

CHAPTER I

INTRODUCTION

1.1. Background:

The development of any country would be a daydream unless an adequate amount of capital is invested and mobilized in productive sectors like industries and businesses. In fact, the developed economies of the world are the results of substantial investment in such productive sectors. In order to boost up the economy of any country, it is extremely essential to have a mechanism through which small amounts of savings can be collected and transferred into competitive and efficient uses. Hence, securities market plays such roles and thus contributes to the nation's economic development.

“The advent of securities market is not a new phenomenon. A long array of securities, sophisticated market places, different classes of market participants, up to date self and government regulations and mechanisms have evolved over time. Likewise, advanced trading procedure and rapid changes in types of securities are becoming common phenomenon to a developed economy. However, the development of securities and securities market is lagging far behind in Nepal. There are only few types of securities, a handful of market participants and stock exchange of recent origin.” (Baral, 1999:2)

The history of security market in Nepal started with the issuance of ordinary shares by Biratnagar Jute mills in 1936. Eight thousand ordinary shares of hundred rupees each were

issued for the first time in the history of corporate security. The enactment of Nepali Company Act 1936 paved the way for the establishment of public limited companies. As a result number of public limited companies reached to 67 by 1955. Obviously, the development of corporate securities moved forward along with the growth of public limited companies. Later on, Treasury bill came into existence in 1962 as a first government security. Since then, it has grown in number and volume of issuance over the years. The history of government bond dates back to 1964 when the government issued development bonds. Afterwards the government began to issue various kinds of bonds like national saving bonds, land compensation bonds etc. After that the enactment of new company act 1964 added a new dimension in the growth of corporate securities. The new act widened the definition of securities and embodied preference shares as corporate securities. The establishment of Securities Exchange center Ltd. 1976 can be taken as the most remarkable event in the history of securities market. It was established with an aim of facilitating and promoting the growth of securities market. Its function was to undertake the job of brokering, underwriting and managing of public issues. However, it confined itself mostly on trading government securities during its initial periods. There was no secondary market for the corporate securities in Nepal till 1984. However, the enactment of security exchange act 1993 and its execution in 1984 become the next remarkable event to ameliorate the prevailing situation of security market. As per the provisions laid down in the act, security board was established in 1993 with the objective of promoting and protecting the interest of investors by regulating the securities market. Besides this regulatory role, it has made a number of contributions for the development of securities market in the country. The amendment in the securities exchange act in 1992 has widened the horizon of security board and added a number of responsibilities

to be played as a main regulatory body of the securities market. It supervises and monitors the activities of stock exchange so as to ensure the fair, healthy and efficient transactions of securities. Moreover, it registers and regulates market intermediaries involved in the primary issues as well as in the secondary trading of the securities. In the year 1993, securities exchange center Ltd. was converted into Nepal stock exchange (NEPSE) and then it started to work under the jurisdiction of security board. The primary objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries such as brokers, market makers etc. Moreover, it has been empowered to promulgate various bye- laws in order to ensure orderly and fair transactions of securities. Accordingly, the securities listing bye- law 1996 made as the most important bye- law, which prescribes the terms and conditions for listing and disclosure requirements for listed companies. At present, there are 23 stock brokers and 142 companies are listed in the NEPSE. (www.sebonp.com)

After the above historical background, it is appropriate to address about how securities are brought into existence in the primary and secondary markets. After getting the approval of security Board, a corporation can issue securities as per prevailing rules and regulations. Investment bankers or underwriters purchase new issues from new issuers and arrange for their resale to the investing public. “In the absence of investment bankers in Nepal, these activities are carried out mostly by finance companies. At present, 9 issue manager’s one stock exchange helps issuing companies in the registration of securities, preparing necessary informational documents and establishing distribution network.” Therefore, their roles are of great significance in the primary market. Later on, to enter into the secondary market, it is

mandatory for the issuing companies to have their securities listed in the NEPSE within five months of the closure of offering. Corporate bodies not listing their securities are followed up through correspondence and other means of persuasions. However, government securities are exempt from the listing requirement.

There are number of advantages of trading in the secondary market to an investor. First, it provides liquidity to the holding of securities. As a result, sudden demands of fund can be met. Second, it guards against unfair trading as it operates under certain rules and regulations. Third, investors obtain opportunities to improve their portfolio returns by dropping low return yielding securities and holding high return yielding securities. Fourth, investors can have easy access to information about concerned companies as each listed company is legally bound to disclose price sensitive information. Hence, it is obvious that information plays an important role in the continuous price formation process of the stocks in the secondary market. In general, price of the stocks is determined by buy and sells orders that follow from investors' demand and supply preferences. Investors' demand to a large extent depends upon the information concerning with company's future prospects. Since future is uncertain investors use past and current information in assessing prices of stock while trading in the secondary market.

1.2. Focus of study:

Financial markets play a catalyst role in the development of the country's economy. Many countries around the world have been developed due to highly sophisticated financial institutions and also due to the countries capital market moved towards liberal economic policies. This emerging market has shown extraordinary growth with high volatility, which has attracted many investors into these markets. So one of the main focuses of this study deals with the synthesis of the process of development of the securities market and the consequent market behavior along this process.

In Nepalese context, there is lack of wider investment opportunities that can provide favorable results, with regards to this most of the savings of the public has not been utilized. In addition, most of the existing and potential investors are not well knowledge about the real financial strength and weakness of the financial companies in which they are investing or going to invest their funds, further they cannot analyze and interpret the real financial position of a company on the best of available data and information to reach at the correct conclusion. Therefore, this study may help investors to think about restructuring their investment portfolio along with timely decision making for their investment.

1.3. Statement of the Problem:

Nepalese securities market has been seen unparallel detonation over the past decade in terms of listed companies, trade volumes and investor's interests. The reason for the securities market failing to perform may be due to the policy makers' inability to make appropriate policy for the development of the securities market. And also most of the government efforts for the development of securities market have not been up to the mark.

Regarding the stock price movement in the market, one of the approaches assumes that the market is inefficient in pricing the stocks. The technical analysis theory argues that the analysis of the historical prices and Fundamental or intrinsic value causes the stock price trend, which can be useful in achieving the expected returns. This trend is believed to be generated by the gradual discounting not instantaneous adjustment of new information to the price of the security owner time by the investors in the general securities market.

However, in context of Nepal behavior of the stock prices shows the misevaluation of the stock price in the secondary market. Due to the investors not getting timely information regarding the price earnings suffers a lot. So, the lack of value judgment to determine the stock prices is the serious problem. This mostly happened due to the inability of regulatory bodies of the securities market to regulate the market mechanism and also the failure to gain faith of the investors. Likewise, the trend of submission of financial statements and annual reports to SEBO lends support that many companies are reluctant in providing information to their investors. Thus, delays in conducting annual general meeting has been a normal function of company management without taking seriously how much and to what extent company's

shareholders are interested to know about what is happening in their companies both in operational and financial terms.(**Shrestha, 1996**)

The stock price and liquidity in stock market increased sharply after the existence of modern system i.e. open-out-cry system of trading and conversion of the SEC into the NEPSE. It attracts the general public to invest their saving in the stock which caused the stock price to rise further. “The stock price hike and the more liquidity in the secondary market left positive and immediate impact on the capital mobilization in the economy. The level of equilibrium demand for and supply of funds from the general public measures under and overvalued of stock price. The highly overvalued stock price began to decrease and then price of all stocks fall simultaneously. This downward trend in stock price caused the liquidity of the secondary market and continued to fall. The under subscription of the public issues other than banking and insurance sectors was realized in primary market, which led to lower demand for funds from the public. It shows that the primary market is positively and highly elastic with stock price the liquidity in the secondary market. (**Sharma, 1996:5**)

In issue time i.e. in primary market the price of common stock is par but after issuing the common stock of any company traded in the secondary market where the price may be par above or below the par of common stock. This study is basically depending upon the secondary market stock price. This research study tried to explore the solution to the following problems:

-) What are the impacts of price trend, volume of stock traded?
-) Do the investors see the price trend, volume of stock trade while making decision?
-) Is there any specific relationship of MPS with other financial indicators like EPS, DPS, etc.?

1.4. Objectives of the study:

The main objective of this study is to analyze stock price behavior of different companies in Nepal. On basis of this fundamental objective the study has set the following specific objectives:

- To examine stock price trend and volume of stock traded on the Nepal Stock Exchange.
- To evaluate different types of securities issue by the company.
- To analyze the growth rate of paid- up value, turnover and market capitalization of the listed securities.

1.5. Significance of Study:

Securities markets are the mechanism through which the saving of the people and institutions are channelized towards the long term productive investment. Therefore, timely development of securities market is quite essential for the economic growth of the country.

When securities market is booming, the financial market is in good condition and when the securities market is declining financial market is not favorable. This also represents the countries policy towards industry. Economy policy as well as securities market policy is formulated by government rules and regulation of different sector.

Analysis of various capital market performance indicators such as trading turnover, paid up value, market capitalizations, NEPSE index, behaviors of stock prices, etc are of paramount importance for potential investors. No systematic study on these aspects has been done so far. Apart from these, no attention has been paid so far to examine the behavior of stock price in context of Nepal.

1.6. Limitation of the Study:

Each and every study or task has its own limitations and boundaries. This research work is no exception. This research study has the following limitations which are divided into different categories as follows:

- 1 The field study is mainly focused on securities (shares, bond and debentures) by corporate sector.
- 2 The main source of data is based on the secondary data made available to the public by the NEPSE and concerned companies.
- 3 Stock price trend is seen only with the help of NEPSE Index.
- 4 The study is based only in the stock market of Nepal.
- 5 The study has taken only secondary data and information period of fiscal year 2002- 2007.

1.7. Organization of the Study:

Introduction: The first section covers General backgrounds, Focus of the study, Statement of problem, objectives of study, Significance of the study, and limitation of the study.

Review of Literature: The second section deals with framework of the study and reviews of major empirical work in the areas of securities market and stock price behaviors. This includes reviews of the theories of the concerned topic and other major studies conducted inside or outside the country.

Research Methodology: Under this section, research design, population & samples of the study, sources and types of data, data collecting instrument, procedures of gathering data and tools for analysis of data i.e. formulas is used.

Presentation and Analysis of Data: One of the most important parts of the study is, this section, under which a careful examination of available facts will be analyzed systematically so that we can come to certain conclusion and can recommend the results. This part concerns with evaluating the trend in paid up value, market capitalization, trading turnovers, behavior of NEPSE index, and also to analysis market share price.

Summary, Conclusion and Recommendations: At last, in the fifth section summary of the whole study along with conclusion & recommendation are presented so that the readers can make improvement in near future in similar types of study.

CHAPTER II

REVIEW OF LITRETURE

In this chapter, some of the basic literatures on the stock price behavior are reviewed like scholarly articles, books, dissertations etc. It includes literatures regarding theories on the topic and reviews of the empirical evidences of the previous study done within the country.

The first section of this chapter incorporates the conceptual framework of the securities market in Nepal .It also includes the fundamental analysis and technical analysis. However, in the second section it covers the study which was conducted in the past Nepalese context.

2.1. Conceptual Framework of Financial Market:

2.1.1. Securities:

Security, in general, is a piece of paper representing the investor's rights to certain prospects or property and the conditions under which he/ she may exercise these rights. The piece of paper serving as an evidence of property rights is called a security, for example, share certificate, bond, commercial paper, preferred stock, treasury bill etc. It may be transferred to another investor and, with it, will go all its right and conditions. Moreover, security is a legal representation of the right to receive prospective future benefits under stated conditions.

2.1.2. Security Markets:

Securities market is recognized as an effective way of raising funds for business enterprises along with this it also provides an opportunity to individuals and institution for investment through buying and selling securities in the securities markets. Nepal being one of the least developed country in the world ,so the need for securities market has become pre-requisite in order to provide stable long- term finance for companies and a means of savings to the general public, as an efficient tool for resource allocation. However, in the securities market demands for the funds comes from agriculture, industry, trade and government while supply of funds comes from individual or corporate savings, institutional investors and surplus of government.

Primary Markets:

Before the establishment of the Securities Exchange Centre (SEC), there was no single institutional arrangement to undertake new issue and manage the sales of the shares and debentures of the corporate bodies. A public limited company could make public offering according to the provisions of the Companies Act 1964. When the SEC came into existence, it started managing new issues of shares and debentures according to the guidelines for new issues and sales management 2043 (1986). It used to charge commission for its service to the issuing company varying from a minimum of 1.35 percent to a maximum of 2.0 percent depending on the amount of new issue. A lower amount of transaction would attract a higher rate of commission and vice versa. Therefore, the issuing company had to pay a commission of 2.0 percent for the management of new issue and sales services to SEC for an amount up to Rs2.5 million. The rate of commission for a new issue of Rs10 million and above was 1.35

percent. At present, the rate of commission ranges from 0.7 percent to 1 percent depending upon the value of securities sold. The issue managers who arrange the sale of securities charge commission to the issuing company at the rate of 2.5 percent of the value of the sold securities up to Rs2.5 million. If the value of the issue is more than Rs10 million, the rate of commission is 1.5 percent.

