

CHAPTER- I

INTRODUCTION

1.1 Background of the Study

Capital market plays dominant role in the economy for developing and underdeveloped nations. Capital market contributes to gain economy growth. There is no way to gain economy growth until capital market is operating smoothly. Therefore capital is the backbone of the country. Capital market also provides the capital formation. It generates the investment that is saving of individuals are directed towards productive sector.

“Security market is a mechanism created to facilitate the exchange of financial securities or assets bringing together buyers and sellers of securities. Securities markets provide an effective way of procuring long term fund by issuing shares and debentures or bond for corporate enterprises and government at a same time provides an investment opportunity for individuals and institutions. Thus the market place for these financial securities is called securities market which is further sub divided into the primary and secondary market. The security market plays an important role in mobilizing saving and channeling them into procedure investment for the development of commerce and industry for the country. It basically assists the capital formation and economy growth of the country. In many developing countries like Nepal, the underdeveloped capital market is still prevailing in the economy. The Nepalese securities market still could not take its height. The further improvement of this market is very crucial. It helps in accumulating even small saving for development activities of the economy otherwise which would have spent in unproductive areas but it is true that there is no presence even organized money market in rural areas which covers almost 90% of the total area of the country. Thus the securities market is only confined to the very limited urban areas of Nepal” (*Gurung,2004; 1*).

NEPSE has a leading role to play to raise fund and to provide capital formation in the economy. But there are many problems faced by securities market. Those are: agro

based economy, lack of political stability, information are not available to the investor, inefficient market etc. Though these problems are prevailed, it has tremendous opportunity. Those are: Expansion of market, trading of government securities etc.

Stock market may affect the economy activity. It creates liquidity. Although some analysts said that stock market in developing country's play little positive role in economy growth, however recent evidence show that stock market can play a prominent role, giving a big boost to economy development for the developing country like Nepal. Many profitable investments require a long term commitment of capital but investors are often reluctant to relinquish control over their saving for long periods. Stocks provide the best investment opportunity to the investor. It also provides liquidity to the securities. The liquidity affects the economy activities and there by affects the development of the country. The level of liquidity is influenced by the price formation of the stock in the stock market. So in order to maintain the high liquidity in the stock; the stock market has to be efficient in all aspects.

In Nepalese context, an investment trend of securities market has been increasing trends like no. of listed company, turnover, capitalization, NEPSE index etc. Its shows that positive aspects in the Nepalese capital market in which different investors are invest in securities. It is discussed about different problems and prospects of securities markets in this thesis and also analyzed the trend of NEPSE index, turnover, market capitalization, no. of listed companies and behavior of stock price by using different tools and technique to find out the problems and prospects of securities in Nepal. There are limited external sources of financing because of less develop financial market in the economy. The savers and investors are often the same entity in the Nepalese economy which is one of the discouraging factors for the rapid growth of investment in productive activities. The relationship between financial development and economy growth with focus on development role of stock market has been in debate for same time in past. Empirical studies suggest that financial development does matter and stock market do spur economy growth. Unfortunately, in Nepal, despite a history of about half a decade of planned economy activities to develop real sector of the country, little attention was paid to the development of financial sector. However, most of the developments were confined to the banking sector. Stock

market has remained still because of the low priority in the government's financial reform policies.

First of all, Biratnagar jute mill was able to issue the share. The main objective of issuing share was collection of fund by the public and to invest the productivity sector. But now a day's several companies have raised in the form of issuing company like financial and nonfinancial company in Nepal. But the development of capital market in 1976 A.D., stock market began with the flotation of share by Nepal Bank Limited (NBL) and Biratnagar Jute mill Limited (BJM) in 1937 A.D. After 1956, the policy of government to maintain control of the financial sector by restricting the entry of private sector into financial activities that didn't support the financial sector in the country. Securities exchange center was established 22 Ashad 2033 B.S. under the company act 2021 B.S. It was established with the objectives of facilitating and promoting the growth of capital market. Before conversion into Nepal Stock Exchange (NEPSE), it was the only capital market institutions undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. His Majesty's Government under a program initiate to reform capital markets converted securities exchange center into Nepal Stock Exchange in 1993 A.D. In Nepal, there are 145 listed companies, nine issue manager, 23 brokerage firm to provide service of securities and Nepal has an only one stock market(*Bhattarai 2006:1-2*).

Securities Exchange Center was established at 22 ashad 2033 B.S. with an objective of operating of stock market and developing of capital market through mobilizing of internal capital. At that time, it was authorized capital 200 lakhs, issued capital 57 lakhs and paid of capital is 56.19 lakhs (*Bhattarai 2006:4*).

According to securities exchange act 2049 B.S., it was converted into Nepal Stock Exchange in 1993 A.D. It was also called NEPSE in short form. The basic objective of NEPSE is to impart the free marketability and liquidity to the government and corporate security by facilitating transaction in its trading floor through member market intermediaries, such as brokers, market makers etc.

Table 1.1
Capital Structure of NEPSE (In Rs 10 lakhs)

S.N.	Share holders	Amount	Percentage
1	Government of Nepal	20.48	58.67
2	NRB	12.08	34.60
3	NIDC	2.14	6.12
4	Other members	0.21	0.62
Total		34.91	100

Sources: NEPSE Report 2061/62

The largest shareholder of NEPSE is government of Nepal. It has more than 50% share and government of Nepal was invested Rs 20.48 lakhs in the NEPSE and smallest shareholder of NEPSE has other members. It has only 0.62% invested in NEPSE.

Securities board of Nepal was established on June 7, 1993 as an apex regulator of securities market in Nepal. As per the securities acts 2006, the major objectives of the SEBO/N are to regulate issue and trading of securities and market intermediate promote the market and protect the investor's right. The duties and responsibilities of SEBO/N are as follows.

- Register securities and approved prospectus of public companies.
- Provide license to operate stock exchange.
- Provide license to operate securities business.
- Give permission to operate collective investment Scheme and investment fund.
- Profit regulation, issue directives, guidelines and approved by laws of stock exchange.
- Supervise and monitor stock exchange and securities business activities.
- Take enforcement measure to ensure market integrity.
- Review reporting of issue manager and listed company securities business persons.
- Conduct research, study and awareness programs regarding securities market.
- Coordinate and cooperate with other domestic as well as international regulators.
- Frame policies and programs relating to securities markets and advice the government of Nepal in this regard.

Development of economy and growth of stock market is related sector each other when the strong economy market in the country than the growing stock market. Increasing employment, per capita income, economy growth rate, industrialization, exports companies' performance and controlled inflation all provide strong support to the growth in the stock market.

In Nepal, economy growth rate is less than inflation rate and increasing trade deficit is means the very slow of economy development in Nepal. Therefore stock market is not properly strong capacity in Nepal.

1.2 Statement of the Problem

Nepalese capital market is very small on comparison to other developed stock market. There are few members of broker, limited no. of listed companies, and very few transaction of share. In Nepal, It has solo stock market i.e. Nepal Stock Exchange, so investor does not gain arbitrage opportunity.

Though Nepal has small capital market, financial sector and Hydropower sector have been flourished. New companies and new financial institutes have been established. New sector of investment are identified and are implemented. By these reason, this small market has been enlarged day by day. So, we have studied about the investment trend through NEPSE index.

Basically, the problem of stock market in Nepal are limited no. of listed companies, small capital market, inefficient market, lack of proper rationalism of investor, lack of appropriate information as required time frame, incorrect trading system because few investor can affect the whole capital market etc. (*SEBO/N,2005:51*).

Stock market is affected by political changes and with this change, it makes up and down in the share price. Due to lack of coordination between investors, shareholders and any other interested people cannot take information, new perfect knowledge of the company. At this situation investor are attracting in bonus right offering than dividend. On the other hand investor invested in the securities without analysis of financial performance of the company. Stock market is centralized only on the Kathmandu valley. So out of valley, investor has not sufficient knowledge about the stock market.

The major problems of the stock market are lack of institution of investment consultancy, more gap between real and market price of the share. (*Manandhar, 2004:39*)

The regulating and monitoring body of the market is unable to make the appropriate policy for the development of the stock market. Few person or investor may be able to influencing the whole share market with the hike and liquidity and are made the secondary market left the positive and impacted on the capital mobilization in the economy. (*New Business Age, feb2004:47*).However this upward movement in the stock value did not remain for long. In our market, ordinary stock is maximum proportion of the other capital like debenture and preference share but right option, warrant, future contract are not used in Nepal.

The development of stock market in Nepal is both challenging and difficult. The view point of number of share transactions, public interest toward stock market etc indicates the low performance of stock market. Stock market is also facing such problems like lack of strong professional analysist for individual buyer and seller, untrained manpower and management delay in transfer of share, rational investor exists from Nepalese stock market. Because of embryonic nature, Nepalese stock market is not efficient to evaluate the price of the stock (*Shrestha, 2008:12*).

The study deals with the following issues:

- Are the investors rational about the stock market?
- Is sufficient information available?
- How is price movement of commercial banks?
- What is the investment trend of Nepalese stock market?
- What is problem of Nepalese stock market?

1.3 Objective of the Study

The main objective of the study is to identify the existing condition of the stock market problem faced by stock market and to analyze the price movement of commercial bank in Nepal. To fulfill the above objectives the following specific objectives are set:

- To examine the investment trends of securities.
- To evaluate the problems and prospects of securities investment in commercial banks.
- To analyze the daily price movement of listed commercial banks in Nepal.
- To make recommendation on the basis of findings.

1.4 Significance of the Study

Stock market is an indicator of economy. Some says it is a mirror of economy. While stock market is moving upward, economy is being sound and vice versa. It also represents the country policy towards industry. It helps to analyze overall country's gross income, saving, investment and consumption.

This study may help to find answer of question in terms of how an investor makes decision about what securities to invest in and when they should be made, to analyze present state of pricing on secondary market in Nepal and help people to suggest how to analyze and take right decision to invest in stated securities. Investment in the stock market needs some knowledge about how the market operates.

The following points will be the importance of this study.

- The study provides literature to further researchers in this area because it helps to find out research gap to researcher.
- The research will be beneficial to the university students who are curious to know the investment trend of securities in Nepal and major problems faced by Nepalese stock market and its prospects for the development of the stock market.
- It can be beneficial to the investor who has not sufficient knowledge about the stock market.
- It can be useful for security market to formulate appropriate policy.
- It can be beneficial to the all related or interested person (Broker Company, staff of NEPSE, SEBO, and issue manager) about the stock market.

1.5 Limitation of the Study

Every study will not free from some constraints. So the research study has also some limitations which are below.

- It is only concerned with stated share of commercial banks. So the result cannot be obtained thoroughly in overall investment in securities in Nepal.
- The study is limited only to investment trends, problems and prospects of the stock markets.
- The study covers only seven years (2002/03 to 2008/09).
- Time, finance and authentic information are also the major limitation of the study.
- The study is only based on five listed commercial banks.

1.6 Organization of the Study

This study has been organized into the following five chapters.

- Chapter one : Introduction
- Chapter two: Review of literature.
- Chapter three: Research methodology.
- Chapter four: Presentation and analysis of data.
- Chapter five: Summary, conclusion and recommendations.

Chapter one focus on the subject matter of the study consisting background of the study, profile of concern banks, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study.

Chapter two contains the review of literate. It includes conceptual framework and review of past studies articles, journals and newspaper etc.

Chapter three explains the research methodology including research design, source of data population, sample size, data collection procedure, different tools and technique etc.

Chapter four deals with analysis and interpreted of data using primary and secondary source of data.

Chapter five is the last chapter of this study. It deals the summary, conclusion and suitable recommendations.

CHAPTER- II

REVIEW OF LITERATURE

This chapter deals with the review of related studies and different aspects of this topic “Investment trends, problems and prospects of securities in Nepal” in more details and descriptive manner. In the context of Nepal, there is not any social research studies have been available regarding the stock market behavior and decision making while investing in securities.

Generally in this study there are two parts, first part is the conceptual review and the another part is the Review of previous studies, various books, journal, published and unpublished documents such as: articles, some research reports prospects of the particular selected companies are consulted and reviewed. Two parts of the study are as follows:

2.1 Conceptual Review

It works as a theoretical framework in the field of research. All the basic knowledge requires in the field of research can be cleared from the conceptual review. The concepts of those required basic knowledge are as follows.

2.1.1 Capital Market:

Capital market is such financial market where long term securities are transacted. It is also called long term financial market. In the capital market in which financial assets with a term to maturity of typically more than one year are traded, government and corporations are issued the long term securities. Generally capital market mobilized the national saving fund issued the shares, debenture and bonds of organized corporation.

Capital market means anybody or individuals, where incorporates or not, constituted for the purpose of regulating or controlling the business of buying and selling or delaying in securities (*Valla, 1997:21*).

Capital market deals with financial assets or securities. Securities will be fairly priced in the capital markets if they are efficient. Capital markets are considered to be efficient if the prices of securities reflect the available information. Depending on the extent of the information being impounded in the securities reflect the available information. Depending on the extent of the informant being impended in the security prices, capital markets may be efficient in weak semi-strong or strong form, capital market consists of two components the primary capital market and the secondary capital market (*Pandey, 2002: 430*).

The Nepalese capital market in open market securities is in its infancy stage the government established security marketing centre in 1976. And enacted securities exchange Act in 1983 to promote and regulate the market of open market securities. Then after, the center started secondary market operation by listing corporate securities. In a bid to activate the capital market the government massively amended the Act, constituted security exchange board, and converted securities exchanges center into Nepal stock exchange with these superstructure facilities Nepal stock exchange now provides full fledged secondary market. As of mid-July 1994, it operated with the help of 6 market makes and 25 brokers and listed Rs. 2182 million worth of securities paid up value of listed securities of 66 listed companies (*Shrestha, Paudel and Bhandari, 2003: 42*).

2.1.1.1 Primary Market

The primary market is that market where newly issued of by the company or primary issue of securities are traded. In other words primary capital market is a conduit for the sell of new securities. New or listed companies may make the public issues of shares. The initial public offering (IPO) is the public issue of securities by new companies for the first time. A primary market is the place where corporations and government issue new securities. All securities, whether in money and capital market are initially issued in the primary market? This is the only market in which the company or government is directly involved in the transaction and receives direct benefits from an issue that is; the company actually receives the proceeds from the sell of securities (*Bhattarai, 2006:11*).

As in everywhere else there are three parties involved in primary market of securities in Nepal. They are (1) Securities issuing companies /government, (2) Securities buyers /investors and (3) Issue manager performing the functions of merchant bank. The government and public limited companies issue securities. General public, for profit and nonprofit organizations are the buyers /investors of securities and financial companies licensed to carry out merchant banking activities (work as manager of issue in Nepal.) (*Shrestha, Paudel and Bhandari, 2003: 29*).

2.1.1.2 Secondary Market

The secondary market is that market where existing outstanding securities are bought and sold. In other words the second time issue of securities is called secondary market. A stock exchange provided the following useful economic functions:

- Help determining fair price based on demand and supply force and all available information.
- Provide easy marketability and liquidity for investors.
- Facilitate in capital allocation in primary market through price signaling.
- Enable investors to adjusting portfolios of securities (*Pandey, 2002: 424*).

2.1.2 Securities

The terms security will be used to refer to a legal representation of the right to receive prospective future benefits under stated condition (*Sharp, Alexander and Bailey: 6th edition: 3*). The primary task of security analysis is to identify mispriced securities by determining these prospective future benefits, the condition under which they will be received, the likely hood of such conditions. (*Sharp, Alexander and Bailey: 6th Edition: 3*). There are major securities of capital structure are as follows:-

- a) **Ordinary Share /Common Stock** :- common stock of a company are papers which represents ownership shareholder enjoy right to dividend , right to vote and right to right shares.
- b) **Preferred Stock**:-preferred stock given a fixed income security, so it is a fixed income security. The preferred stock holder gets first priority for dividend and

liquidation right. But after priority bonds and debenture holders, preferred holder has no voting right except same special condition.

b) Debenture /Bond: -

Debenture gives a fixed interest instead of investment on debenture or bond. According to the length of maturity, debt securities are classified into two classes i.e. short term debt security and long term debt securities. In the short term debt securities, there is commercial paper, certificates of deposit, banker acceptance, T-bill etc. In the long term debt securities are government securities, corporate securities, municipal securities etc.

