sup>, 1994:2** “The shareholders should be more conscious of right given by the company Act 2021. The shareholders, under section 14 (19,(2),(3), of the Act, have a legal right to file a suit or initiate a legal proceeding against the company or any person in the district court of the concerned department if their right provided in the act are violated. The jurisdictions of the district court and the concerned demarcated have been demarcated clearly in section 146(2) of the Act. This definitely implies that the shareholders must come forward and seek legal remedies for their grievances against the company’s high handedness and undemocratic ruling.”

**According to The Rising Nepal, January 20<sup>th</sup>, 1995:4,**“Our small investors need to be educated on the working of the stock exchange. In this task the role of Nepal Stock Exchange and the government and probably also that of the centers, which manage share issues of companies, becomes evident. In addition, stock exchange watchers feel that the government should revise its stock market rules to take account of the various aspects of stock market including loopholes in order to prevent share market profilers from fleecing the public. The companies whose shares are listed in the stock exchange should make to follow certain rules in order to inform the public of the state of financial health of the companies.”

**According to The Rising Nepal, April 25<sup>th</sup>, 1996:4,** “Investors were enlightened and they started inquiring about company’s financial health, future prospects etc. before buying or selling shares. People turned to price- earning Multiples, NEPSE, indexes etc. informed trading became sort of a norm when stock market entered 1995. Many who could not cope with the system of intelligent speculation left the ground. As a result the number of buyers gradually came down and did the price”

**According to the article published in the Business age, January 2000:25** “There are many loopholes in our Stock-Exchange Act. Investors feel insecure here. A few years back there was a company called Nimroad Pharmaceutical Company that floated in shares, but where are they now? Similarly, it has been more than a year that

Bansbari Leather has allotted its shares, but why didn't the company list its shares in the market? It has been three years that Gorkhakali Rubber Udhyog hasn't called for its AGM government remained silent in all these cases. This is why the general public as well as the institutional buyers are not feeling accrue investing in stock market.”

**According to the article published in The Rising Nepal, January 20<sup>th</sup> 2001:4** “ADB experts have seen many obstacles to the growth of capital market. This includes low level of investor's confidence, disclosure of poor and manipulated financial information, weak enforcement of regulation, absence of institutional investors, lack of diversity in range of financial instruments and the scope of active participation for the various intermediaries limited by vertical barriers”

**According to the article published in the Business age, June 2001:25** “Share investment has traditionally been guided by the investor's return. Most earnings of investors here have been in the form of dividend rather than capital gains, though high dividend are often seen, in corporate finance theory as a wasteful investment destination, with other stock market participants hardly making profit and even if they did failing to meet investor's expectations, demand for shares of commercial banks outpaced supply and their prices boomed.

Now the latest slumps in the secondary market, despite a pretty good performance by commercial banks, make it more apparent that investment in the past was done on whim. Even officials at the stock exchange and the securities board, refusing investor's allegations of the market manipulation and insiders' trading of last February, discreetly claimed that Nepalese stock market is in a nascent stage. And that, investment are made more on an impulse, rather than market study and credit rating.”

**In country economic review, Nepal:** ADB recommends efforts to mobilize domestic resources more efficiently in order to develop capital market(Primary plus Secondary market included) including “ major tax reforms and further measures to improve efficiency in the financial sectors as well as revitalize the capital market.”



**In the paper “Privatization principle and practice” Donaldson D. and Wagle J., Dillip,** writes “There is a symbolic link between privatization and capital market. In most of the cases, privatization represents the first time that private voices are heard on securities exchange boards. Indeed, for many, a change in the whole legal structure of company governance is a necessary first step. Borrowing from banks tends to become more commercial and less the result of political markets for the first time. At the same, a large privatization program often has a dramatic effect in capital market development adding greatly to stock and variety of corporate assets available to public.”

Investors in the past years do nothing for the upliftment of the market. NEPSE Parisuchak is declining since the last years about more than two cores. If this will happen for few more years Nepalese share market may face great problem regarding the primary and secondary market.

“The current downtrend in share market is not so easy to recover unless strong regulatory measures are not in forced. The honeymoon days of share market exist no more but there are still market players who have honeymoon days as they have built unlimited financial fortunes by sharp practices that went undetected during the period of share market boom. Among all, the regulation of share market to control on the unfair trade proactive would be one of the strong measures to revive the share market in future.

Moreover, the challenge for the regulating authority is to control on the hidden establishment of share market comers and pool by some market price manipulators. Surprise inspection and secret vigilance by a professional team (without making known who are its members and advisors) can check on the functioning of the office of such price manipulators interested to corner a share market in the hope of trapping of squeezing short sellers. If found dishonest in share market dealings, action should be taken against such price manipulators by imposing heavy penalties and punishment depending upon the nature of offence.

The revival of the share market requires minimum fulfillment of the responsibilities and accountabilities among company management to the shareholder. Time has come for company management to respond to shareholders expectation of return from their investment in shares of companies. Management should make it a habit to change attitude to think what is good for shareholders is good for company as a whole.”

**According to the Nepalese Stock Market, An introduction,** “These days the interest of the investors is gradually fading away. Investors have been discouraged with the shares market running at a snail’s pace. There is no room for satisfaction for investors. Although the country has adopted the liberal market policies to revive the economy, it has not been applied into concrete actions in Nepalese context. Brokers have been reporting since long about Nepal’s stock market position, however no action has been reporting since ling about Nepal’s stock market position, however, no action has been taken from the government. The government has not been able to regulate the companies, and the corporate culture is also not being developed among companies.”

### **2.3 Review of Thesis**

There are many theses written by various researchers in past years. Among them some thesis are reviewed here for analysis of literature.

**Khanal (2003)** had prepared a thesis on “*Growth, problems and prospects of Nepalese Stock Market*”. using the secondary data from 1993/94 to 2001/2002. The main objectives of his study were: to examine the investors’ awareness, to examine the stock broker’s and other related institution performance, to analyze sector wise financial performance of NEPSE and to observe the coordination among SEBON, NEPSE and the Rastra Bank.

In the study, Khanal concluded that the development of stock market in Nepal, so far, could not be considered satisfactory then. It was evident from the facts and figures available in the stock market performance. But there was enough long term liquidity in

the market. Again he added that the stock market and economic activity moved in similar direction. They influenced each other. Nepal stock Exchange was the only one institution in the country to regulate and control the financial system of a country. The official stock market in Nepal, NEPSE was ten years old. It means it was in infant stage thus equity market and related institutions were still in their infancy stage.

**Joshi (2003)** had conducted research on "Role of Nepal Stock Exchange in the Secondary Market" using the secondary data from 1996/97 to 2002/03. The main objectives of this study were: to assess the past and present behavior of business operation in the Nepal Stock Exchange Market, to forecast the future trends of business and economic activity in the NEPSE in terms of quality, value and volume and to prescribe ways and means by which secondary market would be more effective and meaningful.

The basic conclusions of her study were: NEPSE should introduce digital technology and online marketing in its trading procedure, the rules and regulations should be up to date, Privatization process needs to be carried out effectively in order to develop Nepalese stock market. Tax system should be reformed which should encourage and stimulate capital formation.

**Paudel (2005)** had conducted a study entitled "*Stock price behavior of commercial banks in NEPSE*" with the objective to examine monthly closing price of 6 listed commercial banks during the period of three consecutive years from 2002 to 2004. He used correlation coefficient, regression analysis, and run test and auto correlation the main objectives of his study were: to find out Nepalese people's awareness of the securities investment, to identify the stock market participation trend in Nepal, to study and examine the major investment influencing factors and to provide some useful suggestions regarding stock market participation.

He found in his study that successive price changes were correlated with previous price series. He also found that most of the stocks did not follow random walk hypothesis. The present stock prices were dependent to the historical prices. The EPS was

the most affecting factor for the price change of the stock. Most of the investors wanted to invest in the shares of commercial banks because the fluctuation in NEPSE index was due to the transaction of commercial bank shares. There were serious limitations in the study. Data used in this study, monthly closing price of stocks not enough to predict the behavior of share prices.

**Bhattarai (2006)** had conducted a study on, “Financial Performances and Common Stock Pricing.” The main objectives of his research were to study and examine the difference of financial performances and stock prices, to examine the relationship of dividends and stock price and to explore the signaling effects in on stock price.

The main findings of his study were: Nepalese stock market is in infancy stage. In general it is very new and just started to develop. Dominance of banking sector is prevalent in the market due to other industries including finance companies, insurance and manufacturing is not encouraging. Corporate firm with long history have a relatively stable profitability parameters that the firms established after the economic liberalization of 1990. Older firms have been issuing bonus shares more times than the new one. Dividend per share is relatively more stable than the dividend payout ratio. That's why payout ratio and dividend yields have been fluctuating. 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. 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. 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. 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.

**Mainali (2006)** had conducted research on “*A study on Share Price Behavior of Listed Companies*”. The main objectives of this study were: to analyze the behavior of stock price of Listed Companies, to examine the stock price trend and volume of stock traded on the secondary market, to identify the factors affecting stock price, to identify the factors affecting stock price and to analyze the investors’ view regarding the decision on stock investment.

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

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

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

**Rimal (2008)** had prepared the thesis on “*A Study on problems of Stock Market in Nepalese prospective.*” The main objectives of his study were: to analyze the trend of the stock market, to study the procedure and practice of entering the primary and secondary market and to analyze the problems of the stock market.

In the study, the major findings of the study were: the major portions of Nepalese investors did not have sufficient knowledge about investment. The market capitalization

of commercial banks had increased almost by nine times, while total market capitalization had increased almost by ten times. The research about the basis of decision making, 60 percent respondents had said that companies' profit was the main basis of decision.

**Maharjan (2009)** had prepared the thesis on "*Problems and prospects of Stock Market Growth in Nepal*". The main objectives of his study were: to analyze the problem and prospects of Nepalese stock market, to trace out the pace of stock market growth in Nepal and to examine the various components for the governance of primary and secondary data.

In the study the major findings of the study were: Majority of respondents was not satisfied with the performance of stock market for the development of the economy. The numbers of listed securities were increasing gradually whereas the numbers of transactions in NEPSE were in fluctuating manner. Growth of market day per year, average turnover in volume and value were in satisfactory level. Majority of respondents had blamed NEPSE to be that most responsible for appropriate trading system than other regulating body.

**Sigdel (2009)** had prepared the thesis on "*Problems and prospects of Stock Market Growth in Nepal*". The main objectives of his study were: To analyze the trend of Nepal of Nepalese stock market, to analyze the problem and prospects of Nepalese stock market, to trace out the pace of stock market growth in Nepal and to examine the various components for the governance of primary and secondary data.

In the study the major findings of the study were: Majority of respondents had blamed NEPSE to be that most responsible for appropriate trading system than other regulating body. The research about the basis of decision making, profit was found to be the main basic factor affecting the decision. Growth of market day per year and the average turnover in volume were in satisfactory level.

**Shrestha (2009)** in his master's thesis had conducted a study on, "*Share Price Behavior of Commercial Banks listed in NEPSE*", with the main objectives like to analyze the stock price movement for the NEPSE market, to test the random weak efficient market hypothesis and to test whether the successive price change are independent or dependent with the price of historical change.

The major findings of Shrestha were: the total numbers of actual and expected runs are statistically significant for most of the equity shares, which implies that their price changes are significantly different from random series. Result of run test also supports the result of autocorrelation. Therefore, today's price change is dependent on the information of yesterday's price. The mean absolute values of the autocorrelation coefficient are lower when the lag days are increase. This mean the information of past price changes have little role to predict the future price changes for longer days. And there exists a low order serial dependence, which helps in certain extent increase investor's expected profit.

**Bhattarai (2010)** had prepared the thesis on "*Nepalese Stock Market Growth, problems and prospects.*" The main objectives of his study were: To examine the stock price behaviors of secondary market. To analysis the secondary market investor views regarding the decision on stock inventory. To evaluate the factor that on stock price with the help of NEPSE index.

The major findings of the study were: Total paid up value of CBs had been in an increasing trend. Banking sector covered majority of paid up values in every year. The market capitalization of commercial banks had increased almost by nine times, while total market capitalization had increased almost by ten times. Majority of respondents had blamed NEPSE to be the most responsible for appropriate trading system than other regulating body.

**Sharma (2010)** had prepared the thesis on "*Problems and prospects of Stock Market Growth in Nepal*". The main objectives of his study were: to analyze the trend of

Nepal of Nepalese stock market, to analyze the problem and prospects of Nepalese stock market and to trace out the pace of stock market growth in Nepal.

The major findings of the study were: Majority of the investors made share purchasing decision without analyzing the financial performance of the company and without consulting the experts. Marketability and profitability were the major motivating factors of investment for investors. The respondents felt the company registrar's office should play vital role in providing of financial statement of particular company to SEBO and NEPSE. They further added that the government should play the important role to increase investment in stock.

**Bajracharya (2011)** had prepared the thesis on role of Nepal stock exchange (NEPSE) and security board (SEBO) in development of capital market in Nepal. The main objectives of the study were to examine the trend and development of stock in Nepalese security market, to assess the relationship of security market indicators with different macro-economic variables, to analyze the trend of market price of the stock through annual turnover, market capitalization and NEPSE Index, to analyze the present status of security market and role of SEBO in development of capital market.

Major findings of her study were Nepalese Capital market was least developed than in developed countries. Stock market indicator shows that liquidity and turnover are at minimum level than industrial developed countries. The developments of institution related to stock market are also not in satisfactory level. Increasing number of listed companies, increasing number of transactions, increasing number of trading companies, increasing GDP and increasing contribution of market capitalization to GDP are some of the positive indicators for the development of stock market. However, fluctuating NEPSE Index, unstable political conditions, fluctuating annual turnover and less investments in sectors other than BFIs poses a serious threat for the development of the securities market in Nepal.

**Dahal (2011)** had conducted a study on "Stock market behavior of listed joint venture company" describe the Nepali stock market. The main objectives of the study were to study, examine and analyze the stock market behavior. The specific objectives were to study and analyze stock price change and volume of stock traded in the secondary market, to study



and analyze the rate of listing of new companies and maintenance of listed companies in NEPSE, to study and analyze the investor's views regarding the decision on stock investment and to study and examine the signaling factors' impact on stock price with the help of NEPSE index.

The study concluded that stock market is the backbone of investment sector of the country. NEPSE is not providing facilities for investors such as general awareness about investment, investment procedure for general public and movement of stock trend in different periods and their cause are not explained.

## **2.4 Research Gap**

Previous researches were conducted mostly on the growth and size of the stock market. They were analyzed only on the basis of secondary data analysis. Few of the previous research were concerned with problems of stock market. However, they were not analyzed taking such variables like sufficiency of legal rules and regulations, availability of information, provision to attack institutional investors etc. So to rectify this shortcomings, this present study is conducted both analyzing the secondary data and primary data. The problems and growth prospects of stock market is analyzed using both secondary data and primary data analysis.

There have been several researches done before in Stock Market. All of those researches have many useful findings and their own limitations. Like, Khanal concluded that the development of stock market in Nepal so far cannot be considered satisfactory. Mainali had carried out another study in Share price behavior in 2006 but her study only selected finance companies.

These researches are helpful in different areas, the findings of previous researches are equally important. The main focus of this research will be to analyze the performance, growth and downfall of the Stock Market. This will help to analyze whether the stock market is in increasing trend or in decreasing trend. By analyzing these aspects, focuses can be set on the weakness. So, that in future these weaknesses can be turned into the strength of the Stock Market. This will help to make the existence of stock Market more robust. Further more, by being able to point out the weaknesses; more investors can be made to contribute for the growth of stock market.

## **CHAPTER- III**

### **RESEARCH METHODOLOGY**

Research is a collection of systematic activities done to gain knowledge. The term research can be defined as the process of systematic and in-depth study or search of any particular topic, subject or area of investigation backed by the collection, compilation, presentation and interpretation of relevant details or data. It is a careful search or inquiry into any subject matter, which is an endeavor to discover or find out valuable facts, which will be useful for further application or utilization.

#### **3.1 Research Design:**

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework for the project that stipulates the information to be collected i.e. the sources and the procedures of collecting the data. A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedures. On this regard, this research will follow the historical, analytical and descriptive forms.

#### **3.2 Sources of Data:**

Data is that part of a research work without which a research work cannot be completed. Thus, the collection of data is considered as an integral part of the research activity. In other words, Data is like blood to a research activity.

To meet the objective of this research, several types of data were collected through several sources. The research contains both primary data and secondary data. The sources of data are:

- **Primary Data:** Data collected by the researcher or through agent for the first time from related field and possessing original character are known as primary source

(data). Primary data are also called field source. This study has been conducted on the basis of primary data mostly. These are collected by asking questions to the people, interviews, informal talks, opinion etc. and through participant's observations.

For this, some sets of questionnaire were developed and distributed to the targeted group/s.

➤ **Secondary Data:** Data collected by someone else, used already and are made available to others in the form of published statistics are known as secondary data. Once primary data have been used, it loses its primary characteristics and becomes secondary. The major sources of secondary data include:

- i. Publications of NEPSE and SEBON
- ii. Official publications of NRB and Nepal Government
- iii. Central bureau of statistics
- iv. Reports of committees
- v. Publication of the research centers and universities theses
- vi. Newspapers, journals, books, articles, magazines
- vii. Websites

### **3.3 Data Collection Procedure:**

As mentioned earlier, research can be conducted on the basis of two sources: primary and secondary data. For this research, both primary and secondary data will be required and thus be used. For data collection primary data collection methods like interview, questionnaires, telephonic interviews, etc. will be used and the other required secondary data will be collected through textbooks, downloads from the internet, annual reports, trading reports, prospectus, balance sheet, newspapers, journals, and many other sources of the concerned organizations.

### **3.4 Population and Sample:**

For this analysis of problems and prospects of stock market, all the companies listed in the NEPSE will have some kind of impact on the study so all the listed companies and the major economic indicators will be taken as the population and from that only the ones that are currently in existence and doing their share transaction will be taken as sample for the study.

### **3.5 Tools for Data Analysis:**

The data will be collected using different sources of primary data like questionnaires, interviews, etc. so, the data collected for the study will be in the raw form. They will be classified, tabulated, presented and analyzed in descriptive way. Time series and percentage tools will be used for the purpose of analysis. Bar diagrams, Pie charts will be used for the presentation of secondary data. The major tools that will be used for analyzing the acquired data will be:

a) Financial Tools:

- ) NEPSE Index
- ) Transaction number
- ) Paid up value
- ) Market Capitalization
- ) Share Traded
- ) Market Day and Annual Daily turnover
- ) Sector wise market capitalization
- ) Sector wise turnover

b) Statistical Tools:

- ) Percentage
- ) Pie chart
- ) Graph
- ) Ranking

## **CHAPTER – IV**

### **DATA PRESENTATION AND ANALYSIS**

In this chapter, the collected data are presented, analyzed and interpreted following the research methodology dealt in the third chapter. The basic objective of this chapter is to analyze and explain the collected data following the conversion of unprocessed data to an understandable presentation.

#### **4.1 Presentation and Analysis of Secondary Data**

Here as the title suggests the secondary data collected shall be presented and analyzed using tabular and graphical tools. This part will deal with the various stock market indicators to analyze the actual stock market position.

##### **4.1.1 The Number of Listed Companies in Stock Exchange**

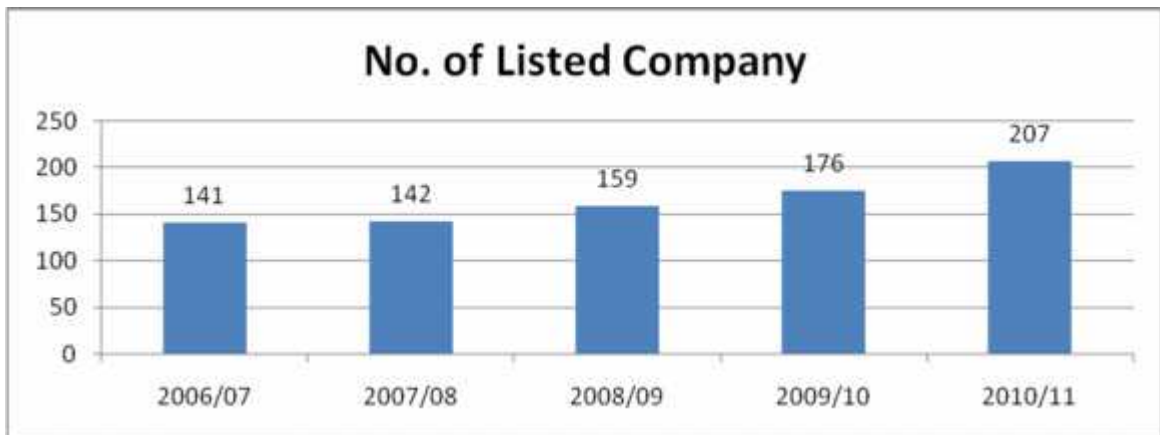
The number of listed companies in the stock exchange from the fiscal year 2006/2007 to the year 2010/2011 is presented in the Table 4.1 and Figure 4.1.