Primary market denotes the market mechanism for the original sale of securities by an issuer to the public. In other words, “primary market is the only market in which the corporate or government issuer is directly involved in the transaction and receives direct benefit from the issue that is, the company actually receives the proceeds from the sale of securities” (Lawrence, 1988:31-32). Thus securities absorbs new fund or capital from the initial issues is known as primary market.

Secondary Markets:

Secondary market is the market in which securities are traded that has been issued at some previous point of time. In other word, “Secondary markets are those in which financial securities already outstanding are exchanged among investors.”(Irwin, 1984:6-7)So, secondary market in a simple sense is the market in which existing, outstanding, securities are traded between the investors. It is the market that creates the price and allow for liquidity. If there have no place to sell their assets without liquidity many people would not invest at all. The corporations whose securities are being traded are not involved in receiving market transaction and thus, do not receive any funds from such a sale. The function of secondary market is to provide liquidity for the secondary purchased in the primary market.

2.1.3. Corporate Bonds:

Corporate bond is fixed income security issued by a private firm business enterprise whether owned by private investors or by a government. It involves lower risk than the securities that yield variable income. Also the bond market in Nepal is very lean. Very few companies have issued bond in the market. The first instance of bond issue was by Bottlers Nepal Ltd. when it issued 18 percent coupon rate in 1986/87. During the nine-year period between 1993-94 and 2001-02 bond issue occupied the third largest share portion in the total issue amount approved by SEBO (5.99 percent). Only two companies have issued bond though the time gap between the issues of corporate bonds is as high as five years. However, since last year, some positive signals can be observed in the Nepali capital market (**Bhattarai, 2005:193**).

2.1.4. An introduction on SEBON:

Securities Board , Nepal was established in the year 1993 A.D on May 26th , under the provision of securities exchange act 1983A.D.[first amendment]. Since the date of establishment, it has been concentrating to improve the legal and statutory framework, for the healthy development of capital market (**www.sebonp.com**). In the year 1997 on January 30th the first act was amended for the second time. This amendment paved the way for the establishment of SEBON as an apex regulatory body as it livened the horizon by bringing market intermediaries directly under its jurisdiction and also made it mandatory for the corporation to report annually or semi- annually to SEBON. Although the second amendment in the act established to make direct relationship of SEBON with market intermediaries and

the listed companies, supremacy in its jurisdiction is yet to be established and clearly recognized.

Also in order to improve such situation, SEBON focusing on the major areas where improvements are necessary has launched a four year strategies plan [1998-2002 AD] with major trust in four major policy development areas. SEBON has also drafted a new Securities and Exchange Act, which has sought to improve inconsistencies observed in the present act and establish SEBON as an apex regulatory of the securities market (www.sebonp.com).

Thus, SEBO has a dual role of regulating and developing the securities market in the country. Nepal accession to the World Trade Organization has added greater challenges in the securities markets, as it should be opened to foreign investors and foreign securities businesspersons. Fulfilling more roles and responsibilities with limited resources can seriously compromise the potential of a thriving capital market and also due to low level of income from the securities market, SEBO has no alternative then to depend on government funding to carry out its regulating and market development roles. However in the long term SEBO cannot rely on government grant and would have to look for other alternatives to provide SEBO with greater operational and financial autonomy.

The functions of SEBON are as follows:

- 1 Register securities and approve prospectus of public companies.
- 2 Provide license to operate stock exchanges.
- 3 Provide license to operate securities businesses.
- 4 Give permission to operate collective investment schemes and

investment funds.

- 5 Draft regulations, issue directives and guidelines, and approve by laws of stock exchanges.
- 6 Take enforcement measures to ensure market integrity.
- 7 Review reporting of issuer and listed companies, and securities businesspersons.
- 8 Conduct research, study and awareness programmes regarding securities market.
- 9 Coordinate and cooperate with other domestic as well as international regulators.
- 10 Frame policies and programmes relating to securities markets and advise Government of Nepal as and when needed.

As per the Securities Ordinance, 2005, the governing Board of SEBON is composed of seven members including a full time Chairman appointed by the HMG/N for the tenure of four years. Other members of the Board are joint secretary from Ministry of Finance, joint secretary from Ministry of Law, Justice and Parliamentary Affairs, representative from Nepal Rastra Bank, representative from Institute of Chartered Accountants of Nepal, representative from Federation of Nepalese Chambers of Commerce and Industries, and one member appointed by the HMG/N on the recommendation of SEBON from amongst the market experts.

As per the Section 3 of Securities Exchange Act, 2040, the governing Board of SEBON was composed of one full time Chairman appointed by HMG/N, representatives one each from Ministry of Finance, Ministry of Law, Justice and Parliamentary Affairs, Ministry of Industries, Commerce and Supplies, Nepal Rastra Bank, Federation of Nepalese Chambers of Commerce and Industries and Association of Chartered Accountants of Nepal.

2.1.5. NEPSE:

NEPSE is non profit organization, which has been operated under securities exchange act, 1983. The basic objective of NEPSE is to impart free marketability and liquidity to the Government bonds and corporate securities by facilitating transaction in its trading floor through financial intermediaries such as broker, market maker etc. Eleven issue managers and twenty-seven brokers were appointed to avail the daily transactions of buying and selling of securities under its restructure program in the year 1993. Also in the year 1994 on January 13th NEPSE opened for its newly appointed brokers and market makers. NEPSE has adopted an “Open -Out – Cry” system. It means transactions of securities are conducted on the open auction principle on the trading floor. The buying broker with the highest bid will post the price and his code number on the buying column, while the selling broker with the lowest offer will post the price and code the number on the selling column on the quotation board. The market makers quote their bid and offer price on their own board before the floor starts. Once the bid and offer price match, contracts between the buying and selling broker or between broker and market maker are conducted on the floor (www.nepalstock.com).

Currently NEPSE opened “Wide Area Network System” for online transaction of the securities. In this system, brokers can transit their transactions from their own office. NEPSE also started live transaction system which is also known as “**Real Time Transaction**”. So the investors can see the transaction through its website. Due to this system, investor can get the information each and every time transaction period.

NEPSE has adopted a T+5 to T+3 systems which mean that settlement of transactions should be done within 5 working days following the transactions day. Settlement will be carried out on the basis of paper verses payment.

Table 1: Nepalese Economic Indicators

(At current price)

(Rs. in Million)

S.N	Indicators	Fiscal Year		
		2004/05	2005/06 [©]	2006/07 ^{©©}
1	Gross Domestic Product	548484.7	603672.6	670588.7
2	Gross National Income	591048.1	651426.1	723921.2
3	Gross National Saving	167451.2	182216.5	205449.0
4	Gross Domestic Saving	68110.3	51115.3	67306.4
5	Total Consumption	521301.2	595355.3	652170.3
6	Foreign Trade	208179.3	234041.4 ¹	154676.8 ²
	a. India	127592.4	147857.8 ¹	99887.9 ²
	b. Other Countries	80586.9	86156.6 ¹	54788.9 ²
7	Export of goods and services	-87796.3	-116875.9	-115077.8
	a. Import	136277	86507	81548
	b. Export	59911	36112	36949
8	Total Capital Formation	155906.6	167991.2	182384.2
9	Total Fixed Capital Formation	117538.9	135375.3	146197.8
	a. Fixed Capital Formation in Private sector	17212.8	17904.3	19039.0
	b. Fixed Capital Formation in Public Sector	100326.1	117470.9	127158.8

Source: Economic Survey 2006/07

[©] Revised Estimate

^{©©} Preliminary Estimate

¹ Actual

² Unaudited

Of the foreign trade, it is estimated to decrease by a high rate of 33.90 percent to Rs. 1,54,676.8 million in the fiscal year 2006/07, which had increased by 12.41 percent to Rs. 2,34,014.4 million in the fiscal year 2005/06. Of the total foreign trade, the trade to India is estimated to decrease by a high rate of 32.44 percent to Rs. 99,887.9 million in the fiscal

year 2006/07, which had increased by 15.88 percent to Rs. 1,47,857.8 million in the fiscal year 2005/06. The trade to other countries in the fiscal year 2006/07 is estimated to decrease by a high rate of 36.41 percent to Rs. 54,788.9 million in the fiscal year 2006/07, which had increased by 6.91 percent to Rs. 156.6 million in the fiscal year 2005/06. (www.nepalstock.com.np)

In this fiscal year 2006/07, growth amount of total fixed capital formation of the private sector is estimated to be Rs. 19039 million where as in the last fiscal year the amount was Rs. 17904.3 million. Similarly, growth amount of total fixed capital formation of the public sector is estimated to be Rs. 127158.8 million increasing from Rs. 117470.9 million of the last fiscal year 2005/06.

2.2. Concept of Stock valuation:

Security valuation process quickly absorbs sensational information or events happening around the business world. This economic process generates rational stock prices. The fluctuations in the prices may appear to confuse as they are randomly fluctuated when new information is arrived. When the investors takes a decision for long positioning or short positioning with a hope to earn for themselves, they becomes a part of economic force that moves stock price towards their values. After delving into hedge and arbitrage, it can be observed that the activities aligning prices and values of the stock. The decision to take many of this investment position can be traced to security analysts to estimate values.

Also, the concept of stock valuation is a heart of financial management. The value of any traceable items is , whatever the bidder is prepared to pay, with the well established market in the asset concerned and if the asset is fairly homogeneous, valuation is relatively simple. Therefore, as long the market accept being reasonably efficient, the marker price can be trust as a fair assessment of value.

Earnings per Share

Earnings per share are calculated by taking a company's net earnings and dividing by the number of share outstanding. For example, if a company reports Rs. 10 million in net earnings for the previous year and has 5 million numbers of outstanding shares, then that company has an EPS of Rs. 2 per share. So, EPS can be calculated for the previous year ["trailing EPS"], for the current year ["current EPS '], or for coming year ["forward EPS "]. Note that last year's EPS would be actual, while current year and forward year EPS would be estimates.

P/E Ratio:

EPS is the best way to compare earnings across the companies, but it doesn't tell you about how the market values, the stock. That's why fundamental analysis use the price- to – earnings ratio, more commonly known as P/E ratio, to figure out how much the market is willing to pay for a company's earnings. One can calculate a stock's P/E ratio by taking its price per share and dividend by its EPS. For instance, if a stock is priced at Rs. 50 per share and it has an EPS of Rs. 5 per share, then it has a P/E ratio of 10. (Or equivalently, you could calculate the P/E ratio by dividing common stocks, is simply the present value of all the future income which the

owner of the stock receive (Francis, 1986, p.398). And the actual price should reflect the intrinsic value of the stock i.e., good anticipation of cash flows and capitalization rates corresponding to future period. But in practice, first it is known in advance about a stock's income will be in each future period, and secondly, it is not clear about what the appropriate discount rate should be for a particular stock. So, fundamentalist attempts to reach best estimate of the intrinsic value of the stock of the company's, also studying company's sales, profit, dividends, management competency, and other economic & industrial factors which determines its future income and prospect of the business opportunities.

2.3 Theories of Stock Price Behavior:

Securities market is the most important part of any financial market where prices of the securities determine the performance of the company and information dissemination process. Entrepreneurs who have ideas but lacks funds to establish, manage and operate the business can collect the required funds by mobilizing the scattered public savings by issuing tradable securities like shares, debenture and. others in the market. If public response positively then it is called successful issue because of over- subscription. So the forces of demand and supply determine a stock market price. When the supply of stock is greater than that of demand, price tends to fall due to minimum number of buyers of the securities, where as when demand exceeds supply than price of the securities tends to raise. Thus, there are essentially two theories of stock price behavior, conventional approach and efficient market theory. Conventional approach includes technical analysis theory and fundamental analysis theory. Under efficient market theory there are three forms of efficient market hypothesis. Conventional theory assumes that the market is inefficient where as efficient market theory assumes that the market is efficient.

2.4. Conventional approach

One of the major divisions in the rank of financial analysis is between those who are fundamental analysis know as fundamentalist and with the technical analysis know as technicians.

Technical Analysis

In technical analysis the historical financial data of the securities are recorded in charts and diagrams and the technicians i.e. the person who analyze securities based on this approach tend to look backward and they think little about future earnings and dividends. So, a technical analyst usually attempts to predict short term price movements and makes recommendations concerning the timing of purchases and sales of the securities.