2.1.3 Fundamental and Technical Analysis

a) Fundamental Analysis

Fundamental analysis is based on the fundamentals of the information relatively to the companies. The persons who analyzed the securities on the basis of facts and figure is called a fundamental analysis. Fundamental analysis consists of such risk, earning dividend, growth rate etc. Fundamental analysis approach involves analyzing the different sectors such as economic influences, industrial factors, government action. Firm's financial statement, its competitor and pertinent company information like product demand earning, dividend and management in order to calculate and intrinsic value for firms securities.

“Fundamental analyses delve into companies earning their management, economic outlook, firms competitors market conditions and many other factors” (*Jack Clark, 1986:398*).

b) Technical Analysis

Technical analysis determined the market value of securities by the interaction of supply and demand. Technical Analysis presents the past data in charts and predicts the patens of future prices. In this approach, different charts and diagram are used to Analysis the securities. Therefore, such an analysis is also called a chartist. The past data are used to Analysis the securities and thus the technicians tend to look backward and they think life about future earnings and dividends.

According to Edwards and Magee the following are the assumptions of technical Analysis

- Market value is determined by the interaction of supply and demand.
- Supply and demand are governed by number of factors both rational and irrational.
- Securities price trend to move in trends that persist for an appreciable length of time, despite minor fluctuation in the market.
- Changes in a trend are caused by the change in supply and demand.
- Shifts in supply and demand, no matter why they occur can be detected sooner or later in charts of market transactions.
- Some chart patterns tend to repeat themselves.

2.1.3.1 Technical vs. Fundamental Analysis.

- Technical Analysis believes that past patterns of market action with recur in the future and therefore they can be used for predictive purposes.
- Technical Analysis estimate prices instead of values.
- Technical Analysis ignores the facts of fundamental analysis such as risk earnings, dividends, growth rate etc.
- Some analysis use both the techniques but think of technical analysis to be superior to fundamental Analysis, because technical analysis is easier, faster and can be simultaneously applied to more stocks than fundamental analysis is can be.
- Much technical analysis would say that fundamental analysis is not worthless, but it is just too troublesome to bother with. Fundamental analysis is hard work; manipulated income statement cannot give an accurate estimate of value and should wait for price increase at under priced securities.

2.1.4 Prevailing Securities Legislation and Other Related Acts

Prevailing Securities legislation

- Securities exchange Regulation, 1993.
- Membership of stock exchange and transaction bylaws, 1998.
- Securities listing- Bye laws, 1996.
- Issue management guidelines, 1997.
- Securities allotment guidelines, 1994.

- Securities Registration and issue approved guidelines, 2000.
- Guideline on Business of Ethics for securities brokers, 2001.
- Bonus share issue guidelines 2001.

Other Related Acts

- Insurance Act, 1992.
- Foreign exchange (Regulation) Act, 1962.
- Foreign investment technology transfer Act, 1992(*Bhattarai; 2006:.38*).

Other newly laws appear in the annual report of SEBO 2006/2007 are:

- Securities related act 2006.
- Securities Board of Nepal Regulator, 2007
- Stock exchange regulation, 2007
- Securities business Person Regulation, 2007.
- Draft securities registration and issuance regulation, 2007 etc.

Major Regulating Agencies

- Securities Board of Nepal (SEBO/N).
- Nepal Rasta Bank (NRB).
- Company Registrar's office (CRO).
- Nepal Stock Exchange (NEPSE).
- Insurance Board.
- Concerned ministers of Nepal government

2.1.5 Major Problems Faced By Nepalese Securities Market.

At present there are many problem faced by the Nepalese securities market. In Nepal, the commercial Bank provided low interest rate in deposit. Its direct affect on the economic development of Nepal because interest rate and inflation rate is the main variable indicator of the economy. In Nepal inflation rate is higher than interest rate. As a result saving has decreases and production and GDP also Decrease. On the other hand, Nepalese capital market is very small and is only one stock market so there is no arbitrage opportunity and investor has not sufficient knowledge to invest in the securities.

There are not enough public issues to meet the demand of all retail investors. The performance of the companies is also unable to meet the expectations of the stakeholder's interest as in the sense that they are unable to provide the minimum acceptable rate of return to the investors. If we analyze the present status of securities market of Nepal almost every public issue has been oversubscribed during 15 years. It shows impressive response from retail investors but it can also be interpreted as the sufficient knowledge of investor about the capital market and the main problem faced by stock market are as follows:

1) Lack of Appropriate Rules and Regulations

Due to the lack of appropriate rules and regulations affect the stock market in Nepal. The security Laws are unclear and inadequate from several aspects. Process and procedure for enforcement and investigation in securities legislation are not clear. This restriction causes the unethical and unfair market practices.

2) Lack of Political Stability

Political instability creates the Negative Environment to the investors. So in which country there is political instability. In that situation there is more fluctuation on share price.

In Nepal, there are suffering from poor law and order situation, violence obstructed the regular movement of the activities of the government. Due to this reason the investor's desire and expectations has been changes to invest from the securities to other sectors.

3) Lack of Institutional Support for Training to make Qualified Manpower

Stock market is more dynamic market than other market. So, well trained, brilliant and hard working staffs are required for the successful operation of stock exchange. But there is no more institutional support for training to produce qualified manpower.

4) High Cost of Public Issue

Cost of public issue (i.e. underwriting cost adverting printing and other expenses, collection and refund change and issue management commission) is relatively high in Nepal as compared to neighboring countries the aggregate cost of public issue is 0.34% at minimum and 24.25 % at maximum of the issued amount in Nepal and this

cost is 7.10% or at minimum and 10.30% at maximum in India (*SEBO Journal, Oct 2005: 51*).

5) Lack of Accounting and Auditing Standards

In Nepal due to the poor Accounting and auditing practice that do not show the real picture of corporate sector. Therefore are not well informed. They cannot take rational decision that which securities are to buy and to sell. In this circumstance, share market becomes more volatiles. Investors bear more risk in comparison to return.

6) Lack of Efficient Tax Policy

There is a need to rationalize tax policies towards capital formation and to encourage the private sector on secondary market transactions. There is the high level of taxation of transactions executed on the stock exchange. Stock brokers pay once third of commission earned in the form of transaction taxes or fee to the NEPSE. This market is taking high transaction cost and capital gains. High transaction cost and capital gain taxes discourage investing in the stock market and reduce to market liquidity. Another way, tax offices have wide discretionary powers and this leads to reluctance on part of companies to published objectively audited accounts which in turn deprives the investors the essential basis for judging such company. In the absence of true information investors are reluctant to invest in the share of those companies. So, unsuitable tax policy also is one of the problems having in the Naples capital Market.

7) Insufficient Knowledge and Information Problem to the Investor

The regulatory authority role to educate general is also not sufficient. Most of all small investors do not know when and how to sell and buy their shares. They do not know how the stock market functions and what should be their return whether their company is functioning satisfactory or not etc.

On the other hand, the main factor affecting to the Investors is the lack of information at timely and properly. Though, NEPSE is publishing annual report, trading report and financial information of listed companies it has not been so transparent and most of the times these have been found incomplete for public purpose. Thus the lack of stock market statistic has also infinite squeezing the turnover level as well as slow growth of Nepalese stock market.

8) Low Capital Formation

Capital is like a life blood of the every business. Capital is needed to smooth operation and developing the business. In Nepal there is slow formation of capital. It required for investment in business is raised from capital formation. The capital is formed from the saving of the people. Nepal, being an underdeveloped country, with 90% of the population dependent on agriculture, has too low income to make sufficient saving. Even the saving are spent in unproductive activates rather than in commercial or industrial activities. Thus, due to the low saving and hence low capital information the primary market could not develop in Nepal.

9) Limited Market

In Nepal, around 90 percentage of the total population depend on agriculture and the rural area of the country is more than urban area. Due to these report the market of securities is limited in urban area. Here is only one stock market (i.e. NEPSE) therefore; the investor would not gain arbitrage opportunity from the market. There is a major problem of stock market in Nepal.

10) Inadequate Infrastructures

Infrastructure is also a major problem faced by Nepalese stock market. Since, major parts of the country is cover by the hilly region ,good roads ,school ,college, postal service and communication and transportations facilities are not available easily in that area. Due to the inadequate infrastructure like efficient communication, transportation, different resources, trading place those who wishes to invest in stock market also cannot do properly.(*SEBO,Journal, June 2004:58*).

2.1.6 Prospects of Nepalese Stock Market

Capital plays a vital role in the economic development of a country. Being a capital deficient country, Nepal has to make every endeavor to mobilize available capital efficiently on secured markets providing mobility of the scattered saving. Retail investors with limited capital fund could also participate in the industrial development process of the country through their investment in the securities. However, both individuals and institutions are putting most of their saving into bank deposit and

bullion market because of the present state of the security market. Thus, long-term saving that should be invested in the securities markets are going into short term investments. Presently, stock exchange facility is available only in Katmandu valley. Hence, there is a scope of expanding this facility in other region of the country. Privatization of public enterprises such as Nepal telecommunication and other public enterprises has issued share. This provision was made by HMG/N In the budget speech of F.Y.2003/04. It could provide a huge investment opportunity in the securities markets (*SEBO, Journal, June 2004:78*).

➤ **Strategic Plan Launched By SEBO**

With the objective of carrying out the market development activities in a planned way, SEBO has brought the five years strategic plan (2002-2007). The strategic plan will help for the improvement in the legal and regulatory framework of the capital markets. The major strategic plans are as follows

- To modernize the security market.
- To make effective regularity system of security market.
- To increase and expand the capital market through the proper allocation and operational efficiency.
- To make transparent and the viable to the security market system.
- To increase the depth and breadth of security market.

➤ **The Electronic System of Trading**

NEPSE has launched a computerized technology so that all transaction and related activities are done by software and online trading. It helps the efficiency of share transaction in stock market. It also the major prospects of stock market in Nepal.

➤ **Investment On Tourism and Hydropower Sector**

Tourism and hydropower sector can be the backbone of Nepal's economic development. Hydropower projects, in particulars are long term investment projects and Nepalese banks which normally lend for short term purpose; cannot be a suitable source of financing. Hence the issue of debt securities for this purpose could provide a strong dynamic for the development of the securities market in Nepal.

➤ **Facilities to Entry and Exist of Securities Business Person.**

Corporate bodies willing to operate securities business such as issue manager, stock broker, share register etc. have applied for SEBO's permission. However there is a lack of clear provision in the prevailing securities legislation regarding the entry and exist of securities business persons. So, necessary provision has been incorporated in the proposed security exchange act. Besides, initiatives to facilitate the entry and exist process being taken under the framework of present securities legislation. This is also one of the gates for the development of Nepalese stock market.

➤ **Growth of Stock Market Indicators**

Generally, in Nepalese stock market, its indicators are increasing in yearly figure. NEPSE Index was 226.03 in 1993/94 and NEPSE Index crossed 1100 points at 6 Aug 2008, it indicates that the potentials of development of stock market in Nepal is very high.

➤ **Opening of OTC market in Nepal**

Currently, the OTC market is open for security exchange in Nepal. The SEBO/N has provided authority for the operations of OTC market on 27 may 2008. It has been operating from 4 June 2008. Forty companies are delisted which is traded in OTC market, but not listed in Nepal stock exchange. It also may be prospects of the Nepalese stock market.

2.2 Review of Related Studies

Various related studies have been found in the field of share market in Nepal. There are as follows:-

2.2.1 Review of International Context

Researches studies have been done internationally on the stock market .Some of them are as follows:-

Levine in his article "Stock markets growth and tax policy" published by Blackwell publishing for the American finance Association addressed the question: how does trading of financial assets and tax policy affect economic growth? The paper examines a model in which liquidity and productivity risk elicit the creation of a stock market

and studies how the resulting stock market changes the incentives of investors in ways that alter steady state growth rates. In particular, stock markets accelerate growth by (1) facilitating the ability to trade ownership of firms without disrupting the productive processes occurring within firms and (2) allowing investors to hold diversified portfolios. Stock market arises in this model to help agents manage liquidity and productivity risk, and in so doing stock markets accelerate Growth. In the absence of financial market firm specific productivity shocks may discourage risk adverse investors from investing in firm's stock market, however allow individuals to invest in a large number of firms and diversify against idiosyncratic firm shocks. This raises the fraction of resources allocated to firms expedites human capital accumulation and promotes economic growth.

Dunn in his article "problems of the postwar capital market" published by stage publications, Inc. In association with the American Academy of political and social science, he had recommitted that the capital market are as follows:

The creation of voluntary, community – sponsored business financing corporations on the pattern of the "Industrial foundations" should be encouraged a major function of these agencies should be the position of a meeting grown for investors and business in need of funds. The contacts between such parties should be uniformly drawn with their major provisions subject to the decision of the agency. The existence of this service should be widely publicized and every effort should be made to draw the attention of investors to local opportunities.

Banking institutions should make avoidance research advisory and management service which will permit them to liberalize lending with little hazard to liquidity.

Banks should create Joint insurance funds in a form somewhat like a credit pool to permit the liberalization of lending practices especially with respects to term and installment loan.

The question of publicly financed and managed agencies should be made the subject of further study to be undertaken in the light of the success of the voluntary measures purposed and in consideration of the probable effects of pending federal legislation to extend the lending service of the reconstruction fiancé corporation to equity investments in small business.

Ziembra and Schwartz in his article “The Growth in the Japanese stock market, 1949-90 and Prospects for the future” has highlighted the growth of Japanese stock market more than other stock market of the world. He had found that the end of 1988 market share to be: united states, 32.6% Japan, 39.0% Europe 22.2% and all others 6.2% therefore Japan’s market share is still larger than that of the united states but by not as much.

Europe’s share increases only slightly because many of the major European market’s also have large cross heading that are nearly as large as those in Japan. The two economic in the world that seem to be doing best today, Japan and Germany, book have very large cross holdings. This effect on the resulting business practice leads to better relationships, product quality, sales and long – run profits.

Pandey in his Book “Financial management” has explained that the capital market in India the first stock exchange is the Bombay stock exchange was established in 1875. Now there are 23 stock exchanges in India. The number of shareholders has increased to about 30- 40 million. There are about 9000 listed companies. Both the market capitalization and volume of trades have shown general growth, although they have fluctuated over years.

The Indicator of stock market reflects the development of an economy it is important to predict the curse of national economy because economic activity affects the corporate profits, Investor attitudes, expectations and ultimately securities price. The key for the analysis is that overall economic activity manifest itself in the behavior of stock price or the stock market .This linkage between economic activity and the stock market is critical (*Fisher and Jordan, 1990: 20*)

2.2.2 Review of Nepalese Context

The future of NEPSE depends on the economic policies of the government. The government has to spell out clearly what policies it will follow. For example when there was a talk to the Maoists, they forced to adopt us socialist type of economy. It had a negative reaction type of economy. It affected a negative reaction in the stock market. When government policies are not clear investors will adopt a wait and watch

mode which is not good for the economy. An investor needs to feel secure of his/her investments. Within the last decade a strong foundation for a liberal economy has already been laid and trying to break that will push us further down the drain (*Boss, August 2009:64*).

The major drawbacks of NEPSE are as follows: - One major drawback is the absence of central depository system (CDS). What is happening at present is that according to regulations we are suppose to transfer ownership names on to share certificate within 15 days but in reality it takes two to three months. Another drawback is that NEPSE has not been able to act as an economy barometer because it is mostly concentrate with financial institutions. And next is ratio of trading turnover to market capitalization has not gone over 5 percent which should have been 40 to 50 percent for a developing market. And the other hand when we looked at our annual trading to GDP, it is only one percent which should have been at least 25 percent. Lastly, with the professionalism of stock brokers who are mostly concentrating in taking fees for transaction, they should be counseling investors too. Also, the number of brokers has gone down. The lack of institutional investors has hindered the growth of stock market (*BOSS, Aug.2009:64*).

The factors which helped to push the NEPSE, which are as follows: First, more than 90 percent of the market is dominated by banks, finance companies and insurance companies and the financial performance of these companies is continuously improving. Second, the stock market is totally concentrated in the Kathmandu Valley and the people feel safer in this area. So the people have feel safer to invest in the stock market. Third, the Nepali stock market has no impact from the situation out of the value. If there is some such effect the people who had their investment in the assets outside the valley have diverted in to the stock market in the valley. Fourth, the buying and selling pressure in the market is totally dependent on the valleys limited investors. Fifth, there is the diversion of the investment from gold to the stock market. Lastly, as the opportunities to invest in other sectors are limiting, the people are increasing investing in the stock market (*New Business Age, February 2009:47*).