**Table 4.1**  
**Number of Listed Companies (FY2006/2007 to 2010/2011)**

<b>Fiscal Year</b>	<b>No. of Listed Company</b>	<b>Change in Percentage</b>
2006/07	141	-
2007/08	142	0.71
2008/09	159	11.97
2009/10	176	10.69
2010/11	207	17.61

(Source: Annual Report of SEBON 2010/11 and Annual Trading Report of NEPSE 2010/11)

**Figure 4.1**  
**Number of Listed Companies (FY2006/2007 to 2010/2011)**



From the Table 4.1 it is clear that the ratio of listing of the companies is increasing. In the year 2010/11, the total number of listed companies reached 207. In 2006/2007, there were 141 companies listed and it increased by 1 to the total of 142 in 2007/2008. Again, in 2008/2009 there was an increment of 17 companies as compared to the previous year and the number of listed companies reached 159. In 2009/2010, just as the previous year, the number of listed companies increased by 17 companies and reached the total of 176. Lastly coming to the year 2010/11, the number of listed companies reached to 207 increasing by 31.

#### **4.1.2 The Number of Listed Companies under Different Sectors in Stock Exchange**

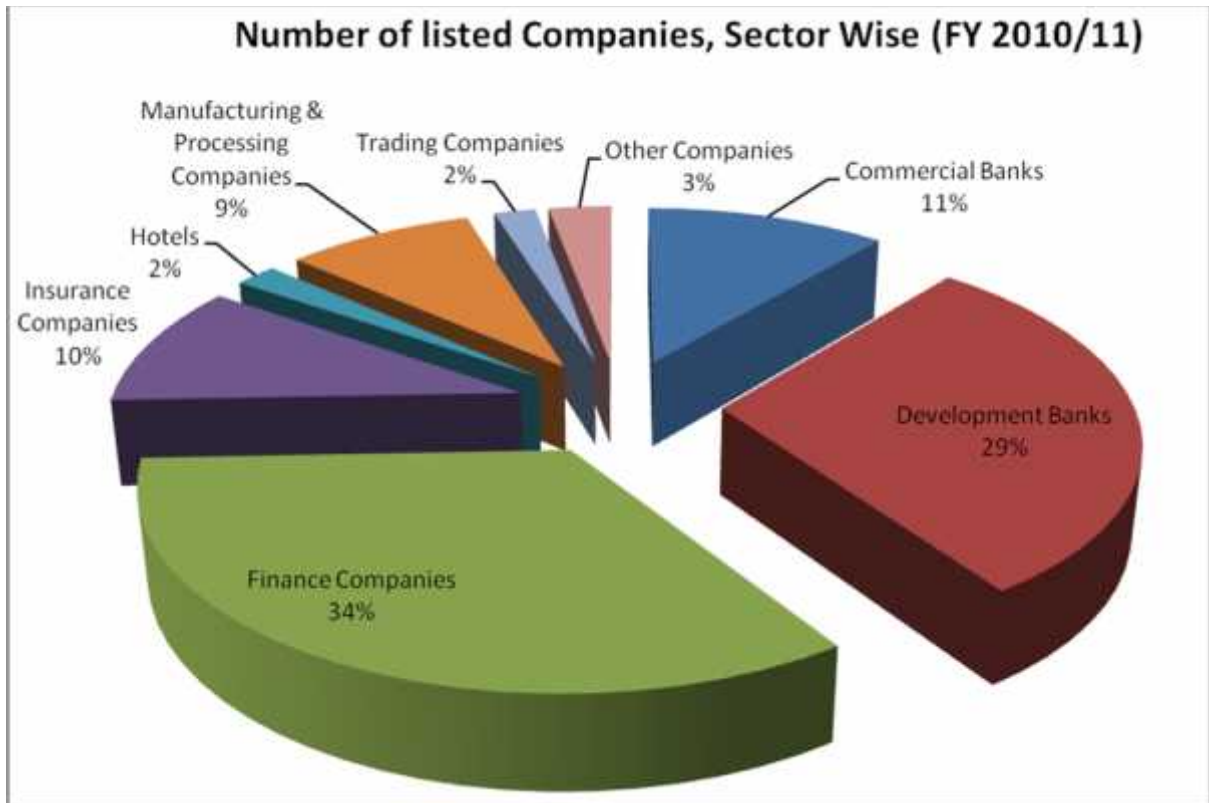
In the fiscal year 2010/11, 33 new companies were listed in the stock exchange out of which 31 represent banking and financial sectors and two represent insurance group. However, in the same year, Himchuli Development Bank and Birgunj Finance underwent merger and the Nepal Development Bank Ltd. was unlisted from the stock exchange hence reaching the total of 207 listed companies at the end of the fiscal year 2010/11. The detail of listed companies in the fiscal year 2010/11 is presented in Table 4.2 and Figure 4.2.

**Table 4.2**  
**Sector Wise Listed companies**

<b>Name</b>	<b>No. of Listed Companies</b>	<b>Percentage</b>
Commercial Banks	23	11.11
Development Banks	61	29.47
Finance Company	70	33.81
Insurance Companies	21	10.15
Hotels	4	1.93
Manufacturing & Processing Companies	18	8.70
Trading Companies	4	1.93
Other Companies	6	2.90
<b>Total</b>	<b>207</b>	<b>100</b>

(Source: Annual Report of SEBON 2010/11 and Annual Trading Report of NEPSE 2010/11)

**Figure 4.2**  
**Number of Listed Companies, Sector Wise (FY 2010/11)**



The Table 4.2 shows the data of total companies listed under different sector in the Nepal Stock Exchange Ltd. It can be seen that 207 numbers of companies were listed till 2010/11. There are altogether 23 commercial banks, 61 development banks, 70 finance companies, 21 insurance companies, 4 hotels, 18 Manufacturing & Processing Companies, 4 Trading companies and 6 other companies. The percentage share of each sector is 11.11, 29.47, 33.81, 10.15, 1.93, 8.70, 1.93 and 2.90 respectively.

#### **4.1.3 Paid-up Value of Listed Securities**

The total paid-up value of the listed securities by the end of the fiscal year 2010/11 reached to Rs. 100238.85 million which was Rs. 79356.73 million in the fiscal year 2009/10. It represents 26.31% increment compared to the previous year 2009/10.



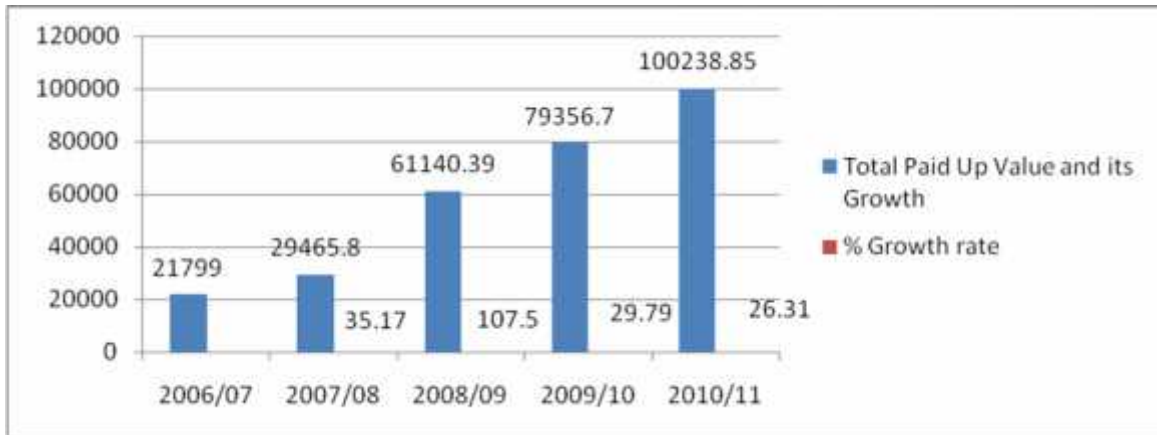
**Table 4.3**  
**Paid-up Capital**

<b>Fiscal Year</b>	<b>Annual Turnover (Rs. In million)</b>	<b>% Increase in Annual Turnover</b>
2006/07	21799.00	-
2007/08	29465.80	35.17
2008/09	61140.39	107.50
2009/10	79356.70	29.79
2010/11	100238.85	26.31

(Source: Annual Report of SEBON 2010/11 and Annual Trading Report of NEPSE 2010/11)

**Figure 4.3**

**Paid-up Capital and Percentage Growth**



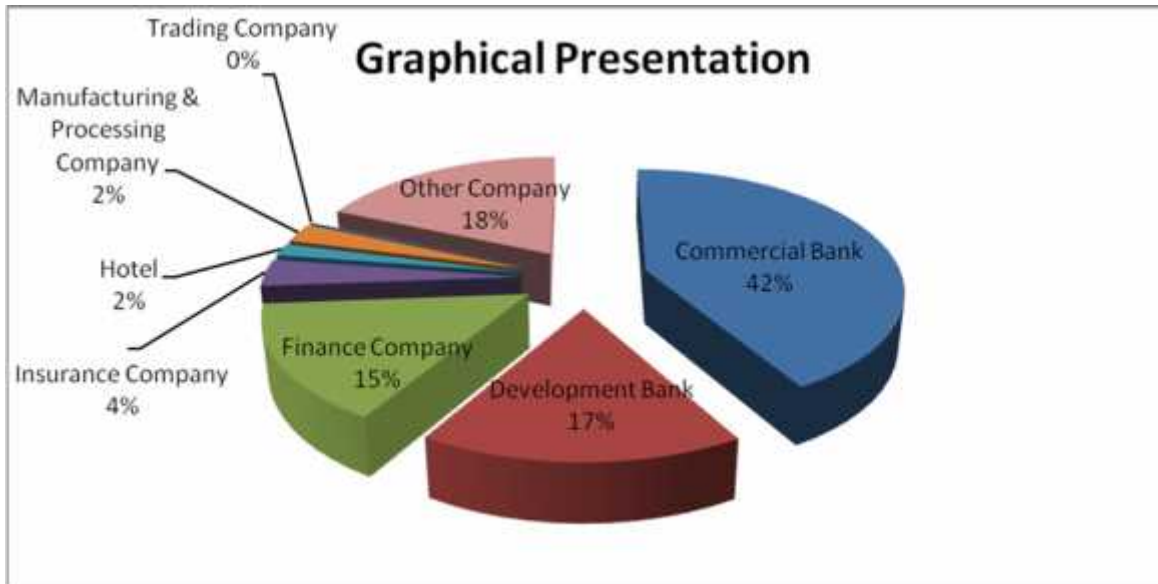
The sector wise total paid upvalue of listed securities by end of the fiscal year 2010/11 is presented in Table 4.4 and Figure 4.4.

**Table 4.4**  
**Total Paid up Value of the listed Securities, Sector Wise (FY 2010/11)**

S.N.	Sector	Paid up value (Rs. In million)	Percent
1	Commercial Bank	41806.19	41.71
2	Development Bank	16864.69	16.83
3	Finance Company	15301.08	15.26
4	Insurance Company	3585.29	3.58
5	Hotel	1615.15	1.61
6	Manufacturing & Processing Company	2539.74	2.53
7	Trading Company	83.42	0.08
8	Other Company	18443.29	18.40
<b>Total</b>		<b>100238.85</b>	<b>100.00</b>

(Source: Annual Report of SEBON 2010/11 and Annual Trading Report of NEPSE 2010/11)

**Figure 4.4**  
**Sector Wise Paid Up Value of Listed Securities(FY 2010/11)**



The Figures and Tables indicates that the total annual turnover of the paid up value is in an increasing trend and is clearly visible from the table that the major increment in the paid up value took place in the FY 2008/09 i.e. of 107.50% compared to the previous year. And among the different sectors it seems like the major sector with the highest paid up capital are the commercial banks as it has covered a total of 41.71% of the total paid up value.

#### 4.1.4 Turnover

The total amount of securities traded in the fiscal year 2010/11 was Rs. 6665.18 million which was Rs. 11851.11 million in the fiscal year 2009/10. It shows 43.76% decrease compared to the previous year 2009/10. The total amount of securities traded and the percentage increment compared to the previous year is shown in Table 4.5 and Figure 4.5.

**Table 4.5**  
**Annual Turnover**

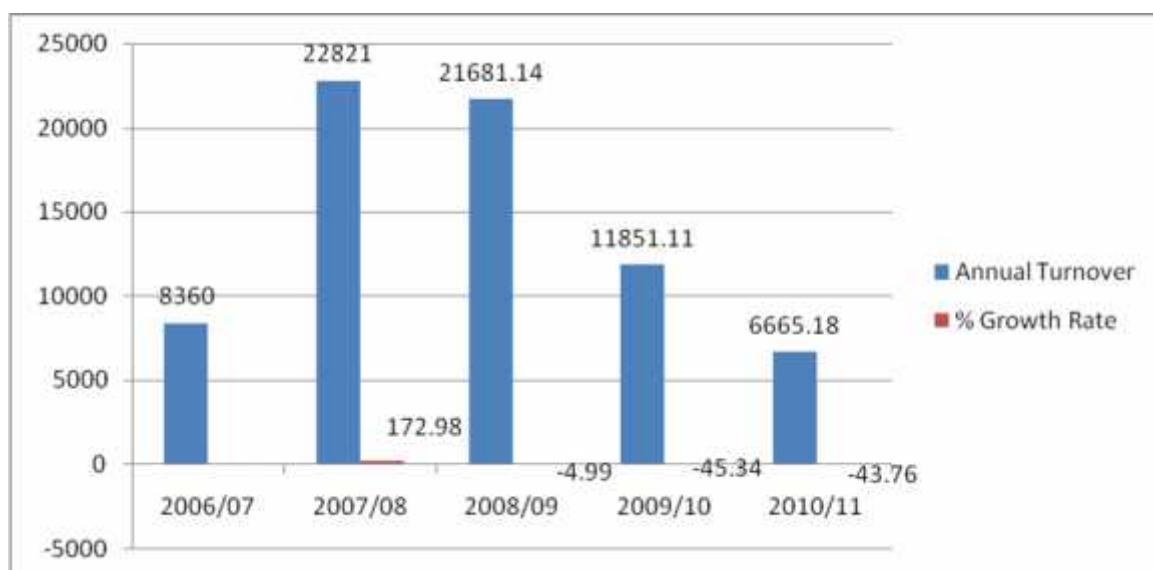
Fiscal Year	Annual Turnover (Rs. In million)	% Increase in Annual Turnover
2006/07	8360.00	-
2007/08	22821.00	172.98
2008/09	21681.14	-4.99

2009/10	11851.11	-45.34
2010/11	6665.18	-43.76

(Source: Annual Report of SEBON 2010/11 and Annual Trading Report of NEPSE 2010/11)

**Figure 4.5**

**Total Amount of Securities Traded and Percentage Growth Rate**



The Table 4.5 and Figure 4.5 indicates that the amount of securities traded highly increased in the FY 2007/08 but suddenly took a dip and started to decrease from there on end. The detail of sector wise turnover is presented in Table 4.6 and Figure 4.6.

**Table 4.6**

**Annual Turnover, Sector Wise (FY 2010/11)**

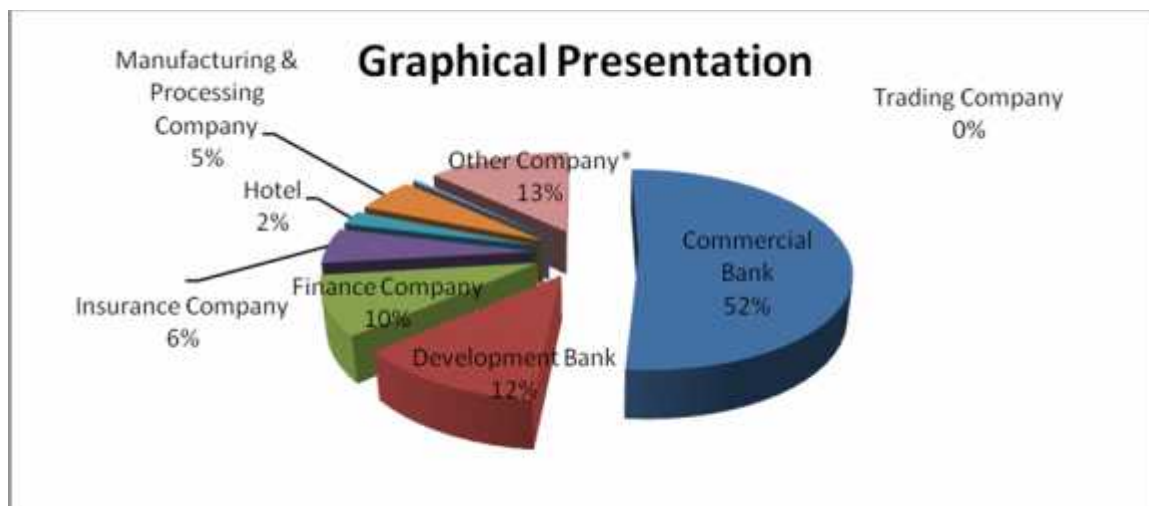
S.N.	Sector	Amount(Rs. in million)	Percent
1	Commercial Bank	3431.82	51.49
2	Development Bank	813.24	12.20
3	Finance Company	630.70	9.46
4	Insurance Company	377.15	5.66
5	Hotel	151.92	2.28
6	Manufacturing & Processing Company	363.06	5.45
7	Trading Company	27.53	0.41
8	Other Company*	869.76	13.05
<b>Total</b>		<b>6665.18</b>	<b>100.00</b>

\* Amount of preference share & mutual fund, promoter share, government and corporatedebenture also included.

(Source: Annual Report of SEBON 2010/11 and Annual Trading Report of NEPSE 2010/11)

**Figure 4.6**

**Annual Turnover, Sector Wise (FY 2010/11)**



**4.1.5 Market Capitalization**

By the end of the fiscal year 2010/11, the market capitalization of the listed securities reached to Rs. 323484.34 million. The capitalization was Rs.376871.37 million in the fiscal year 2009/10. It represents a 14.17% decrease in the market capitalization compared to the previous year. By the end of the fiscal year 2010/11, the percentage contribution of market capitalization on nominal GDP is estimated to be 24.02%.

**Table 4.7**

**Market Capitalization**

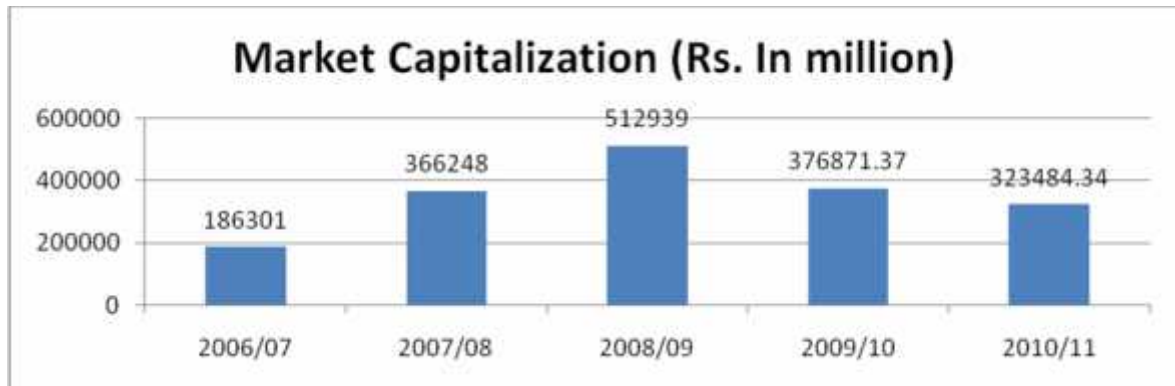
<b>Fiscal Year</b>	<b>Market Capitalization (Rs. In million)</b>	<b>% Increase in Market Capitalization</b>
2006/07	186301.00	-
2007/08	366248.00	96.59
2008/09	512939.07	40.05
2009/10	376871.37	-26.53
2010/11	323484.34	-14.17

(Source: Annual Report of SEBON 2010/11 and Annual Trading Report of NEPSE 2010/11)

The Table 4.7 shows that the market capitalization was in an increasing trend from the FY 2006/07 the FY 2008/09 but then on till the FY 2010/11, it took a downwards turn and reached a total of 323484.34 million at the end of the FY 2010/11. The market capitalization in the studied period can be further illustrated from the Figure 4.7.