Technical analysis is based on the widely accepted premise that security prices are determined by the supply and the demand for securities. The tool of technical analysis is therefore designed to measure certain aspects of supply and demand. Typically, technical analysis record historical financial on charts, study these chart in search of patterns that they find meaningful and endeavor to use the patterns to predict future price. Some charts are used to predict the movements of a single security; other are used to predict the action of both Individual assets and the market. Some of these same charts are also used to predict the fluctuation in the price of commodity a foreign exchange or a rate of interest. Technical analysis is the study of the internal stock exchange information as such. The word technical implies a study of the market itself and not of those external factors that are reflected in the market. The relevant factors, whatever they may be, can be reduced to the volume of the stock

exchange transactions and the level of share price, or more generally to the sum of the statistical information produced by the market. The technician tends to look backward. The technician thinks little about future earnings and dividends. The technician usually attempts to predict short-term price movement and thus makes recommendations concerning the timing of purchases and sales of either specific stocks or groups of stocks or stock in general. It is sometimes said that technical analysis is designed to answer the question "when?" (**Sharpe, Alexander and Bailey, 1999: 344**)

The Technical Analysis theory of share price behavior is based on past market information. On the assumption that history tends to repeat itself, it is believed that knowledge of past patterns of share prices will help to predict future prices under similar circumstances. It involves the study of past market behavior with reference to various financial and economic variables to forecast the future. Financial and economic variables do change, but these variables are to be adjusted in the light of the present situation. Charles Dow is the greatest protagonist of this theory. Since the followers of this theory anticipate future share prices on the basis of charts and graphs of past movements in prices, this approach is popularly known as the Chartist Approach. Thus, under this approach technicians are interested to interpret the past trend to predict the future prices of equity shares.

Unlike fundamentalists, market technicians spend little time looking at a company's business history and financial records. Instead, they forecast future investment prices and the direction of the market by reviewing past price and volume movements. They say that the marketplace is so efficient that the average free-market price of its stock already reflects all one needs to know about a company's financial strength. Remind them of 1987 when they tell you about market efficiency. They also think one should seek quick profits by moving in and out of

the market quickly rather than holding on for long-term growth. Hence the term, "traders."

Technicians use moving averages and other statistical models to try to predict future market movements. An average is simply the average closing price of a stock over a number of days. A moving average means that as each new day's closing price arrives, you drop the oldest day's price from the series and use the most recent price in its place. The statistical term for this process is "smoothing," because day-to-day up-and-down variations are smoothed into a less jagged line. When a stock price goes higher than its moving average, its price is increasing and vice versa.

Technical analysis leans heavily on crowd or mob psychology; i.e., everyone tends mindlessly to "follow the crowd." When the market average tops out, or hits a high and does not move higher, traders say that it has hit a psychological "resistance level." When the market approaches that level, or ceiling, it is said to be "testing the resistance level." When the price moves above that level by some predetermined amount, the crowd then expects it to increase sharply in the short run until it hits another resistance level. The converse of the "resistance level" is the "support level." When the average starts to drop, it will eventually reach a "support level," a floor or bottom that it supposedly will not drop below. But if it does go lower, it may move further down quickly.

Dow Theory:

The Dow Theory is one of the most oldest and famous technical tools and was originated by Charles Dow, who founded the Dow-Jones Company and was the editor of The Wall Street Journal around 1900. The Dow Theory is used to predict traversal and trends in the market as a whole or for individual securities. According to Charles Dow, the market is always considered

as having three movements, all going at the same time. The first is the narrow movement from day to day. The second is the short-swing, running from two weeks to a month or more; the third is the main movement covering at least four years in duration.

Dow Theory practitioner refers to these three components as:

- 1 Primary trend: They are commonly called bear or bull markets. Delineating primary trends is the primary goal of Dow theorists.
- 2 Secondary Movement: Secondary movements are sometimes called corrections which last only a few months.
- 3 Tertiary Movement: These are simply the daily fluctuation. The Dow Theory asserts that daily fluctuations are essentially meaningless random wiggles. Never the less, the chartists should plot the assets price or the market average each day in order to trace out the primary and secondary trends.

Fundamental Analysis Theory

Fundamental analysis is based on the information relating to the companies and the person who analyzes the securities based on facts and figures called fundamental analyst. Generally fundamental analyst is concerned with matters such as future earnings and dividends, so they tend to look forward and make judgment of the securities with risk return framework, based upon earning power and economic environment. And also this analysis helps to evaluate company on the basis of its records i.e. Sales, earnings, dividends, products, management as well as the economy, company statistics and industry outlook.

In the fundamental approach, the security analyst or prospective investor is primarily interested in analyzing factors such as economic influences, industry factors and pertinent company information such as product demand, earnings dividends and management in order to calculate an intrinsic value for the firm's securities. He reaches an investment decision by comparing this value with the current market price of the security. The fundamentalist tends to look forward. He is concerned with such matters as future earnings and dividends. It is sometimes said fundamental analysis is designed to answer to questions "what?"

A fundamentalist claims that at any point of time an individual stock has an intrinsic value, which is equal to the present value of the future cash flows from the security; discounted appropriate risk adjusted discount rate. "The value of the common stock is simply a present value of all the future income which the owner of the share will receive (**Francis, 1986: 308**).” But, it is difficult to know the stock's income in each future period and its appropriate discount rate. So, fundamentalist's estimate the intrinsic value of share by studying company's sales, profit factor.

In the world of uncertainty, it is impossible to anticipate the values exactly so there will be disagreement on the opinion about the estimation among the market participants. The actual price of the security is considered to be a function of set of anticipation. Price Changes as anticipation change which return, change as result of new information (**Bhalla, 1983: 347**). After extensive analysis, the investor derives an estimate of the "intrinsic" value of the security, which is then compared to us market price. If the 'value' exceeds the market price, the security should be acquired and vice-versa(**Reilly, 1986:347**).Fundamental analysis use different model like top down verses bottom up forecasting, probabilistic forecasting, econometric models, financial statement analysis etc. to estimate the value of the security

(Sharpe, 1999:850-853). Technical analysis is used as a supplement to fundamental analysis rather than as a substitute for it. Thus technical analysis can frequently does, confirm findings based on fundamental. The widespread availability of personal computers and "dial -up" services with stock prices and volumes has made it possible for individual investors to engage in technical analysis in the privacy of their own homes. Producers of software have been quick to provide programs to perform such analysis, complete with multicolored graphs. Nevertheless, the number of investors using fundamental analysis is much larger than the number using technical analysis.

Although many investors use technical analysis, fundamental analysis is far more prevalent. Furthermore, unlike technical analysis, it is an essential activity, if capital markets are to be efficient. Some of Fundamental Analysts' tools are explained as follows:

-) Top-Down versus Bottom-Up Forecasting
-) Probabilistic Forecasting
-) Econometric Model

2.5. Review of Related Studies:

Jas Bahadur Gurung (2004) conducted the study entitle “Growth and Performance of Securities Market in Nepal”. This study is based on secondary data only. This study has covered 10 year time span-FYs 1993/94 to 2002/03 and included corporate securities only. Securities market plays a pivotal role in mobilizing savings and channeling them in productive purposes and many more like providing liquidity on securities so that one can minimize the risk and maximize the returns. The study on the securities market performance reveals that

there is no synchronization among different securities market performance indicators, but it is true that they almost have depicted an erratic trend during the observed period. This indicates the unstable and poor performance of securities market. Relative to the overall economy, the size of securities market is very small and the liquidity of securities also is poor. These facts suggest that the Nepalese capital market now is passing through a bearish situation. The growth and performance of Nepalese securities market, even after the introduction of new mechanism in 1993/94, are not satisfactory though it is improving gradually.

Dilli Ram Pokhrel conducted the study entitle “The Development of Securities Market in Nepal: a comparative analysis”. He analyzes the development of securities market in Nepal from historical and comparative perspectives. It is observed that the financial sector (commercial banks and finance companies) highly dominates the Nepalese securities market in which the corporate equities are the largest market instruments. Measured in terms of market capitalization, total value traded, and turnover ratio in relation to the size of respective economies (seven industrial and six South Asian developing economies), it is found that the Nepalese securities market is very small, highly illiquid, inefficient and underdeveloped compared not only with developed countries but also with most of its South Asian counterparts. The correlation between the major securities market indicators and real GDP growth is consistent with the hypothesis that there exists causal relationship between securities market development and economic growth. The correlation results also reveal the strong complementarities between the growth of banking sector and securities market in Nepal. Moreover, the Gini Coefficient and Herfindahl concentration indices show the highly concentrated market structure implying the lack of competition in the market. Finally, the

overall analysis indicates that Nepal has a limited scope of financing choice from bank to market. Due to the inadequate securities market infrastructure and small size of industrial undertakings within a few numbers of public limited companies, the Nepalese financial system is highly dominated by banking sector and is likely to follow the same pattern in the future until the market infrastructures are developed and corporate sector earns sufficient credibility.

Atma Ram Ghimire in his article, (2001) “Nepali Share Market an Investor’s Perspective” opines that -Currently share prices are on the decline. On March 3rd 1999 Nepse index was 178.81 (base Feb. 1994=100), it was the highest on December 2000 at 545.25 and then within five months, on May 17, 2001, it plunged to 334.29. These are not periodic, cyclic movements, but the results of mismanagement of the share market by the authorities and manipulation by big share holders/company promoters and stock brokers.

The major reason behind the movement in the index is the domination of banking sector scripts in Nepali stock exchange’s transactions. The price changes in bank shares have mostly no justification. When they increased, it was after declaration of bonus, dividend or interim dividend or after the receipt of bonus share and dividend and when they decreased; it was before the receipt of bonus share and dividend, i.e. after the confirmation that return is imminent. Therefore, these changes are unnatural and can again lead to the debacle the share market faced in 1994/95.

When we analyze the Nepali share market we find that all the components of this market are lame and weak and perhaps work for vested interest. The Securities Board, the supreme body of this market, gave the permission to Taragaon Regency Hotel to increase the number of

shares issued from 8 million to 12 million units after the public oversubscribed the initial offer, despite the advise from experts not to do so. To repeat the same mistake, the Board gave almost similar permission to Hotel Radisson and now public investors are again cheated. The board has thus repeatedly supported companies in their activities that lead to cheating the investors.

There have been so called market makers in the stock market but they did not appear when the market was booming with unnatural growth. Neither are they in sight now when the market is crashing. Why cannot the board cancel the license of the recalcitrant market makers and issue new ones? Why in a liberal and market economy is the license/quota system being followed? It should be open for all - brokers, market makers, and stock dealers. Just fix straight and transparent requirements, like 5 million capital, Master's degree in economics / management/ accountancy and whatever, but not something based on 'HAKIMKO BIBEKMA' (the judicious will of the decision maker).

The other component in the market is Nepal Stock Exchange Ltd. The primary requirement now is to privatize this institution immediately to sustain the interest of the public in capital market and for its healthy growth. Its operation is primitive, like that of a 'Dhiki' (village rice dehusker) instead of a cellar mill. Weak practices are seen in its management. It seems to be without any regulatory functions when judged by its dealings towards listed companies. Even the share registrar and market maker (NIDC Capital Market) has not held its AGM for fiscal year 1999/2000. Still, the Board has not been able to take any action. There are no set rules (or they are not implemented) for transaction processing and certificate delivery. It could take months for the certificates to arrive from the companies. These mismanagement practices cannot help the

growth of a share market.

The broker organizations are real private, and run a one-man show. Most of them do not have real education and knowledge about the market. They do not have analysts or advisors to make suggestions to the investors. Their primary motto is to make transactions and earn commission. They have not paid a single rupee from the earning they have made from this market for its promotion. They have not even spent on their basic office automation and systematic transaction recording. One of the reasons for such aloofness is the security provided by Npse and Board *hakims*, denying other qualified institutions a free entry into the market.

The general public has invested recklessly. They just believe what one broker or the investor says about scrip. They must study (be informed) about the company before making the investment. One of the prime motives for the investment is to earn return on it. Capital market is a long-term concept. The investment on secure and good company does yield good returns in the long run.

Therefore, general investors should be alert and aware to these situations. They must receive the financial information before they make investment and act rationally. This will avoid the typical crashes the market experienced in the past which were largely created by unnatural activities of the institutions and individuals concerned.

Ahmed M. Khalid in his research (2007) “Bond Market Developments in Emerging Markets: Prospects and Challenges for Pakistan”.

He presents an overview of the developments in establishing a bond market in a sample of selected Asian countries. For comparison purpose, he split the sample into two groups. The

first group is called 'Early Reformers' and include countries such as Malaysia, Singapore, and South Korea. The second group is called, 'Emerging Markets' and includes China, India and Pakistan.

(I). Early Reformer:

Singapore

Singapore has been a traditional location for capital market activities in the Malay Peninsula. However, since the cessation of currency convertibility in 1973 and especially after Malaysia's cessation of double-listing since 1989, the capital market activities in Singapore are very much connected with the domestic economy. Prior to these dates, a significant quality of the transactions in Singapore was on Malaysian-origin companies. With the development of a large capital market of its own, Malaysia required its corporations to seek listings only in the national exchange. As a consequence, the size of the capital market in Singapore declined in 1990. However, with more firms including government-linked ones seeking listing on the stock market, the size of the market has increased substantially by the end of 1997. At the end of 1997, there were 259 listed firms on the share market capitalized at around US\$170 billion. The share market had intense activity: turnover per firm per year was US\$565, which figure compares Regulations permitted banks to lend money to individuals for share purchases. At the height of the crisis, the exposure from this source accounted for about 15 per cent of the loans favorably with most developed capital markets. As at 2002, the market has grown to about 400 listings, and capitalization has increased to over US\$200 billion.