The primary and secondary stock markets are gradually improving in Nepal. There is a growth of both market in terms of various indicators such as number of new issue companies ,volume of new share ,volume of shares, no of listed companies ,capitalization ,no of shareholder ,however with in the short period ,stock market faced with both boom and bearish trend (*Shrestha,2005 :28*) .

The empirical results shows that the stock market has not been developed us enough to effect and push development of various sectors of the economy. Lack of promotion and expansion of economy the stock market is in infancy stage .It means the Nepalese stock market is still small and capture limited sector of the economy .Therefore the result is consistent in Nepalese context that increase in GDP pushes capital market to enlarge and expand (*Shresthas,2005:28*) .

The NEPSE index that was 494.59 points in mid April 2007 went up 78% by the beginning of the October 2007 and it is approaching 900 marks. Increasing expectations of the investors towards the bonus and right share from the financial institutions are pushing the market every day. Due to this, the investors are not heeding the warnings issued by the regulations. They are not caring about the current fluid political situation either furthermore; the bull-run is leveraged by the automated trading system and manipulation by the well known but not declared market saddlers. The automated trading system has enable the broker to increase the market by quoting the market price in the maximum range and executing the transaction in a small no of shares, thus creating an .artificial scarcity of the shares (*New Business Age , October 2007:46*).

At present, retail buyers are increasingly pushing the index up. The new investors should be very careful not to be fooled .Meanwhile, Security Board of Nepal (SEBO/N); issuing a press statement has urged the investors to be very careful while investing “Be careful of the noise creators who can mislead.” States the press note. Investors might find themselves on the road over night ,if they do not look at profit and loss account management, income per share, book value, risk factor and financial health of the company, warns the board, the regulatory authority of the capital market (*Himalayan times, 6 Aug2009:11*).

2.2.3 Review of Masters Degree Thesis

There are many masters degree thesis prepared by various researchers in the past year. Among them, some thesis are reviewed.

Khanal (2003), in his thesis “Growth problems and prospectus of stock market in Nepal” shows the major objectives as follows:-

- To study the growth trend and current position of stock market in Nepal.
- To find out the existing problems faced by the Nepalese stock market.
- To examine the sector- wise financial status of stocks in Nepalese stock market.
- To analyze the prospectus of Nepalese stock market.
- To suggest improvement in stock market of Nepal.

The analysis of this study is based on both primary and secondary data. He had taken the whole stock market as a sample and he had taken the different tools: GDP, Interest rate, inflation, trend analysis etc.

From the study he found the following conclusions:-

- The aspect of the liquidity in the stock market is not functioning well in Nepalese stock market. There is almost no liquidity in the stock market for shares except that of banking and some financial and insurance sector.
- The manufacturing sector do not have good performance in Nepalese stock market due to the reasons of all firms in this sector have sustained loss.
- The investors are interested to invest their resource in the shares of corporate through the stock market in the Nepalese economy.
- Nepalese stock market is the infancy stage and NEPSE is the only one institution in the country.
- Transparency and openness of transaction, quality professional services, adequate corporate financial disclosures and improved legal, regulatory and supervisory frame work are the urgent needs of Nepalese stock market.
- Investors’ confidence in Nepalese stock market relatively low because of stock market volatility, low return in investment, inadequate information, lack of financial market instruments.

He makes the following major recommendations:-

- The number of staff should be adequate and properly trained in all aspects of securities market.
- The government should formulate appropriate policies for improving the environment for private sector development for efficient mobilization of saving through the stock market.
- The government should allow foreign investors to invest in Nepalese capital market.
- The bodies of SEBO should developed public awareness and investor's education program.
- There should be efficient coordination and cooperation among SEBO/N, NEPSE and NRB In order to develop the stock market.
- The NEPSE should be computer based technology in trading system.

Timilsina (2007), in his thesis "Investment trend of securities in Nepal" tries to show the trends of Capital market problem and its impact on the economic development in Nepal. He set the major objectives as follows:-

- To find investing trend of securities in Nepal of stated commercial banks in NEPSE.
- To find out the problem and prospective of investing securities in Nepal.
- To analyze individual behaviors to take a decision of investing in securities.

The analysis of this study based on both primary and secondary data. He had taken five commercial banks as a sample of total listed commercial banks. He had taken the different tools to analysis like, Trend analysis, Technical Analysis.

After the analysis of this study, He found the conclusions are follows:-

- The investor is not conscious to take investment decision due to the lack of sufficient knowledge.
- The activity on the stock market and the share price are determined by the excessive speculation, they have little correspondence with fundamentals real performance of the economy.
- Due to the political instability are the prominent factors for the under development of the security market in Nepal.

- Market index reflects market trends and it takes all issues listed on the exchange on the account.

He recommended as follows:-

- Investor must be beware about the stock market.
- Investor should read the morning journals as well as daily newspaper for sufficient knowledge.
- The investor should always be aware of the daily stock price and volume traded figure of stock price records published by NEPSE.
- The investors should not “act on whim” and should properly analyze the study the market trends before making their investment decision.
- Investors awareness programmer should be launched the provided with investment guidelines.

Shrestha, (2008) in his research on “Growth and Prospects of stock market in Nepal” describes about the growth of Nepalese stock market and its prospectus. The main objectives of her researcher study are as follows:-

- To assess the situation of the stock market in Nepal.
- To analyze the growth trend of Nepalese stock market.
- To evaluate the problems in Nepalese stock market.
- To examine the sector wise financial status of stock in Nepalese stock market.

The analysis of this study based on both primary and secondary data. She has taken five commercial banks as a sample. She has taken to analysis the different financial tools i.e. trend analysis, expected return, Standard deviation and coefficient of variation etc.

In her study, she tried to find out the problems related to the capital market and current situation of stock market in Nepal. Major finding are as follows:-

- Most of the people use to take guidance from friend rather than stock broker.
- Mainly investor motives about the return and asserts price appreciation.
- More than 80% people said the information provided by the company to NEPSE is not appropriate.

- Current rules and regulation of NEPSE and SEB O/N are not sufficient to develop stock market.

She makes the following major recommendations:

- Investor must have sufficient knowledge about the securities to invest.
- The trading system of NEPSE should be modernized or computerized.
- Free information about stock market must be available in the market.
- Companies should be maintaining their financial statement structure according to the international accounting standard.
- The government, regulating Authority the stock exchange, listed companies, market players etc should understand their respective roles and play their roles with sincerity.

2.3 Research Gap

There have been done several researches in stock market. All of those researches have many fruitful finding and their own limitation. For example, Khanal(2003) shows descriptively theoretical point of view rather than practical bases. He has done research in stock market growth trend through the NEPSE index, market capitalization and turnover etc. but not used any technical Analysis to show the price fluctuation which is the most important factor for Analyzing the growth/ trend of stock market.

Timilsina (2007) tries to show the trend of stock market including problem but it is not enough to Analysis the market. His analysis only based on total market like, NEPSE, Index, turnover, capitalization etc but not separately analyzed commercial bank. This is mainly base on investment trend of securities only.

Shrestha (2008) tries to show the current status and prospects of stock market but not analysis of problem related to stock market. Also, she did not analysis of price fluctuation on share price and separately analyzed commercial bank indicator.

The main focus in this study is to analyze the growth, prospects and price fluctuation on the stock market. This study helps to analyze the development and improving the stock market, analyze the price increasing and decreasing trend.

CHAPTER- III

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is the systematic methods of finding solution to the research problem i.e. systemic collection, recollection, recording, analysis, interpretation and reporting of information." Methodology refers the various steps that are generally adopted by a researcher in studying his research Problem along with the logic behind it. Thus research methodology is away to systematically solve the research problem” (*Wolf and Pant; 11th 1999:203*).

This chapter deals about the research methodology by which the collected data are analyzed to get the result, in this regard, this chapter is carried out to diagnose the stock market activities in Nepal. To achieve the objective, the study has been described as follows:-

3.2 Research Design

This study is carried out to get the empirical result of the stock market. To conduct the study, analytical and descriptive research approach is adopted for the reality available historical data.

3.3 Population and Sample

According to the annual report of SEBO/N 2008/09, there are altogether 149 listed companies in the NEPSE from different sector. The concern of the study is only on commercial banking sector, therefore the size of population is total number of commercial banks listed in the NEPSE i.e. 21 Commercial bank up to year 2008/09.

This study explores the objectives set in the previous section and it is also expected that this study will help in analyzing the stock market scenario. On the basis of convenient sampling techniques, top 5 private commercial banks on the basis of their performance and these banks are categorized in group a classification for the sample in this research.

- 1) Standard Chartered Banks Ltd
- 2) NABIL Bank Ltd
- 3) Nepal Investment Bank Ltd.
- 4) Himalayan Bank Ltd
- 5) Bank of Kathmandu Ltd

3.4 Nature and Sources of Data

With the fulfilling the predetermined objective that are set up for the study both primary as well as secondary sources are included. The main place of data was the central office of Nepal stock exchange (NEPSE), Security Board office, Kathmandu and economic survey published by ministry of finance .The main sources of data is annual report of SEBO/N, annual report of NEPSE ,various bulletins available and useful to the study are also taken into consideration. The research is mainly based on primary as well as secondary data for analysis.

3.4.1 Primary Data

Those data which are collected for the first time for any specific purpose are called the primary data. Primary data gathered by the researcher for the research project at hand collection of primary data is comparatively expensive than the collection of secondary data but they are exactly in the form that the researcher requires.

Primary data are collected through questionnaire and informal interview of the concerned persons like officer of SEBO/N, NEPSE, banks, brokers and issue manager.

3.4.2 Secondary Data

The secondary sources of data are the annual report of security board of Nepal, Trading report of NEPSE, different books from library, periodicals, newspaper, cutting, company magazines etc. Guideline and unpublished thesis, research work that directly related to financial performance and stock market would from secondary data for the purpose of this study. Significant information is also collected from internet and various websites like www.nepalstock.Nepal stock .com, www.sebon.com, www.google.com for this study.

3.5 Data Collection Procedure /Technique

The main required data and information have been collected from the primary as well as secondary data. The primary sources are descriptive, possibly subjective responses from the target group or personnel regarding the prevailing practices about investment. And secondary sources of data are collected from different report, journals, article etc.

3.5.1 Primary Collection Procedure

The primary data are collected from different group of related field like staff of SEBO, NEPSE, Bank, Brokerage firm and issue manager by using questionnaire and interview methods.

Regarding the primary data, 45 questionnaires are distributed among them from SEBO/N there are approximately 50 staffs but 10 staffs are taken as a research sample. Similarly from NEPSE there are approximately 100 staffs and 15 staffs are taken as a research sample. Accordingly from banks, from brokers and from issue manager there 15 commercial bank, 27 brokers and 9 issue manager among them 10 staffs are taken as a sample from 2 commercial banks , 5 staffs are taken as a sample from 2 brokerage firm and 5 staffs are taken as a sample from issue manager. Altogether 50 copies of questionnaires are distributed but 45 copies are receipted as a rood response.

3.5.1.1 Questionnaire

As a part of methodology a questionnaire (see annex -i) was design to elicit of much information as possible on the trading activities more precisely on investment attitude of investors. The questionnaire design for this study also solicited informal of specific cases albeit not with much success, which involved the application or use of technical analysis approach for forecasting stock movement of particular company. The questionnaire was design to seek two kinds of responses viz.

- Yes/ No answer
- Multiple choice answer
- Ranking

A number of questions were put up by means of 50 copies of questionnaire; categorically the questions raised through this means were of two types namely.

Yes/no question, multiple choice questions . The questionnaire so collected is thus related to find out the opinion of investors for investment decision to shares, problem and prospects of security market.

3.5.1.2 Interview

With a view to reduce into the limelight the impediments that erode the confidence of small investors in the stock exchange ,causing instability to the market price or shares ,personnel interview were held with many of the concerned personalities ,interaction with the brokers ,investors and authorities of NEPSE was taken place to explore the information and data available with them. In addition to this, some formal or informal discussion are held in order to elicit the true information about the subject matter.

3.5.2 Secondary Data Collection Procedure

The secondary data are collected NEPSE, SEBO/N, Past research, Journals, Article, Newspaper and other sources. Mainly, in this study no of listed companies, annual turnover, market capitalization, NEPSE index, closing price of commercial bank etc are taken to analyze the study.

3.6 Data Processing and Analysis

Data collected from questionnaire were in row from. They were classified and tabulated in the require format. Simple arithmetic percentage tools were used for analyzing in primary data. Data collected from secondary sources were analyzed and presented in bar diagram, pie chart and percentage.

3.7 Methods of Analysis

The methods of analysis employed in this study include the use are follows:-

Trend Analysis

Trend analysis is one of the suitable statistical tools to measure the index ,market capitalization ,turnover, no. of listed companies ,paid up value etc. during the selected period also known about the trend of price fluctuate in NEPSE index .Trend analysis also help to the forecasting future growth in Nepalese stock market. It also describe

about the stock market trend by using percentage of growth and increase and decrease of volume.

Trend analysis is analyzed to find out the problems associated with stock market and future potential to develop the stock market in Nepal. Commercial banks in NEPSE are taken as a sample and different indicators like issue approved ,market capitalization ,paid up value ,no of listed companies ,annual turnover and price fluctuate in NEPSE have been used to perform the analysis .

Filter Rules

Eugene Fama and Marshall Blume designed the programme to trade the securities on an x percent filter rule and this strategy operates as if the price of a security rises at least x percent buy and hold the security until its prices drops at least x percent from a subsequent height. Then liquidate the long position and assume a short position until the price rise by x percent. But under this strategy the research reported that nobody could outperform the naïve buy and hold strategy.

Buy: % of market price rise $\geq X\%$

Sell: % of market price fall $\leq X\%$

Run Test

Another technique used to analyze the behavior of stock price is the run tests have fies not affected by the filter rule. Run is based on the percentage change in price. A run occurs in a series of numbers wherever the changes in the positive (+ve %), Negate (-ve %) and zero run until the price charges alter (i.e.) the change in positive to negative +ve to zero etc) the total changes, it is called one run.

The run tests also found that active traders who search for various types of Non random trends from which to earn a profit will not be able to beat a naïve buy and hard strategy on average

Moving Average Analysis

One the most reliable and easily read technical indicates to investor is the moving average of closing prices of security or market indexes. The effect of averaging is to give a smoother curve and to lessen the fluctuations that pull the actual figure from the

generate trend. In American Context, 30-week and 200 days moving average of closing prices or market index is popular but here in the study 5-days moving average of market index is presented for analysis purpose in a short period.

Chart construction: In a 5 day's moving average, the first moving average is obtained by adding up the 5 day's value of market indexes and divided 5 and is Placed against the middle of 5 days i.e. three days, similarly, the second 5 days moving Average is calculated by dividing at second, third fourth, fifth etc value of market index and is placed against the middle of the day, A line chart of these moving averages is plotted along with a line chart of market index. Each day charts are up dated they examined for trends to see if there is buying or selling present somewhere.

CHAPTER- IV

PRESENTATION AND ANALYSIS OF DATA

INTRODUCTION

This chapter is the main body of the study. This chapter includes analysis of collected primary and secondary data and their presentation. In this chapter the relevant and available information from NEPSE, Security Board Nepal (SEBO/N), and different books and articles are analyzed to find out the problems associated with stock market and future potential to develop the stock market in Nepal. Also, appropriate statistical and financial tools have been used to perform the analysis.

4.1 Analysis of Secondary Data

Analysis of secondary data has been analyzed by using the different indicators, Issued approved, market capitalization, turnover, NEPSE Index, trend of fluctuation on stock price etc.