**Figure 4.7**

**Market Capitalization (FY 2006/07 to 2010/11)**



The Sector Wise Market Capitalization in the fiscal year 2010/11 is presented in Table 4.8 and Figure 4.8.

**Table 4.8**

**Market Capitalization, Sector Wise (FY 2010/11)**

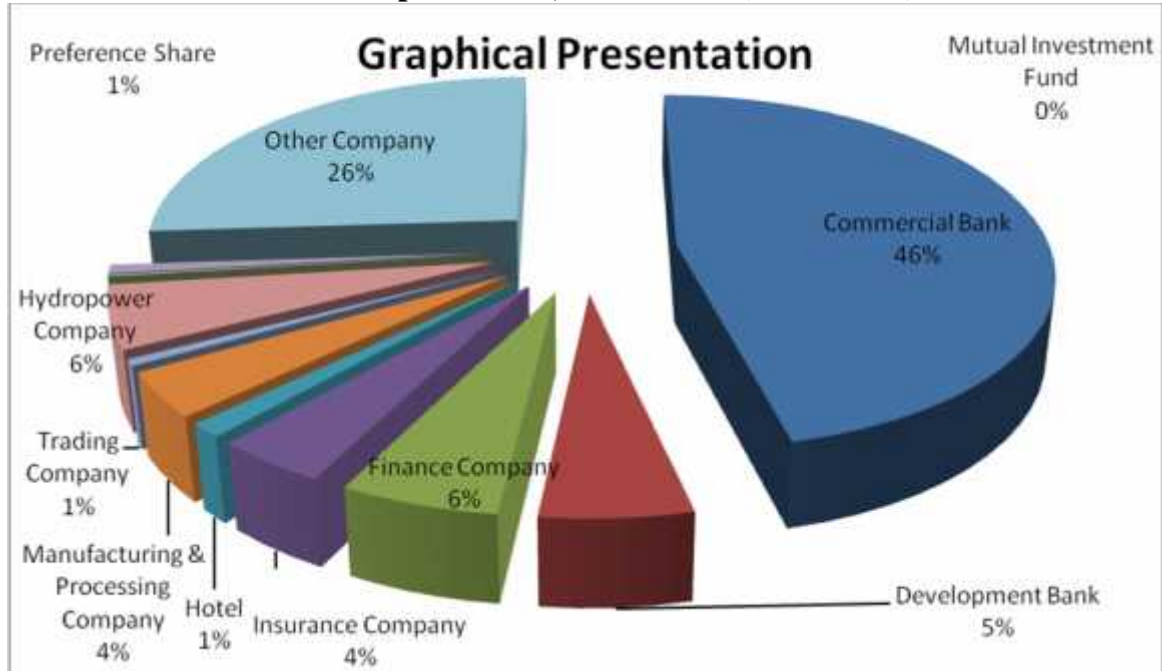
S.N.	Sector	Market Capitalization(Rs. in million)	Percent
1	Commercial Bank	111938.05	46.35
2	Development Bank	13210.54	5.47
3	Finance Company	13756.06	5.70
4	Insurance Company	9937.18	4.12
5	Hotel	3040.64	1.26
6	Manufacturing & Processing Company	9577.84	3.97
7	Trading Company	1380.74	0.57
8	Hydropower Company	13550.98	5.61
9	Mutual Investment Fund	339.50	0.14

10	Preference Share	1914.00	0.79
11	Other Company	62868.42	26.03
<b>Total</b>		<b>323484.34</b>	<b>100.00</b>

(Source: Annual Report of SEBON 2010/11 and Annual Trading Report of NEPSE 2010/11)

**Figure 4.8**

**Market Capitalization, Sector Wise (FY 2010/11)**



As the Table 4.8 and Figure 4.8 clarify that on a sector wise basis, commercial banks have contributed the highest for the market capitalization i.e. 46.35% which is followed by other miscellaneous companies i.e. by 26.03% and the rest is contributed by different sectors like the Development Banks, Finance Companies, Insurance Companies, etc.

**4.1.6 Market Capitalization vs. Nominal GDP**

**Table 4.9**

**Market Capitalization vs. Nominal GDP**

<b>Fiscal Year</b>	<b>Market Capitalization (Rs. In Million)</b>	<b>% of Market Capitalization on Nominal GDP at market price</b>
2006/07	186301.00	27.78
2007/08	366247.50	44.62

2008/09	512939.07	53.43
2009/10	376871.37	31.86*
2010/11	323484.34	24.01**

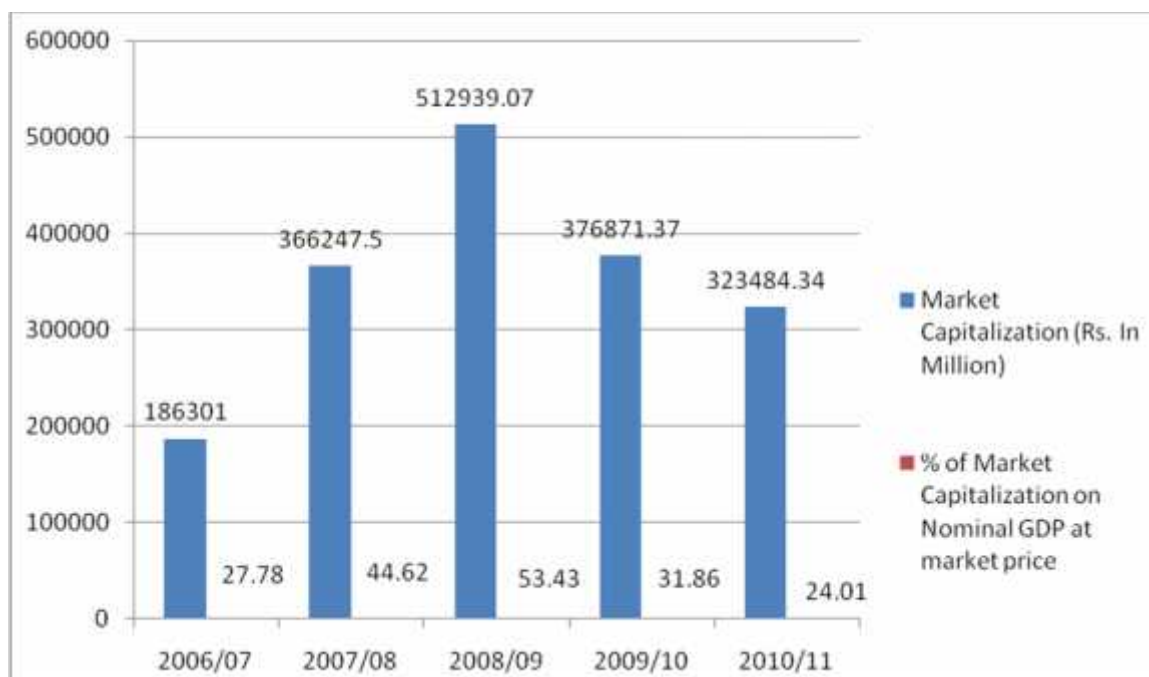
\*Based on revised estimate of GDP

\*\* Based on preliminary estimate of GDP

(Source: Annual Report of SEBON 2010/11 and Annual Trading Report of NEPSE 2010/11)

**Figure 4.9**

**Market Capitalization and Percentage Contribution on Nominal GDP**



The highest percentage of market capitalization on nominal GDP was 53.43% in the year 2008/09. Likewise the lowest was 24.01 in fiscal year 2010/11 in study period. The contributions of market capitalization on Nominal GDP for the FY 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 are 27.78, 44.62, 53.43, 31.86 and 24.01 percent respectively.

**4.1.7 Number of Traded Companies and Shares Traded**

**Table 4.10**

**Number of Traded Companies and Shares Traded**

Fiscal Year	No. of Traded Companies	% of Growth	No. of Shares Traded in '000	% of Growth
2006/07	116	-	18147.00	-

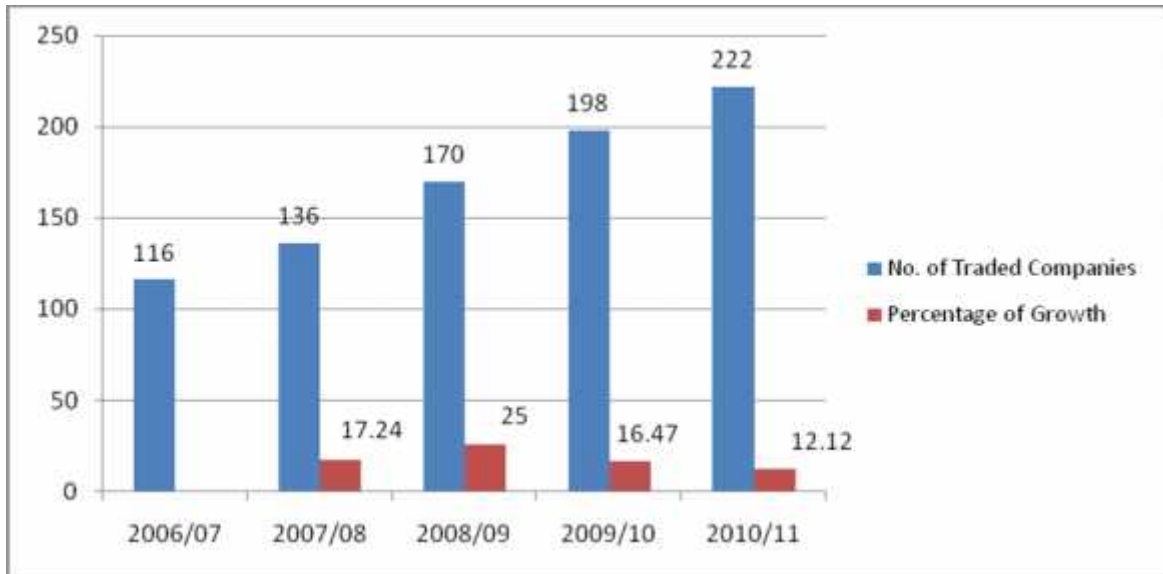


2007/08	136	17.24	28599.77	57.60
2008/09	170	25.00	30547.16	6.81
2009/10	198	16.47	26231.35	-14.13
2010/11	222	12.12	26240.39	0.03

(Source: Annual Report of SEBON 2010/11 and Annual Trading Report of NEPSE 2010/11)

**Figure 4.10**

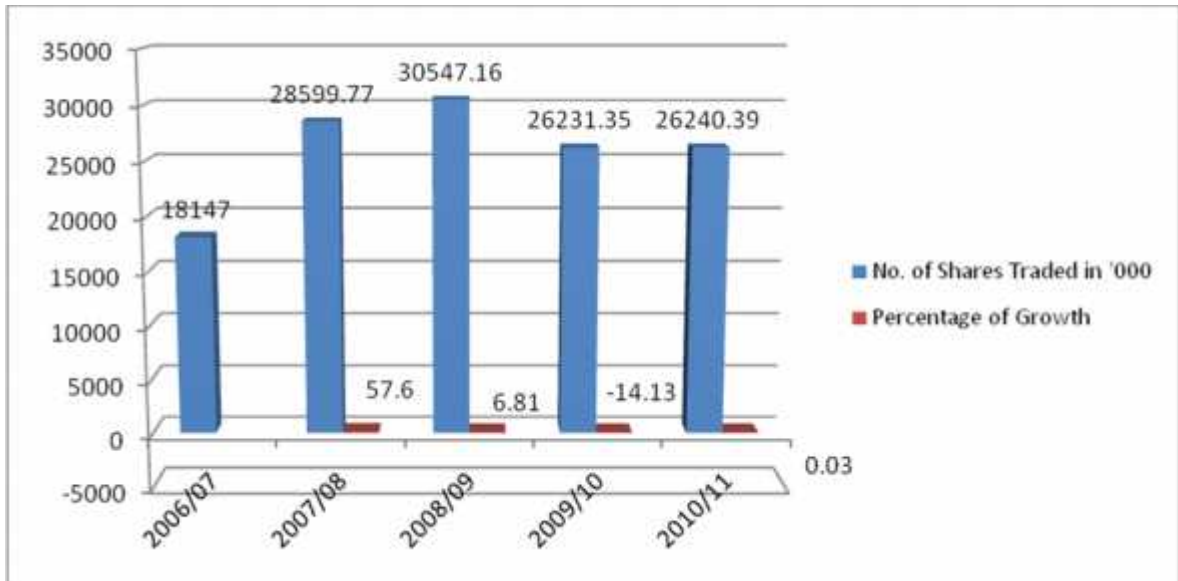
**No. of Traded Companies and Percentage of Growth rate in Stock Market**



The number of traded companies in the stock market was 116 in year 2006/07, 136 in year 2007/08, 170 in year 2008/09, 198 in year 2009/10 and 222 in the year 2010/11. The growth rate of listed companies is positive in all these years. The growth rate was highest in 2008/09 with 25% and lowest in 2010/11 with 12.12%.

**Figure 4.11**

**No. of Shares Traded and Percentage of Growth rate in Stock Market**



From the Figure 4.10, 4.11 and Table 4.10, we can conclude that the number of shares traded in different years is fluctuating. The impact on growth rate is also affected. The number of share traded in the year 2006/07 was only 18147, 28599.77 in year 2007/08, 30547.16 in year 2008/09, 26231.35 in year 2009/10 and 26240.39 in the year 2010/11. The growth rate of share traded of listed companies is negative in year 2009/10 i.e. a growth rate of -14.13. In the year 2007/08, 2008/09 and 2010/11, growth rates were 57.60, 6.81 and a mere 0.03 percent respectively. The growth rate was highest in 2007/08 with 57.60 percent.

#### **4.1.7 Number of Transaction and Listed Securities in NEPSE**

**Table 4.11**

**Number of Transaction and Listed Securities in NEPSE**

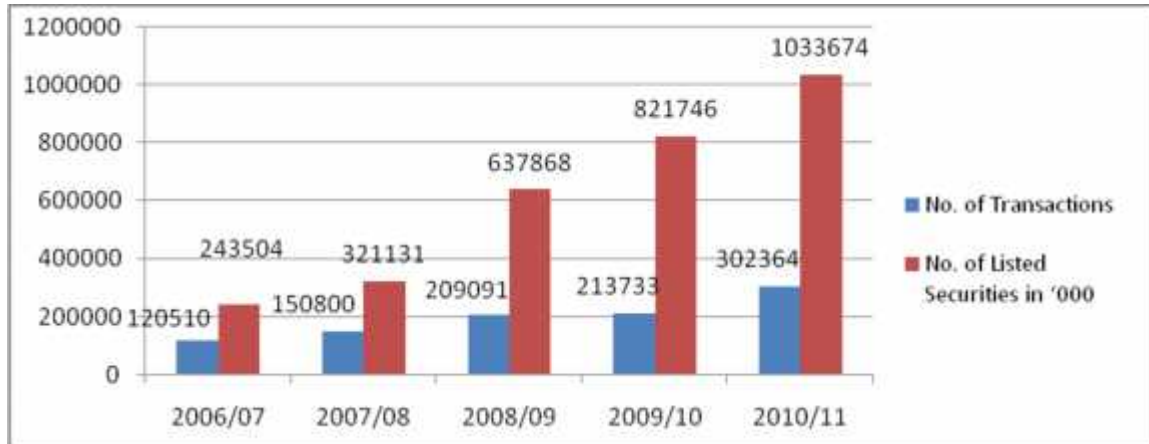
<b>Fiscal Year</b>	<b>No. of Transactions</b>	<b>% of Growth</b>	<b>No. of Listed Securities in '000</b>	<b>% of Growth</b>
2006/07	120510	-	243504	-
2007/08	150800	25.13	321131	31.88

2008/09	209091	38.65	637868	98.63
2009/10	213733	2.22	821746	28.83
2010/11	302364	41.47	1033674	25.79

(Source: Annual Report of SEBON 2010/11 and Annual Trading Report of NEPSE 2010/11)

**Figure 4.12**

**Number of Transaction and Listed Securities in NEPSE**



Numbers of transactions is very much varied comparing with different years. In the year, 2006/07 the number of transaction was 120510. There was a positive growth rate every year 2006/07 to 2010/11. The significant growth rate can be noticed in the year 2010/11 that was 41.47% with 302364. The lowest growth rate being 2.22% in last year 2009/10 with 213733.

The present system is that the securities issued to the public should be listed in stock exchange within 45 days after the allotment date. The growth rates of number of listed securities are all positive with highest in the year 2008/09 with 98.63% and lowest in the year 2010/11 with 25.79%.

**4.1.9 Market Day per Year and Percentage Growth Rate**

The Table 4.12 and Figure 4.13 are the tabular and the graphical presentation of the Market day per year and the percentage growth rates.

**Table4.12**

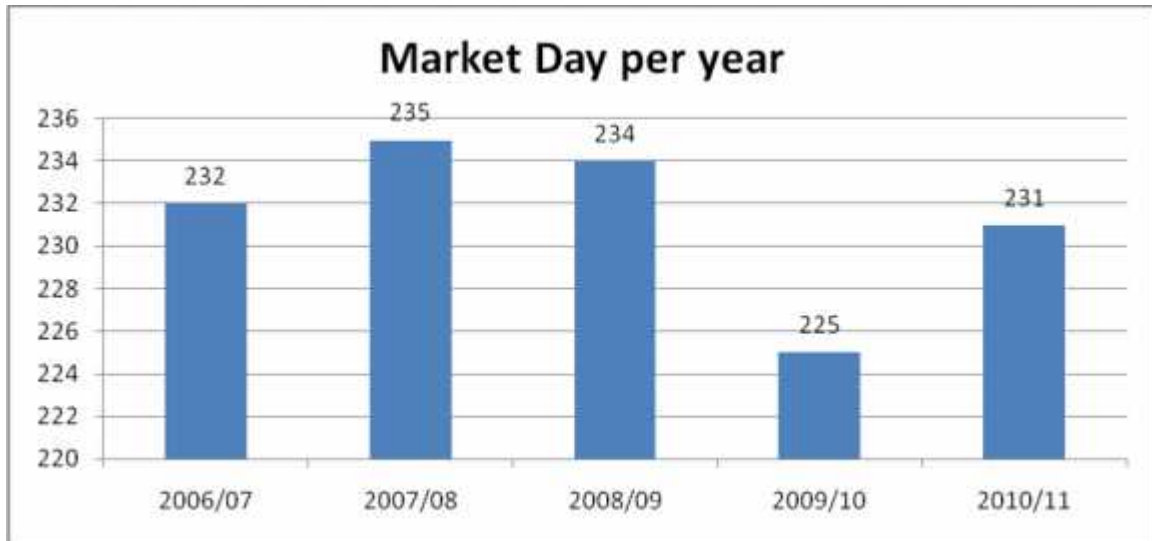
**Market Day per Year and Percentage Growth Rate**

<b>Fiscal Year</b>	<b>Market Day</b>	<b>% of Growth</b>
2006/07	232	1.75
2007/08	235	1.29
2008/09	234	-0.46
2009/10	225	-3.85
2010/11	231	2.67

(Source: Annual Report of SEBON 2010/11 and Annual Trading Report of NEPSE 2010/11)

**Figure 4.13**

**Market Day per Year**



The highest turnover days were 235 days in 2007/08 and the lowest being 225 days in the FY 2009/10. Among others, 232 days in year 2006/07, 234 days in the year 2008/09 and 231 days in year 2010/11 were recorded.

**4.1.10 NEPSE Index**

Market indexes are used to determine the relationship between historical price movements and economic variable 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.