The debt market is less developed than the share market. The government issues Treasury securities periodically to determine the going interest rates through regular auctions of the

issues on Thursdays. Since the government has perennial surpluses, it is not able to issue large debt issues. Corporations have found that they could borrow money from banks at reasonable interest rates given the interest suppression noted earlier. Thus, businesses do not have incentives to issue public debt in large amounts. As a result, the public debt market has been very small and is at best inactive over the study period. The current face value of the debt market is under 15 per cent of the GDP, one of the smallest international centers for debt issues. But official statistics include a huge listing of the Ginnie Mae on the board, which masks the fact that the debt market is at best non-existent in this otherwise large international money centre. This remark also does not take into account the syndicated loans that originate as private placements of debt from the region's government's and the private sector in the banking system: there is a large position in this market. Singapore International Monetary Exchange was set up in 1982 to specialize in financial futures contracts. This market has now established itself as a very successful risk management centre for investors in the region. Two-thirds of the value of the contract is some forms of interest rate instruments, e.g. Eurodollar futures and the Euro-Yen futures. There are 17 instruments traded. These and other developments had made Singapore into a successful international financial centre linked to the major centers in Tokyo, New York and London. The development of bond market in Singapore was not a high priority partly due to consistent budget surpluses the government enjoyed until 1997. However, the Monetary Authority of Singapore (MAS) took some initiatives to develop a domestic bond market to deal with any future crisis similar to the 1997 Asian crisis and to create liquidity. In the year 1998, MAS launched a series of Singapore Government Securities including \$1 billion of government bonds and \$2.9 million of treasury bills, 10-year bonds. The MAS also decided to create a repo market. These measures increased the trading volume by

about 20 percent.

(II). Emerging Markets

China

The primary market for securities started in 1981 with the first issue of treasury bonds sold by the government to enterprises and individuals. During 1988-90, the authorities developed a secondary market for securities. During the same period, the government established the National Electronic Trading System (STAQ) in Beijing. In 1991, the Ministry of Finance changed the administrative placement of bond system to marketing through underwriting by financial institutions. The basic reason for establishing the securities market was the change of focus from inflationary financing to bond financing. In the past, the government had adopted the policy of printing money (and unsterilized currency inflows) to finance consistent fiscal deficits, which had resulted in rising inflation. Since the early 1990s, the focus has changed to finance the deficits through bond financing. Accordingly, it was decided to take measures to develop money and capital markets to sell short and long-term Treasury bonds. In 1990, the government initiated the issuance of such bonds underwritten by financial institutions. In 1997, the first interbank bond market was established, allowing commercial banks and some other financial institutions to trade in repo and spot transactions of 4 It is reported in recent years that the top 50 chaebols produce 85 percent of the GDP. Of these, the five biggest ones have been the targets of reform by different governments depending on how a particular government felt towards a given set of *chaebol* families. Hence there is a political dimension to this policy as well (*SBP Research Bulletin, Vol. 3, No.1, 2007*) government securities and financial bonds issued by policy banks. By the end of June 2002, inter-bank bond market registered a turnover

of RMB10.7 trillion. Another important institution is the interbank market. This is one of the most important sources of lending and borrowing among banks and other financial institutions. Prior to the reforms, China had a system of vertical allocation of credit from the State Council through the central bank. Under this arrangement, banks with surplus funds would hold onto them while banks with shortages were not given access to credits. Though some efforts were made to ease the credit allocation as early as 1979, it was only during 1983-85 this system was transformed to a horizontal allocation of funds across banks and industrial sectors. In 1986, the PBC issued a notice on Provisional Regulation on Management of Banks in the PRC under which the interbank market was formally established and all financial institutions were given the right to handle interbank borrowing and lending. Branches with temporary excess of funds would lend to those branches in need of funds. In 1990, the PBC issued Provisional Measures on the Management of Interbank Business. These markets were established in economically and financially advanced cities with the restriction of one market in each of these cities. The PBC supervises the activities and operations of these markets. In January 1996, a centralized interbank market was established and the China Inter-Bank Offered Rate (CHIBOR) was initiated. As a result of these measures, the interbank market has shown steady development during the last five years. By the end of June 2002, this market reached an accumulative turnover of RMB 3.4 trillion. Securities institutions provide long-term capital financing. Under the central government's aim of increasing the channels and proportion of direct financing, these institutions were developed at a fast pace. Securities exchanges were initiated in 1990-91 in Shanghai and Shenzhen allowing trading in government and enterprise bonds and shares of joint stock companies. This was only done after about four years of experimental trading with Western instruments such as shares and bonds in two cities, Shenzhen and Shanghai. In 1992,

the policies were further relaxed to allow foreigners to participate in this trading, which led to the creation of A and B class instruments. To further boost investors' confidence, the China Securities Regulatory Commission was established in 1992 to oversee and supervise the development of the securities industry. The National Security Law was implemented. These measures helped to boost the stock market and as a result, the number of shares listed rose from 15 to 113 by mid-1993 with the combined capitalization estimated at fewer than 10 per cent of the GDP. In 1998, these two exchanges had almost 350 stocks traded. By the end of 2002, China had 109 securities firms and 15 fund management companies with a net asset value of above RMB100 billion. During the same time, the capital market had 1197 listed companies with a total market capitalization of RMB4.65 trillion and negotiable equity value of RMB 1.53 trillion. The domestic and overseas Securities market has helped to raise RMB 827 billion since 1991.

India

The stock markets have a long history since these markets developed over a long time. In 1996, the share markets were capitalized at about 48 per cent of GDP. The stock exchanges are served and managed by around 4,000 brokers and 20,000 sub-brokers, who are equivalent to the dealers in a modern market. These statistics indicate a higher level of development of the stock markets, all of which have been in the private sector. India's capital market is a very large one: among the 53 emerging markets in the world. Most emerging share markets are capitalized at about 20 per cent of GDP. The stock markets are situated in several major Indian cities and are not integrated in so far as there are no integrated trading procedures and communication links similar to, for example, the associated exchanges in Australia. There are

23 separate exchanges with the Bombay exchange accounting for two-thirds or more of the trading volume and value. A national integrated stock exchange with screen trading and automated operation is developing fast. There are some 12,000 stocks listed and traded. Of these, the exchanges in Bombay, Calcutta and Delhi account for more than 50 per cent of the listing. Trading is more intense in Bombay. The exchanges at Kanpur, Ahmadabad and Madras are also active and large. Recent good performance provides important descriptive statistics on the Bombay Stock Exchange. The total capitalization of all the world's 53 emerging markets in 1996 was about US\$1,900 billion. India's stock market ranks among the top 10 with a capitalization of US\$150 billion in 2002. This high capitalization to GDP makes the share market a far deeper market than most of the emerging markets. The Bombay exchange may be counted as being among the top six following South Korea, Taiwan, Mexico, Thailand and Malaysia. The value traded in Bombay is 3.5 per cent of the average of the 30 top markets of the world in the 1990s (IFC reports). The stock market has provided an average yield of about 38 per cent over the last 15 years. But its risk is also high, about 40 per cent standard deviation of returns per annum. In terms of price-earnings ratio, the Bombay market is about a third higher in risk than a typical market average for the world. Therefore, the coefficient of variation of 1.05 for India compares favorably with most developed markets (which have average coefficients of 0.9) as well as the developing markets (which have average coefficient of 1.7). The average price-earnings ratio in the 1990s of 25 to 33 (*SBP Research Bulletin, Vol. 3, No.1, 2007*) makes the Bombay market in recent years about one-third times more risky than the world average (the International Finance Corporation, IFC reports). India's bond market is not well developed though the government bond issues are traded within the financial institutions. There is a potentially large private market to be made with Rupee 2,700 billion

worth government bonds. There is also a tax exempt bond mutual fund scheme with government securities. The capital market is still not international enough to attract foreign capital inflows. This changed in 1995- 96 when much of the disinvestment in Southeast Asia led to large capital flows into the Indian markets. This is in a sense not comforting as markets such as those in Karachi and Bombay that liberalized faster went through speculative capital inflows, which, when withdrawn, destabilized their ability to provide steady streams of financing. While the Indian companies can access foreign markets for funds, likewise, foreign companies can invest in the Indian financial institutions as well as by obtaining licenses to run financial institutions. This is designed to improve efficiency while also making it a lot cheaper to trade in the market. An OTC market has been in operation since mid-1994, giving access to smaller firms to list their shares: since then, small firms have another access through the automated national exchange, which is growing very fast as the number of newer firms are listing in the screen traded exchange. Eventually, this screen-based trading system is expected to unify the exchanges. These and other reforms on capital adequacy for brokers, greater and more frequent disclosures, etc. are expected to provide opportunities for the large capital market in that region to develop into a financial centre for that time zone in the future.

2.6. Review of Master's Degree Thesis

1. Lamsal Kabi Raj (2002) has conducted a thesis in the title of "The impact of information on share price". Lamsal carried out the study with the following objectives :
 - To determine the impact of dividend declaration on share price.
 - To analyze the effects of EPS on share price.
 - To determine the impact of ROE on share price.

- To determine the impact of NRB's directives on share price.

Lamsal carried out the study with the following methodology:

The primary objective of this research is to examine the impact of information on share price of five joint venture banks. The sample consists of five joint venture banks namely Nepal Indosuez Bank Ltd., Nepal Standard Chartered Bank Ltd., Himalayan Bank Ltd., Nepal SBI Bank Ltd. and Nepal Bangladesh Bank Ltd. This research is primarily based on the secondary data. The researcher has used mostly the statistical tools for analyzing the data of this research.

His findings are:

- A separate body made up of financial experts should be established to provide financial suggestions for public investors.
- The directives issued by NRB must be made available not only for the concerned corporate bodies but also for public investors. This can be done by publishing its directives in national newspapers, magazines, etc.
- Since the study finds no specific trend in the changes in the share prices immediately after the dividend declaration, corporate bodies should educate the public investors about the real impact of dividend declaration on share prices. It can be done by organizing seminars, workshops and through other media and publications.
- Since the study finds no significant relationship between MPS and the major financial indicator, it is recommended that investor should not make their investments in shares without analyzing financial position of the corporate bodies.

Based on the above findings, Lamsal gave the following conclusion:

He concluded that there is significant difference in the mean share price immediately after the dividend declaration. Since there is no specific pattern or trend in the changes of share prices of the sampled companies, share prices may either increase or decrease immediately after dividend declaration. It is found that volatility in share price is also caused by the macro-economic variable like NRB's directives. It was observed that the findings based on the correlation and regression analysis. On average, indicate that there is no significant effect of EPS, DPS and ROE on MPS of the sampled companies. Likewise, the findings based in multiple regression analysis suggest that EPS, DPS and ROE on average, do not explain the variation in MPS of the sampled companies.

2. Dhamala Kiran (2004) carried out a study on, "Determinants of share price in Nepalese Financial Market". Dhamala carried out the study with the following objectives :

- To examine and evaluate the relationship of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.
- To analyze the market trends of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.
- To identify whether stocks of the sampled companies equilibrium priced or not.
- To present some recommendations based on the findings of the study.

Dhamala carried out the study with the following methodology:

The main objective of his study is to examine the interrelation of MPS with NWPS, EPS, DPS and other financial indicators. The sample of ten companies have been taken (five commercial banks & five finance companies) which are :-Nepal Bangladesh Bank Ltd., Nepal Investment Bank Ltd., Standard Chartered Bank Nepal Ltd., Himalayan Bank Ltd., Nabil Bank Ltd., National Finance Company Ltd., Annapurna Finance Company Ltd., ACE Finance Company Ltd., Kathmandu Finance Ltd., Nepal Housing Development Ltd. This study has been conducted on the basis of secondary data. Informal talks have also been held as needed for supporting secondary data. The problem of the study lies in the fact that to what extent the MPS of selected companies is correlated with various financial indicators like NWPS, EPS, DPS, etc. Data and information gathered are to checked, edited & tabulated in such ways that provide convenience for computation & interpretation. The data collected from secondary sources were analyzed by using statistical tools.

His findings are:

- The Nepalese stock market (NEPSE, SEBO) should take some effective initiatives to control random fluctuation of MPS and establish the system of regular monitoring and evaluation of stock market.
- Concrete steps should be undertaken to compel the public companies for the disclosure of factual information about themselves and their financial performance in proper time.
- The public investors should not invest their savings in shares of public companies haphazardly. They should at least analyze or get suggestions from expert about the financial position and the level of investment risk prior to taking an investment decision.

Based on the above findings, Dhamala gave the following conclusion:

Nepalese stock market is not efficient enough to determine MPS in accordance with the respective financial performance. The market price per share in Nepal is not indicative of a company's financial performance in stock market. The share market is imperfect and is not efficient and is liable to manipulation. Basically, share price is to be determined by the future prospects of the company on the basis of financial indicators, unfortunately, our stock market does not run on the basis of proper information about the company.

3. Bhattarai Mahesh (2004) has conducted research on, "An examination of the Effects of Dividend Policy on Market price of shares." Bhattarai carried out the study with the following objectives :

- To analyze, examine & interpret the stock price movement after announcing the dividend decisions by the selected banks.
- To highlight various aspects of dividend policies & practices in Nepal carried out by the banking sector.
- To analyze the variables such as profit, dividend per share, dividend payout ratio, dividend yield & other relevant variables to show relationship between the market value & those ingredients affecting it.
- To provide feedback to the policy makers & executives working in various commercial banks chosen for study based on findings of the analysis.