4.1.1 Analysis of Trend of Number of listed companies

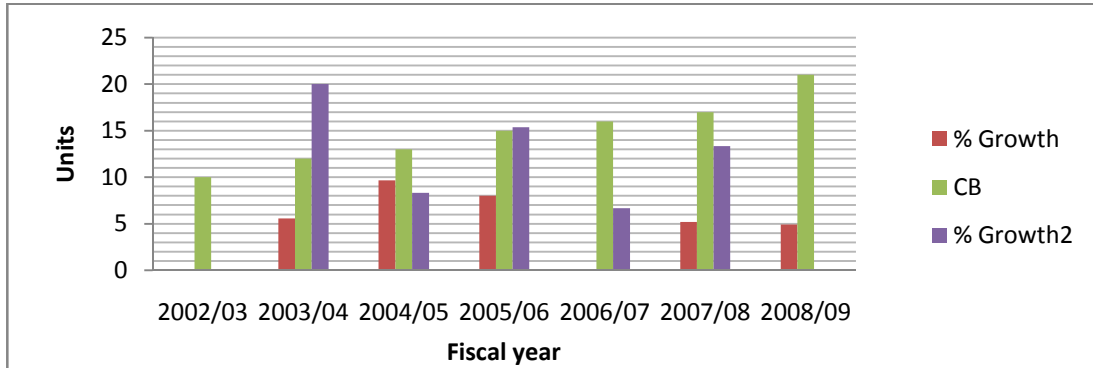
Table 4.1

Number of Listed Companies

F.Y.	Number of listed company			
	Total	% of Growth	C.B	% Growth
2002/03	108	-	10	-
2003/04	114	5.56	12	20.00
2004/05	125	9.65	13	8.33
2005/06	135	8.00	15	15.38
2006/07	135	0.00	16	6.67
2007/08	142	5.18	17	13.33
2008/09	149	4.92	21	23.52

Source: Trading Report of NEPSE

Figure 4.1
Number of listed companies



The highest number of listed companies was in 2008/09 and the lowest in 2002/03. It seems the increasing trend throughout the research period due to increase in financial sector successively. In terms of growth rate, there was the highest percentage growth rate, among the number of listed companies, in 2004/05 and the lowest percentage in 2006/07.

In other hand, the highest number of listed commercial bank (CB) was in 2008/09 and the lowest was in 2002/03. This is because of increment of commercial bank every year. The highest percentage growth of commercial bank was in 2008/09 and the lowest percentage was in 2006/07.

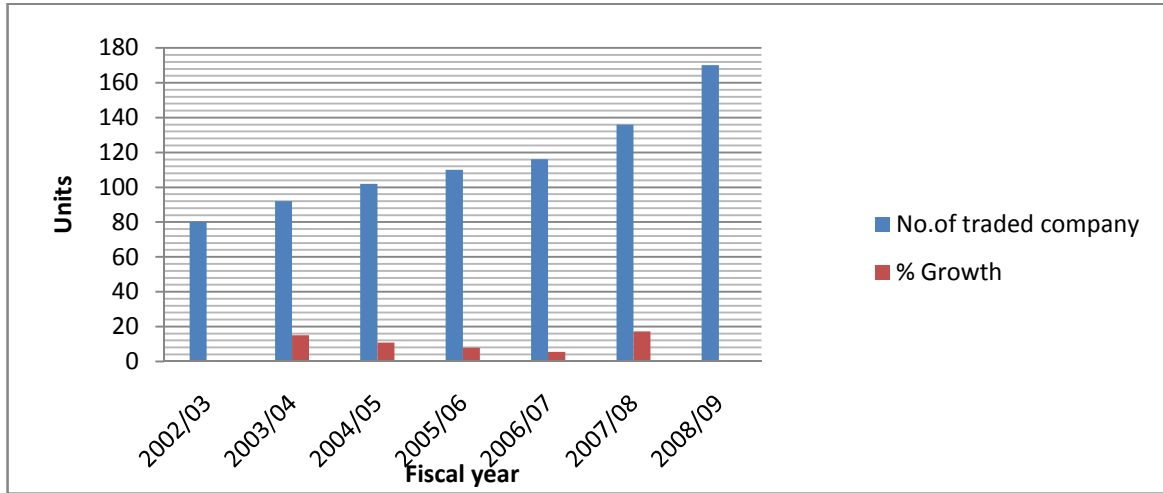
4.1.2 Analysis of Number of Traded Company and Number of listed Securities.

Table 4.2
Number of Traded Companies and Number of Listed Securities.

F.Y.	Number of Traded company	% Growth	Number of listed securities	% Growth
2002/03	80	-	159958	-
2003/04	93	15.00	161141	0.74
2004/05	102	10.87	194673	20.81
2005/06	110	7.84	226540	16.37
2006/07	116	5.45	243504	7.49
2007/08	136	17.24	321131	17.45
2008/09	170	25	637868	98.63

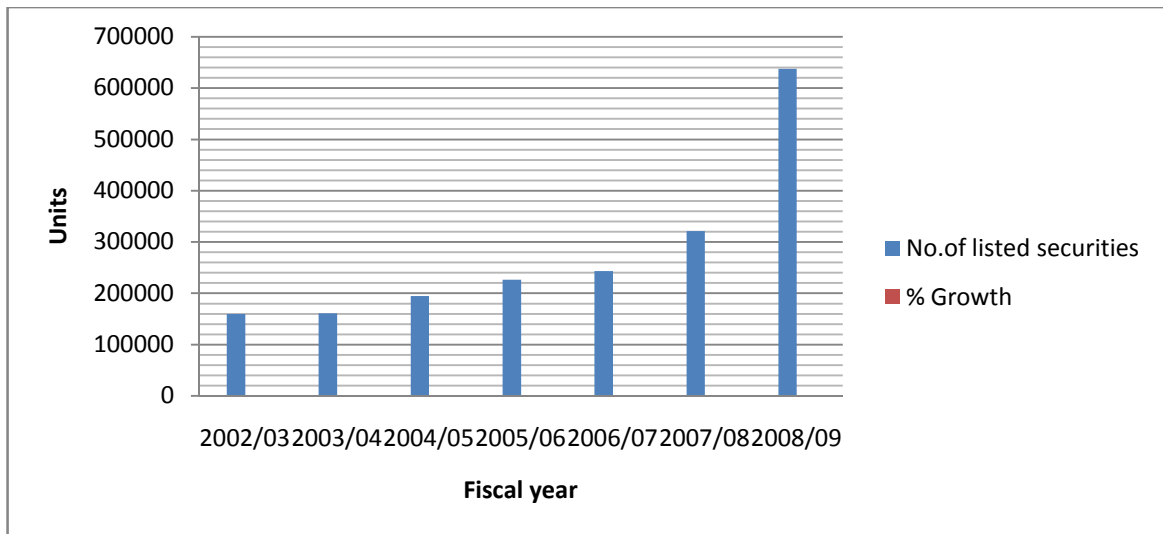
Source: Trading Report of NEPSE.

Figure 4.2
Number of Traded Company



The highest number of traded companies was in 2008/09 i.e. 170 and lowest number was in 2002/03. In terms of percentage growth, there was the highest percentage growth in 2008/09 and the lowest growth was in 2006/07.

Figure 4.3
Number of Listed Securities



Regarding the figure, number of listed securities was positive in every year. It was highest in 2004/05 i.e. 20.81 percent and lowest growth rate was in the year 2003/04

i.e.0.74 percent. In the year 2007/08, number of listed securities was 286000, which grow by 17.45 percent in comparison with year 2006/07.

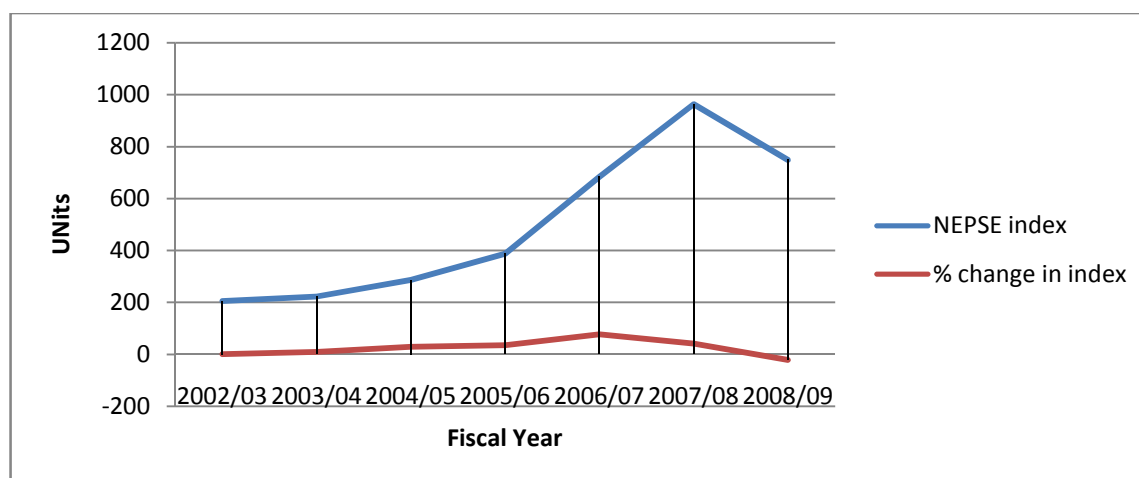
4.1.3 Analysis of Trend of NEPSE and Commercial Bank Index

Table 4.3
NEPSE and Commercial Bank Index

Fiscal Year	NEPSE Index	% change in index	C.B's index	% change in index
2002/03	204.86	-	199.90	-
2003/04	222.04	8.39	231.97	16.04
2004/05	286.67	29.11	304.64	31.33
2005/06	386.83	34.94	437.49	43.61
2006/07	683.95	76.81	181.07	-58.61
2007/08	963.4	40.86	985.7	444.027
2008/09	749.1	-22.24	780.87	-20.78

Sources: Annual trading report of NEPSE

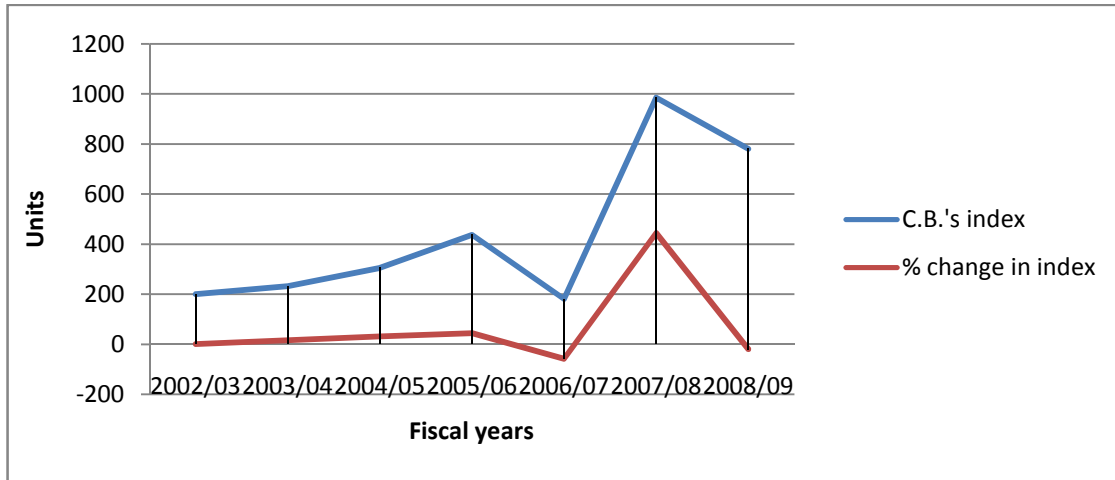
Figure 4.4
NEPSE Index



It is assumed the base year of NEPSE Index was 2002/03 and it was 204.86. It seems there is increasing trend throughout the research period. The highest index was in

2007/08 and the lowest was in 2002/03. In terms of growth rate, the highest growth rate was in 2006/07 and the lowest was in 2008/09 i.e. -22.24.

Figure 4.5
Commercial Bank Index



Similarly, commercial bank's index in the base year 2002/03 was 199.90 then it was up and down situation up to 2008/09. Commercial bank's index was highest in 2007/08 i.e. 985.7 and growth rate was also highest i.e. 44.027 percent and lowest index and lowest growth rate was in 2006/07 i.e. 181.07 and -58.61 percent.

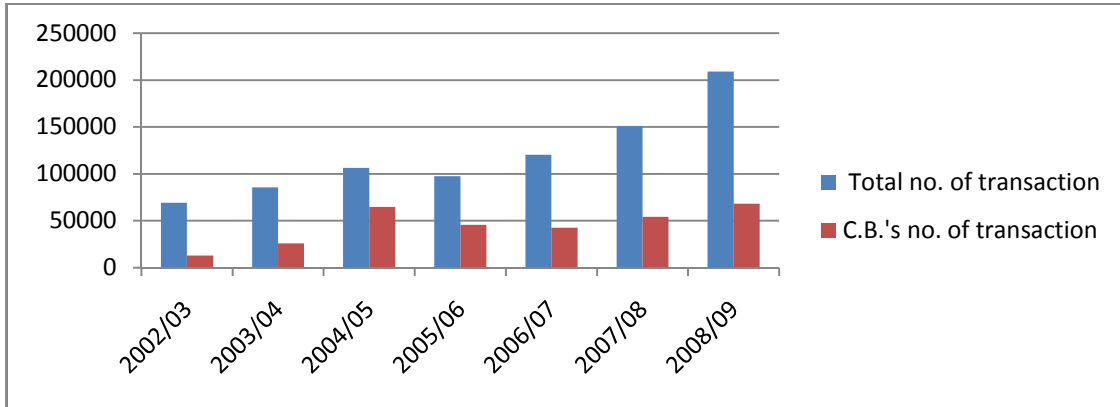
4.1.4 Analysis of Number of Transaction

Table 4.4
Number of Transaction

Fiscal Year	Number of Transaction		C.B.'s number of transaction	% of Growth
	Total	% of Growth		
2002/03	69163	-	12798	-
2003/04	85533	23.67	26000	103.16
2004/05	106246	24.22	64966	149.87
2005/06	97374	-8.35	45886	-29.37
2006/07	120510	23.76	42648	-7.06
2007/08	150800	25.1	54314	26.88
2008/09	209091	38.65	68171	25.51

Sources: Annual Trading Report of NEPSE

Figure 4.6
Number of Transaction



Number of transaction in NEPSE and C.B. were fluctuating in yearly basis. The maximum number of transaction in 2008/09 i.e. 209091 and the lowest transaction i.e.69163 in NEPSE was made in the year 2002/03.The highest growth rate of transaction was in year 2008/09 i.e. 38.65 percent and lowest was negative in year 2005/06 i.e. -8.35 percent.

Similarly, number of transaction of commercial bank (CB), the maximum number of transaction was in 2008/09, it was 68171 transactions. It was also the highest growth rate i.e.149.87 percent and the lowest transaction was in year 2002/03 i.e. 12798 transaction and lower growth rate was in year 2005/06 i.e. -29.37 percent.

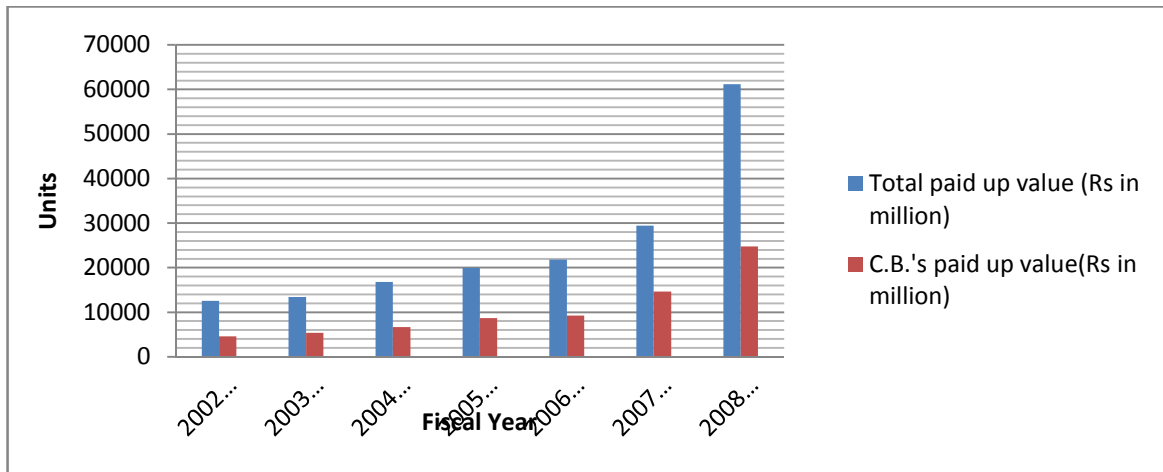
4.1.5 Analysis of Total Paid Up Value and Paid Of Value of Commercial Bank

Table 4.5
Total Paid Up Value and Paid Up Value of Commercial Bank.
 (Rs in Millions)

Fiscal Year	Total Paid up Value	% increase in Total paid up Value	Commercial Bank's paid up value	% increase
2002/03	12560.10	-	4584.92	-
2003/04	13404.90	6.73	5380.45	17.35
2004/05	16771.90	25.12	6700.16	24.53
2005/06	19958.00	19.00	8666.73	29.35
2006/07	21799.00	9.22	9281.93	7.10
2007/08	29465	35.5	14667.27	58.02
2008/09	61140	107.5	24757.87	68.8

Sources: Annual Trading Report of NEPSE.