The computation formula for price index is as follows:

$$\text{Eachday's index} = \frac{\text{eachday's total marketvalue}}{\text{baseday's total marketvalue}} 100$$

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

where,

$P_{01}$  = NEPSE Price Index

$P_1$  = Today's Stock Price

$Q_1$  = Listed Share

$P_0$  = Base Market Price

$Q_0$  = Base Listed Share

**Table 4.13**  
**NEPSE Index**

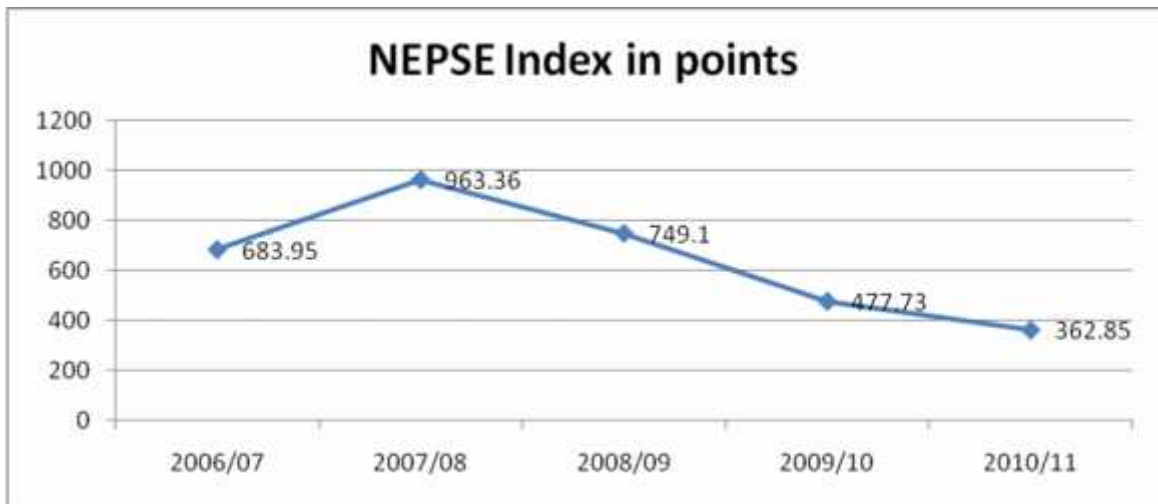
Fiscal Year	NEPSE Index (In points)	% Increase in NEPSE Index
2006/07	683.95	-
2007/08	963.36	40.85
2008/09	749.10	-22.24
2009/10	477.73	-36.23
2010/11	362.85	-24.05

(Source: Annual Report of SEBON 2010/11 and Annual Trading Report of NEPSE 2010/11)

By the end of the fiscal year 2010/11, the NEPSE index of the listed securities (Price Index) stood to be 362.85 points, which is 114.88 points less than that of the 2009/10 fiscal year end index of 477.73 points. The NEPSE index at the end of the studied five years is presented in the Figure 4.14.

**Figure 4.14**

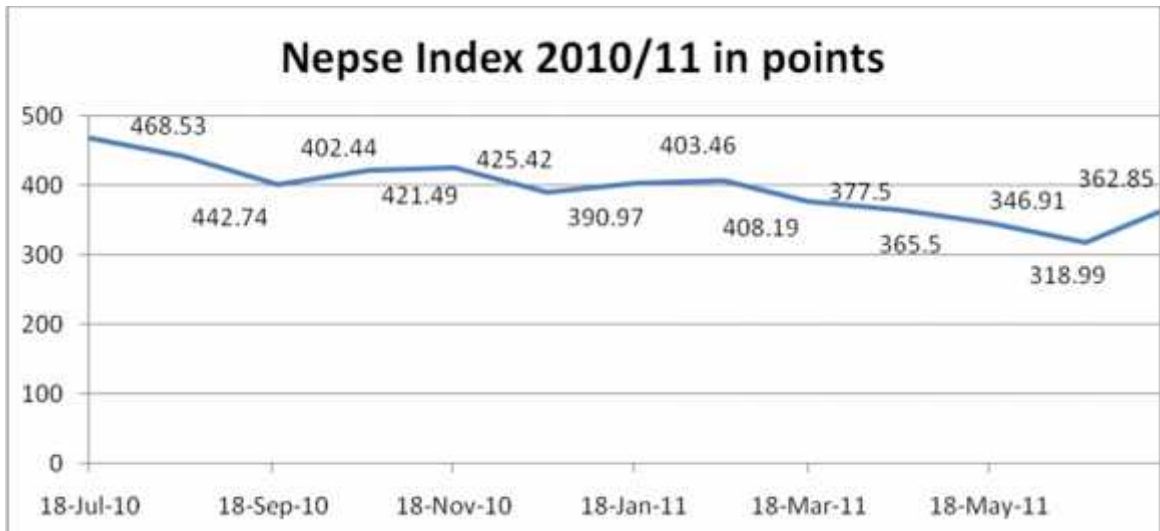
**NEPSE Index in Points**



NEPSE index was in decreasing trend most of the time during the FY 2067-68. However, it reached to the highest point of 472.29 on 21<sup>st</sup> July, 2010 and the lowest was recorded in the 15<sup>th</sup> of June, 2011 of 292.31 points. In total NEPSE index has dropped by 24.05 percent from the closing index point for the FY 2066-67. The mean index throughout the year us 393.18 point and standard deviation is 39.37. The trend of overall NEPSE index can be viewed from the following Figure 4.15.

**Figure 4.15**

**NEPSE Index (FY 2010/11)**



## **4.2 Primary Data**

The questionnaire survey method is used to analyze the Stock market and its growth in Nepal. Sample is taken from different sectors such as investors, offices of SEBON & NEPSE, share brokers, students, etc. The results are analyzed carefully so that it could lead to in-depth analysis, finding the real problems and growth prospects of stock market in Nepal.

### **4.2.1 Questionnaire Survey**

An empirical study was carried out to receive a response of the individuals who own equity shares. Questionnaires were used to collect the view to the equity share holders. The questionnaires were distributed to 60 people representing several sectors like NRB, SEBON, and NEPSE etc. for the purpose of analysis. Only the respondents who had purchased equity shares from the secondary market were taken as samples for the research purpose. The views of those who had purchased shares from the primary market only were not taken into account. The questionnaire focused on the behavior of the investors while purchasing the equity shares from the secondary market. The questionnaire examines if the investors analyses financial health of the institution or not,

it the investor cares the overall market or not and severed other aspects that a good investor is supposed to look at.

The number of respondents is shown in the table below.

**Table 4.14**  
**Respondents of the Questionnaire**

<b>S. N.</b>	<b>Descriptions</b>	<b>Number</b>	<b>Percentage</b>
<b>1.</b>	<b>Respondent by sex</b>	<b>60</b>	<b>100</b>
	Male respondent	48	80
	Female respondent	12	20
<b>2.</b>	<b>Respondent by age</b>	<b>60</b>	<b>100</b>
	Age less than 25	9	15
	<i>Male respondent</i>	9	
	<i>Female respondent</i>	-	
	Age 25 to 50	39	65
	<i>Male respondent</i>	27	
	<i>Female respondent</i>	12	
	Age above 50	12	20
	<i>Male respondent</i>	12	
	<i>Female respondent</i>	-	
<b>3.</b>	<b>Respondents by owning shares</b>	<b>60</b>	<b>100</b>
	In only one financial institution	12	20
	In multiple financial institution	48	80

(Source: Field survey 2011/12)

The Table 4.14 describes the respondents by their sex and age. We can see that the investors are mostly male investors. Investors of the age less than 25 and above 50 do not include female investors. Investors of age more than 50 were those who were very experienced in trading of the equity shares and these who want to invest their retirement fund all the way through the equity share investment. Most of the investors turn out to be



holding the shares of more than one financial institution. The investor, who is aware of investing in equity share, goes on searching prospect to invest more in shares. The Table 4.14 shows that there are more respondents who prefer investing in multiple financial institutions rather than only one.

The responses provided by the respondents are presented below in the tabular and graphical ways. They are further summarized at the end of each presentation.

**A) Response to the Most Secure Investment Sector in Nepalese Market**

As different investors are interested in different companies to invest their savings, this question was put forward to evaluate on which sectors, the investors are most interested to invest their money. The respondents provided the following opinions.

**Table 4.15**

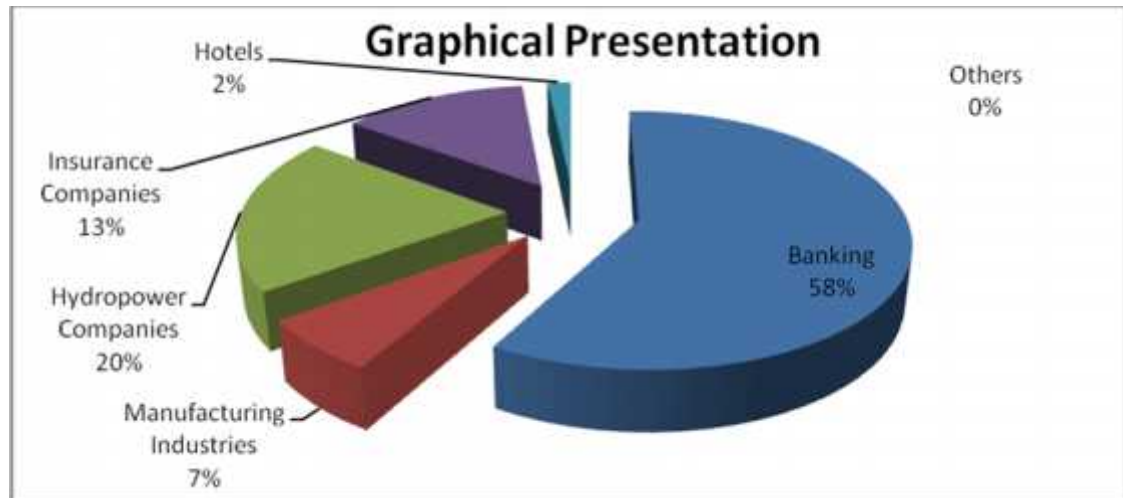
**The Most Secure Investment Sector in Nepalese Market**

<b>S.No.</b>	<b>Option</b>	<b>Response</b>	<b>Total in %</b>
1	Banking	35	58.33
2	Manufacturing industries	4	6.67
3	Hydropower companies	12	20
4	Insurance companies	8	13.33
5	Hotels	1	1.67
6	Others	-	-
<b>Total</b>		<b>60</b>	<b>100</b>

(Source: Field survey 2011/12)

**Figure 4.16**

**The Most Secure Investment Sector in Nepalese Market**



Regarding this question, 58.33 percent of the respondents believe that banking sector is the most secure investment sector, 20 percent are of the view that hydro power companies are the secure investment sector, 13.33 percent say that they believe insurance companies to be the secure investment sector and the rest are divided in manufacturing companies and hotels. We may conclude that as the banking sector in the Nepalese market is developing, most people believe it to be the most secure investment sector. And since most of the banks and financial companies are in a profiting scenario, most of the people have faith in the sector. And as it is a well-known fact that Nepal is rich in the water resources and there is a high possible chance for growth in Nepal for the hydropower companies, after the banking sector, it is the second most chosen sector for investment.

**B) Response to the Motivation Factor for Investment in Stock**

As different people have different motivational factors to do things, hence to figure out what drives them to make investment in stock, the question was presented. The responses are as follows:

**Table 4.16**

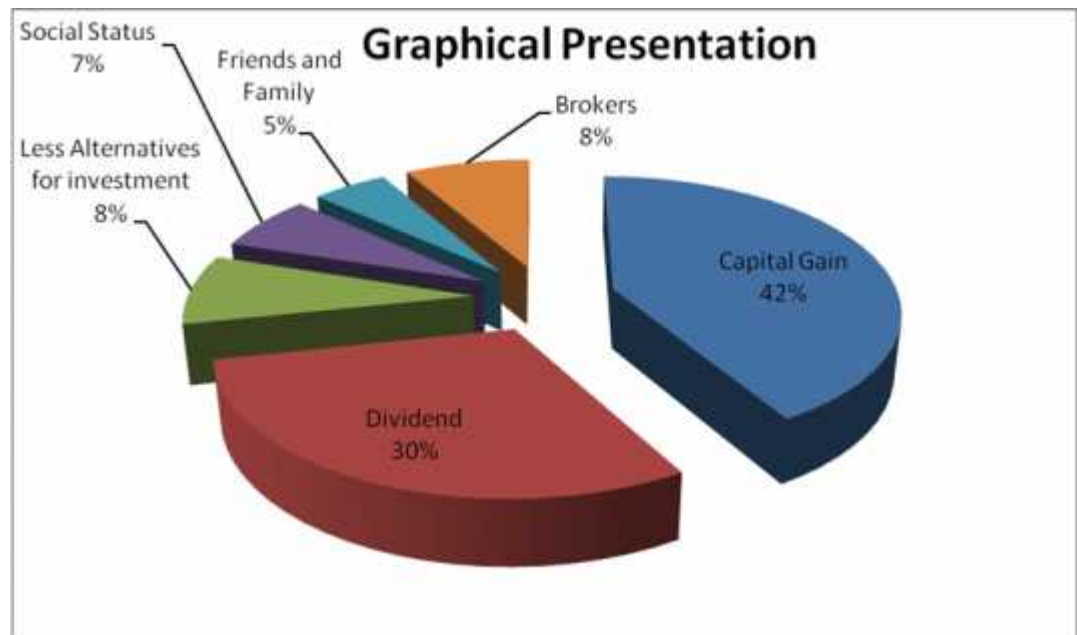
**Analysis of Motivational Factor for Investment in stock**

S.N.	Variables	No of respondent	% of respondents
1	Capital Gain	25	41.67
2	Dividend	18	30
3	Less Alternatives for investment	5	8.33
4	Social Status	4	6.67
5	Friends and family	3	5
6	Brokers	5	8.33
<b>Total</b>		<b>60</b>	<b>100</b>

(Source: Field survey 2011/12)

**Figure 4.17**

**Motivational Factor for Investment in stock**



Regarding this question, 41.67 percent of the respondents invest in stock because of capital gain, 30 percent invest because of the chance of them earning the dividend, 8.33 percent are of the view that they see limited alternatives for investment, similarly 8.33 percent consult brokers and 6.67 percent invest for maintaining their social status and 5 percent invest with consultations from family and friends. We can clearly observe that Nepalese investors are more profit concerned as a high percentage of people invest for earning capital gain and dividend. However some people invest because there are fewer alternatives for investment and some due to their surrounding environment like friends and family.

**C) Response to the Determining Factor behind the Stock Price**

There are different factors contributing towards the determination of the stock price. As different people have different ideas, beliefs regarding different things, hence to figure out what they believe determines the stock price, the question was presented. The responses are as follows:

**Table 4.17**

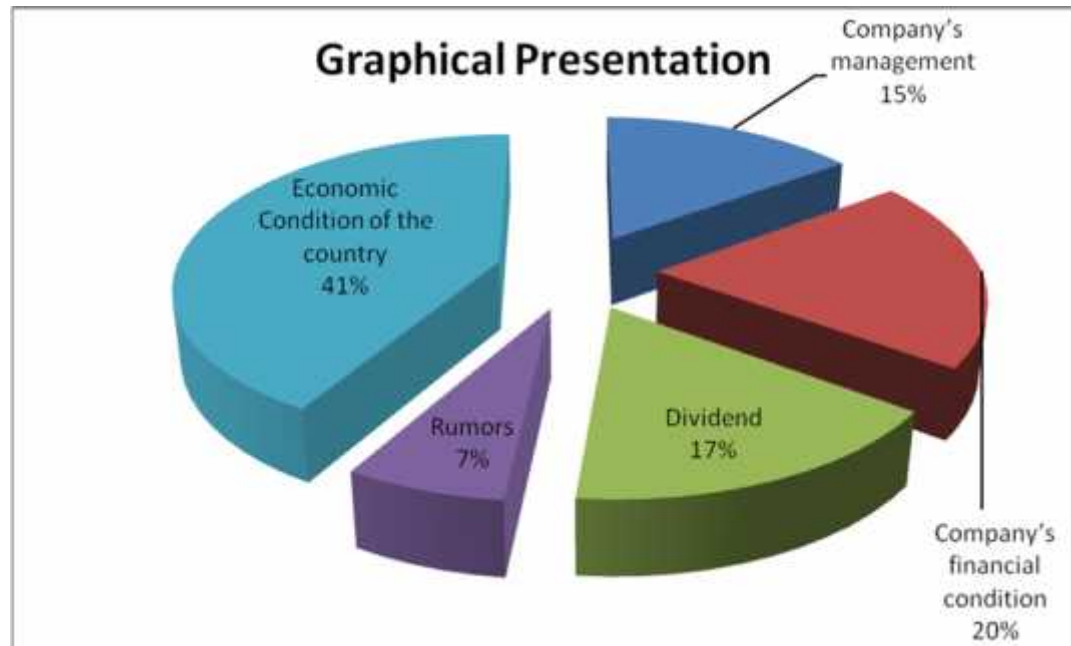
**Determining Factor behind the Stock Price**

<b>S.N.</b>	<b>Option</b>	<b>Response</b>	<b>Total in %</b>
1	Company's management	9	15
2	Company's financial condition	12	20
3	Dividend	10	16.67
4	Rumors	4	6.67
5	Economic Condition of the country	25	41.67
<b>Total</b>		<b>60</b>	<b>100</b>

(Source: Field survey 2011/12)

**Figure 4.18**

**Determining Factor behind the Stock Price**



As the Table 4.17 and the Figure 4.18 shows 41.67 percent of the respondents believe that economic condition of the country is the major factor that determines the stock price. Similarly 20 percent, 16.67 percent, 15 percent and 7 percent believe that company's financial condition, dividend, company's management and rumors are the main factor that determines the stock price. It seems as if the respondents are divided between the major factors that determine the stock price. However, looking at the current state of the country and the majority of the respondents' responses, the economic condition can be believed to be the major factor determining the stock price in Nepal.

**D) Response to the Appropriate Time to Sell the Share**

To find out the major factor forcing the investors to sell their shares, the question was presented. Their responses are as follows:

**Table 4.18**

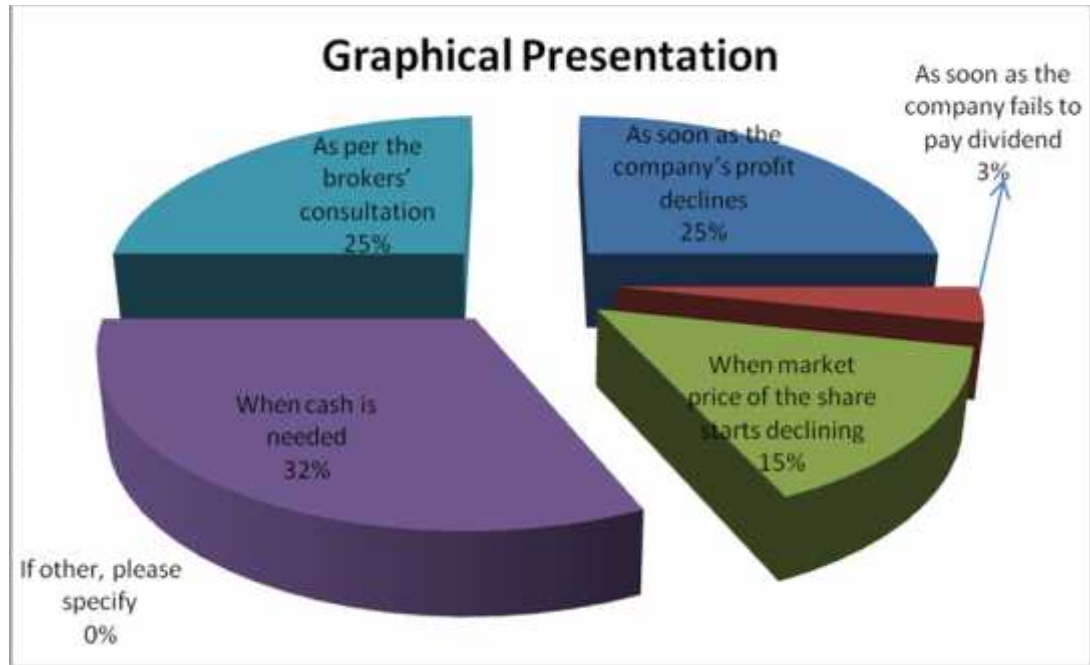
**Appropriate Time to Sell the Share**

<b>S.N.</b>	<b>Variables</b>	<b>No of respondent</b>	<b>% of respondents</b>
1	As soon as the company's profit declines	15	25
2	As soon as the company fails to pay dividend	2	3.33
3	When market price of the share starts declining	9	15
4	When cash is needed	19	31.67
5	As per the brokers' consultation	15	25
6	If other, please specify	-	-
<b>Total</b>		<b>60</b>	<b>100</b>

(Source: Field survey 2011/12)

**Figure 4.19**

**Appropriate Time to Sell the Share**



Regarding this questions, 31.67 percent sell their share when cash is needed. 25 percent sell their share as per brokers' consultation. Similarly 25 percent as soon as companies profit decline, 15 percent sell their share when market price of the share declining and rest sell their shares as soon as the company fails to pay the dividend. Here one thing can be noted that majority of respondents showed belief in company even if it cannot provide them the dividend. This shows people believe in a company looking at their condition and are taking the brokers' consultation into matter before selling the shares of a company.