Bhattarai carried out the study with the following methodology:

This research is designed to find out the impact on the market price of common stock of a company, share price & wealth position of the shareholders. This study is mainly depending upon the secondary data of the selected companies. This study has covered altogether five commercial banks such as Standard Chartered Bank Nepal Ltd., Himalayan Bank Ltd., Nepal SBI Bank Ltd., Nepal Investment Bank Ltd., Nabil Bank Ltd. Data collected from various sources have been properly organized, analyzed & presented in appropriate tables & format.

His findings are:

- The decision regarding dividend payment should not be biased and it should always be in favor of the prosperity and betterment of the company.
- The legal rules and regulations must be in favor of investors to exercise the dividend practice and to protect the shareholders' rights.
- The firm should follow the proper dividend policy. Dividend payment as a financing policy and optimal dividend policy to fulfill the investor's expectation and interest.
- Although the payout ratio of the sample firm is fluctuating from year to year, there is no rational approach in deciding the pay out. All the firms should analyze the internal rate of return and the cost of capital in deciding DPR, which helps to maximize the shareholder's wealth.

Based on the above findings, Bhattarai gave the following conclusion:

The study attempts to determine the impact of dividend policy on stock price. To make the research more reliable, different types of analysis have been conducted to find out the

appropriate relationship between market price and other variables which affect the dividend. The research shows that none of the banks have well defined and appropriate policy regarding dividend payment. They don't seem to follow the optimum dividend policy of paying regular dividend as per the shareholders' expectation. It might cause uncertainty among shareholders. It is observed from the study that banks are paying dividend but there is no consistency in dividend distribution in all sample banks.

4. Neupane Padam (2004) carried out a study on, "An empirical study on brokering services in Nepal Stock Exchange". Neupane carried out the study with the following objectives :
 - To analyze the performance & effectiveness of Brokering Services in NEPSE.
 - To analyze the general investors' opinion on Brokering Services.
 - To recommend the findings from the study.

Neupane carried out the study with the following methodology:

It includes the performance & effectiveness of Brokering Services in NEPSE. The total population of the broker has taken as sample. The study was based on primary as well as secondary data. Data obtained from the various sources cannot be directly used in their original form. Further they need to be verified & simplified for the purpose of analysis. Primary data collected from questionnaire & informal discussion with investor, brokers.

His findings are:

- The development of stock market is also dependent on political stability of the nation. So government should try to maintain the potential stability to help develop the security market.

- The stock market lacks the existence of sophisticated investors. So, it is recommended to regulatory bodies to carry out programs using various media and spot program to inform and attract the potential investors both individual and institutional in investing into shares.
- The broker should also provide reliable and adequate information regarding the transaction and other aspects so that maximum number of investors could participate in investing into stocks.
- The concerned authorities should take very strict action to those responsible for creation of stock market disorders.

Based on the above findings, Neupane gave the following conclusion:

The involvement of different sectors especially the brokers with various services and facilities in comparison to cost help to grow the involvement of the number of investors and the number of shares traded. The creation of fair market offers an easy mechanism to evaluate the conditions of securities market and future prospects of the securities and the movements in the prices of the shares. The effective brokering service helps to increase the transaction and thereby helps to create the liquidity of stocks. It would also help to create the efficiency in the price of the shares. People, in Nepal, are not well aware of the fact that investing in shares involves risk. So the concerned bodies should feel responsible to provide sufficient and reliable information about investment in shares so that the rationality could be upgraded and the price setting may become effective.

5. Gautam Rekha (2005) carried out a study on, "A study on the behavior of stock market prices in Nepalese Security Market". Gautam carried out the study with the following objectives :
- To study & analyze the stock price trend & volume of stock traded on the Nepal Stock Exchange.
 - To study & analyze the stock price of the listed companies in Nepal Stock Exchange.
 - To study & analyze the investors views regarding to the investment in Nepal Stock Exchange.
 - To study and analyze the signaling factors impact on stock price with the help of NEPSE index.
 - To find out the correlation coefficient of the sample companies.
 - To forecast the future market prices by using regression analysis.

Gautam carried out the study with the following methodology:

It includes secondary data as well as primary sources of data as per the study needed. Six companies were considered as the sample for the study. They are: Himalayan Bank Ltd., Nepal Investment Bank Ltd., National Finance Co. Ltd., Kathmandu Finance Co. Ltd., Everest Insurance Co. Ltd., and Sagarmatha Insurance Co. Ltd. Information's are collected by annual report published by Nepal Stock Exchange Limited & SEBO for secondary data collection process. Data collected from secondary sources were analyzed by using statistical tools.

Her findings are:

- Encourage active participation of other sectors of the economy besides banks, finance companies and insurance through the enforcement of good corporate governance.

- Approval process should be streamlined to make it easy and hassle free. If possible, one window policy should be adopted in providing approval.
- The study of stock market behavior should be done in periodic manner of that proper results can be drawn for betterment of stock market from the side of NEPSE.
- NEPSE can expand its services to the regional levels than just concentrating solely in the valley. They should also replace the old and outdated open cry system with online trading system following international standards.

Based on the above findings, Gautam gave the following conclusion:

The study concludes that there is a gap between the theory and practice of investment in Nepalese stock market due to the lack of proper analysis of stock market for the smooth operation of the secondary market. Various measures of stock market development indicate that the stock market in Nepal is underdeveloped and has failed to show impact on the overall national economy. The study also concluded that signaling factors plays major role for fluctuating NEPSE index. The study was verified by taking major events such as industries closed, closure of multinational companies and political demonstration of four parties.

6. Ghimire Saga Mani (2006) carried out a study on, "Determinants of pricing of securities in Nepal". Ghimire carried out the study with the following objectives :
 - To Examine & evaluate the relationship of MPS with various other financial indicators like EPS, NWPS, DPS, Earning Yield, etc.

- To analyze the market trends of MPS with financial indicators like EPS, NWPS, DPS, Earning Yield, etc.
- To identify whether the stocks of the sampled companies are equilibrium priced or not.

Ghimire carried out the study with the following methodology:

The main objective of this study is to find out the relationship of various financial indicators with market price per share and explain the impact of share price and volume of stock trade in secondary market. This research is mainly based on the secondary data but some required information has been collected through personal interview with key personnel and employees. Eight companies are taken as sample (4 commercial banks & 4 financial companies) which are Nabil Bank Ltd., Nepal Investment Bank Ltd., Himalayan Bank Ltd., Bank of Kathmandu Ltd., National Finance Co. Ltd., Union Finance Co. Ltd., International Leasing & Finance Co. Ltd. And Kathmandu Finance Co. Ltd. Data obtained are needed to be checked, rechecked, edited & tabulated for computation. The data collected from secondary sources were analyzed by using statistical tools.

His findings are:

- The Nepalese stock market (NEPSE & SEBO) should take some effective initiatives to control random fluctuations of MPS and establish the system of regular monitoring and evaluation of stock market.
- Government of this nation formulate proper and perfect rules, regulation, article of association and code of conduct to develop the capital market of nation. For this purpose national and international stock experts should hire to develop the system.

- The public companies should provide updated reports to the investors periodically, informing actual financial position of the company. And the investment guidelines should be provided also to them through news and media.

Based on the above findings, Ghimire gave the following conclusion:

The degree of interrelationship of MPS with different financial indicators varies from one company to another. There is no uniformity in the relationship of MPS with various financial indicators of the sampled companies. The study concludes that the Nepalese stock market is not efficient enough to determine MPS in accordance with the respective financial performance. The market price of share in Nepal is not indicative of a company's financial performance in Stock Market. The share market is imperfect and is not efficient and is liable to manipulation.

2.7. Research Gap

In this research work researcher has made an attempt to find out the previous studies and related them to the topic of present study as Securities Market Development in Nepal. In this regard researcher studied various previous research works related to the SMDN and various companies. Following are the major area of study which had taken by the previous researcher for their research purpose.

Kabi Raj Lamsal (2002) has tried to study on the Impact of information on share price. He carried out a study which focused on the stock market behavior of listed joint stock companies

in Nepal. He showed the monthly trend analysis of listed companies but unable to show the annual trend analysis. The number of companies included in the sample was 5 which were quite low. Kiran Dhamala (2004) has conducted research on the topic Determinants of share price in Nepalese Finance Market. Dhamala's study was based on 10 sample companies and was unable to test the suitable hypothesis on his study. Likewise, Mahesh Bhattarai (2004) has conducted research on an Examination of the Effects of Dividend Policy on Market Price of Shares. The study was carried out by the data of 7 enterprises and studied on dividend conducted in the context on Nepal are based on secondary data only.

Padam Neupane (2004) has tried to study an empirical study on brokering services in Nepal Stock Exchange. He carried out a study to analyze the performance & effectiveness of brokering services in NEPSE. He showed the total population of the broker but was unable to test the suitable hypothesis. Rekha Gautam (2005) studied in the behavior of stock market prices in Nepalese Security Market. She carried out a study based on data of only 6 selected companies out of all listed securities mostly from the commencing day of organized trading system on NEPSE. Her study implies technical concept but emphasis has been given on fundamentalism. Her study remains silent to say whether the trading with the help of past information could earn profit in both bull and bear market. Likewise, Sagar Mani Ghimire (2006) conducted a research on determinants of pricing of securities in Nepal. On his study he carried out the data of 8 sample companies and only uses the t-test of past data or he was unable to test with the recent phenomenon of that time. Thus, the current study is a supplement to overcome the weakness and limitations of previous studies.

In the previous studies no one had tried to study about securities market in sector-wise basis evaluating the trend in paid up value, trading turnovers, market capitalization of the listed companies, behavior of NEPSE index, and to analysis market share price and no one conducted research in different types of securities issue by the company. Especially researcher tries to analyze the performance, growth and downfalls of the stock market. This will help to analyze whether the stock market is in increasing trend or in decreasing trend. By analyzing these aspects, focuses can be set on the weaknesses so that in future these weaknesses can be turned into the strength of the stock market. This will help to make the existence of the stock market more robust. Further more, by being able to point out the weaknesses; more investors can be made to contribute for the growth of stock market.

CHAPTER III

RESEARCH METHODOLOGY

This chapter deals with the following aspects of methodology.

-) Research Design
-) Population and sample
-) Sources of Data
-) Data collection procedure
-) Data processing

3.1. Research Design:

The present study has followed the descriptive as well as analytical research design to achieve the objective of the study.

3.2. Population and Sample:

There are all together 144 companies listed in Nepal stock exchange till 2007. Among those companies, there are 15 commercial banks, 22 development banks, 55 finance companies, 16 insurance companies, 4 hotels, 21 manufacturing & processing companies, 5 trading companies and 6 other companies. Most of their stocks are traded actively in the stock market.
(Nepal Stock Exchange Company Limited)

3.3. Sources of Data:

This study is based on the secondary data. The primary source of secondary data on this study is the annual reports of NEPSE. Informal talks have also been held as needed for supporting secondary data. In addition, supportive data and information have been collected from articles, newspaper and published records of NEPSE & SEBO/N. Supplementary data and information are collected from number of institutions and authorities like NRB, Security Board Nepal, Stock Exchange Ltd, Ministry of Finance. Moreover, the relevant literatures were collected from Central Library of T.U., Library of NEPSE, Economic Journals, and unpublished reports and documents from various sources.

3.4. Data collection procedure:

As the study was based on secondary data information's are collected by annual report published by Nepal Stock Exchange Limited (NEPSE) and Security Board Nepal (SEBO) for secondary data collection process. With the view of obtaining data, the researcher made several visits to the different sector companies, brokers, stock exchange and security board.

Similarly, visits to Tribhuvan University and Shanker Dev campus are worthier for the reference materials. Likewise visit to SEBO made the researcher easier to obtain financial information.

3.5. Data processing:

Data obtained from the various sources cannot be directly used in their original form. Further, they need to be verified and simplified for the purpose of analysis. Data, information, figures and facts so obtained need to be checked, rechecked, edited and tabulated for computation.

According to the nature of data, they have been inserted in meaningful tables, which have shown in annexes. Similarly various tables have been prepared in understandable manner and odd data are excluded from the table for the research work.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This chapter deals with the data presentation and analysis the results of the study. It contains three sections. The first section deals with the performance of the securities market (i.e. whether it is developing or not). The second section analysis the market shares of each sector with the help of various indicators. And the third section evaluates the stocks of each sector.

4.1. Performance of Securities Market:

The major indicators that indicate the performance of securities market are: Number of issues approved, Total amount of issue approved, paid-up value of listed securities, Market capitalization amount, Annual turnovers, Total number of listed companies and NEPSE index. As a result of above factors, securities market performance in Nepal has witnessed a lot of change.

In the last fiscal year i.e. 2004/05, total listed companies in Nepal Stock Exchange Ltd. were 125, which have increased to 135 till the end of this fiscal year 2006/07. The price index of the listed securities (NEPSE Index) has closed at 683.95 points in the fiscal year. It is 297.12 points higher than that of the last fiscal year. Thus, Securities market indicators in the fiscal year 1994/95 to 2005/06 are given in Table 2.