Figure 4.7
Total Paid Up Value and Paid Up Value of Commercial Bank



By analyzing the Table 4.4, the total paid up value of listed securities in 2002/03 was Rs.12560.10 million and it reaches to Rs.29465 million in 2007/08. The growth rate of total paid up value was highest in 2008/09 i.e. increased by 107.5 percent and lowest growth rate in the year 2003/04 i.e. increased by 6.73 percent.

Similarly, paid up value of commercial bank was also increasing trend up to 2008/09. The highest paid up of commercial bank was in year 2008/09 i.e. 24757.87 million and lowest in year 2002/03 i.e. 4584.92 million. The highest growth rate of commercial bank's paid up value was in year 2008/09 i.e. 68.8 percent and lowest was in year 2006/07 i.e. 7.10 percent.

4.1.5 Analysis of Number of Issue Approval and Amount of Issue Approval.

Table 4.5

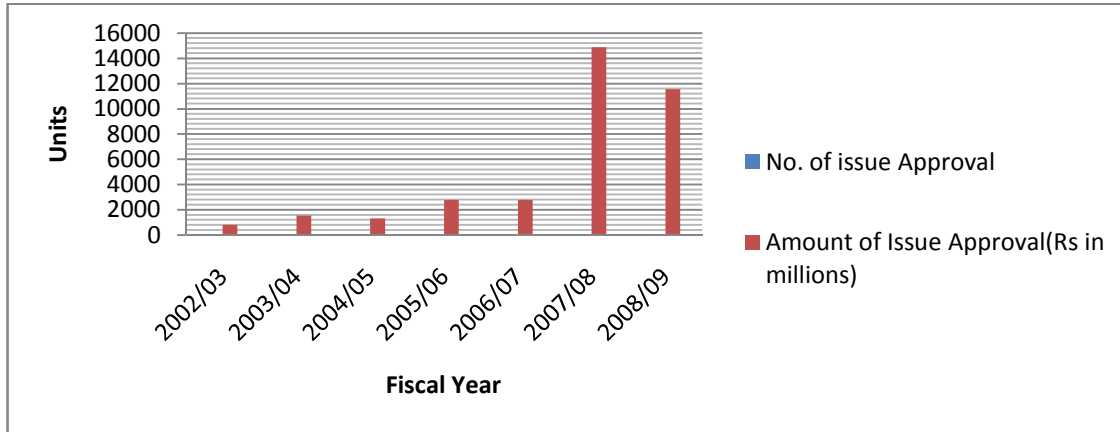
Number of Issue Approval and Amount of Issue Approval

Fiscal Year	Number of issue Approval	Amount of Issue Approval(Rs in millions)	% of growth
2002/03	17	813.74	-
2003/04	16	1547.20	90.13
2004/05	12	1315.80	-14.96
2005/06	38	2800.96	112.87
2006/07	34	2785.40	-0.56
2007/08	63	14875.12	434.03
2008/09	72	11567.86	-22.23

Sources: Annual Trading Report of NEPSE.

Figure 4.8

Number of Issue Approval and Amount of Issue Approval



From the Table 4.5, total amount of issue approval were fluctuation in yearly basis up to 2008/09. In fiscal year 2008/09, SEBO approved the securities 72 companies and granted issue approval amounting to Rs 11567.86 million. The highest percentage growth of issue approval was in year 2007/08 I.e. 434.03 percent and lowest growth of issue approval was in year 2008/09 I.e. -22.23 percent. SEBO approved 12 companies to issue the securities in year 2002/03 I.e. lowest number of issue approval.

4.1.6 Analysis of Total Market Capitalization and Commercial Bank's Market Capitalization.

Table 4.6

Total Market Capitalization and Commercial Bank's Market Capitalization.

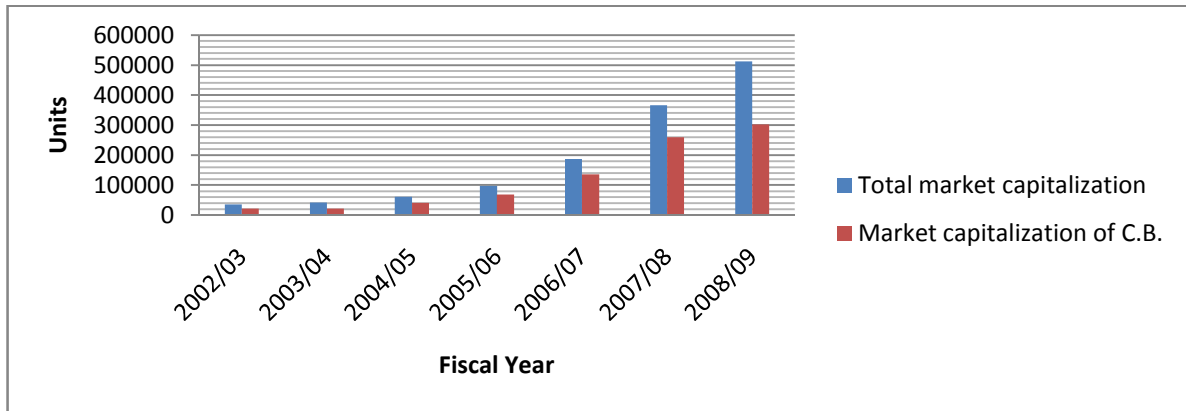
(Rs in Millions)

Fiscal Year	Total market capitalization	% of Growth	Market capitalization of Commercial Bank	% of Growth
2002/03	35240.39	-	21436.72	-
2003/04	41424.77	17.55	27147.42	26.64
2004/05	61365.89	48.14	40119.88	44.79
2005/06	96763.74	57.68	68694.36	71.22
2006/07	186301.30	92.53	135588.40	97.38
2007/08	366247.6	96.6	259955.3	88.86
2008/09	512939.08	40.05	302219.3	16.25

Source: Annual Trading Report of NEPSE.

Figure 4.9

Total Market Capitalization and Commercial Bank's Market Capitalization



Total market capitalization of the listed securities at the end of fiscal year 2008/09 was 512939.08 million. It was the highest total market capitalization and lowest in the year 2002/03 i.e. Rs 35240.39 million. The highest growth rate of total market capitalization was in year 2007/08 i.e. 96.6 percent and lowest growth rate was in year 2003/04 i.e. 17.55 percent.

Similarly, the market capitalization of listed commercial banks at the end of fiscal year 2006/07 was Rs 135588.40 million. It was the 57.68 percent portion of the total market capitalization in year 2006/07 and it was also highest capitalization in terms of growth rate and the lowest was in the year 2008/09 i.e. 302219.3 million and the lowest growth rate was 16.25.

4.1.7 Analysis of Total Number of Share Traded and Number of Share Traded of Commercial Bank

By the Table 4.7, the highest total number of share traded was in year 2007/08 i.e. 28599.8 thousand. The highest growth rate i.e. 184.99 percent and lowest number of share traded was in year 2002/03 i.e. 2427.89 thousand and the lowest growth rate was -8.46 in 2008/09.

Table 4.7

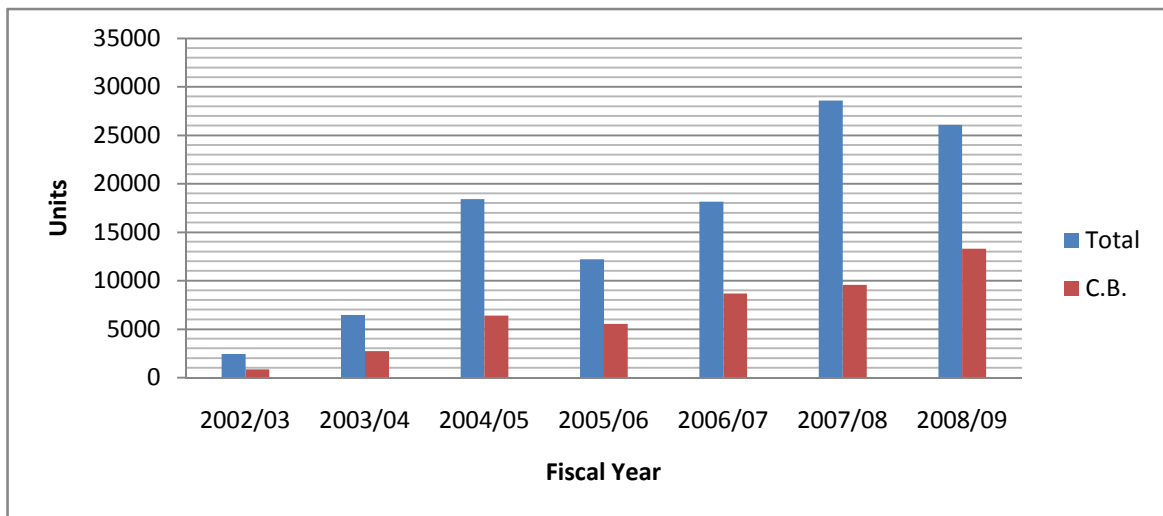
Total Number of Share Traded and Number of Share Traded of Commercial Bank

Fiscal Year	Number of share traded(Share unit in '000')			
	Total	% increase	Commercial Bank	% increase
2002/03	2427.89	-	858.98	-
2003/04	6468.18	166.41	2737.52	218.69
2004/05	18433.55	184.99	6416.57	134.39
2005/06	12221.93	-33.70	5534.72	-13.74
2006/07	18147.25	48.48	8700.20	57.19
2007/08	28599.8	57.6	9563.2	9.92
2008/09	26069.68	-8.46	13301.44	39.09

Source: Annual Trading Report of NEPSE.

Figure 4.10

Total Number of Share Traded and Number of Share Traded of Commercial Bank



Similarly, the highest number of share traded of Commercial Bank was in year 2008/09 i.e. 13301.44 thousand and the lowest was in year 2002/03 i.e. 858.98 thousand. The

highest growth rate of commercial bank was in year 2003/04 i.e. 218.69 percent and lowest was in year 2005/06 i.e. -13.74 percent.

4.1.8 Analysis of Market Days and Average Daily Turnover

Table 4.8

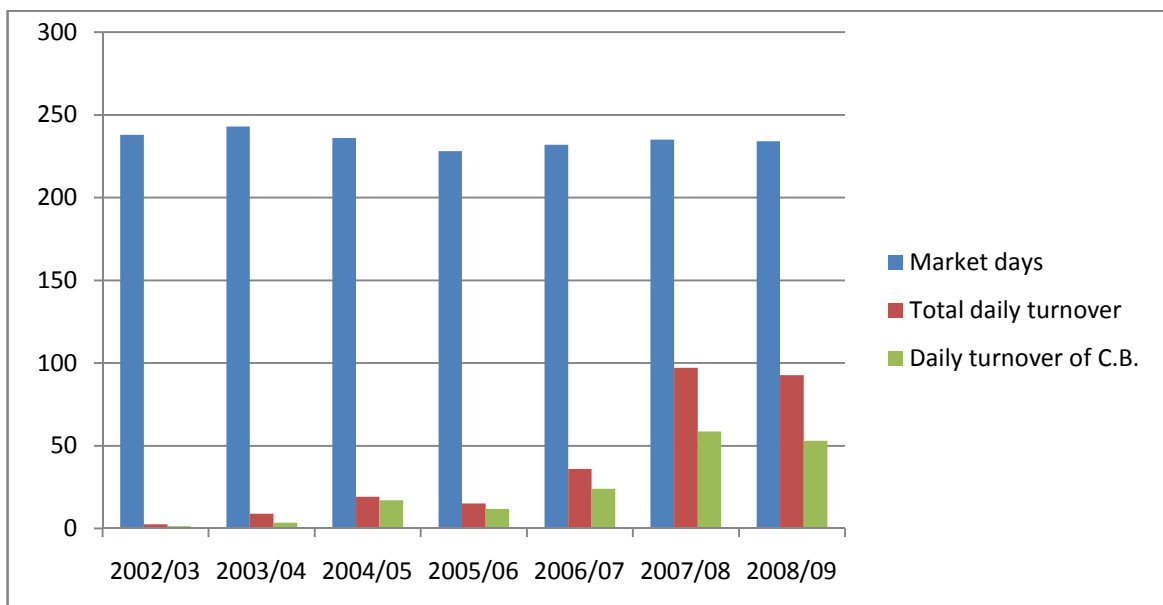
Market Days and Average Daily Turnover

Fiscal Year	Market days	% of growth	Average daily turnover(Rs Million)			
			Total	% of growth	Commercial Bank	% of growth
2002/03	238	-	2.42	-	1.40	-
2003/04	243	2.10	8.82	264.46	3.55	153.57
2004/05	236	-2.88	19.10	116.55	17.04	380.00
2005/06	228	-3.39	15.14	-20.73	11.83	-30.58
2006/07	232	1.75	36.03	137.98	23.98	102.70
2007/08	235	1.29	97.1	169.5	58.52	145.288
2008/09	234	-0.43	92.654	-4.578	53.02	-9.398

Source: Annual Trading Report of NEPSE.

Figure 4.11

Market Days and Average Daily Turnover (Rs in millions)



One of the most important stock market development indicators is average daily turnover. Daily turnover provides the liquidity to the stock market and commission to the stock Brokers. Average total daily turnover in the year 2002/03 was Rs 2.42 million and that was the lowest turnover. The highest total daily turnover was in the year 2007/08 i.e. Rs 97.1 million. The growth rate of ADT in the year 2003/04 was 264.46 percent. It was highest growth rate in comparison with other years. Similarly ADT of commercial bank in the year 2007/08 was Rs 58.52 million and Rs 1.40 million in 2002/03. It was highest and lowest ADT. In the year 2004/05, the growth rate was 380 percent in comparison with the year 2003/04 i.e. highest growth rate of commercial bank and lowest was in the year 2005/06 i.e. -30.58 percent.

Market days also affect the ADT in stock market. Highest number of market days were in the year 2003/04 i.e. 243 days and lowest number of market days were in the year 2005/06 i.e. 228 days.

4.1.9 Analysis of Sector Wise Market Capitalization in the Year 2008/09

Table 4.9

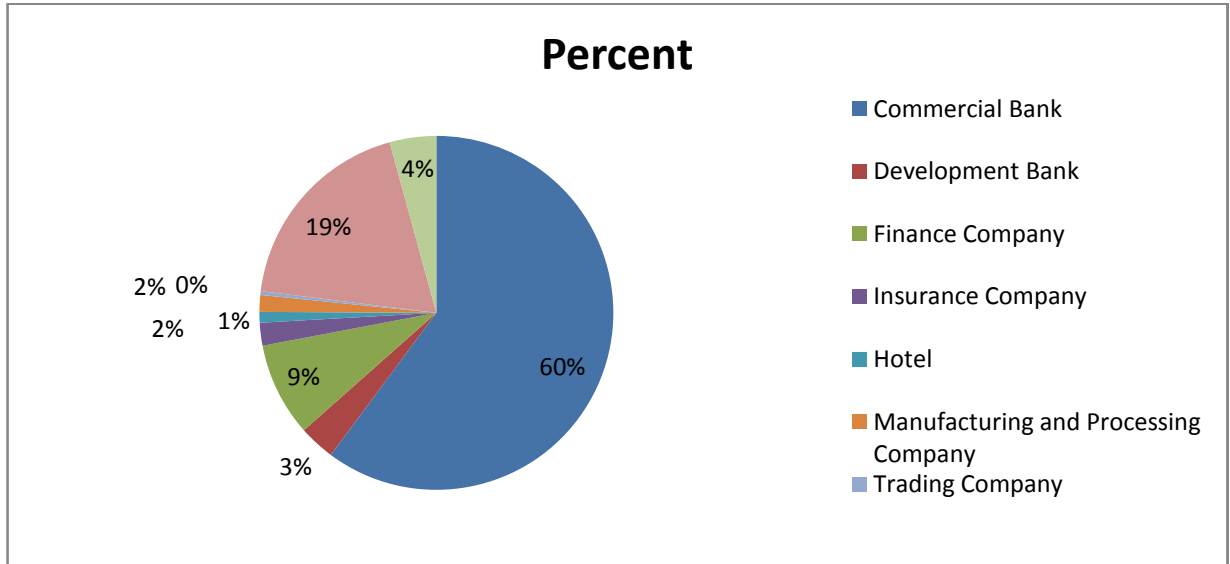
Sector Wise Market Capitalization

(Rs in millions)

S.N.	Sectors	Market capitalization	percent
1	Commercial Bank	302219.29	58.92
2	Development Bank	27137.89	5.29
3	Finance Company	43007.13	8.38
4	Insurance Company	10537.49	2.05
5	Hotel	4851.95	0.95
6	Manufacturing and Processing Company	7706.09	1.5
7	Trading Company	1696.36	0.33
8	Hydro Power	21413.72	4.17
9	Other's Company	94369	18.4
	Total	512939.08	100

Source: Annual Trading Report of NEPSE

Figure 4.12
Sector Wise Market Capitalization



By the end of F.Y. 2008/09, the market capitalization of the listed securities reached to Rs 512939.08 million. The highest capitalization was of commercial bank and it was Rs 302219.29 million i.e. 58.92 percent by sector wise analysis. The lowest capitalization was trading company and it was Rs 1696.36 million i.e. 0.33 percent. It means the maximum portion of total capitalization is commercial bank.