**E) Response to the Factor Investors Take into Account before Investing in the Secondary Market**

The different opinions regarding the basis for investment in the secondary market are presented in Table 4.19 and Figure 4.20.

**Table 4.19**

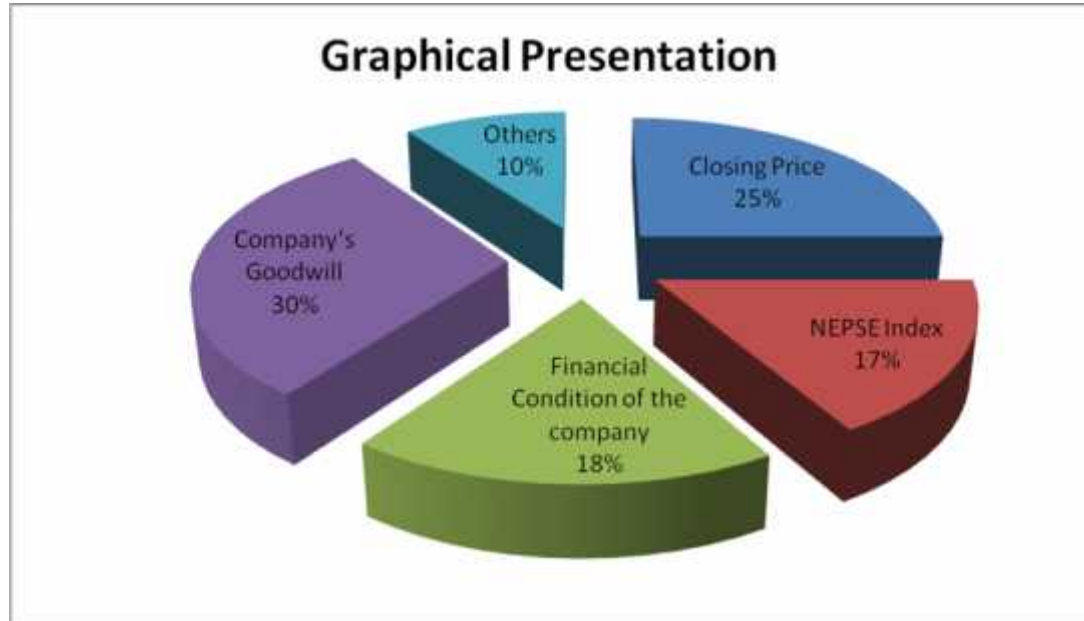
**Basis of Investment in the Secondary Market**

S.N.	Option	Response	Total in %
1	Closing price	15	25
2	NEPSE Index	10	16.67
3	Financial condition of the company	11	18.33
4	Company's Goodwill	18	30
5	Others	6	10
<b>Total</b>		<b>60</b>	<b>100</b>

(Source: Field survey 2011/12)

**Figure 4.20**

**Basis of Investment in the Secondary Market**



The Table 4.19 and Figure 4.20 show that majority of the respondents i.e. 30% invest on the secondary market on the basis of the company's goodwill. Similarly, closely following the response, 25% invest on the basis of the closing price of the



stock, 18% invest realizing the financial condition of the company they are going to invest and 17% invest on the basis of NEPSE index. Among the other responses it was found that 10% invested in the secondary market taking brokers' consultations into account.

**F) Response to the Most Risky Stock Investment Alternative**

This question was put forward to know which stock investment alternative do the respondents believe to be the most risky one. The responses are as follows:

**Table 4.20**

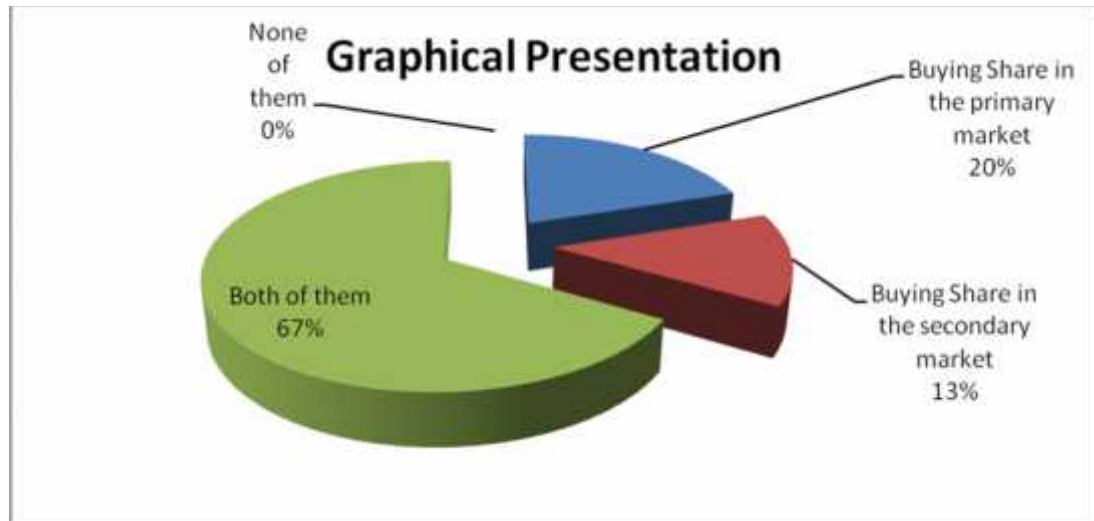
**Analysis of Risky Investment**

<b>S.N.</b>	<b>Variables</b>	<b>No of respondent</b>	<b>% of respondents</b>
1	Buying share in the primary market	12	20
2	Buying share in secondary market	8	13.33
3	Both of them	40	66.67
4	None of them	-	-
<b>Total</b>		<b>60</b>	<b>100</b>

(Source: Field survey 2011/12)

**Figure 4.21**

**Analysis of Risky Investment**



As the Table 4.20 and Figure 4.21 displays the majority of the respondents i.e. 66.67 percent to be exact believe that investment in both the primary and the secondary market is risky. It was seen that there were nobody who responded that buying securities from primary and secondary market was not risky.

#### G) Response to the Growth Trend of Nepalese Stock Market

Upon asking about the growth trend of Nepalese Stock Market, the following responses were provided.

**Table 4.21**

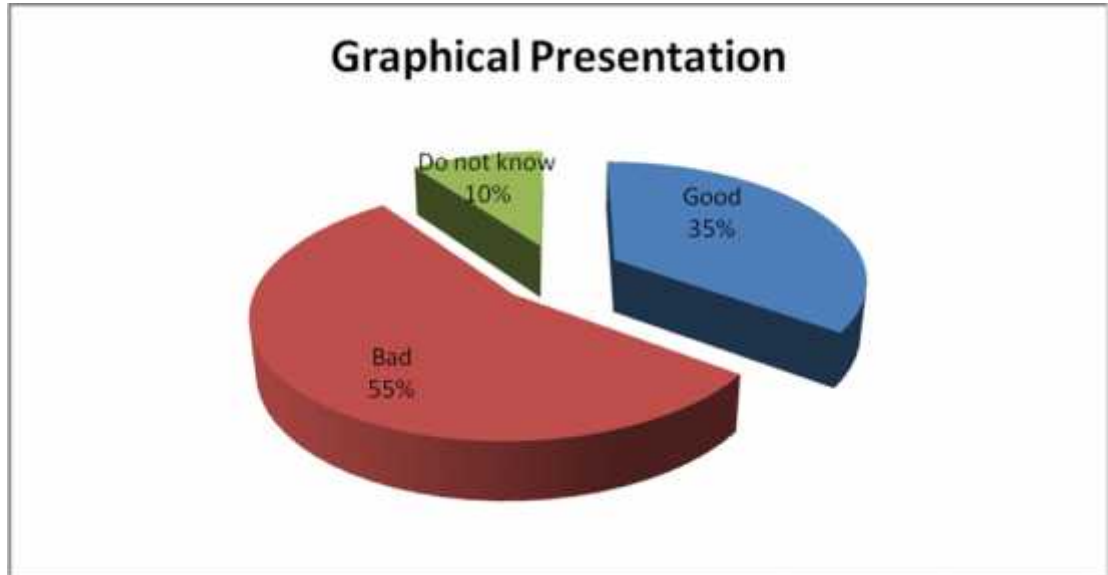
#### **Analysis of the Growth Trend of Nepalese Stock Market**

S.N.	Variables	No of respondent	% of respondents
A	Good	21	35
B	Bad	33	55
C	Do not know	6	10
<b>Total</b>		<b>60</b>	<b>100</b>

(Source: Field survey 2011/12)

**Figure 4.22**

**Growth Trend of Nepalese Stock Market**



Here, 35 percent agree the growth trend of Nepalese Stock Market is good, 55 percent feels the stock market is not heading the right path and the future is not that bright looking at the current scenario of the stock market whereas 10 percent of the respondents are oblivious about the growth trend of the stock market. Here it can be said that as the majority i.e. 33 out of 60 respondents believes that the growth trend of the stock market is not satisfactory, the growth trend is not satisfactory for the development of the country.

**H) Satisfaction with the Performance of Nepal Stock Exchange for Growth of the Economy**

To find out if the Nepalese stock market has been successful in terms of helping the growth of economy, the respondents were asked to express their views and opinions. The different views and opinions obtained are shown in the Table 4.22 and the Figure 4.23.

**Table 4.22**

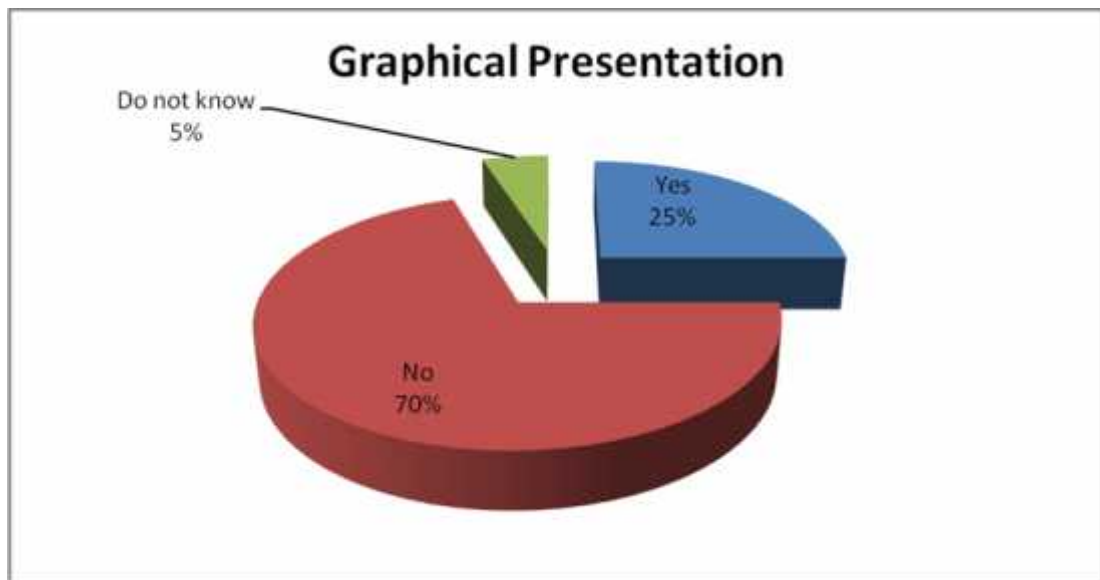
**Satisfaction with the Performance of Nepal Stock Exchange for Growth of the Economy**

S.N.	Variables	No of respondent	% of respondents
A	Yes	15	25
B	No	42	70
C	Do not know	3	5
<b>Total</b>		<b>60</b>	<b>100</b>

(Source: Field survey 2011/12)

**Figure 4.23**

**Satisfaction with the Performance of Nepal Stock Exchange for Growth of the Economy**



The Table 4.22 and the Figure 4.23 depicts that 42 out of 60 i.e. 70% of the respondents are of the view that the NEPSE has not been able to help the growth of economy of the country. Only a few i.e. 25% believe that the performance of the Nepalese stock market has helped the economy growth. Hence with regards to the

views and opinions provided, it can be concluded that in line of the growth trend of the stock market not being found satisfactory, NEPSE also has not been successful in terms of helping the growth of Nepalese economy.

**D) Analysis of Necessary Information Concerning Future Risks and Returns of Securities Provided by NEPSE and SEBON Correctly and Timely**

As the investors need to gather information before investing in any stock of the company regarding the risks and returns, the survey was done to find out if the NEPSE and SEBON are provided the required information correctly and timely.

**Table 4.23**

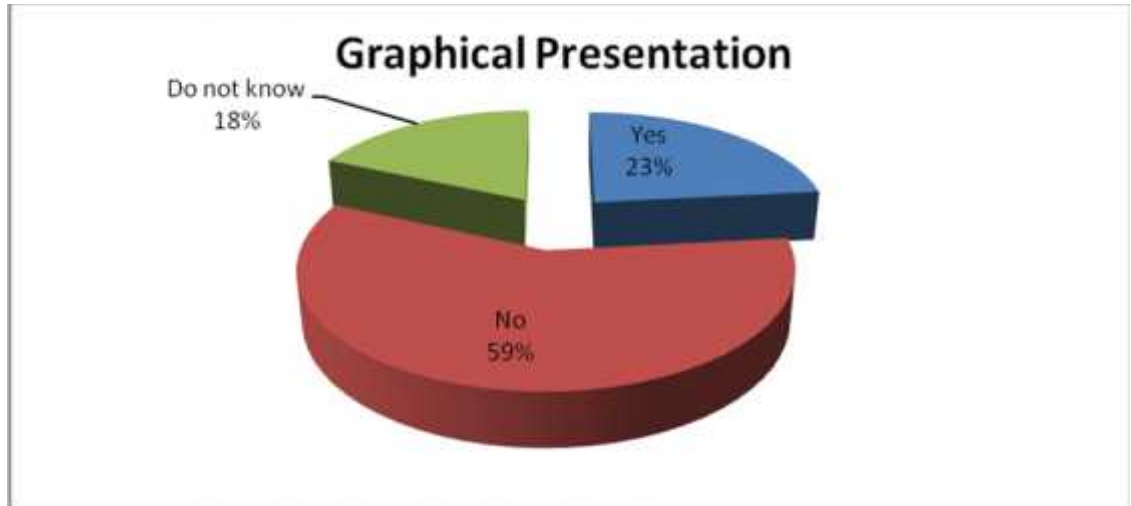
**Analysis of Disclosure of Necessary Information by NEPSE and SEBON Correctly and Timely**

<b>S.N.</b>	<b>Variables</b>	<b>No of respondent</b>	<b>% of respondents</b>
A	Yes	14	23.34
B	No	35	58.33
C	Do not know	11	18.33
<b>Total</b>		<b>60</b>	<b>100</b>

(Source: Field survey 2011/12)

**Figure 4.24**

**Analysis of Disclosure of Necessary Information by NEPSE and SEBON  
Correctly and Timely**



Regarding this question, 58.33 percent of the respondents are of the view that the information provided by NEPSE and SEBON are not correct and timely. Whereas 23.34 percent of the respondents feel that the information are timely provided but there are 18.33 percent people who make decision to invest in stock without even taking the information provided by the NEPSE and SEBON into consideration.

**J) Environmental Effect on the Stock Market and the Stock Price**

There are several kinds of environment affecting the stock market and the stock price. So, in order to figure out which environment has the most influencing capacity, the respondents were asked to put forward their views. The responses provided are as follows:

**Table 4.24**

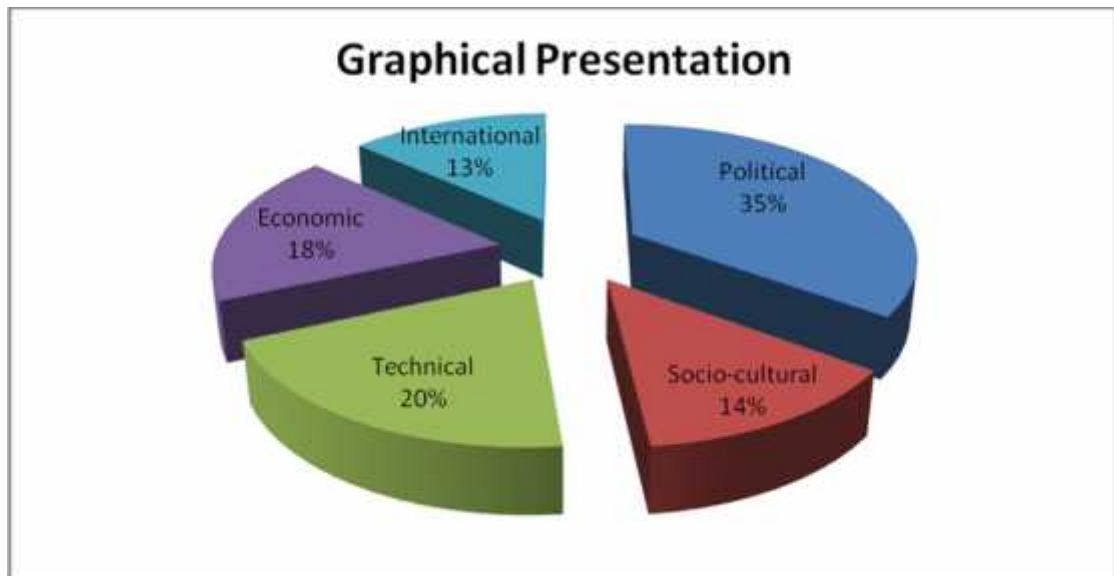
**Environmental Effect on the Stock Market and the Stock Price**

S.N.	Option	Response	Total in %
1	Political	21	35
2	Socio-cultural	8	13.33
3	Technical	12	20
4	Economic	11	18.33
5	International	8	13.33
<b>Total</b>		<b>80</b>	<b>100</b>

(Source: Field survey 2011/12)

**Figure 4.25**

**Environmental Effect on the Stock Market and the Stock Price**



As the respondents are divided in their responses as which one has the most influencing capacity when it comes to stock market and the stock price, we can conclude that each and every environment mentioned has some kind of impact on the stock market and the stock price. The combination of those environments is the core affecting the stock market.

Talking about statistics, about 35% of the total respondents have stated political environment is the major influencer in stock market. Likewise, 20% of the total respondents have stated technical environment as the major influencer. 18% of the respondents pointed out economic environment as the major environment in influencing the stock market while 14% of the respondents have stated socio-cultural environment as the major influencer and the rest state the influencer to be the international environment. It can be said that due to the current unstable political condition of the country, people are more inclined to the political environment to be the most influencing environment. Eventually, it can be concluded that the contribution of each aforementioned environment is equally crucial in stock market environment.