Table 2: Performance of Securities Market

Securities Market Indicators
(Fiscal Year 1994/95 – 2005/06)

(Rs. in million)

Securities Market Indicators	Fiscal Year											
	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Number of Issue Approved	12	12	5	12	5	9	9	16	17	16	12	34
Total Amount of Issue Approved ^o (Rs.)	25.42	29.37	33.22	46.24	25.80	63.03	71.72	155.51	85.36	154.72	131.58	269.21
Total No of Public Issue	10	12	5	12	5	6	9	12	18	14	14	29
Total Amount of Public Issue (Rs.)	17.40	29.37	33.20	46.24	25.80	32.69	41.05	144.14	55.65	102.75	162.68	244.33
Paid-up Value of Listed Securities (Rs.)	296.18	335.85	447.65	495.98	648.74	734.74	816.52	968.50	1256.01	1340.49	1677.18	2000.86
Market Capitalization (Rs.)	1296.30	1229.50	1269.80	1428.90	2350.80	4312.33	4634.94	3470.39	3524.04	4142.48	6136.59	9681.37
Annual Turnover (Rs.)	105.43	21.56	41.62	20.26	150.00	115.70	234.42	154.06	57.58	214.43	450.77	345.14
% of Turnover on Paid up Value	5.60	6.42	9.30	4.09	23.12	15.75	28.71	15.91	4.58	16.00	23.00	17.25
% of Turnover on Market Capitalization	8.13	1.75	3.28	1.42	6.38	2.68	5.06	4.44	1.63	5.18	7.35	3.57
% of Market Capitalization on Nominal GDP at Market Price	6.17	5.14	4.71	4.93	7.12	11.77	11.78	8.56	8.09	8.77	12.06*	17.35#
Market Day	242	240	239	237	231	240	231	246	238	243	236	228
Average Daily Turnover (Rs.)	0.44	0.09	0.17	0.09	0.65	0.48	0.10	0.63	0.24	0.88	1.91	1.51
Total Number of Listed Companies	79	89	95	101	107	110	115	96	108	114	125	135
Number of Company Traded	53	59	67	68	69	69	67	69	81	92	102	110
Number of Shares Traded. (' 000)	3901	2954	9443	1195	4857	7674	4989	6005	2428	6468	18434	12222
Number of Transaction	21472	17943	12428	15483	15814	29136	46095	42028	69163	85533	106246	97374
Number of Listed Securities (' 000)	58247	65880	85193	90107	105632	114057	124971	122685	159958	161141	194673	226540
NEPSE Index (points)	195.48	185.61	176.31	163.35	216.92	360.70	348.43	227.54	204.86	222.04	286.67	386.83

Source :SEBO/N

* Revised Estimate of GDP

Preliminary Estimate of GDP

In the fiscal year 2006/07, a total of 34 public limited companies raised funds amounting to Rs. 2265.4 million by floating securities. A total of 29 public limited companies had raised funds amounting to Rs. 244.33 million in the fiscal year 2005/06. In the last fiscal year 2006/07, the total number of listed companies remained 135 as equal to 135 listed companies in the fiscal year 2005/06 due to the listing of additional 12 companies and delisting of 12 listed companies. In the fiscal year 2006/07, the market capitalization of the listed companies increased by 92.53 percent to be Rs. 18630.13 million as compared to market capitalization of Rs.9,681.37 million in the fiscal year 2005/06. In this fiscal year 2006/07, the contribution of market capitalization to the GDP has been estimated to be 27.78 percent. In the fiscal year 2006/07, the price index of the listed securities (NEPSE Index) reached to 683.95 points with the increase of 297.12 points as compared to fiscal year 2005/06.

4.1.1 Number of Public Issue Approval

The detail on public issue in the fiscal year 2006/07 is presented in table 3.

Table 3: Securities Issue

S.N.	Name of the Company	Types of Securities	Amount (Rs. in Million)	Issue Date	Subscription (Times)
1	Narayani Industrial Development Bank Ltd.	Ordinary Share	6.00	27/07/2006	6.14
2	Sanima Bikash Bank Ltd.	Ordinary Share	96.00	13/08/2006	40.31
3	Bageshwori Development Bank Ltd.	Ordinary Share	9.00	27/08/2006	4.48
4	Sahayogi Bikash Bank Ltd.	Ordinary Share	6.00	10/10/2006	19.17
5	Gorkha Development Bank (Nepal) Ltd	Ordinary Share	96.00	12/01/2006	108.32
6	Imperial Bittiya Sanstha Ltd.	Ordinary Share	19.50	20/02/2006	25.68

7	Swabalamban Bikash Bank Ltd.	Ordinary Share	6.00	04/03/2006	96.23
8	Himchuli Bikash Bank Ltd.	Ordinary Share	12.00	05/03/2006	133.62
9	Annapurna Bikash Bank Ltd.	Ordinary Share	29.40	11/03/2006	21.94
10	Civil Merchant Bittiya Sanstha Ltd.	Ordinary Share	20.00	26/04/2006	15.00
11	ICFC Bittiya Sanstha Ltd.	Ordinary Share	22.40	06/05/2006	35.06
12	Nepal Express Finance Ltd.	Ordinary Share	15.00	11/05/2006	7.82
13	Birat Laxmi Bikash Bank Ltd.	Ordinary Share	20.00	10/06/2006	13.40
14	Nepal Investment Bank Ltd.	Debenture	250.00	12/06/2006	1.00
15	Malika Bikash Bank Ltd.	Ordinary Share	15.00	15/06/2006	54.84
16	Excel Development Bank Ltd.	Ordinary Share	6.00	24/06/2006	18.97
17	Everest Bank Ltd.*	Preference share	400.00	04/07/2006	1.00
	Total		1030.30		

*Premium Rs.100 per share

Source: www.sebonp.com

In this fiscal year 2006/07, 17 companies comprising two commercial banks, 11 development banks, four finance companies issued their securities to the public. The amount of issue was Rs. 1030.30 million comprising ordinary share amounting to Rs. 380.25 million, preference share amounting to 400.0 million and debenture amounting to 250.0 million. Himchuli Bikash Bank Ltd. issued ordinary share of Rs. 12.00 million and over subscription of 133.62 times. Bageshwori Development Bank Ltd. issued ordinary share of Rs. 9.00 million and lowest subscription of 4.48 times in comparison to other companies.

4.1.2 Rights Issue

The detail on securities issue in the fiscal year 2006/07 is presented in table 4.

Table 4: Securities Issue

(Rs. In million)
Source: www.sebonp.com

*Lumbini Bank made two rights issue

S.N.	Name of the Company	Amount	Ratio	Issue Date	Subscription (Times)
1	Pokhara Finance Ltd.	20	2:1	20/07/2006	0.99
2	Lumbini Bank Ltd.	100	5:1	13/08/2006	1.00
3	Paschimanchal Bikash Bank Ltd.	28	1:1.4	20/08/2006	0.76
4	Peoples Finance Ltd.	40	1:1	28/09/2006	0.56
5	Alpic Everest Finance Ltd.	20	2:1	08/10/2006	0.96
6	Chhimek Bikash Bank Ltd.	20	1:2	27/10/2006	0.81
7	Nepal Bikash Bank Ltd.	160	1:1	25/12/2006	0.54
8	Navadurga Finance Co. Ltd.	11	2:1	02/02/2007	0.99
9	Ace Finance Co. Ltd.	194	1:1.53	31/01/2007	0.99
10	Annapurna Finance Co. Ltd.	80	1:1	09/02/2007	0.98
11	Laxmi Bank Ltd.	122	5:1	25/04/2007	0.98
12	Capital Merchant Banking & Finance Ltd.	84	1:1.2	27/04/2007	0.80
13	Yeti Finance Ltd.	6.30	4:1	29/04/2007	0.83
14	Business Development Bank Ltd.	30	1:1	11/05/2007	1.00
15	Kist Merchant Banking & finance Ltd.	100	1:1	23/05/2007	0.99
16	Siddhartha Bank Ltd.	100	5:1	04/06/2007	0.99
17	Lumbini Bank Ltd.*	150	4:1	19/06/2007	-
	Total	1265.30			

Table 4 shows ratio of rights issue by the different company. In the fiscal year 2006/07, 17 companies comprising four commercial banks, four development banks and nine finance companies issued rights share amounting to Rs. 1265.30. Ace Finance Co. Ltd. issued highest amount of right share in the ratio of 1:1.53 of total amount of Rs.194 million. The lowest amount of right shares issued by Lumbini Bank Ltd., Laxmi Bank Ltd. and Siddhartha Bank Ltd. in the ratio of 5:1 ; total amount of Rs.100 million, Rs.122 million and Rs.100 million respectively. Lumbini Bank Ltd. made two rights issue in the ratio of 5:1; total amount of Rs.100 million and the right share issued in the ratio of 4:1; total amount of Rs.150 million.

Debenture Issue

Table 5: Debenture Issue

S.N.	Name of the Company	Amount (Rs. in Million)	Issue Date	Issue Manager	Fiscal Year
1	Himalayan Bank Ltd.	360.00	04/06/2002	NMB	2001/2002
2	Nepal Investment Bank Ltd.	300.00	14/10/2003	AFCL	2003/2004
3	Everest Bank Limited.	300.00	30/03/2005	CIT	2004/2005
4	Bank of Kathmandu limited	200.00	07/09/2005	NMB	2005/2006
5	Nepal Investment Bank Ltd.	250.00	30/05/2006	ACE	2005/2006
6	Nepal Industrial & Commercial Bank Ltd.	200.00	31/05/2006	ACE	2005/2006
7	Nepal SBI Bank Ltd.	200.00	25/06/2006	CIT	2005/2006
8	Nepal Investment Bank Ltd.	250.00	30/05/2007	ACE	2006/2007

Source: www.sebonp.com

Table 5 shows amount of debenture issue by the different commercial bank. From the fiscal year 2001 to 2007, the highest value of debenture issued was Rs. 360.00 million by Himalayan Bank Ltd. in the fiscal year 2001/02 and the lowest value of debenture issued was Rs. 200.00 million by Bank of Kathmandu limited, Nepal Industrial & Commercial Bank Ltd. and Nepal SBI Bank Ltd. in the fiscal year 2005/06. The highest number of times debenture issued is 3 times by Nepal Investment Bank Ltd. in the fiscal year 2003/2004, 2005/2006 and 2006/2007 ; total amount of Rs. 300.00 million, Rs. 250.00 million and Rs. 250.00 million respectively.

4.1.3 Listing of Securities

In this fiscal year 2006/07, 57 companies listed their securities amounting to Rs. 2815.3 in NEPSE. The detail on listing is presented in table 6.

Table 6: Listing of Securities

S.N.	Name of the Company	Types of Securities	Amount (Rs. in Million)	Listing Date
1	Central Finance Co. Ltd.	Right Share	12.00	31/07/2006
2	Janaki Finance Co. Ltd.	Right Share	10.00	6/08/2006
3	Machhapuchhre Bank Ltd.	Right Share	160.00	03/09/2006
4	Goodwill Finance Ltd.	Right Share	250.00	03/09/2006
5	Kist Merchant Banking & Finance Ltd.	Right Share	50.00	03/09/2006
6	Nepal Share Markets & Finance Ltd.	Right Share	40.00	8/10/2006
7	Everest Insurance Co. Ltd.	Bonus Share	30.00	23/11/2006
8	Janaki Finance Co. Ltd.	Bonus Share	10.00	23/11/2006
9	Navadurga Finance Co. Ltd.	Bonus Share	2.00	23/11/2006
10	Shree Investment & Finance Co. Ltd.	Bonus Share	8.00	12/12/2006
11	Narayani Finance Ltd.	Bonus Share	7.90	22/12/2006
12	Nepal Investment Bank Ltd.	Bonus Share	210.80	22/12/2006