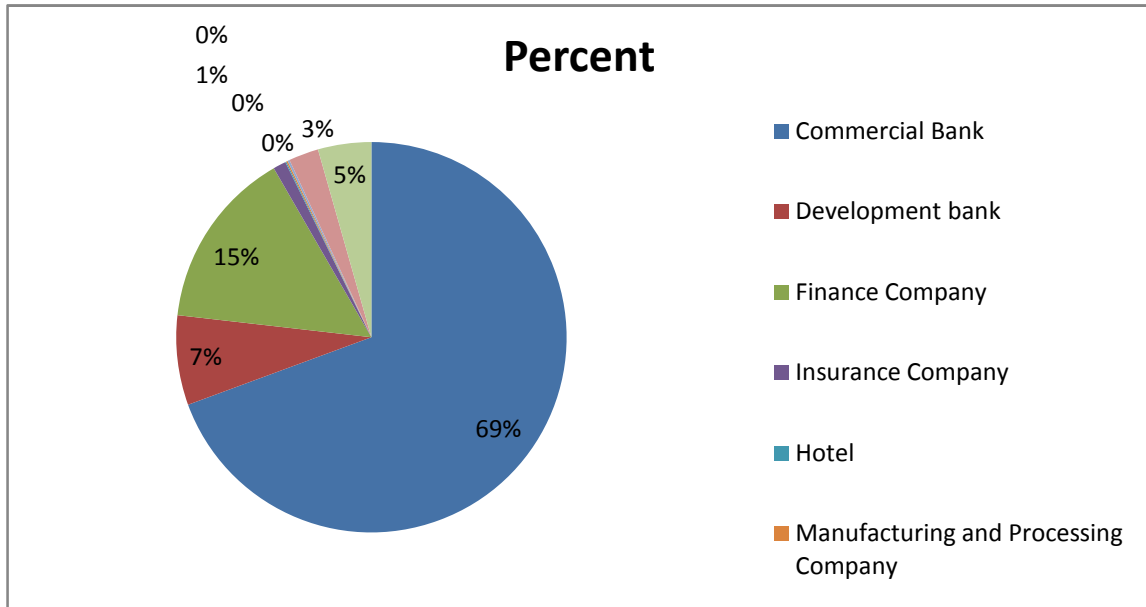
4.1.10 Analysis of Sector Wise Turnover in the Year 2008/09

Table 4.10
Sector Wise Turnover (Rs in millions)

S.N.	Sectors	Turnover	Percent
1	Commercial Bank	13949.87	64.63
2	Development Bank	2973.03	13.77
3	Finance Company	2986.04	13.83
4	Insurance Company	212.8	0.99
5	Hotel	18.69	0.09
6	Manufacturing and Processing	26.08	0.12
7	Trading Company	33.49	0.16
8	Hydro Power	890.03	4.12
9	Other's Company	494.39	2.29
	Total	21584.69	100

Source: Annual Trading Report of NEPSE

Figure 4.13
Sector Wise Turnover



In this fiscal year, the commercial banks have the highest turnover rate i.e. 64.63 percent whereas hotels have the lowest turnover rate i.e. 0.09 percent.

4.2 Trend of Price Fluctuation of Commercial Bank

Trend analyses of price fluctuation by different technical methods are as follows:

4.2.1 Filter Rule

Eugene Fama and Marshall Blume designed the programmed to trade the securities at an X percent filter rule and this strategy operates as if the price of a security raise at least x percent buy and hold the security until its prices drops at least X percent from a subsequent height. Then, liquidate the long position and assure a short position until the price raise by x percent But under this strategy, the research reported that nobody could outperform the naïve buy and hold strategy.

Buy: % of market price raise $\geq X\%$

Sell: % of market price raise $\leq X\%$

4.2.2 Run Test

Another technique used to analyze price movement of stock prices is the run test. It is based on the increase or decrease of closing price or change of closing price. A run occurs in a series of numbers wherever the changes in the (+ve), negative (-ve) and zero run. Until the price change alters (i.e. the change in positive to negative +ve to zero etc,) the total changes, it is called one run.

The run tests also found that active traders who search for various types of non random trends from which to earn a profit will not able to beat a naïve buy and hold strategy on average

By using filter rule and run test we can find out daily price movement of price, there are as follows:

Table 4.11
Prices Change of Standard Chartered Bank.

Date	Days	Closing Price	Filter Rule			Run Test	
			% Change	X= 4% Buy/Sell decision	X= 8% Buy/Sell decision	Price Change(Rs)	Set of Run
August 2, 2009	Day 1	5680	-	-	-	-	
August 3, 2009	Day 2	5660	-0.035	-	-	-20	Run 1 Negative run
August 4, 2009	Day 3	5600	-0.0106	-	-	-60	
August 9, 2009	Day 4	5460	-0.025	-	-	-140	
August 10, 2009	Day 5	5420	0.0732	-	-	-40	
August 11, 2009	Day 6	5425	0.0092	-	-	5	Run 2 Positive run
August 12, 2009	Day 7	5960	0.098	-	-	535	
August 16, 2009	Day 8	6186	0.0379	-	-	226	Run 3 Negative run
August 17, 2009	Day 9	6100	-0.0139	-	-	-86	
August 18, 2009	Day 10	6020	-0.013	-	-	-80	
August 19, 2009	Day 11	5990	-0.0498	-	-	-30	
August 20, 2009	Day 12	5975	-0.025	-	-	-15	
August 23, 2009	Day 13	5800	-0.029	-	-	-175	
August 24, 2009	Day 14	5640	-0.027	-	-	-160	
August 25, 2009	Day 15	5600	-0.0709	-	-	-40	

By the Table 4.11, we conclude that the share of Standard Chartered bank was not more fluctuate. The price change from day 1 to 15 shows that there is no signal of buying and selling because the changes in all days was less than 4% and 8%.

Under the run test, in the 15 days data of Standard Chartered bank, Run 1 is negative that consists of day 1,2,3rd transaction. Run 2 has positive run which consists of the transaction of days 4,5,6 and Run 3 has negative run . It helps the calculation of price trend of stock.

Table 4.12
Price Changes of Nabil Bank Ltd

Date	Days	Closing price	Filter rule			Run test	
			% change	X= 4%	X= 8%	Price change (Rs)	Set of run
August 2, 2009	Day 1	4650	-	-	-	-	
August 3, 2009	Day 2	4510	-0.03	-	-	-140	Run 1 negative run
August 4, 2009	Day 3	4500	-0.021	-	-	-10	
August 9, 2009	Day 4	4488	-0.0267	-	-	-12	
August 10, 2009	Day 5	4400	-0.0196	-	-	-88	
August 11, 2009	Day 6	4435	0.0795	-	-	35	Run 2 positive run
August 12, 2009	Day 7	4878	0.1	-	-	443	
August 16, 2009	Day 8	4944	0.0135	-	-	66	
August 17, 2009	Day 9	4970	0.0525	-	-	26	
August 18, 2009	Day 10	4950	-0.0402	-	-	-20	Run 3 Negative run
August 19, 2009	Day 11	4900	-0.01	-	-	-50	
August 20, 2009	Day 12	4905	0.01	-	-	5	Run 4 Positive run
August 23, 2009	Day 13	4800	-0.021	-	-	-105	Run 5 Negative run
August 24, 2009	Day 14	4700	-0.02	-	-	-100	
August 25, 2009	Day 15	4410	-0.062	-	-	-290	

From the Table 4.12, the price of Nabil bank has a fluctuate trend. The calculation of price changes from day 1 to 15 shows not signal of buying and selling because the changes in all days was less than 4% and 8%.

Under the run test, Run 1, 3 and 5 are negative run test and run 2 and 4 are positive run test. It helps the calculation of price trend of stock.

Table 4.13
Price Change of Bank of Kathmandu

Date	Days	Closing price	Filter rule			Run test	
			% change	X= 4%	X= 8%	Price change (Rs)	Set of run
August 2, 2009	Day 1	1690	-	-	-	-	
August 3, 2009	Day 2	1690	0.0	-	-	0	Run 1 zero run
August 4, 2009	Day 3	1650	-0.023	-	-	-40	Run 2 Positive run
August 9, 2009	Day 4	1640	-0.0606	-	-	-10	
August 10, 2009	Day 5	1635	-0.0304	-	-	-5	
August 11, 2009	Day 6	1635	0	-	-	0	Run 3 Zero run
August 12, 2009	Day 7	1710	0.045	-	-	75	Run 4 Positive run
August 16, 2009	Day 8	1755	0.026	-	-	45	
August 17, 2009	Day 9	1730	-0.014	-	-	-25	Run 5 Negative run
August 18, 2009	Day 10	1725	0.0289	-	-	5	Run 6 Negative run
August 19, 2009	Day 11	1710	-0.0144	-	-	-25	Run 7 Negative run
August 20, 2009	Day 12	1710	0	-	-	0	Run 8 Zero run
August 23, 2009	Day 13	1695	-0.0877	-	-	-15	Run 9 Negative run
August 24, 2009	Day 14	1650	0.0265	-	-	-45	
August 25, 2009	Day 15	1610	-0.024	-	-	-40	

From the Table 4.13, it shows that the share of Bank of Kathmandu was not more fluctuate. The price change from day 1 to 15 shows that there is no signal of buying and selling because the changes in all days was less than 4% and 8%.

By run test, run 2 and 4 are positive run test and 1, 3 and 8 are zero run and remaining are negative run test. It means the price was not increasing and decreasing trend but it is fluctuated in different days.

Table 4.14
Price Change of Nepal Investment Bank

Date	Days	Closing price	Filter rule			Run test	
			% change	X= 4%	X= 8%	Price change (Rs)	Set of run
August 2, 2009	Day 1	1210	-	-	-	-	
August 3, 2009	Day 2	1200	-0.082	-	-	-10	Run 1 negative run
August 4, 2009	Day 3	1210	0.083			10	Run 2 positive run
August 9, 2009	Day 4	1190	0.016			-20	Run 3 negative run
August 10, 2009	Day 5	1185	-0.050			-6	
August 11, 2009	Day 6	1175	-0.076			-9	
August 12, 2009	Day 7	1240	0.055		-	65	Run 4 positive run
August 16, 2009	Day 8	1225	-0.012		-	-15	Run 5 negative run
August 17, 2009	Day 9	1210	-0.012	-	-	-15	
August 18, 2009	Day 10	1205	-0.041	-	-	-5	
August 19, 2009	Day 11	1195	-0.009	-	-	-10	
August 20, 2009	Day 12	1195	0		-	0	Run 6 Zero run
August 23, 2009	Day 13	1170	-0.021	-	-	-25	Run 7 negative run
August 24, 2009	Day 14	1150	-0.017	-	-	-20	
August 25, 2009	Day 15	1035	-0.1	-	-	-115	

By the Table 4.14, it shows that the share of Nepal Investment Bank was not more fluctuate. The price change from day 1 to 15 shows that there is no signal of buying and selling because the changes in all days was less than 4% and 8%.

Under the run test, there are 7 run set up where 2 and 4 are positive run and 1,3,5 and 7 are negative run and run 6 is zero run. It means the price of Nepal Investment Bank is fluctuating than other bank.

Table 4.15
Price Change of Himalayan Bank

Date	Days	Closing price	Filter rule			Run test	
			% change	X= 4%	X= 8%	Price change (Rs)	Set of run
August 2, 2009	Day 1	1720	-	-	-	-	
August 3, 2009	Day 2	1715	-0.029	-	-	-5	Run 1 Negative run
August 4, 2009	Day 3	1700	-0.087	-	-	-15	
August 9, 2009	Day 4	1690	-0.059		-	-10	
August 10, 2009	Day 5	1685	-0.029		-	-5	
August 11, 2009	Day 6	1685	0		-	0	Run 2 Zero run
August 12, 2009	Day 7	1735	-0.148	-	-	-250	Run 3 negative run
August 16, 2009	Day 8	1765	0.017	-	-	30	Run 4 Positive run
August 17, 2009	Day 9	1760	-0.0283	-	-	-5	Run 5 Negative run
August 18, 2009	Day 10	1775	0.085	-	-	15	Run 6 Positive run
August 19, 2009	Day 11	1750	-0.014	-	-	-25	Run 7 Negative run
August 20, 2009	Day 12	1740	-0.057	-	-	-10	
August 23, 2009	Day 13	1745	0.0287	-	-	5	Run 8 Positive run
August 24, 2009	Day 14	1740	-0.0286	-	-	-5	Run 9 Negative run
August 25, 2009	Day 15	1735	-0.0287	-	-	-5	

From the Table 4.15, it shows that the share of Himalayan Bank was not more fluctuate. The price change from day 1 to 15 shows that there is no signal of buying and selling because the changes in all days was less than 4% and 8%.

Under the run test, there are 9 run set up. Run 2 is zero run whereas 4, 6 and 8 are positive run and 1, 3, 5, 7 and 9 are negative run test. It means the price of Himalayan bank is as same fluctuation as other bank.

4.2.3 Moving Average

One of the easiest indicators to investors is moving average of closing prices of securities. In American context, 30 weeks and 200 days moving average of closing prices or market index is popular but in our study, 5 days moving average of market index is presented for analysis.

Chart construction: In a 5 day moving average, the first moving average is obtained by adding up five days values of market indexes and divided by 5 and is placed against the middle of 5 days i.e. 3rd day and moving 1st day's price and adding the following 5 days and so on.

Chart interpretation: when weekly market indexes penetrate the moving average line, technicians interprets this penetration as signal. When market index move downward through moving average they frequently fail to rise again for many months. Thus a downward penetration through a moving average line indicates a signal of sell. When indexes are above the moving average but the difference is narrowing, this is a signal that a bull market may be ending.