**K) Response to the Intensity of Effect of Current Political Instability on the Growth of Stock Market**

As discussed earlier the political environment has a huge impact on the stock market and its growth. Hence the current political instability of the country is surely hindering the progress of the stock market. So, to know about what the people feel about the impact of the political instability, the respondents were asked to put forward their views. The responses provided are as follows:

**Table 4.25**

**Effect of Current Political Instability on the Growth of Stock Market**

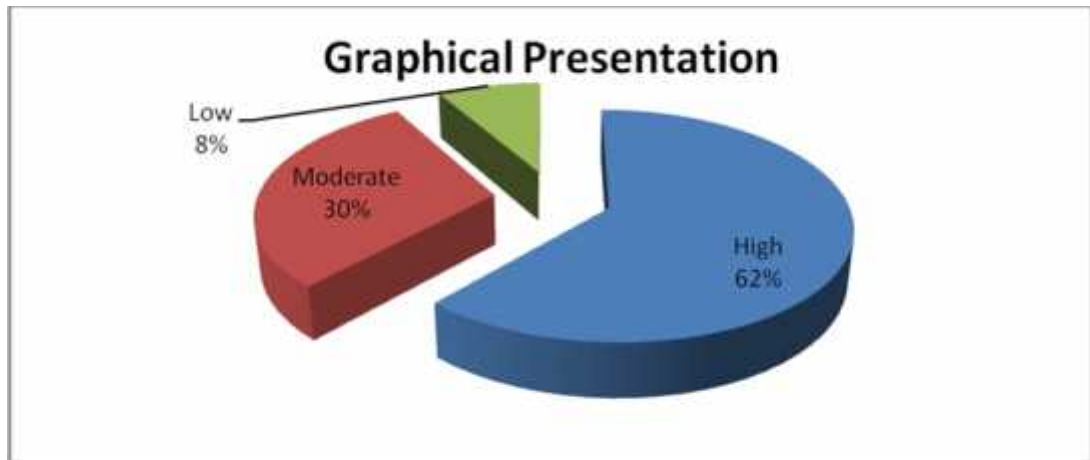
S.N.	Option	Response	Total in %
1	High	37	61.67
2	Moderate	18	30
3	Low	5	8.33
<b>Total</b>		<b>60</b>	<b>100</b>

(Source: Field survey 2011/12)



**Figure 4.26**

**Effect of Current Political Instability on the Growth of Stock Market**



It is clear from the responses acquired that a high percentage of the respondents believe that there is a high impact of the current political instability of the country. Almost 62% of the respondents agree that there is a high impact of the political instability on the stock market. Similarly, 30% believe that there is a moderate effect of the political instability on the stock market. Only a few respondents believe that there is a low impact of the political instability on the stock market. Hence it can be concluded that the current political instability has been one of the major factor hindering the progress of the stock market.

**L) Analysis of the Responsible Authority behind Appropriate Trading System in Stock Market**

To find out the responsible authority behind the appropriate trading system in stock market, the respondents were asked to put forward their views. The responses provided are as follows:

**Table 4.26**

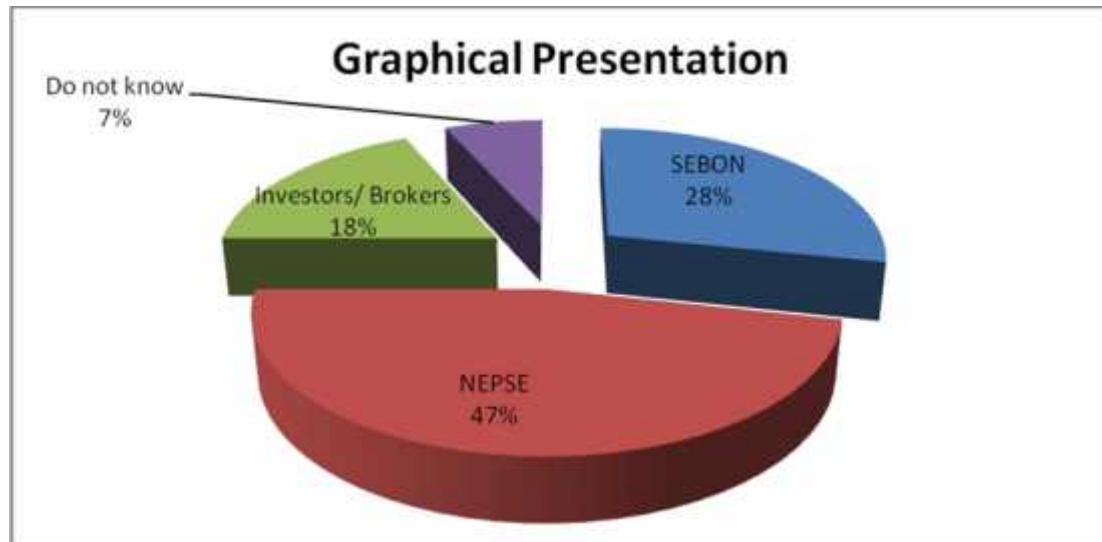
**Responsible Authority behind Appropriate Trading System in Stock Market**

S.N.	Variables	No of respondent	% of respondents
1	Security Board Nepal (SEBON)	17	28.33
2	Nepal Stock Exchange (NEPSE)	28	46.67
3	Investors/ Brokers	11	18.33
4	Do not know	4	6.67
<b>Total</b>		<b>60</b>	<b>100</b>

(Source: Field survey 2011/12)

**Figure 4.27**

**Responsible Authority behind Appropriate Trading System in Stock Market**



In response to this question, 46.67 percent of the respondents are of the opinion that NEPSE is responsible for appropriate trading system in stock market, 28.33 percent believe it to be SEBON, 18.33 percent say it is Investors / Brokers, who are responsible and the remaining 6.67% have no idea about the responsible authority

for appropriate trading system in stock market. From this it is clear that people feel the success and failure of the trading system lies mostly in the hands of NEPSE and SEBON.

#### **M) Analysis of Interrelationship between Stock Market and Economy**

As it is a known fact that stock market and the country's economy is interrelated. So, to figure out the degree of interrelationship between the stock market and economy, the respondents were asked to put forward their views. The responses provided are as follows:

**Table 4.27**

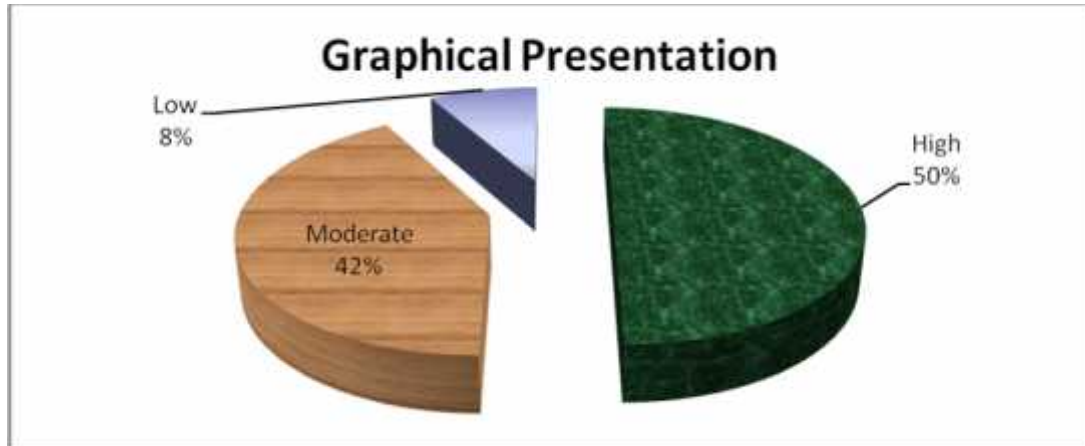
#### **Degree of Interrelationship between Stock Market and Economy**

<b>S.N.</b>	<b>Variables</b>	<b>No of respondent</b>	<b>% of respondents</b>
1	High	30	50
2	Moderate	25	41.67
3	Low	5	8.33
<b>Total</b>		<b>60</b>	<b>100</b>

(Source: Field survey 2011/12)

**Figure 4.28**

**Degree of Interrelationship between Stock Market and Economy**



Regarding this question, 50 percent agree that there is a high correlation between stock market and economy, 41.67 percent say it moderate and other 8.33percent rank it low. There are only a few who think there is a low range of correlation between the two hence, we can say that stock market and economy is positively correlated i. e. highly to each other. This means that the growth and development of stock market helps the development of economy and vice versa.

**N) Major Factor Contributing to the Underdevelopment of the Stock Market in Nepal**

Since the stock market in Nepal has not developed quite as expected and hence to know what are the factors leading to the underdevelopment of Nepalese stock market, the respondents were asked to put forward their opinions. The responses provided are as follows:

**Table 4.28**

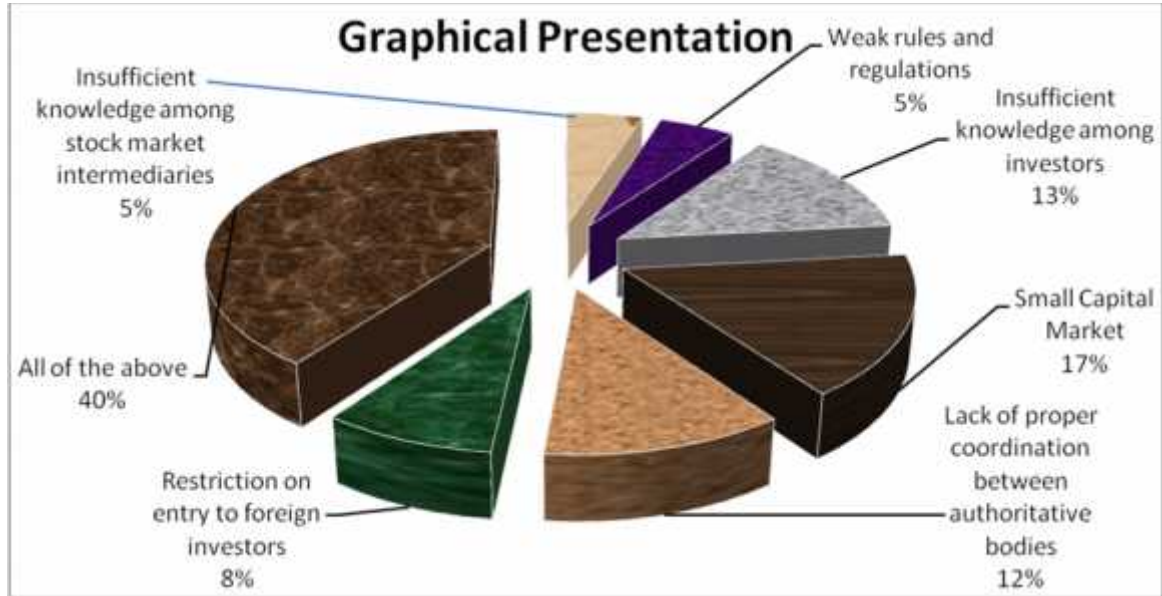
**Major Factor Contributing to the Underdevelopment of the Stock Market in Nepal**

<b>S.N.</b>	<b>Factors</b>	<b>No of respondents</b>	<b>% of respondents</b>
A	Insufficient knowledge among stock market intermediaries	3	5
B	Weak rules and regulations	3	5
C	Insufficient knowledge among investors	8	13.33
D	Small Capital Market	10	16.67
E	Lack of proper coordination between authoritative bodies	7	11.67
F	Restriction on entry to foreign investors	5	8.33
G	All of the above	24	40
<b>Total</b>		<b>60</b>	<b>100</b>

(Source: Field survey 2011/12)

Figure 4.29

### Major Factor Contributing to the Underdevelopment of the Stock Market in Nepal



Regarding this question, 16.67% of the respondents believe that the major factor contributing towards the underdevelopment of stock market is the existence of very small capital market i.e. only situated at the Ktm valley due to which it is difficult for the people outside the valley to make investment in the stock market. 13.33% of the respondents believe that insufficient knowledge among investors is one of the main factors contributing to the underdevelopment of the stock market in Nepal. 11.67% of the respondents believe that lack of proper coordination between authoritative bodies is the major factor. 8.33% believes that restriction on entry to foreign investors is very much obstructing the development of the stock market. 5% of the respondents believe it to be the insufficient knowledge among stock market intermediaries and another 5% believe it to be the weak rules and regulations but the majority of the respondents believe that the major factor responsible for the underdevelopment of the stock market is all of the above mentioned factors. Hence it can be concluded that each and every above mentioned factors have in one way or another affected the progress of the stock market in Nepal.

### O) Awareness in Investors

Full awareness of investment about the stock market is most crucial for the growth of stock market. Hence, to examine whether investors are fully aware about the Nepalese Stock Market and its mechanisms, the respondents were asked to express their view on this regard. The different opinions obtained from the respondents are presented in Table 4.29 and Figure 4.30.

**Table 4.29**

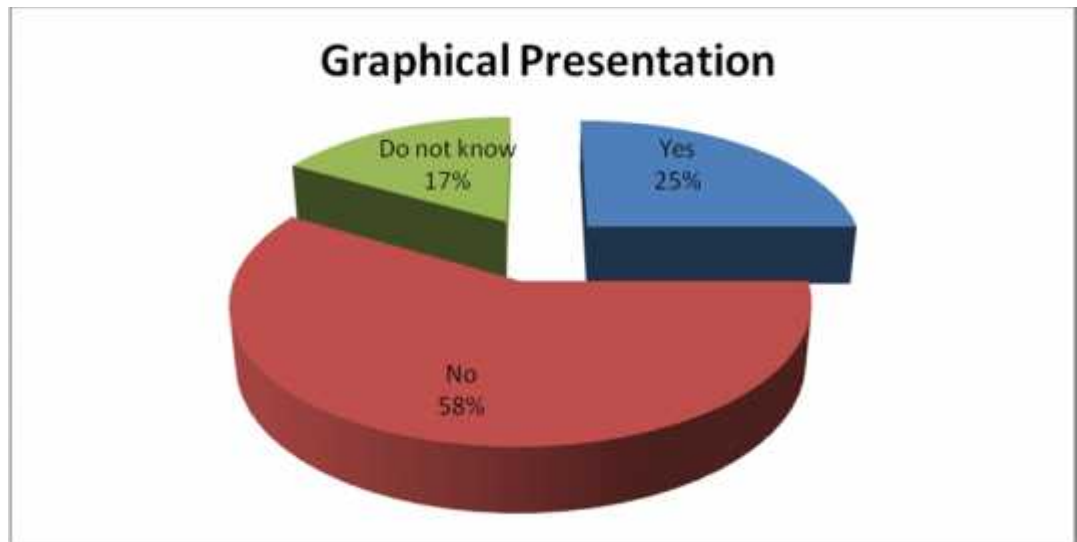
**Awareness in Investors**

S. N.	Option	Response	Total
1	Yes	15	25
2	No	35	58.33
3	Don't know	10	16.67
<b>Total</b>		<b>60</b>	<b>100</b>

(Source: Field survey 2011/12)

**Figure 4.30**

**Awareness in Investors**



The Table 4.29 and Figure 4.30 show that the majority of the respondents i.e. 58.33% to be exact are of the opinion that the investors are not fully aware about the Nepalese Stock market and its trading mechanisms. However, 25% affirmed that the investors are fully aware about the stock market. There were a high percentage of people who did not know about the answer to the question. Hence, mixed opinion is obtained on the full awareness of investors. Eventually, considering the overall majority (58%), more than half of the respondents, it can be concluded that the investors are not fully aware about Nepalese Stock market and thus NEPSE and SEBON should conduct different programs and seminars to fully aware investors and eventually increase turnover.

#### **P) Analysis of Securities by Investors before Investing**

There are several kinds of analysis that can be done before making an investment in any company's stock. Hence in order to know if the investors conduct any analysis before making investment in the stock, the respondents were requested to opine their views regarding this. The responses provided are as follows:

**Table 4.30**

#### **Analysis of Securities by Investors before Investing**

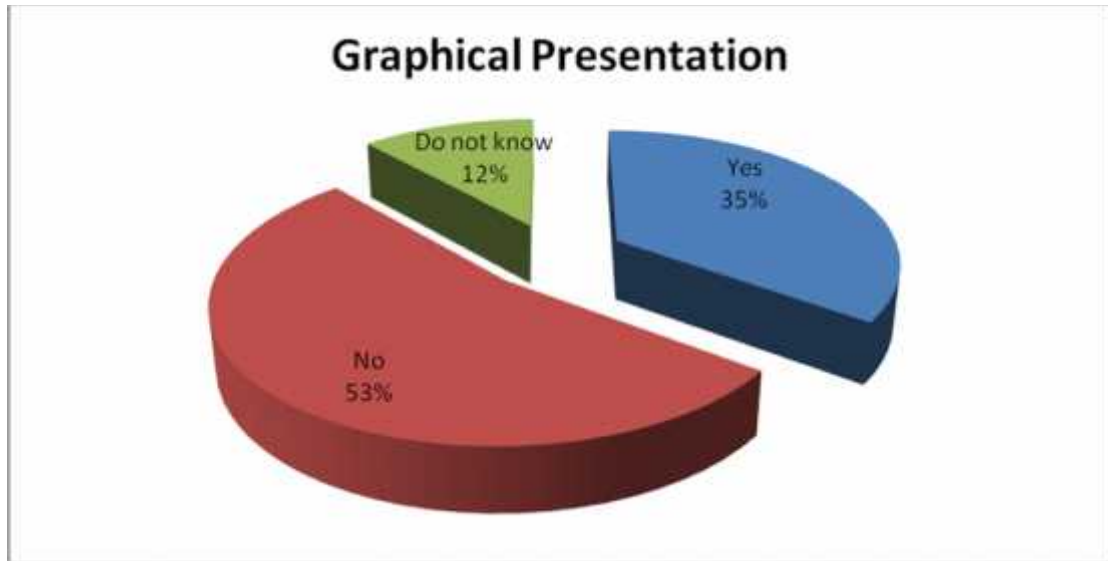
<b>S.N.</b>	<b>Option</b>	<b>Response</b>	<b>Total in %</b>
1	Yes	21	35
2	No	32	53.33
3	Do not know	7	11.67
<b>Total</b>		<b>60</b>	<b>100</b>

(Source: Field survey 2011/12)



**Figure 4.31**

**Analysis of Securities by Investors before Investing**



Regarding this question, 53.33 percent of the respondents say that the investors do not do any type of research and analysis of the company in which they are investing and invest on the basis of the market goodwill and the brokers' consultation. However there are 21 respondents i.e. 35% who says that the investors conduct their own financial analysis before investing in the stock. From this it can be concluded that even though there is a high involvement of well-educated investors in the stock market still there are several investors who do not do the financial analysis of the company before investing in the stock.

**Q) Analysis of Performance of SEBON for the Development of the Securities Market in Nepal**

As it is a well-known fact that SEBON is one of the major authoritative bodies responsible for the growth and the development of securities market in Nepal. So, performance of the SEBON will have a high impact on the growth of securities market. Hence to know if the performance of the SEBON is up to the mark or not for the development of the securities market, the respondents are requested to put forward their views and opinions. The responses are as follows:

**Table 4.31**

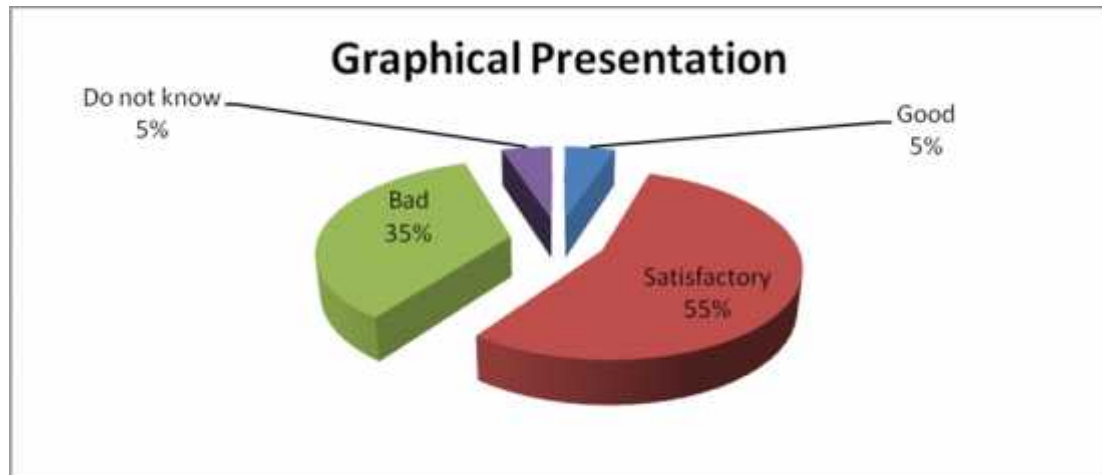
**Analysis of Performance of SEBON for the Development of the Securities Market in Nepal**

S.N.	Variables	No of respondent	% of respondents
1	Good	3	5
2	Satisfactory	33	55
3	Bad	21	35
4	Do not know	3	5
<b>Total</b>		<b>60</b>	<b>100</b>

(Source: Field survey 2011/12)

**Figure 4.32**

**Analysis of Performance of SEBON for the Development of the Securities Market in Nepal**



It was noticed that most of the respondents believed that the performance of SEBON for the development of securities market was satisfactory but not good enough. There were only a few people who thought the performance was good. However there were a high percentage of people who found the performance to be below par and felt the SEBON needsto make considerablechanges if it needs to help

develop the securities market in a direction that would help develop the country's economy. In my personal view, awareness programs and rules and regulations encouraging the investors to make investment should be made and appropriate environment and trading mechanisms for the investors should be created.