13	Yeti Finance Ltd.	Bonus Share	5.00	31/12/2006
14	Mahalaxmi Finance Ltd.	Bonus Share	10.00	31/12/2006
15	Ace Finance Co. Ltd.	Bonus Share	36.00	31/12/2006
16	Nepal Industrial & Commerce Bank Ltd.	Bonus Share	60.00	01/02/2007
17	Alpic Everest Finance Ltd.	Right Share	20.00	01/02/2007
18	National Finance Ltd.	Bonus Share	9.50	01/02/2007
19	Paschimanchal Bikash Bank Ltd.	Bonus Share	2.00	22/01/2007
20	Nepal Industrial & Commerce Bank Ltd.	Debenture	200.00	22/01/2007
21	Nepal Investment Bank Ltd.	Debenture	250.00	27/11/2006
22	Nepal SBI Bank Ltd.	Debenture	200.00	20/02/2007
23	Bank of Kathmandu Ltd.	Bonus Share	139.60	27/02/2007
24	Mahalaxmi Finance Ltd.	Bonus Share	6.00	08/03/2007
25	Peoples' Finance Ltd.	Rights Share	22.40	08/03/2007
26	Himalayan Bank Ltd.	Bonus Share	38.60	08/03/2007
27	Machhapuchhre Bank Ltd.	Bonus Share	106.60	08/03/2007
28	Chhimek Bikash Bank Ltd.	Rights Share	20.00	08/03/2007
29	NIDC Capital Markets Ltd.	Bonus Share	15.00	21/03/2007
30	Standard Chartered Bank Nepal Ltd.	Bonus Share	38.60	21/03/2007
31	Standard Finance Ltd.	Bonus Share	6.00	21/03/2007
32	Nepal Aawas Bikash Bittiya Co. Ltd.	Bonus Share	5.80	21/03/2007
33	Development Credit Bank Ltd.	Bonus Share	28.80	28/03/2007
34	Royal Merchant Banking & Finance Ltd.	Bonus Share	5.00	28/03/2007
35	Birgunj Finance Ltd.	Bonus Share	6.00	28/03/2007
36	Gorkha Finance Ltd.	Bonus Share	5.00	28/03/2007
37	Pokhara Finance Ltd.	Rights Share	20.00	25/04/2007
38	Ace Finance Co. Ltd.	Rights Share	194.00	25/04/2007
39	Nirdhan Uthan Bank Ltd.	Bonus Share	5.50	25/04/2007
40	Lumbini Bank Ltd.	Rights Share	100.00	13/05/2007
41	Butwal Finance Ltd.	Bonus Share	5.80	01/06/2007
42	Kumari Bank Ltd.	Bonus Share	125.00	01/06/2007
43	Guheswori Merchant Banking & Finance Ltd.	Bonus Share	5.00	18/05/2007

44	Central Finance Ltd.	Bonus Share	12.00	18/05/2007
45	Annapurna Finance Ltd.	Bonus Share	8.00	10/06/2007
46	Annapurna Finance Ltd.	Rights Share	80.00	10/06/2007
47	Alpic Everest Finance Ltd.	Bonus Share	18.00	10/06/2007
48	Premiere Finance Ltd.	Bonus Share	4.80	10/06/2007
49	Paschimanchal Bikash Bank Ltd.	Rights Share	28.00	10/06/2007
50	Paschimanchal Bikash Bank Ltd.	Bonus Share	2.50	10/06/2007
51	Nepal Housing & Merchant Finance Ltd.	Bonus Share	10.90	18/05/2007
52	Om Finance Ltd.	Bonus Share	20.00	17/06/2007
53	Bhrikuti Bikash Bank Ltd.	Bonus Share	2.60	17/06/2007
54	Navadurga Finance Ltd.	Bonus Share	6.60	04/07/2007
55	Navadurga Finance Ltd.	Rights Share	11.00	04/07/2007
56	Laxmi Bank Ltd.	Rights Share	122.00	06/07/2007
57	Capital Merchant Banking & Finance Ltd.	Bonus Share	7.00	06/07/2007
Total			2815.30	

*Annual trading Report of NEPSE,2006/07

Source: Nepal Stock Exchange Company Limited

The above table shows the listing of securities of 43 different companies consisting ten commercial banks, four development banks, twenty eight finance companies and one insurance company. The highest value of right share issued was Rs.250.00 million by Goodwill Finance Ltd. whereas the lowest value of right share issued was Rs.10.00 million by Janaki Finance Co. Ltd. Similarly, the highest value of bonus share issued was Rs.210.80 million by Nepal Investment Bank Ltd. whereas the lowest value of bonus share issued was Rs.2.00 million by Navadurga Finance Co. Ltd. and Paschimanchal Bikash Bank Ltd.

The detail of the 12 new companies listing securities in NEPSE in the fiscal year 2006/07 is presented in table 7.

Table 7 : Listing of Securities (New Companies)

S.N.	Name of the Company	Types of Securities	Amount (Rs. in Million)	Listing Date
1	Business Development Financial Institution Ltd.	Ordinary Share	30.00	14/09/2006
2	IME Financial Institution Ltd.	Ordinary Share	50.00	15/09/2006
3	Bhajuratna Finance & Saving Co. Ltd.	Ordinary Share	35.00	21/09/2006
4	Siddhartha Bikash Bank Ltd.	Ordinary Share	50.00	21/09/2006
5	Bhrikuti Bikash Bank Ltd.	Ordinary Share	21.00	21/09/2006
6	Sanima Bikash Bittiya Sanstha Ltd.	Ordinary Share	320.00	13/12/2006
7	Narayani Industrial Bikash Bank Ltd.	Ordinary Share	20.00	10/01/2007
8	Shikhar Insurance Co. Ltd.	Ordinary Share	125.00	04/02/2007
9	Patan Finance Ltd.	Ordinary Share	50.00	10/05/2007
10	Sahayogi Bikash Bank Ltd.	Ordinary Share	20.00	14/05/2007
11	Bageswori Development Bank Ltd.	Ordinary Share	30.00	14/05/2007
12	Gorkha Development Bank Ltd.	Ordinary Share	320.00	06/06/2007
	Total		1071.40	

Source: Nepal Stock Exchange Company Limited

The above table shows the listing of securities of 12 different companies consisting seven development banks, four finance companies and one insurance company. The highest value of ordinary share issued was Rs.320.00 million by Sanima Bikash Bittiya Sanstha Ltd. and Gorkha Development Bank Ltd. whereas the lowest value of ordinary share issued was Rs.20.00 million by Narayani Industrial Bikash Bank Ltd. and Sahayogi Bikash Bank Ltd. The total amount of securities listed in NEPSE was Rs. 1071.40 million.

4.1.4 Delisting of Securities

In the fiscal year 2006/07, the stock exchange delisted 12 companies for non-compliance of legal provisions. The detail of de-listed companies in the fiscal year 2006/07 is presented in table 7.

Table 8 : Delisting of Securities

S.N.	Name of the Company	Securities	Amount (Rs. in Million)	Listing Date
1	Nepal Battery Co. Ltd.	Ordinary	12.5	06/03/2007
2	The Juddha Match Factory (Biratnagar) Ltd.	Ordinary	3.2	06/03/2007
3	Nepal Plywood & Bobbin Co. Ltd.	Ordinary	1.8	06/03/2007
4	Himal Cement Co. Ltd.	Ordinary	45.3	06/03/2007
5	Sayapatri Color Lab Co. Ltd.	Ordinary	3.5	06/03/2007
6	Nepal Med. Ltd.	Ordinary	11.1	06/03/2007
7	Ace Laboratories (Nepal) Ltd.	Ordinary	27.2	06/03/2007
8	Letharage Bansbari Tannery & Shoe Factory Ltd.	Ordinary	50.0	06/03/2007
9	Necon Air Ltd.	Ordinary	179.2	06/03/2007
10	Plastic Trading Co. Ltd.	Ordinary	2.0	06/03/2007
11	Nepal United Co. Ltd.	Ordinary	5.3	06/03/2007
12	Nepal Byapar Bikash Co. Ltd.	Ordinary	7.1	06/03/2007
	Total		348.2	

Source: Nepal Stock Exchange Company Limited

Table 8 shows the de-listing of securities of 12 different companies consisting five manufacturing & processing company and seven trading company. The highest value of ordinary share issued was Rs.179.20 million by Necon Air Ltd. whereas the lowest value of ordinary share issued was Rs.1.8 million by Nepal Plywood & Bobbin Co. Ltd. The total amount of securities delisted in NEPSE was Rs. 348.2 million.

The detail of sector- wise listed companies is presented in table 9.

Table 9: Sector-wise Listed Companies

S.N.	Sector	Number of Listed Companies	Percent
1	Commercial Banks	15	11.11
2	Development Banks	16	11.85
3	Finance Companies	53	39.26
4	Insurance Companies	16	11.85
5	Hotels	4	2.96
6	Manufacturing & Processing Companies	21	15.56
7	Trading Companies	5	3.70
8	Other Companies	5	3.70
Total		135	100.00

Source: Nepal Stock Exchange Company Limited

Table 9 shows the sector wise listing of companies consisting Commercial Banks, Development Banks, Finance Companies, Insurance Companies, Hotels, Manufacturing & Processing Company, Trading companies and other companies. Finance company has the highest number of listed companies (53 companies) which is 39.26 percent of the total percentage whereas hotels have the lowest number of listed companies (4 companies) which is 2.96 percent of the total percentage. In the fiscal year 2006/07, there are altogether 135 listed companies in NEPSE.

4.1.5 Classification of Listed Companies

As per the provision of “securities Listing Byelaws, 1996”, the listed companies that have profit track record for the last three consecutive years, book value higher than paid up value, submitted their financial statements to NEPSE within six months of the expiry of fiscal year, paid up capital at least Rs. 20 million, and has at least 1000 shareholders can be categorized in group ‘A’ and remaining of the listed companies can be categorized in group ‘B’.

The detail of the companies in group 'A' is presented in table 10.

Table 10 : Listed Companies in Group 'A'

S.N.	Name of the Companies	S.N.	Name of the Companies
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Commercial Banks

1	Nabil Bank Ltd.	2	Nepal Investment Bank Ltd.
3	Standard Chartered Bank Nepal Ltd.	4	Himalayan Bank Ltd.
5	Nepal SBI Bank Ltd.	6	Everest Bank Ltd.
7	Bank of Kathmandu Ltd.	8	Nepal Industrial & Commercial Bank Ltd.
9	Machhapuchhre Bank Ltd.	10	Laxmi Bank Ltd.
11	Kumari Bank Ltd.	12	Siddhartha Bank Ltd.

Development Banks

13	Development Credit Bank Ltd.	14	Nirdhan Uthan Bank Ltd.
15	Paschimanchal Development Bank Ltd.	16	Siddhartha Development Bank Ltd.

Finance Companies

17	National Finance Co. Ltd.	18	Kathmandu Finance Ltd.
19	Peoples Finance Ltd.	20	Union Finance Co. Ltd.
21	Citizen Investment Trust	22	Nepal Aawas Bikash Bittiya Co. Ltd.
23	Narayani Finance Ltd.	24	Gorkha Finance Ltd.
25	Universal Finance Ltd.	26	Mahalaxmi Finance Ltd.
27	Goodwill Finance Co. Ltd.	28	Paschimanchal Finance Ltd.
29	Lumbini Finance & Leasing Co. Ltd.	30	Siddhartha Finance Ltd.
31	Nepal Merchant Banking & Finance Ltd.	32	Alpic Everest Finance Ltd.

33	International Leasing & Finance Ltd.	34	United Finance Ltd.
35	Shree Investment & Finance Co. Ltd.	36	Central Finance Co. Ltd.
37	Premier Finance Co. Ltd.	38	Navadurga Finance Co. Ltd.
39	Butwal Finance Ltd.	40	Birgunj Finance Co.Ltd.
41	Standard Finance Ltd.	42	Capital Merchant Banking & Finance Co. Ltd.
43	Cosmic Merchant Banking & Finance Ltd.	44	Annapurna Finance Co. Ltd.
45	Nepal Finance & Saving Co. Ltd.	46	Fewa Finance Co. Ltd.
47	World Merchant Banking & Finance Ltd.	48	Lalitpur Finance Co. Ltd.
49	NIDC Capital Markets Ltd.	50	Kist Merchant Banking & Finance Ltd.
51	Royal Merchant Banking & Finance Ltd.	52	Guheswori Merchant Banking & Finance Ltd.
53	Nepal Share Markets & Finance Co. Ltd.		

Insurance Companies

54	National Life & General Insurance Co. Ltd.	55	Himalayan General Insurance Co. Ltd.
56	United Insurance (Nepal) Co. Ltd.	57	Everest Insurance Co. Ltd.
58	Premier Insurance (Nepal) Co. Ltd.	59	Neco Insurance Co. Ltd.
60	Alliance Insurance Co. Ltd.	61	Sagarmatha Insurance Co. Ltd.
62	Nepal Life Insurance Co. Ltd.	63	Life Insurance (Cooperation) Ltd.
64	Prudential Insurance Co. Ltd.		

Manufacturing Company

65	Unilever Nepal Ltd.
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Other Company

66	Chilime Hydropower Co. Ltd.
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Source: Nepal Stock Exchange Company Limited

Table 10 shows the listing of companies in group 'A'. In the fiscal year 2006/07, NEPSE categorized 66 companies into group 'A' comprising 12 commercial banks, four development bank, 37 finance companies, 11 insurance companies, one manufacturing & processing company and one other company. Finance companies have the highest number of listed companies (37 companies) in comparison to other companies whereas manufacturing & processing company and other company has the lowest number of listed company (one Company) in comparison to other companies.

4.1.6 Paid-up Value

The total paid-up value of the listed securities by the end of the fiscal year 2006/07 reached to Rs. 21798.8 million. The paid-up value in the fiscal year 2005/06 was Rs. 19009.58 million. The paid up value in the fiscal year 2006/07 is presented in table 11.