Table 4.16
5-Day Moving Average Index of Commercial Bank
(August 2, 2009 to August 25, 2009)

Days	SCBL	NABIL	BOK	NIB	HBL
1-5 days	5564	4710	1661	1199	1702
2-6 days	5513	4466	1650	1192	1695
3-7 days	5573	4540	1654	1200	1699
4-8 days	5690	4629	1675	1203	1712
5-9 days	5818	4725	1693	1207	1726
6-10 days	5938	4835	1713	1211	1744
7-11 days	6051	4928	1726	1215	1747
8-12 days	6054	4934	1728	1206	1742
9-13 days	5977	4905	1716	1195	1739
10-14 days	5885	4851	1700	1183	1732
11-15 days	5801	4743	1675	1149	1729

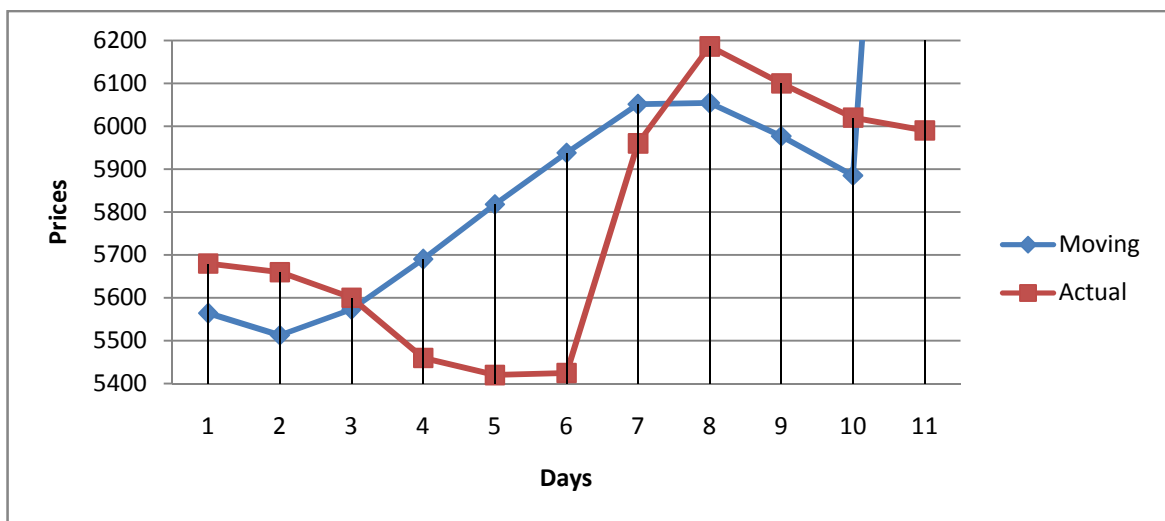
Table 4.17

Actual Closing Price of Commercial Bank

Days	SNCBL	NABIL	BOK	NIB	HBL
August 2, 2009	5680	4650	1690	1210	1720
August 3, 2009	5660	4510	1690	1200	1715
August 4, 2009	5600	4500	1650	1210	1700
August 9, 2009	5460	4488	1640	1190	1690
August 10, 2009	5420	4400	1635	1185	1685
August 11, 2009	5425	4435	1635	1175	1685
August 12, 2009	5960	4878	1710	1240	1735
August 16, 2009	6186	4944	1755	1225	1765
August 17, 2009	6100	4970	1730	1210	1760
August 18, 2009	6020	4950	1725	1205	1775
August 19, 2009	5990	4900	1710	1195	1750
August 20, 2009	5975	4905	1710	1195	1740
August 23, 2009	5800	4800	1695	1170	1745
August 24, 2009	5640	4700	1650	1150	1740
August 25, 2009	5600	4410	1610	1035	1735

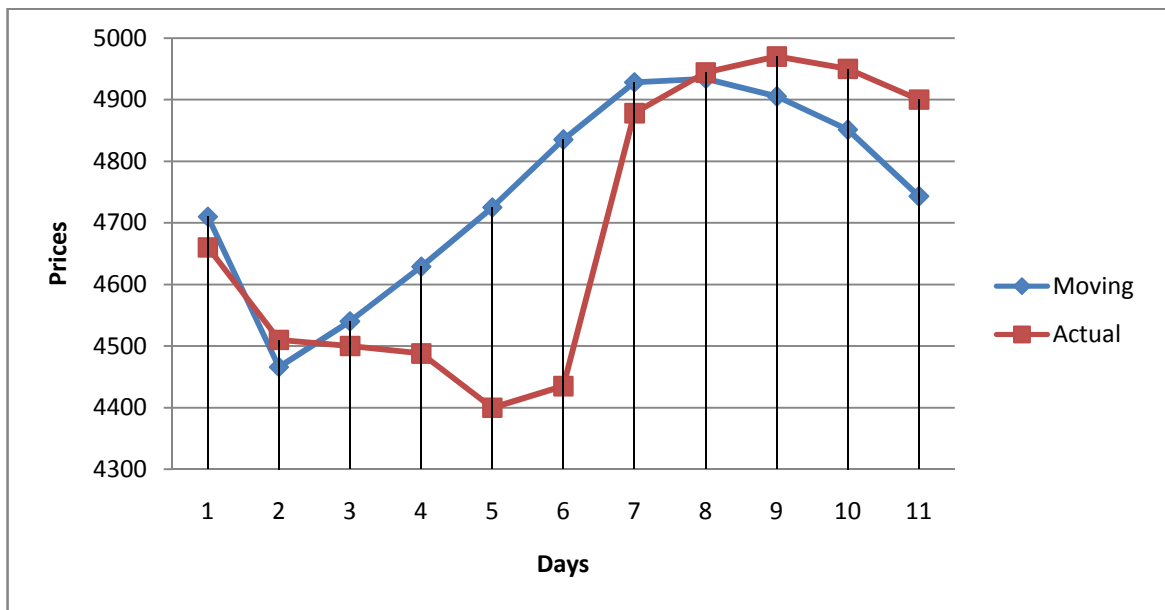
Figure 4.14

Actual and Moving Average Trend of SCBNL



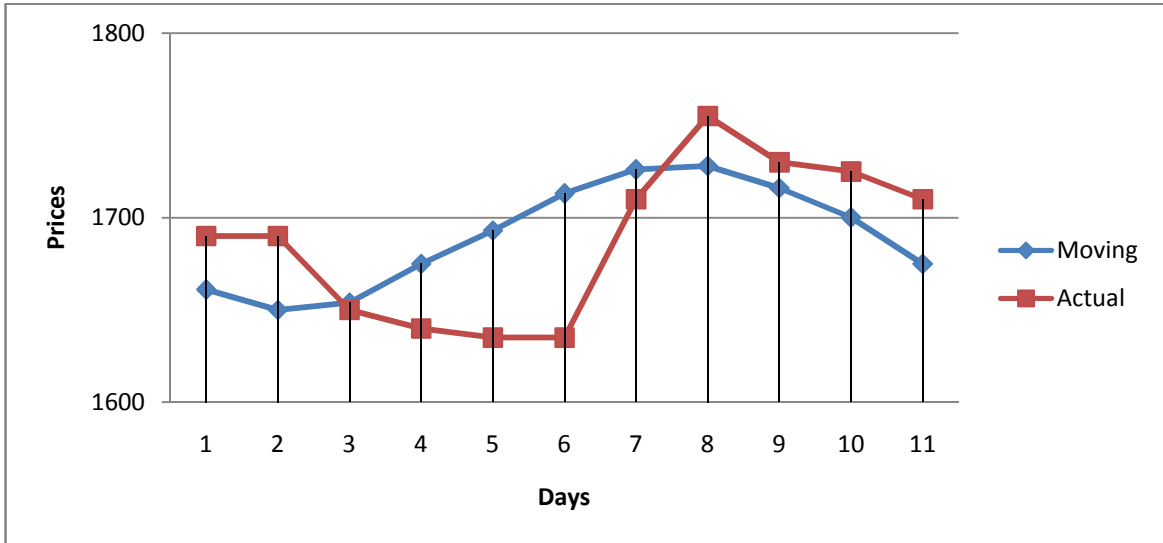
By the Figure 4.14 shows the 5 days moving average of standard charted bank. In this Figure, there is fluctuating over the 11 days' prices. During the days 1 to 3, the actual price is higher than moving average price. In this period, investors should make sell decision. During 3 to 7 days, the moving average price is higher than actual price. So investors should make buy decision. Similarly, investors make decision to sell their stock during the period of 8 to 10th days.

Figure 4.15
Actual and Moving Average Trend of Nabil Bank



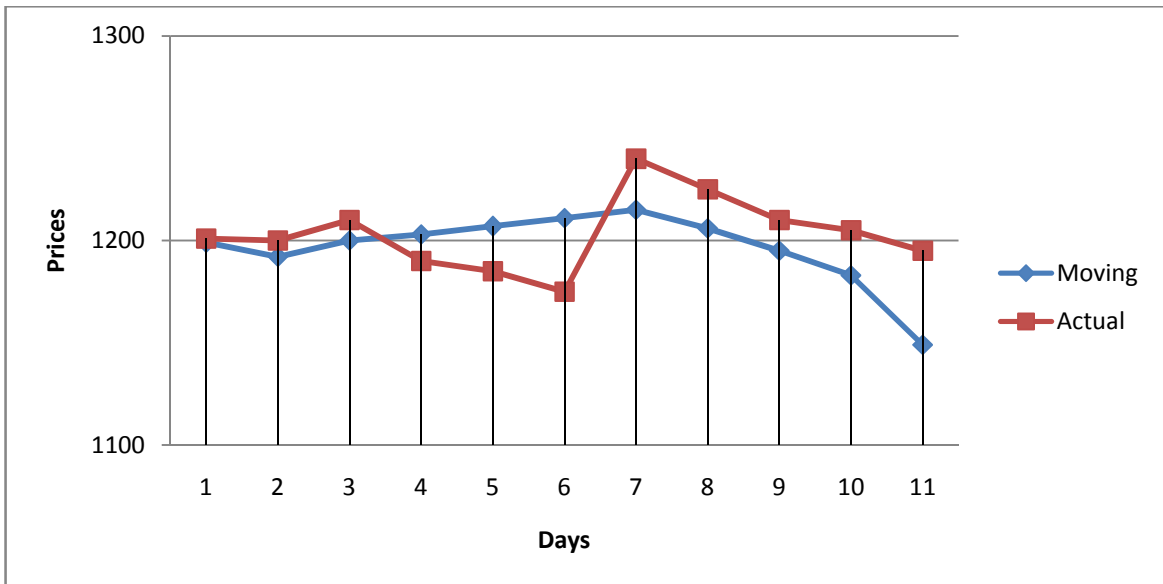
By the Figure 4.15 shows the 5 day moving average and actual trend of Nabil bank. The trend is also fluctuated over the eleven day's price. After day 2 to 8, it shows that the actual price is lesser than moving average price, in this situation investors should make buy decision. From day 8 to 11, actual price is higher than moving average price, in this situation, investors should make sell decision.

Figure 4.16
Actual and Moving Average Trend of BOK



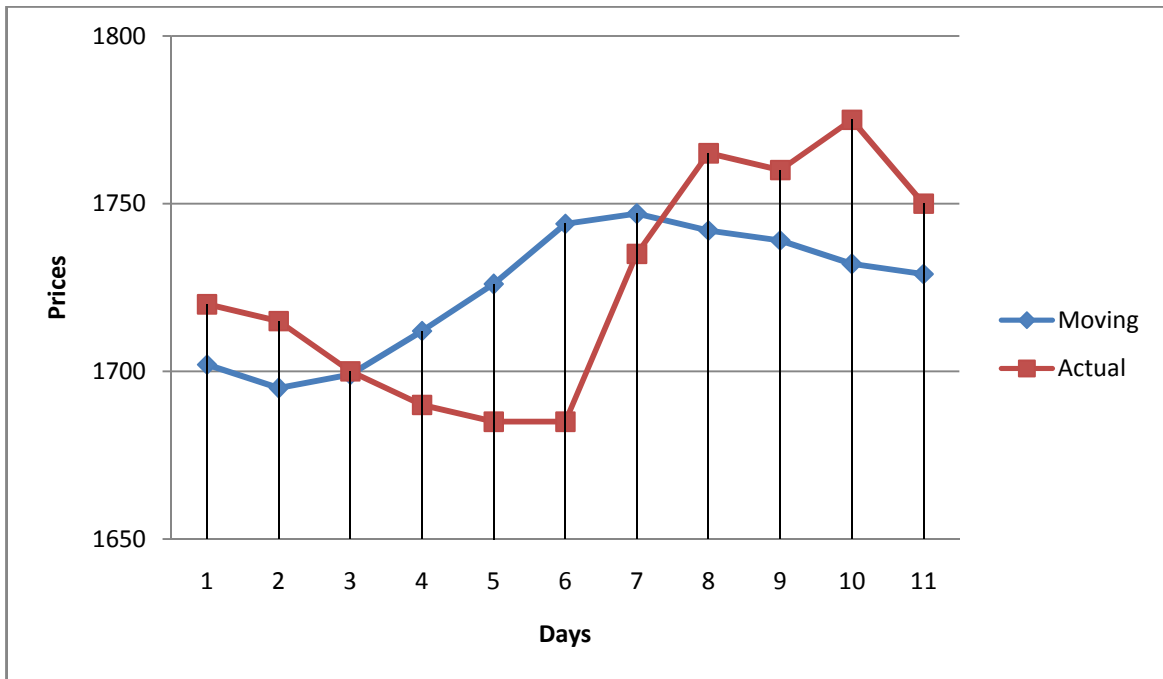
By the Table 4.16 shows 5 day moving average and 11 day's actual price of BOK. The actual price is higher than the moving average price during the day 1 to 3, in this situation, investors should take a sell decision. From day 3 to 7, the moving average is higher than actual price, in this circumstances, investors should take to buy decision.

Figure 4.17
Actual and Moving Average Trend of NIB



By the Figure 4.17 shows the 5 day moving average and 11 day's actual price of NIB. The actual trend has increasing than moving average from day 1st so it is right time to buy. At day 3rd to 7th , the actual price is decreasing than moving average price so it should buy. After 7th day the actual price is increasing so it is right time to sell.

Figure 4.18
Actual and Moving Average Trend of HBL



By the Figure 4.18 shows 5 day moving average and 11 day's actual price of HBL. The actual trend has increasing than moving average from day 1st so it is right time to buy. At day 3rd to 7th , the actual price is decreasing than moving average price so it should buy. After 7th day the actual price is increasing so it is right time to sell.

4.3 Analysis of Primary Data

For the purpose of the study on the topic “Investment trends, problems and prospects of securities in Nepal” interviews and questionnaire methods have been used as a source of primary data. Returned answers from respondent are presented below.

4.3.1 Analysis of Interviews

While taking interview with senior officers of SEBO/N, NEPSE, Brokers, Issue managers about the problems and prospects of securities, we have known that Nepalese stock market has suffering from lots of problems even though it has some prospects. According to the officers of SEBO and NEPSE, the market has not got well trained and qualified manpower. The regulatory bodies are not able to discharge their regulatory functions properly. Investors are not aware about the stock market. The emphasized that Nepalese stock market is dominated by retailing investors come forward to act in publish manner. So growth and stability could not fully achieve unless rational and institutional investors come forward to participate in the stock market. They explained the prospects of stock market are increasing like number of listed companies, start of OTC market and electronic trading system etc.

On the other hand, the brokers and issue manager said that there are small capital market in Nepal, lack of rational investors about the securities, rules and regulation are not appropriate, regulating bodies are not effective. They also expressed their anger to the government for sharp fall in share price due to weak law and order situation in the country. They also said that they are not fully satisfied with the growth trend of stock market.

4.3.2 Questionnaire Analysis

Regarding the primary data, fifty copies of questionnaire were distributed to officers of SEBO, NEPSE, Brokers, Issue managers, lectures, students and banks to know their view about the stock market. But only 45 questionnaires were collected during the study period. The questionnaires were related to find out the problems faced by the Nepalese stock market and the points that provide the prospects of the market. Their responses have been analyzed as follows.

1. Analysis of Growth Trend.

Table 4.18
Responses of Growth Trend of Stock Market

S.N.	Variables	Number of respondents	% of Respondent
1	Yes	25	55.5
2	No	14	31.11
3	Do not know	6	13.33
Total		45	100

Source: Field survey 2009

Table 4.18 shows 55.56 percent respondents are satisfied on growth trend of stock, 31.11 percent respondents are not satisfied and 13.33 percent respondents said do not know. It means they are satisfied the growth trend of Nepalese stock market.

2. Analysis of Problems Faced By Stock Market.

Table 4.19
Number of Respondents on Problems

S.N.	Variables	Number of respondents	% of Respondent
1	Small capital market	15	33.33
2	Lack of investors' confidence	1	2.22
3	Lack of proper knowledge of investors	20	44.44
4	Lack of coordination between monitoring bodies of stock market	1	2.22
5	Inappropriate rules and regulations	3	6.67
6	Restriction of foreign investor	5	11.11
Total		45	100

Source: Field survey 2009

Table 4.19 indicates that the respondents are asked to know about the given problems of Nepalese Capital Market. There are 44.44 percent respondents who said the main

problem is lack of proper knowledge of investor about the stock market as well as 33.33 percent respondents said that the small capital market in Nepal. Likewise 11.11 percent, 6.67 percent and 2.22 percent respondents are restriction of foreign investor, in appropriate rules and regulations, lack of investor confidence and lack of coordination between monitoring bodies of stock market respectively.

3. Analysis of Prospects of Nepalese Stock Market.

Table 4.20

Number of Respondents on Prospects

S.N.	Variables	Number of respondents	% of Respondent
1	Increasing number of larger companies listed in Nepal Stock Exchange.	18	40
2	Stock market provides maximum return.	5	11.11
3	Liquidity and marketability of securities.	4	8.89
4	Increasing interest of educated public towards stock market.	13	28.89
5	Opportunities to invest in stock rather than long term saving.	5	11.11
Total		45	100

Source: Field survey 2009

Table 4.20 shows that the majority of respondents for prospects to Nepalese stock market are 40 percent. It is said that there is Increasing number of larger companies listed in Nepal Stock Exchange. 29 percent respondents assume the increasing interest of educated public towards stock market and 11.11 percent said that Stock market provides maximum return and Opportunities to invest in stock rather than long term saving and lastly 8.89 percent said that Liquidity and marketability of securities. Trend of large companies listed in NEPSE and educated people attracts toward this market mean it has great prospects of developing.