**R) Adequacy of the Research and Development Activities Done for the Growth of Nepalese Stock Market**

To know if the research and development activities done for the growth of Nepalese stock market are adequate or not, the respondents were asked to opine their views. The views provided are as follows:

**Table 4.32**

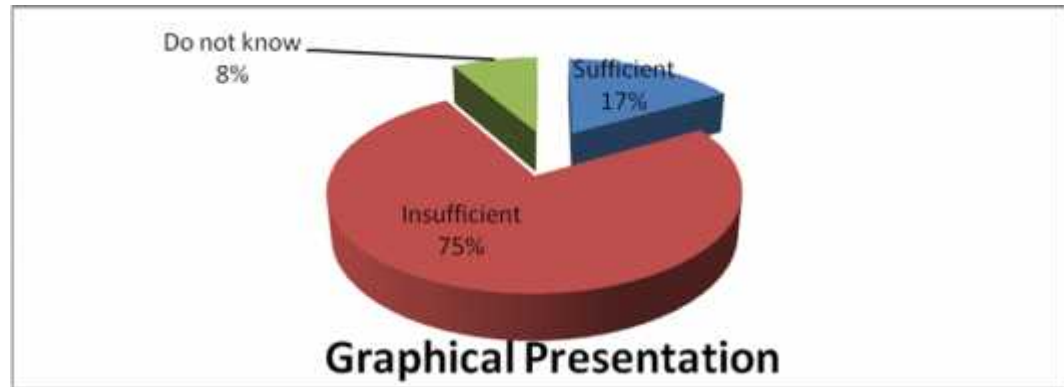
**Adequacy of the Research and Development Activities Done for the Growth of Nepalese Stock Market**

<b>S.N.</b>	<b>Option</b>	<b>Response</b>	<b>Total in %</b>
1	Sufficient	10	16.67
2	Insufficient	45	75
3	Do not know	5	8.33
<b>Total</b>		<b>60</b>	<b>100</b>

(Source: Field survey 2011/12)

**Figure 4.33**

**Adequacy of the Research and Development Activities Done for the Growth of Nepalese Stock Market**



Regarding this question, a very high percentage of respondents i.e. 75% feel that there have been very little research and development activities done for the growth of Nepalese Stock Market. Only 10 people out of 60 felt that there were adequate research works done. However looking at the responses provided, it can be said that more and more research and development works are needed in order to develop the stock market in Nepal as research and development works provide a basis for the authoritative bodies to make new and needed changes and amendments in the rules and regulations binding the Stock market. Research and development works help locate the deficient parts which needs improving so, more R&D works are needed.

**S) Centralized Stock Exchange with No Branches outside the Ktm Valley being the Reason for the Low Involvement of General Public in Capital Market**

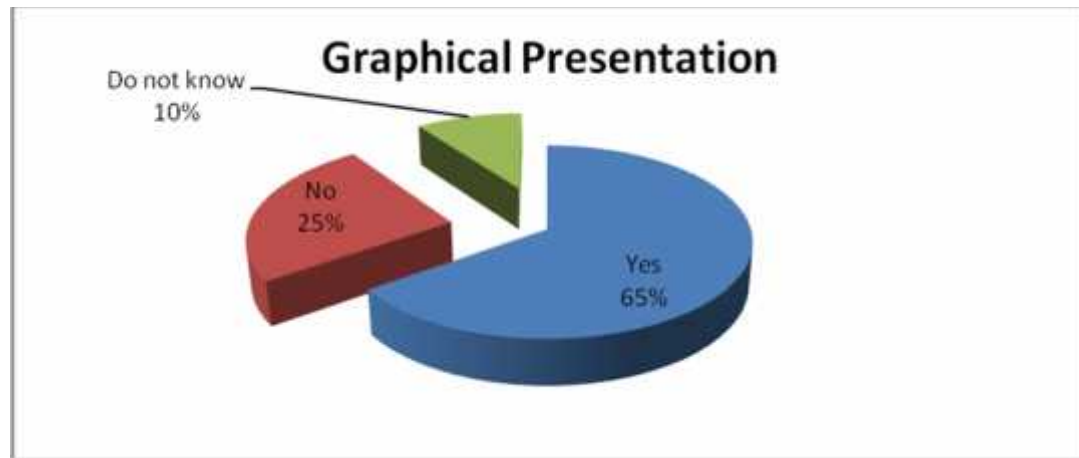
It has been a hot issue that lack of stock exchange outside the Ktm valley has been really hindering the progress of stock market and is the main reason for the low involvement of general public in capital market. Therefore, in order to seek the real truth if the mentioned issue is the main reason for the low involvement of general public or not, the respondents were requested to express their views. The expressed opinions are as follows:

**Table 4.33**  
**Centralized Stock Exchange being the Reason for the Low Involvement of**  
**General Public in Capital Market**

S.N.	Option	Response	Total in %
1	Yes	39	65
2	No	15	25
3	Do not know	6	10
<b>Total</b>		<b>60</b>	<b>100</b>

(Source: Field survey 2011/12)

**Figure 4.34**  
**Centralized Stock Exchange being the Reason for the Low Involvement of**  
**General Public in Capital Market**



Regarding this question, 65% of the respondents believe that the centralized exchange is the reason behind the low involvement of the general public in capital market. However there were 25% people who felt that it is not the main reason for the low involvement of general public. Upon following them on the question, they said that there were other major reasons like lack of knowledge about the stock market and its benefits, the image of the Nepalese stock market and the slow trading mechanisms, the ineffective rules and regulations, etc. which are responsible for the lack of general public's involvement in the stock market.

### T) Proper Government Move to help Develop the Nepalese Stock Market

It is quite clear that there has been lack of government's effort for the development of the stock market. Hence there needs to be a significant effort from the government's side for the development of Nepalese stock market. Therefore, in order to know what must the government do to improve the state of Nepalese stock market, they were requested to put forward their opinions. The suggestions provided are as follows:

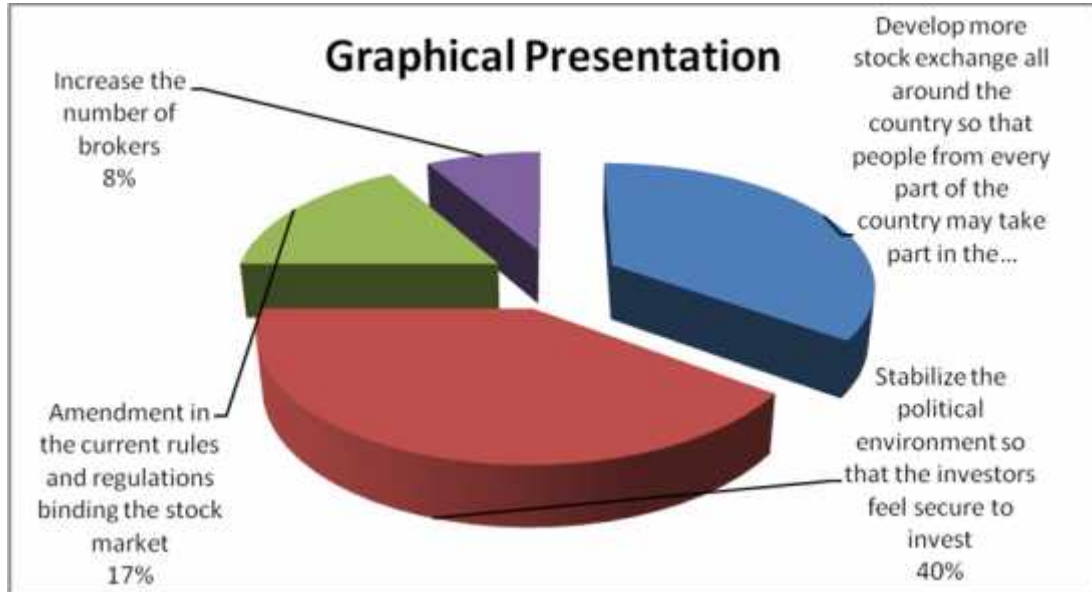
**Table 4.34**  
**Most Effective Government's Move to help Develop the Nepalese Stock Market**

S.N.	Option	Response	Total in %
1	Develop more stock exchange all around the country so that people from every part of the country may take part in the trading of securities	21	35
2	Stabilize the political environment so that the investors feel secure to invest	24	40
3	Amendment in the current rules and regulations binding the stock market	10	16.67
4	Increase the number of brokers	5	8.33
<b>Total</b>		<b>60</b>	<b>100</b>

(Source: Field survey 2011/12)

Figure 4.35

**Most Effective Government's Move to help Develop the Nepalese Stock Market**



Each and every respondents asked, felt that there should be a significant effort put in by the government otherwise it may be very difficult for the stock market to grow. The stock market is very much influenced by the government and its rules and regulations. Here, 40% of the respondents believe that the growth of stock market is getting difficult due to the current political instability. So, they feel that government should try to stabilize the political imbalance first in the country to develop the stock market. However there are 35% respondents who feel that developing stock exchanges all around the country letting all the potential investors of all places will be highly helpful in developing the stock market. Another 16.67% are of the view that amendment in the current rules and regulations binding the stock market should be the most effective move from the side of Government to improve the state of stock market. There are only 8.33% who believe that increasing the number of brokers will be highly effective.

## **U) Commentson Stock Market**

Since all the questions asked to the respondents before this were all objective where they were limited to answer within the boundaries of answers provided. Hence to get their real views regarding the stock market like what they feel about it and what are their suggestions for the stock market's improvement, the respondents were requested to put forward their views. Respondents have pointed out many problems facing the stock market and given many recommendations and suggestionstowards improving it. They are presented below:

### **Problems Pointed Out**

1. The centralized stock exchange in the capital is hampering the chance of involvement of people from all around the country.
2. The current rules and regulations binding the stock market are not effective.
3. There is lack of awareness programs being held by the authoritative bodies promoting the stock market and the educating the people about the potentials of investing in the stock market.
4. There is an inefficient information system and much delay in providing company's financial status.
5. Brokers are not well trained and have very little knowledge about stock market mechanism and hence are not able to provide valuable suggestions to the investors/clients.
6. The government has not made sufficient effort in developing the stock market.
7. The restriction in entry of foreign investors is also hampering the progress of the stock market.

### **The suggestions provided to solve these problems are:**

1. The authoritative bodies should try to expand the stock exchange and open its branches outside the valley reaching out to the potential investors. This will create high involvement of people leading to possible growth of the stock market.



2. Laws governing the stock market should be more liberal but strict to maintain stock market discipline.
3. Increment of awareness programs should be done. The authoritative bodies should create programs helping the potential investors learn about the prospects of investing in securities and informing about the trading mechanisms of the stock market as people are found to be unknown about the trading mechanisms and have very negative views regarding it.
4. The stock exchange should carry out periodic research and analysis and findings should be made public.
5. The securities board should monitor and regulate stock market by following strict controlling mechanism and appropriate penalty system.
6. Investors should be provided with investment guidelines.
7. The brokers should be well trained and well educated regarding the stock market and the securities so that they can provide appropriate guidance to those who have less knowledge about the stock market and those who seek it and if possible the number of brokers should be increased so that people have easy access to them.
8. The government should be more helpful to stock market and make appropriate laws to help develop the stock market. It should make stock market available to the foreign investors as well as it will attract high capital and new technologies.

#### **4.3 Major Findings of the Study**

The major findings of the study from the analysis of primary data are as follows:

- 1) It was found from the survey that the stock market has not developed quite as yet. It has not grown to its potentials. It has not contributed what it should have to the economy of the country. Instead of growing to the prospects of the stock market, the problems arising are destroying the stock market. The rules and regulations binding the stock market are not effective and needs to be amended if the stock market is to see success. Neither the brokers nor the investors are well educated and trained about the stock market. And government is also not helping the stock market in a way it should have.

- 2) By analyzing the respondents' responses to the questionnaires provided, it was seen that due to the emerging banking field, people felt that it is the most secure sector for investment.
- 3) It was found that capital gain and dividend were the major motivating factor for people to invest in stock.
- 4) The major portion of Nepalese investors believes that the economic condition of the country is the most determining factor behind the determination of stock price.
- 5) The company's goodwill is found to be the main factor that people consider before investing in the secondary market.
- 6) Since the stock market has not developed yet as expected people still feel that investing in both the primary and the secondary market is very much risky.
- 7) As mentioned earlier, stock market in Nepal is in developing stage, however, majorities of the respondents are not fully satisfied with the growth trend of the market.
- 8) Majority of respondents are not satisfied with the performance of stock market for the development of the economy.
- 9) NEPSE and SEBON do not provide information accurate and timely. They further added that information provided is not sufficient.
- 10) Due to the extreme negative effect of the volatile political situation of the country on the stock market seen in Nepalese stock market, most of the respondents believed that the major environment affecting the stock market in Nepal is the political environment.
- 11) As the NEPSE and SEBON being the responsible ones for the appropriate trading system, they are believed to be the ones responsible for the underdevelopment of the stock market in Nepal.
- 12) The factors like insufficient knowledge among intermediaries, investors, weak rules and regulations, small capital market, lack of coordination between authoritative bodies, restriction on entry to foreign investors, etc. are highly affecting the growth of stock market in Nepal. So, unless these issues are resolved, it would be very difficult for the stock market to develop.

- 13) The major portions of Nepalese investors do not have sufficient knowledge about investment. Majority of them make share purchasing decision without doing proper analyses i.e. without analyzing the financial performance of the company and without consulting the experts.
- 14) The respondents feel the SEBON's performance for the development of securities market is so and so not good enough. There were only a few people who thought the performance was good. However there were a high percentage of people who found the performance to be below par and felt the SEBON needs to make considerable changes if it needs to help develop the securities market in a direction that would help develop the country's economy.
- 15) People believed that there has not been sufficient research and development works done for the development of stock market in Nepal. So, additional R&D works are advised.
- 16) Further it was clarified that the some of the reasons for the low involvement of the general public in stock market was the centralized stock exchange and lack of educational programs about the benefits of investing in stock market.
- 17) As we all know that the current political condition of the country is very volatile and unpredictable. Upon asking about the proper government move for the development of stock market, most of the people believed that stabilizing the unstable political environment should be given the first priority as the stable and reliable government is what the nation requires after which the people believed that they might be able to see the ray of light for the development of stock market. They further added that the government should play the important role to increase investment in stock.

The major findings of the study from the analysis of secondary data are as follows:

- 18) The numbers of listed companies in the stock exchange are increasing gradually and have reached up to 207 till the end of the year 2010/11 in which there are mostly finance companies covering 33.81%
- 19) The total paid-up values of the listed securities are in an increasing trend and it reached to a total of Rs.100238.00 million by the FY 2010/11. It increased the

highest in the year 2008/09 increasing by 107.50% compared to the previous year. The highest contributing sector to the paid up value in the year 2010/11 was the banking sector as it had contributed a little over than 41.71% of the total paid up value of the total listed securities.

- 20) The amount of securities traded however is fluctuating as although it was increasing in the year 2007/08 and has decreased in the year 2008/09, 2009/10 and 2010/11 compared to the previous year. In the year 2010/11, the total amount of securities traded was Rs. 6665.18 million of which the highest securities traded were of the commercial banks.
- 21) By the end of the fiscal year 2010/11, the market capitalization of the listed securities reached to Rs.323484.34 million. The highest increase in market capitalization rate comparing to the previous year was 96.59 percent in fiscal year 2007/08. The market capitalization decreased in the year 2009/10 and 2010/11 by 26.53% and 14.17% compared to the previous year. By the end of the fiscal year 2010/11, the percentage contribution of market capitalization on nominal GDP is estimated to be 24.01%. On a sector wise basis, commercial banks have contributed the highest for the market capitalization i.e. 46.35% which is followed by other miscellaneous companies i.e. by 26.03% and the rest is contributed by different sectors like the Development Banks, Finance Companies, Insurance Companies, etc.
- 22) The higher percentage of market capitalization on nominal GDP was 53.43% in the year 2008/09. Likewise the lowest was 24.01 in fiscal year 2010/11 in study period. The contributions of market capitalization on GDP for the year 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 are 27.78, 44.62, 53.43, 31.86 and 24.01 percent respectively.
- 23) The number of traded companies in the stock market increased from 116 in year 2006/07 to 222 in year 2010/11. The growth rate of listed companies is positive in all these years. The growth rate was highest in 2008/09 with 25% and lowest in 2010/11 with 12.12%.
- 24) The number of shares traded in different years is fluctuating. The impact on growth rate is also affected. The number of share traded fluctuated from 18147

thousands in the year 2006/07 to 26240.39 thousands in year 2010/11. The growth rate of share traded of listed companies is negative in year 2009/10 i.e. a growth rate of -14.13. The growth rate was highest in 2007/08 with 57.60 percent.

- 25) Numbers of transactions in NEPSE is very much varied comparing with different years. In the year, 2006/07 the number of transaction was 120510. There was a positive growth rate every year 2006/07 to 2010/11. The significant growth rate can be noticed in the year 2010/11 that was 41.47% with 302364. The lowest growth rate being 2.22% in the year 2009/10 with 213733.
- 26) The growth rates of number of listed securities are all positive with highest in the year 2008/09 with 98.63% and lowest in the year 2010/11 with 25.79%.
- 27) Growth of market day per year is in satisfactory level.
- 28) By the end of the fiscal year 2010/11, the NEPSE index of the listed securities stood to be 362.85 points, which is 114.88 points less than that of the fiscal year 2009/10 end index of 477.73 points. NEPSE index was in decreasing trend most of the time during the FY 2067-68. However, it reached to the highest point of 472.29 on 21<sup>st</sup> July, 2010 and the lowest was recorded in the 15<sup>th</sup> of June, 2011 of 292.31 points.

Finally, it can be concluded that there are many problems facing the stock market but still the prospects of it are also equally strong and if appropriate measures are taken, NEPSE could be a vital tool for the nation's economic development.

## Chapter – V

### SUMMARY, CONCLUSION & RECOMMENDATIONS

#### 5.1 Summary

A stock market can be defined as a mechanism for bringing together buyers and sellers of financial assets in order to facilitate trading. Stock market a part of capital market is the backbone of any country's economy. It plays a vital role in the development of a country's economy. Nepal is not an exception but still the development of stock market is tiny and the focus for the development seems insignificant. To trace the history of stock market in Nepal, stock market development in the country actually started in 1976 AD when the government established Securities Exchange Centre to provide and develop market for securities. In 1993 AD, Securities Board of Nepal was established with the objectives to regulate, supervise and monitor the securities market. Similarly, the Securities Exchange Centre was converted into Nepal Stock Exchange Limited (NEPSE) with the objectives to provide secondary market for securities transaction. NEPSE, now, has adopted Automated Trading System, where the investors are allowed to deal in securities out through licensed brokers.

The main objective of this research was to examine and study the stock market in Nepal. To achieve the objectives different elements like price trend of NEPSE index, volume of stock traded, paid up value and market capitalization, annual turnover, sector wise trade, etc. have been analyzed. Examining the data collected, it was seen that over the past 15 years, the stock market of Nepal has made some progress. For example, between the fiscal year 2006/07 and 2010/11, the number of listed companies in NEPSE increased from 141 to 207, the paid up value of the listed securities reached to Rs.100238.85 million from 21799.00 million and the market capitalization value rose almost two times from Rs. 186301.00 million to Rs. 323484.34 million. During the period NEPSE index jumped from its base value of 100 to 963.36 in 2007/08 then decreased to 362.85 in 2010/11. But annual turnover had a lot of fluctuations during this period. Market day per year in 2010/11 is also in satisfactory level.

Despite the large volumes traded on stock exchanges many listed stocks traded infrequently or their balance of trading is not sound. For example, in NEPSE mostly the commercial banks' shares are transacted. The reason behind this might be traditionally guided investors return principle where most earnings of investors have been in the form of divided rather than capital gains. Though regular and high dividends are provided only by commercial banks in past it becomes the only potential investment destination comparing to the other stock market participants. So, the lack of interest of investors in other sectors than commercial banking is proving to be one of the setbacks causing the under development of the stock market in Nepal.

Unfortunately, in Nepal, despite a history of about half a decade of planned economic activities, little attention was paid to the development of financial sector. Over the past one and half decade, financial sector, despite many problems has developed significantly in Nepal. However, most of the developments were confined to the banking sector. The stock market has virtually remained stalled because of the low priority given to it in the government's financial reform policies.

Fluctuating turnover rates and volatile NEPSE Index indicate that the stock market in Nepal is highly illiquid and risky. This and other various measures of stock market development indicate that the stock market in Nepal is underdeveloped and has failed to show impact on the overall national economy.