4. Analysis of Main Influencing Factors the Price of the Stock.

Table 4.21

Main Influencing Factors on Share Price

S.N.	Variables	Number of respondents	% of Respondent
1	Dividend	9	20
2	Rumors	9	20
3	Financial situation of company	18	40
4	Management of Company	9	20
5	Others	-	-
Total		45	100

Source: Field survey 2009

About the influencing factors of prices fluctuation of share in stock market, different investors have given different views. According to Table 4.21, the majority of respondents for main influencing factor on share price are 40 percent on financial situation of company. All the respondents have equally agreed for Dividend, Management of Company and Rumors respectively.

5. Analysis of Factors Motive to Make Investment.

Table 4.22

Factors Motive to Make Investment

S.N.	Variables	Number of respondents	% of Respondent
1	Social status	4	8.88
2	Dividend	18	40
3	Friends and family	5	11.11
4	Stock brokers	4	8.88
5	Marketability	14	31.11
6	Others	-	-
Total		45	100

Source: Field survey 2009

Table 4.22 shows that 40 percent are interested for dividend. 31.11 percent investors said marketability makes to invest in stock market, 11.11 percent in friends and family and rest 8.88 percent in marketability and social status. So dividend is the major factor to investors for investment.

6. Analysis of Information Provided by the Company's Appropriate

Table 4.23

Appropriate Information Provided by the Company

S.N.	Variables	Number of respondents	% of Respondent
1	Yes	18	40
2	No	27	60
3	Do not know	-	-
Total		45	100

Source: Field survey 2009

Table 4.23 shows 60 percent respondents are agreed appropriate information does not provide by the company and rest 40 percent respondents are against it or information provided by the company is appropriate.

7. Analysis of SEBO/N Rules and Regulation Affect the Value of Stock.

Table 4.24

SEBO/N Rules and Regulation Affect the Value of Stock

S.N.	Variables	Number of respondents	% of Respondent
1	Yes	36	80
2	No	5	11.11
3	Do not know	4	8.89
Total		45	100

Source: Field survey 2009

Table 4.24 shows 80 percent respondents are in favor of SEBO/N rules and regulation affected the value of stock, 11.11 percent respondents are against it and rest 8.89 percent are unknown about it.

8. Analysis of Awareness of Investors

Table 4.25
Awareness of Investors

S.N.	Variables	Number of respondents	% of Respondent
1	Yes	6	13.33
2	No	32	71.11
3	Do not know	7	15.56
Total		45	100

Source: Field survey 2009

Table 4.25 shows that 71.11 percent respondents are not awarded about Nepalese stock market, 13.33 percent are awarded and rest 15.56 percent is unknown about it.

9. Analysis of Basis of Decision Making the Secondary Market.

Table 4.26
Basis of Decision Making the Secondary Market

S.N.	Variables	Number of respondents	% of Respondent
1	NEPSE Index	4	8.89
2	Closing Price	4	8.89
3	Turnover	1	2.22
4	Company's Goodwill	9	20
5	Company's Profit	27	60
6	Others	-	-
Total		45	100

Source: Field survey 2009

Table 4.26 shows that 60 percent respondents are affected by company's profit in the decision making to invest in secondary market. 20 percent respondents are on the basis of company goodwill, equally 8.89 percent respondents are on NEPSE index and closing price and last 2.22 percent are on the basis of turnover.

10. Analysis of Informational and Operational Efficient of Nepalese Stock Market.

Table 4.27

Analysis of Informational and Operational Efficient of Nepalese Stock Market.

S.N.	Variables	Number of respondents	% of Respondent
1	Yes	2	4.44
2	No	36	80
3	Do not know	7	15.56
Total		45	100

Source: Field survey 2009

Table 4.27 shows that 80 percent respondents are not agreed about informational and operational efficient of Nepalese stock market, 4.44 percent are agreed with it and rest 15.56 responded do not know.

11. Analysis of Most Responsible for Appropriate Trading System.

Table 4.28

Most Responsible for Appropriate Trading System

S.N.	Variables	Number of respondents	% of Respondent
1	Investors	9	20
2	NEPSE	18	40
3	Brokers	9	20
4	SEBO/N	4	8.89
5	Main regulating body	5	11.11
Total		45	100

Source: Field survey 2009

Table 4.28 shows that 40 percent respondents said that NEPSE is most responsible for appropriate trading system. Equally 20 percent respondents said investors and brokers, 11 percent respondents said main regulating body and rest 8.89 percent respondents said SEBO/N.

4.4 Major Findings of the Study.

- By taking indirect interview with senior officers and staffs of NEPSE, SEBO/N, Brokers, general investors etc, it was found that the Nepalese stock market is infancy stage. Rules and regulation is not affected, investors are less awarded about stock market etc.
- By analyzing the questionnaire, respondents are satisfied with the growth trend of stock market.
- The major motive factor to invest in stock market is dividend and most respondents answered larger companies listed in Nepal Stock Exchange is increasing so the prospects of Nepalese stock market are increasing trend.
- The information provided by the company is not appropriated, 60 percent respondents said.
- The SEBO/N's rules and regulation affected the value of stock, 80 percent respondents said.
- Investors are not awarded about the stock market, 71.11 percent respondents said.
- The company's profit is main basis of decision making in the stock market, 60 percent respondents said.
- Knowledge about stock market is main problem to investors.
- The Nepalese market is not information and operational efficient, 80 percent respondents said.
- NEPSE is most responsible for appropriate trading system, 40 percent respondents said.
- Financial situation of company is main influencing factor on share price, 40 percent respondents said.
- The growth rates of total listed companies and commercial has positive in all years. The number of traded companies and number of listed securities are increasing trend.

- NEPSE index was increasing up to 2007/08 but dramatically decreased by – 22.24 percent in 2008/2009. On the other hand, commercial banks' Index was fluctuating.
- The total number of transaction and CB transaction has fluctuating manner in NEPSE.
- Total paid up value and paid up value of CB has increasing trend.
- The number of issue approval and amount of issue approval has fluctuating in every year. The maximum number of issue approval was 72 companies in 2008/09 and maximum amount of issue approval was 14875.12 million in 2007/08.
- Total market capitalization and banking sector market capitalization has positive growth rate in all years. Banking sector has also covered most of market capitalization in NEPSE.
- Total number of share traded and number of share traded of CB has fluctuation. In year 2005/06, there were significantly negative growth rate in total number of traded shares and total number of traded commercial banks' share.
- Total average turnover and commercial bank turnover has positive trend except in the year 2005/06 and sector wise turnover also shows most of the turnover of total turnover is covered by commercial banks.

Four and eight percent filter rule was experienced from 2nd August 2008 to 25th August 2009 to predict the decision of buy and sell. There are no buy and sell indicators at 4% and 8% among the sample banks.

Run test was examined to analysis the behavior of stock price. There are 3 run of SCBNL, 6 run of NABIL, 9 run of BOK, 7 run of NIB and 9 run of HBL. It shows the prices of BOK and HBL are more fluctuating than other banks.

To show average value of security price over a period of time, 5 day moving average was taken of five listed commercial banks. The moving average prices of SCBNL are increasing trend but from day 7, moving average price is decreasing. The Moving average prices of NABIL are decreasing trend from day 3 but it has increasing trend up to day 3. The moving average prices of BOK are decreasing. The moving average

trend of HBL is decreasing trend after day 4 but it is increasing trend up to day 3. The moving average prices of NIB are increasing trend up to day 5 and thereby it has decreasing trend.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nepalese stock market is the institutional development of securities market started in 1976 A.D. It is still in an underdeveloped stage. The main objective of this study is to identify the investment trends, problems and prospects of securities and to evaluate the daily price movement of listed commercial banks.

NEPSE has a leading role to play to raise fund and to provide capital formation in the economy. But there are many problems faced by securities market those are:- agro based economy, lack of political stability, Information are not available to the investor, high cost of public issue, inefficient market etc. Though these problems are prevailed, it has tremendous opportunity those are:- Expansion of market, trading of government securities etc.

Stock market may affect the economy activities. Although some analysts said that stock market in the developing country's plays little positive role in the economy growth ,however recent evidence show that stock market can play vital role for the developing country like Nepal.

The main objective of the study is to identify the existing condition of the stock market problem faced by stock market and to analyze the price movement of commercial bank in Nepal. To fulfill the main objectives specific objectives - to examine the investment trends of securities, to evaluate the problems and prospects of securities investment in commercial banks, to analyze the daily price movement of listed commercial banks in Nepal, to make recommendation on the basis of findings.

Five listed commercial banks have been taken as a sample and analyzed of their price fluctuation by using technical analysis i.e. (Filter rule, run test and moving average). On the other hand primary and secondary data used to analyze of this study. In the primary data, Interview and questionnaire methods were used to know different views

of different person. In the secondary data, there were analyzed the growth trend of stock market by using different indicators such as number of listed companies, turnover, market capitalization, number of securities traded, securities analysis etc and table and diagram were used to present the data and secondary data were collected from NEPSE, SEBO/N, newspaper etc. By taking indirect interview with senior officers and staffs of NEPSE, SEBO/N, Brokers, general investors etc, it was found that the Nepalese stock market is infancy stage. Rules and regulation is not affected, investors are less awarded about stock market etc.

The finding of the study shows that respondents are satisfied with the growth trend of stock market. The major motive factor to invest in stock market is dividend and most respondents answered larger companies listed in Nepal Stock Exchange is increasing so the prospects of Nepalese stock market are increasing trend. The information provided by the company is not appropriate, 60 percent respondents said. The SEBO/N's rules and regulation affected the value of stock, 80 percent respondents said. Investors are not awarded about the stock market, 71.11 percent respondents said. The company's profit is main basis of decision making in the stock market, 60 percent respondents said. Knowledge about stock market is main problem to investors. The Nepalese market is not information and operational efficient, 80 percent respondents said. NEPSE is most responsible for appropriate trading system, 40 percent respondents said. Financial situation of company is main influencing factor on share price, 40 percent respondents said. The growth rates of total listed companies and commercial has positive in all years. The number of traded companies and number of listed securities are increasing trend. NEPSE index was increasing up to 2007/08 but dramatically decreased by – 22.24 percent in 2008/2009. On the other hand, commercial banks' Index was fluctuating. The total number of transaction and CB transaction has fluctuating manner in NEPSE. Total paid up value and paid up value of CB has increasing trend. The number of issue approval and amount of issue approval has fluctuating in every year. The maximum number of issue approval was 72 companies in 2008/09 and maximum amount of issue approval was 14875.12 million in 2007/08. Total market capitalization and banking sector market capitalization has positive growth rate in all years. Banking sector has also

covered most of market capitalization in NEPSE. Total number of share traded and number of share traded of CB has fluctuation. In year 2005/06, there were significantly negative growth rate in total number of traded shares and total number of traded commercial banks' share. Total average turnover and commercial bank turnover has positive trend except in the year 2005/06 and sector wise turnover also shows most of the turnover of total turnover is covered by commercial banks.

Four and eight percent filter rule was experienced from 2nd August 2008 to 25th August 2009 to predict the decision of buy and sell. There are no buy and sell indicators at 4% and 8% among the sample banks.

Run test was examined to analysis the behavior of stock price. There are 3 run of SCBNL, 6 run of NABIL, 9 run of BOK, 7 run of NIB and 9 run of HBL. It shows the prices of BOK and HBL are more fluctuating than other banks.

To show average value of security price over a period of time, 5 day moving average was taken of five listed commercial banks. The moving average prices of SCBNL are increasing trend but from day 7, moving average price is decreasing. The Moving average prices of NABIL are decreasing trend from day 3 but it has increasing trend up to day 3. The moving average prices of BOK are decreasing. The moving average trend of HBL is decreasing trend after day 4 but it is increasing trend up to day 3. The moving average prices of NIB are increasing trend up to day 5 and thereby it has decreasing trend.

5.2 Conclusion

Due to the increasing number of listed companies, number of traded companies and number of listed securities, it can be beneficial for investor to invest in stock market. The analysis of shares through technical approach is based on actual price movement in the market. Analyzing the shares with technical tools, increasing chances of taking right action at the right time are beneficial to the investors but it is dependent on the skill or expertise of analyst. Average daily turnover provides the liquidity to the stock market and commission to the stock brokers. Stock brokers will not survive without having transactions in the stock market. Generally increasing trend of A.D.T., it

means more liquidity provide to the stock market. No. of share traded, capitalization and turnover has increasing trend its means Nepalese capital market is developing stage and it may be more marketability and liquidity in future. Sector wise analysis shows most of the portion of market capitalization is commercial bank.

The major problem of the stock market is insufficient knowledge about the securities to investors because they invest on stock price by rumors and whim. They don't calculate the financial situation of the company. Capital market is also small in Nepal. The increasing number of companies in NEPSE shows the prospects of Nepalese stock market. Due to lack of appropriate rules and regulation, the stock market is not developed. Dividend is the most important factor to make investment decision. Transparency and openness transaction, quality professional service, improved large regulatory and supervisory framework are urgent needs of Nepalese stock market.

5.3 Recommendations

The stock market is in growing stage. There are various obstacles. We should remove these obstacles. As per the study, there are following recommendations:

- The size of Nepalese capital market is very small in terms of geographical coverage and financial instruments used. Though investors from different parts of the country can participate in the primary market, they cannot transact in the secondary market which makes their investments in the primary market illiquid. Necessary actions should be undertaken to make possible the participation of investors outside Kathmandu valley in the secondary market.
- Various trainings, seminars, workshops should be organized to create awareness among general public about the capital market.
- Appropriate polices should be made that allows the foreign investors to participate in Nepalese capital market.
- The disclosure made by the listed companies and the companies making issues should be made more transparent which enables appropriate investment decision on the part of investors

- Sufficient information regarding the companies is not available which makes it difficult to make an investment decision. Independent rating agencies should be established which provides rating to the companies on the basis of their financial performance. Investors can base their decision on such ratings.

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APPENDIX-I

QUESTIONNAIRE

Dear Sir/Madam

I have been conducting a research on “**Investment Trends, Problems and Prospects of Securities Market in Nepal**” in partial fulfillment of master degree of business studies. I request you to fill up this questionnaire which can be helpful for me to conduct the research in this topic. Please complete the questionnaire by marking the appropriate option and rating or ranking as instructed in each question. Your opinion will be of great value to analyze this research paper.

I assure you that the information provided by you will be kept highly confidential and will be used only for the purpose of this study.

I am looking forward to for your favorable response.

Thank you

Researcher

Rajesh Subedi

Roll no. 1683

M .B. S.

Shanker Dev Campus

Respondent

Name (optional):

Education

Organization

Position:

Date:

Questions: Please tick { } the following Questions:-

Q. N. 1 Are you satisfied with the growth trend of Nepalese Stock Market?

Yes

No

Do not know

Q. N. 2 In your opinion, what are the problems of stock market in Nepal? [please rank the following alternatives; no 1 for the most important and no. 6 for the least important] .

Small capital market.

Lack of investor confidence.

Lack of proper knowledge of investor.

Lack of coordination between monitoring body of stock market.

Inappropriate rules & regulations.

Restriction of foreign investor.

Q. N.3 Rank the following prospects of Nepalese stock market. [no 1 for the most important and no. 5 for the least important one] .

Increasing number of large companies listed in Nepal stock exchange.

Stock market provides maximum return.

Liquidity and marketability of securities.

- Increasing interest of educated public towards stock market.
- Limited opportunities to invest investors long term saving instead of share investment.

Q.N 4 In your opinion which of the following is the main influencing factor for the price of the stock?

- Dividend
- Rumors
- Financial situation of company
- Management of the company
- Others

Q.N 5 What factors motivate you to make investment in stock market?

- Social status
- Dividend
- Friends and family
- Stock broker
- Marketability
- Others

Q.N 6 Do you think that information provided by the company is appropriate?

- Yes
- No
- Do not know

Q. N.7 Do SEBON rules & regulations affect the value of stock?

- Yes
- No
- Do not know

Q. N 8 Do you think investors in the Nepalese stock market are aware?

Yes

No

Do not know

Q. N 9 On what basis do you make decision to invest in share in the secondary market?

NEPSE index

Closing price

Turnover

Company's goodwill

Company's profit

Others

Q.N 10 Do you think that Nepalese stock market is informational and operationally efficient?

Yes

No

Do not know

Q.N. 11 Who is most responsible for appropriated trading system in stock market?

Investors

Brokers

NEPSE

SEBO/N

Main Regulating Body