## **5.2 Conclusions**

From the research, it can be concluded that the stock market in Nepal so far cannot be considered well developed. Instead it can be said that it is just in its developing phase. This is evident from the facts and figure available. The positive things found in favor of Nepalese stock market from the study were the increasing market capitalization and paid up value of listed companies showed positivity for stock growth. Likewise, the number of shares and company traded were also in an increasing trend which indicates the interest of investors in diversified sectors. The investors are making portfolios to invest so that they can reduce the risk. Likewise, the number of listed securities also increased in the studied five years period. All of these indicate positive prospects for the growth of stock market in Nepal.

However, NEPSE's turnover is fluctuating a lot in recent times and commercial banks are becoming the major companies occupying the larger portion of turnover and number of shares traded. The dynamism of the stock market has been greatly reduced by the domination of the long- term shareholders, who prefer holding the shares with the hope of increasing their wealth. This can be justified by the lesser number of shares that are traded on the stock market. Even though this reduces the dynamism of the stock market the investors have very few rather no alternative to holding shares.

There is almost no liquidity in the stock market for shares except that of banking and some finance and insurance sectors. Although, it has become late to take steps to overcome such problems of the Nepalese stock market in order to make it active and supportive, the stock market has a good prospect for the resource mobilization to finance the productive enterprises in the Nepalese economy.

Despite the increase in the number of companies and paid- up value of the securities listed with the exchange, most of the companies that are listed with the exchange belong to banking, finance, and insurance sectors. While only few companies from the trading, hotel, manufacturing, and aviation sectors are listed with the exchange, not a single company from powers information technology and construction sectors has entered the organized stock exchange of the country. This indicates that firms tend to avoid stock market as an alternative source of long- term capital in Nepal.

Significant increase in the number of companies registered as private limited during the last one and half decade also supports this view. This has adversely affected the liquidity and supply of securities in the stock market.

On the basis of primary data, it can be concluded that the factors like insufficient knowledge among stock market intermediaries and investors, weak rules and regulations, small capital market, lack of proper coordination between authoritative bodies are all in one way or another leading to the underdevelopment of the stock market in Nepal. However, the growth trend and performance of NEPSE can in no way be considered satisfactory. Hence, people mostly are found dissatisfied with the performance of NEPSE and SEBON. The lack of investment in stock market and the fear of people for investing in



stock market are mainly due to the unstable political condition of the country. Investors are not that aware of the trading mechanisms of the stock market and most of them do not perform any kinds of analysis before investing in any company's stock. The need of research and development works is much felt and the stability of the political environment is a must for the development of stock market in Nepal.

As discussed earlier the confidence of investors in Nepalese stock market is very low because of political instability, low return in investment, volatile stock market, insufficient information provided by the authoritative bodies, and investors not knowing about the benefits from investing in the stock market. The size of the market in terms of market capitalization and number of issue is relatively small. Market for corporate debt instrument is undeveloped. The retailers also dominate present stock market in the absence of foreign investors and local institutional investors. Only a small portion of shares is actively traded while others are traded either in small number or infrequently which leads to poor liquidity and small turnover in the market.

Quality professional services, government support, adequate corporate financial disclosures, transparency and openness of transaction, awareness programs, environment favoring investors and improved legal and supervisory framework are the urgent needs of Nepalese stock market.

### **5.3 Recommendations**

As is found by the numerous research works, including this particular one, stock markets are very strong economic institutions and are found to be the cause of economic enhancement of a nation. Since the economic activities of the nation get big boost by the orderly and efficient functioning of stock market, creating the framework for the efficient functioning of the stock market is the must. Being of so much importance for a nation's economic upbringing, on the basis of above findings and conclusions it was found that there are still many problems underlying in the stock market which needs to be solved before imagining a successful stock market. So, in order to solve those problems and help the stock market grow in a direction that leads to a successful economic development, here are some recommendations for the concerned.

### 5.3.1 To the Government

Government has responsibilities in promoting desirable activities and restricting undesirable. Since stock market development being vital need of a country, Nepalese government should create a favorable environment for the development of the stock market. In order to do so, Nepalese government must do following activities for the stock market reform and growth.

- The country's pure economic development is reflected by the development of productive sectors like hydropower, manufacturing industries, trading companies, etc. These sectors are not given priorities. Hence government should bring out laws supporting those investors who invest in these sectors.
- Most of the manufacturing industries of Nepal are suffering problems. The government of Nepal should take necessary steps to save these industries
- Investors' interest protection act should be issued, implemented and monitored. Furthermore, strong provisions via specific laws should be made to protect the rights of the investors.
- Since, there is only one stock exchange in the country, which is located in the capital and there is no other alternative, hence participation of the investors from outside the valley is very low. Therefore, to develop a proper stock market, the government should create a branch of the stock market outside of the valley so that it provides the opportunity for the people outside the valley for investing.
- It is clear that political stability as well as security of the nation is not favorable for the overall development of country. From which capital market is not also free from it. So, security as well as political stability should be maintained in the country.
- Tax system should be reformed which should encourage and stimulate capital formation and to attract individual investors towards investing in stock market, the government should offer some facilities such as tax exemption on

income of securities; repurchase facility etc. that helps to collect needed funds for corporate sectors.

- The government should make clear and specific plans and policies to expand the capital market. On the other hand, Government needs to implement such rules properly and monitor the progress from time to time.
- The government should allow foreign investors to invest in Nepalese capital market.
- The government should make appropriate policies and programs for the enhancement of the entrepreneurship development in the Nepalese economy.

### **5.3.2 To Investors**

There are two types of investors in stock market, individual investors and the other institutional investors. From the field survey, it has found that majority of investors are not that interested towards stock market. So, the researcher gives following suggestions to general investors.

- It is found that majority of Nepalese people are not interested towards stock market. It can be due to lack of knowledge about the stock market. So, investors should invest their time in studying about stock market.
- Investors should be aware of their rights and benefits they can get through investing in stock market.
- Investors should change their perception and attitude on stock market and should invest in corporate securities after properly analyzing risk and return. Before making investment decision, they should think rationally.
- From the field survey, majority of investors showed least interested towards manufacturing and trading companies. I like to sum up by stating all manufacturing and trading companies may not be weak. So that, they should identify strong companies and their shares issue should be taken positively.
- Signaling factors should be analyzed so that the future movements of price can be predicted and the stakeholders are benefited.
- Most of the stocks of banking and finance companies are overvalued in the stock

market. So, investors are recommended to clearly analyze the performance of these banks before making investment

### **5.3.3 To Institutional Mechanism**

There exists some directing, controlling mechanism in stock market. There are NRB, NEPSE, SEBON etc. as institutional mechanism arrangement made by government for the development of the stock market. The researcher gives following suggestions to institutional mechanism to overcome existing stock market problems.

- There is a lack of knowledge about capital market to brokers and investors so much that investing in the stock market is becoming a gambling. Therefore, to erase this shortcoming, the concerned regulatory bodies should start to make them conscious through promotional campaigns, seminars, programs through media channels.
- NEPSE should increase their broker license to ease the transaction without any problems.
- The effective system should be developed to provide the information regarding the accounting system, organizational culture, auditing practices, future policies and strategies in a clear and transparent way. Similarly the related agencies have to regularly monitor and control the activities of the organization.
- To protect the right and interest of the overall investors, the stock market awareness program about the capital market should be initiated.
- To control and discourage the unfair practices done by some limited class of people, the regulatory and concerned agencies should take necessary steps to formulate appropriate rules and regulations.
- The Securities Board in co-ordination with the Government and NEPSE should develop research, public awareness and investor education programs.
- The trading mechanisms should be simplified and rationalized.
- The information and financial statements of the companies should be disseminated properly and timely.
- Different market intermediaries should be educated, trained and professionalized.

- NEPSE should expand its services to the regional levels rather than just concentrating solely in the valley.
- NEPSE and SEBON should find the prospective and incumbent investors and should try to make them aware about the functioning mechanism of the market and maximum possible information should be made available to these investors at minimum possible costs.
- Market makers and investment bankers should be encouraged to participate in the stock market.
- Ways of transaction should be rectified and modified via appropriate technology.

Finally, it can be said that if the necessary measures are taken towards making the Nepalese stock market more efficient, not only investors and participating firms but the whole economy is likely to benefit. And as the efficiency of the market may be the cause for the efficiency of the economy; this goal should be pursued by concerning authorities more vigorously and seriously.

There is a lot of scope for research in this particular field. In case of Nepal, the extended and comprehensive study in this field will be just as timely and appropriate. Even, this particular study can be extended by including more and more specific variables and designing the research more appropriately. Studies on the stock market and its impact will never be out of place considering the potential impact of the stock market on the overall economy of a country.

## BIBLIOGRAPHY

- Adhikari, N. (2010). *Securities Markets Development in Nepal*. Kathmandu: SEBON Journal, Vol. 2, October
- Bajracharya, R. (2011). *Role of Nepal Stock Exchange (NEPSE) and Security Board (SEBO) in Development of Capital Market in Nepal*. An Unpublished Master's Degree Thesis, Lalitpur: Patan Multiple Campus, Faculty of Management, T.U.
- Baniya, D. (2006). *Selecting Right Company for Investment*. Kathmandu: Tribhuvan University
- Basnet, S. (2004). *Capital Formation*. Business Age, Kathmandu, New Business Age (P) Ltd., 2(8):26.
- Bhattarai, P. (2006). *Financial Performances and Common Stock Pricing*. An Unpublished Master's Degree Thesis, Shanker Dev Campus, T.U., Kathmandu
- Bhattarai, R., Ghimire, T. R., Kandel, M. and Dhodary, S. (2003). *Fundamentals of Investments*, Kathmandu: Khanal Books and Stationery
- Bhattarai, R. (2006). *Investment*. Kathmandu, Buddha Academic Enterprises Pvt. Ltd.
- Bhattarai, R. (2010). *Nepalese Stock Market Growth, Problems and Prospects*. An Unpublished Master Degree Thesis, Shanker Dev Campus, T.U., Kathmandu
- Dahal, H.P. (2011). *Stock Market Behavior of Listed Joint Venture Company*. An Unpublished Master Degree Thesis, Shanker Dev Campus, T.U., Kathmandu
- Francis J. C. (2002). *Investments: Analysis and Management*. New York: McGraw Hill.
- Gautam, R. R. and Thapa, K. (2008). *Capital Structure Management*. Kathmandu, Asmita Publications
- Gitman, L. J. (1991). *Principle of Managerial Finance*. Singapore: Harper Collins Publications.

- Gupta, O.P. (1985). *Behavior of Share Prices in India: A Test of Market Efficiency*, New Delhi: National Publishing House
- Jennergren, L.P. and Korsvold, P.E. (1975). *The Non – Random Character of Norwegian and Swedish Stock Market Prices*. Norway: North Hold Publishing Sharpe.
- Joshi, J. (2003). *Role of NEPSE in the Security Market*. An Unpublished Master Degree Thesis, Shanker Dev Campus, T.U., Kathmandu
- Joshi, P.R. *Research Methodology*. Buddha Academic Publishers and Distributors Pvt. Ltd., Kathmandu, Nepal.
- Khanal R. (2003). *Growth, Problems and Prospects of Nepalese Stock Market*. An Unpublished Master Degree Thesis, Central Department of Management, T.U.
- Maharjan, N. S. (2009). *Problems and Prospects of Stock Market Growth in Nepal*. An Unpublished Master Degree Thesis, Shanker Dev Campus, T.U., Kathmandu
- Mahat, R.S. (2008). *Capital Market Financial Flow and Industrial Finance in Nepal*. Kathmandu Sajha Prakashan, Kathmandu
- Mainali, S. (2006). *A Study on Share Price Behavior of Listed Companies*. An Unpublished Master Degree Thesis, Central Department of Management, T.U.
- Melecky, J. (September, 2003). *Dynamic of Intrinsic Value and Actual Price of Stock in the Markets*. Preprint Series in Mathematical Analysis, London: Butherworths publications. III (2): 44.
- Nepal Stock Exchange, *Annual Trading Report 2006/07 to 2010/11*. NEPSE, Kathmandu
- Paudel, D. (2005). *Stock Price Behavior of Commercial Banks in NEPSE*. An unpublished Master's Degree Thesis, Shanker Dev Campus, T.U., Kathmandu
- Pinsent, M. (2009). *Don't Let Stock Prices Fool You*. News with business. Berlin: ABW Wissenschaftsverlag GmbH. XIV (5): 45.

- Rai, A. (2010). *Primary Market Development in Nepal: Issues and Challenges*. Kathmandu: SAARC Law Conference Document.
- Rimal, A. P. (2008). *A Study on Problems of Stock Market in Nepalese prospective*. An Unpublished Master Degree Thesis, Shanker Dev Campus, T.U., Kathmandu
- Satyal, R. (2010). *Investors' Protection and Securities Law in Nepal*. New Delhi: South Asian Economic Journal Vol. 2.
- SEBON, *Annual Report 2006/07 to 2010/11*, Kathmandu
- Sharma, S. K. (2010). *Problems and Prospects of Stock Market Growth in Nepal*. An Unpublished Master Degree Thesis, Shanker Dev Campus, T.U., Kathmandu
- Shrestha, R. (2009). *Share Price Behavior of Commercial Banks listed in NEPSE*. An Unpublished Master Degree Thesis, Central Department of Management, T.U.
- Sigdel, A. (2009). *Problems and Prospects of Stock Market Growth in Nepal*. An Unpublished Master Degree Thesis, Shanker Dev Campus, T.U., Kathmandu
- Thapa, K., Bhattarai, R. and Basnet D. (2009). *Investments Theory and Solution*. Kathmandu: Asmita Books Publishers & Distributors
- Timilsina Y. (2001). *Capital Market Development and Stock Price Behavior in Nepal*, *Economic Review*. Nepal Rastra Bank
- Upadhyaya, B.D. (2009). *Regulations of Nepalese Capital Market and Investors' Protection*. SEBO Journal, Vol. 1, June.
- Van Horne, J. C. and Wachowicz, J.M. (2000). *Fundamentals of Financial Management*. New Delhi: prentice Hall of India.
- Van Horne, J. C. (1997). *Financial Management and Policy*. New Delhi: Prentice Hall.
- Walter, J. E. (1963). *Dividend Policy: Its influence on the Value of Enterprise*. *Journal of Finance*, XXXI: 280-291.



Weston, J.F. and Brigham, E.F. (1987). *Essentials of Managerial Finance*. Chicago: The Dryden Press.

Weston, J.F. and Copeland, T. E. (1987). *Essentials of Managerial Finance*. New York: The Dryden Press.

Weston, J.F. and Copeland, T. E. (1992). *Managerial Finance*. New York: The Dryden Press.

Wolff, H.K. and Pant P.R. (2003). *A Handbook for Social Science Research and Thesis Writing*. Buddha Academic Publishers and Distributors Pvt. Ltd., Kathmandu, Nepal.

## **Websites**

[www.nepalstock.com](http://www.nepalstock.com)

[www.nepalsharemarket.com](http://www.nepalsharemarket.com)

[www.stockofnepal.com](http://www.stockofnepal.com)

[www.sharesansar.com](http://www.sharesansar.com)

[www.merolagani.com](http://www.merolagani.com)

[www.mexnepal.com](http://www.mexnepal.com)

[www.sebon.gov.np](http://www.sebon.gov.np)

[www.nepal-stock-exchange.blogspot.com](http://www.nepal-stock-exchange.blogspot.com)

[www.nepalstocks.blogspot.com](http://www.nepalstocks.blogspot.com)

[www.nepseguide.com](http://www.nepseguide.com)

[www.nepalfn.com](http://www.nepalfn.com)

[www.nepalstockmarket.com](http://www.nepalstockmarket.com)

[www.nepal.gov.gov.np](http://www.nepal.gov.gov.np)

[www.mof.gov.np](http://www.mof.gov.np)

[www.sharebazarnepal.com.np](http://www.sharebazarnepal.com.np)

[www.nepjol.info](http://www.nepjol.info)

[www.pyc.edu.np](http://www.pyc.edu.np)

<http://www.scribd.com/doc/76235379/15/Review-of-Journals-Books-and-Articles-of-Stock-Market-in-Nepalese-Context>

## Appendix

Dear Sir/Madam,

I am conducting a research work on the topic “Problems and Prospects of Stock Market in Nepal’ for the partial fulfillment of the requirement for the degree of Master in Business Study. I hope this methodology (questionnaire) be an effective way to help me do my research work. I have sent you some questions regarding stock market hoping your timely response Therefore, I would like to request you to devote some of your precious time and be kind enough to provide me with your grateful opinions and correct information regarding these questions. Your co-operation has great value for me. Thank you.

### Respondent

Name:

Education:

Occupation and Organization associated with:

Date:

### Questions

1. Which of the following sector do you think as the most secure investment in Nepalese stock market?
  - a) Banking
  - b) Manufacturing Industries
  - c) Hydropower Companies
  - d) Insurance Companies
  - e) Hotels
  - f) Others

2. Which factor motivates you the most to make investment in stock?
  - a. Capital Gain
  - b. Dividend
  - c. Less Alternatives for investment
  - d. Social Status
  - e. Family and friends
  - f. Brokers
  
3. What do you think is the determining factor behind the stock price of a certain company?
  - a) Company's Management
  - b) Company's Financial Condition
  - c) Dividend
  - d) Rumors
  - e) Economic Condition of the country
  
4. When would you like to sell your share in secondary market?
  - a) As soon as the company's profit decline
  - b) As soon as the company fails to pay dividend
  - c) When market price of the share starts declining
  - d) When cash is needed
  - e) As per the brokers' consultation
  - f) If other, please specify

.....

.....

.....

5. On what basis do you make investment in the secondary market?
  - a) Closing Price
  - b) NEPSE Index
  - c) Financial Condition of the company
  - d) Company's Goodwill
  - e) Others
  
6. Which is risky alternative for investment?
  - a. Buying share in the primary market
  - b. Buying share in secondary market
  - c. Both of them
  - d. None of them
  
7. What do you feel about the growth trend of Nepalese Stock Market?
  - a. Good
  - b. Bad
  - c. Do not know
  
8. Are you satisfied with the performance of Nepalese stock market for growth of the economy?
  - a. Yes
  - b. No
  - c. Do not know
  
- a. Do you think NEPSE and SEBON provide necessary information concerning future risks and returns of securities correctly and timely?
  - b. Yes
  - c. No
  - d. Do not know

9. Which environment do you think mostly affects the stock market and stock price?
- a) Political
  - b) Socio-cultural
  - c) Technical
  - d) Economic
  - e) International
10. How much do you feel is the current political instability affecting the growth of stock market?
- a) High
  - b) Moderate
  - c) Low
11. Who do you think is the most responsible authority for the appropriate trading system in stock market?
- a. Security Board Nepal (SEBON)
  - b. Nepal Stock Exchange (NEPSE)
  - c. Investors/brokers
  - d. Do not know
12. To what extent do you think Nepalese economy & Nepalese Stock Market are interrelated?
- a. High
  - b. Moderate
  - c. Low

13. What is the major factor contributing to the underdevelopment of the stock market of Nepal?
- a. Insufficient knowledge among stock market intermediaries
  - b. Weak rules and regulations
  - c. Insufficient knowledge among investors
  - d. Small Capital Market
  - e. Lack of proper coordination between authoritative bodies
  - f. Restriction on entry to foreign investors
  - g. All of the above
14. Do you think investors are aware of the benefits & risks associated with equity investment?
- a. Yes
  - b. No
  - c. Do not know
15. Do you think investors perform any type of analysis before investing in securities?
- a. Yes
  - b. No
  - c. Do not know
16. Do you believe the Securities Board of Nepal is playing adequate role for the development of securities market in Nepal?
- a. Good
  - b. Satisfactory
  - c. Bad
  - d. Do not know

17. Do you feel that there have been sufficient research & development activities done for Nepalese stock market growth?
- a) Sufficient
  - b) Insufficient
  - c) Do not know
18. Do you think the centralized stock exchange located in Kathmandu with no diversification into regional branches decrease the level of participation of general public in capital market?
- a. Yes
  - b. No
  - c. Do not know
19. What should the government's move be in order to help the Nepalese Stock Market growth?
- a) Develop more stock exchange all around the country so that people from every part of the country may take part in the trading of securities
  - b) Stabilize the political environment so that the investors feel secure to invest
  - c) Amendment in the current rules and regulations binding the stock market
  - d) Increase the number of brokers