Table 11: Sector wise Paid-up Value

S.N.	Sector	Paid up value (Rs in Million)	Percent
1	Commercial Bank	9281.9	42.58
2	Development Bank	1630.9	7.48
3	Finance Company	3100.2	14.22
4	Insurance Company	1286.7	5.90
5	Hotel	1552.9	7.12
6	Manufacturing & Processing Company	2602.3	11.94

7	Trading Company	62.2	0.29
8	Other Company	2281.7	10.47
Total		21798.8	100.00

Source: www.nepalstock.com.np

In the fiscal year 2006/07, the total paid-up value of commercial bank, development bank, finance company and insurance company was Rs.9281.9 million, Rs.1630.9 million, Rs.3100.2 million and Rs.1286.7 million. Similarly, the total paid-up value of hotel, manufacturing & processing company, trading company and other company was Rs.1552.9 million, Rs.2602.3 million, Rs. 62.2 million and Rs. 2281.7 million respectively. Commercial Bank has made the highest contribution of paid up value which is 42.58 percent of the total percentage whereas trading company has the lowest contribution of paid up value which is 0.29 percent of the total percentage in comparison to other companies. It showed that the performance of commercial banks were better than others.

4.1.7 Market Capitalization

By the end of this fiscal year 2006/07, the market capitalization of the listed securities reached to Rs. 186301.3 million. The capitalization was Rs. 96763.74 million in the fiscal year 2005/06. The highest market capitalization recorded in the fiscal year 2006/07 was Rs. 186301.3 million on July 16, 2007 and the lowest was Rs.89020.1 million on August 03, 2006. By the end of fiscal year 2006/07, the percentage contribution of market capitalization on nominal GDP is estimated to be 27.78.

The market capitalization in the fiscal year 2006/07 is presented in table 12.

Table 12: Sector wise Market Capitalization

S.N.	Sector	Market Capitalization Value (Rs in Million)	Percent
1	Commercial Bank	135588.4	72.78
2	Development Bank	6010.6	3.23
3	Finance Company	9889.3	5.31
4	Insurance Company	8059.8	4.33
5	Hotel	3261.1	1.75
6	Manufacturing & Processing Company	6200.0	3.33
7	Trading Company	796.4	0.43
8	Other Company	16495.7	8.85
Total		186301.3	100.00

Source: www.nepalstock.com.np

In the fiscal year 2006/07, the total market capitalization of commercial bank, development bank, finance company and insurance company was Rs.135588.4 million, Rs.6010.6 million, Rs.9889.3 million and Rs.8059.8 million. Similarly, the total market capitalization of hotel, manufacturing & processing company, trading company and other company was Rs.3261.1 million, Rs.6200.0 million, Rs796.4 million and Rs.16495.7 million respectively. Commercial Bank has made the maximum level of market capitalization which is 72.78 percent of the total percentage whereas trading company has the minimum level of market capitalization which is 0.43 percent of the total percentage in comparison to other companies.

4.1.8 Turnover

The total amount of securities traded in the fiscal year 2006/07 stood at Rs. 8360.1 million. in the fiscal year 2005/06, it was Rs. 3451.43 million.

Table 13: Sector wise Annual Turnover

S.N.	Sector	Trading Amount (Rs in Million)	Percent
1	Commercial Bank	5563.5	66.55
2	Development Bank	577.5	6.91
3	Finance Company	713.6	8.54
4	Insurance Company	205.0	2.45
5	Hotel	7.0	0.08
6	Manufacturing & Processing Company	24.3	0.29
7	Trading Company	10.4	0.12
8	Other Company	1258.8	15.06
Total		8360.1	100.00

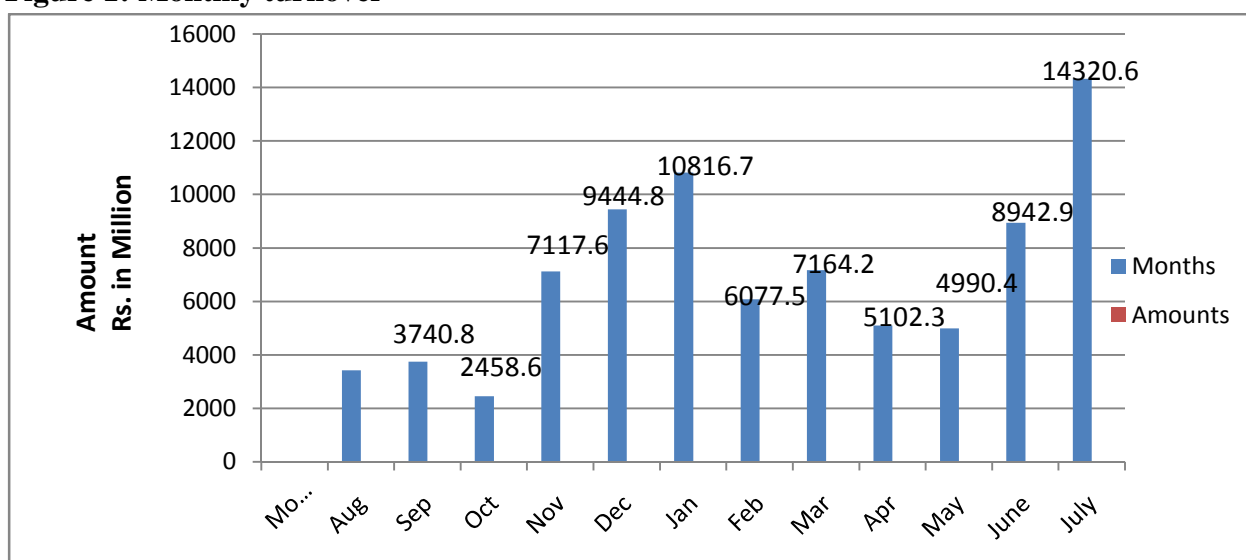
Source: www.nepalstock.com.np

Table 13 shows the annual turnover of securities traded in the fiscal year 2006/07. During this year, the total amount of securities traded by commercial bank, development bank, finance company and insurance company was Rs.5563.5 million, Rs.577.5 million, Rs.713.6 million and Rs.205.0 million. Similarly, the total amount of securities traded by hotel, manufacturing & processing company, trading company and other company was Rs.7.0 million, Rs.24.3

million, Rs10.4 million and Rs.1258.8 million respectively. Commercial Bank has made the highest amount of securities traded which is 66.55 percent of the total percentage in comparison to other companies whereas hotel has the lowest amount of securities traded which is 0.08 percent of the total percentage in comparison to other companies.

Monthly turnover during this fiscal year is presented in figure 1.

Figure 1: Monthly turnover



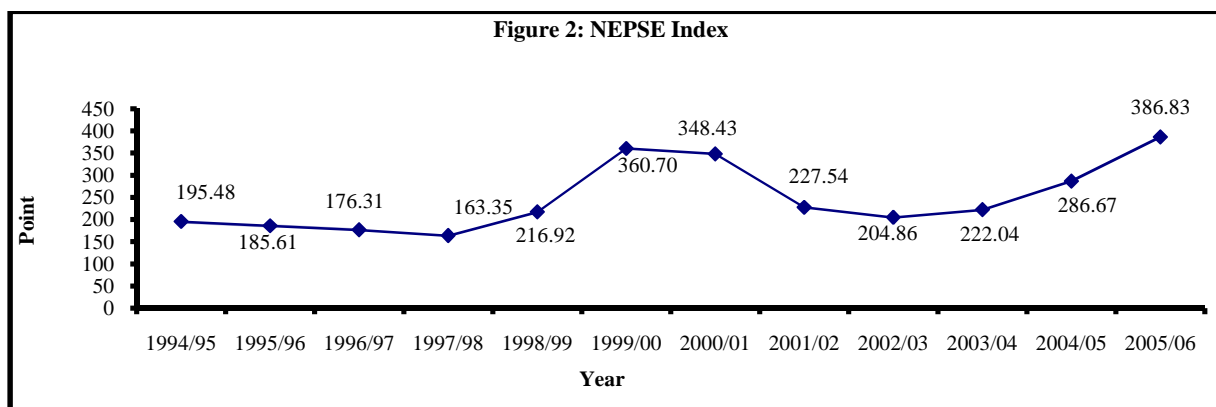
Source: www.nepalstock.com.np

Figure 1 shows the monthly turnover in the fiscal year 2006/07. The highest amount of turnover is Rs.14,320.6 million made in the month of July whereas the lowest amount of turnover is Rs.2,458.6 million made in the month of October 2006/07.

4.1.9 Price Index

By the end of this fiscal year 2006/07, the price index of the listed securities (NEPSE Index) remained at 683.95 points, which is 297.12 points higher than that of the last fiscal year end index of 386.83 points. The highest index during the fiscal year 2006/07 was recorded at

683.95 points on July 16, 2007 and the lowest index was 355.60 on August 03, 2006. The detail of NEPSE index is presented in figure 2.



Source: www.nepalstock.com.np

Figure 2 shows that the price trend during the different fiscal years is not constant. Taking base year as 1994/95, NEPSE index shows that the price trend from the fiscal year 1994/95 to 2005/06 is in decreasing trend. From 1998/99 to 1999/00 it is in increasing trend and thereafter it is in decreasing trend again till 2003/04. The trend is increasing in the fiscal year 2004/05 to 2005/06. From the investment point of view, increasing trend is better than decreasing trend. In lump sum, past 12 years of NEPSE index represent the decreasing trend all over the fiscal year.

Figure 3: Amount of Public Issue Approval

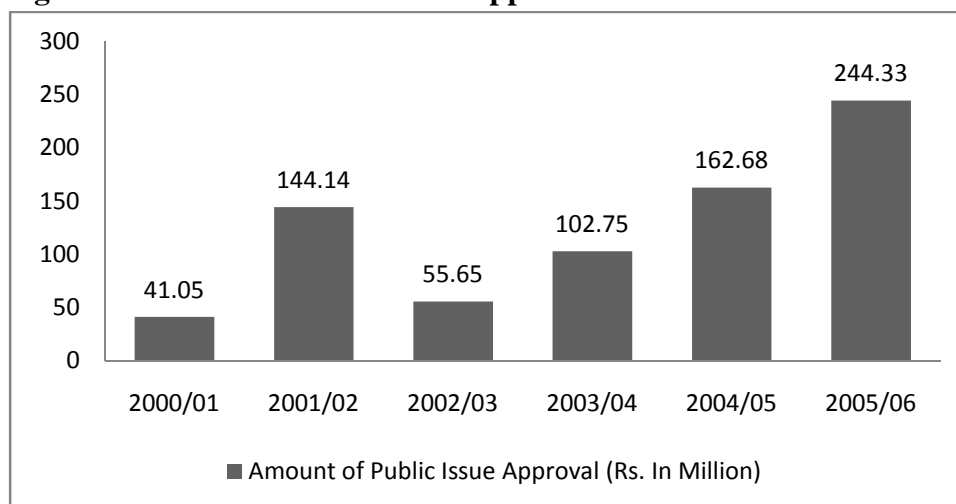


Figure 3 shows that there are ups and down in the amount of public issue in different years from the fiscal year 2000/01 to 2005/06. Taking the base year as 2000/01, it shows that the amount of public issue is increasing in 2001/02 but thereafter till 2002/03 it is decreasing. The trend is increasing in the fiscal year 2003/04 to 2005/06. The highest amount of public issue was Rs. 244.33 million in 2005/06 whereas the lowest amount of public issue was Rs. 41.05 million in 2000/01.

Figure 4: Number of Public Issue Approval

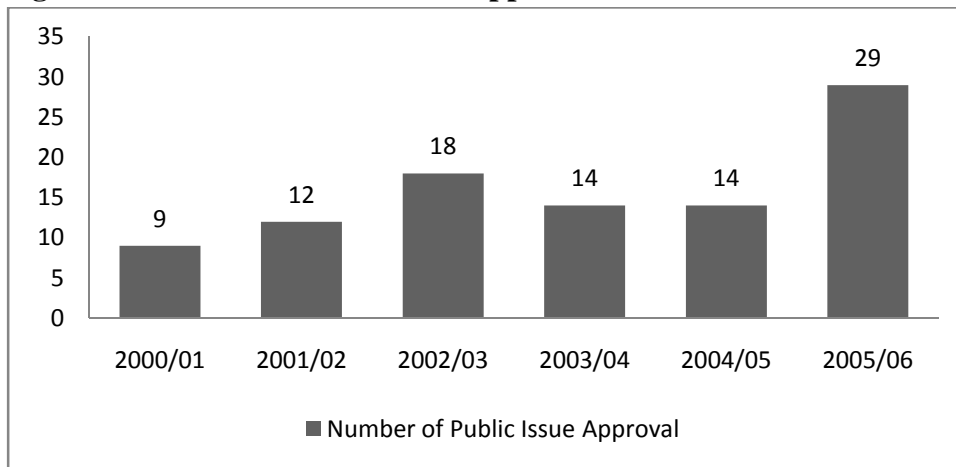


Figure 4 shows that there are ups and down in the amount of public issue in different years from the fiscal year 2000/01 to 2005/06. Taking the base year as 2000/01, it shows that the amount of public issue is increasing in 2001/02 and 2002/03 but thereafter till 2004/05 it is decreasing. The trend is increasing in the fiscal year 2005/06. The highest number of public issue was 29 in 2005/06 whereas the lowest number of public issue was 9 million in 2000/01.

Figure 5: Number of Listed Companies

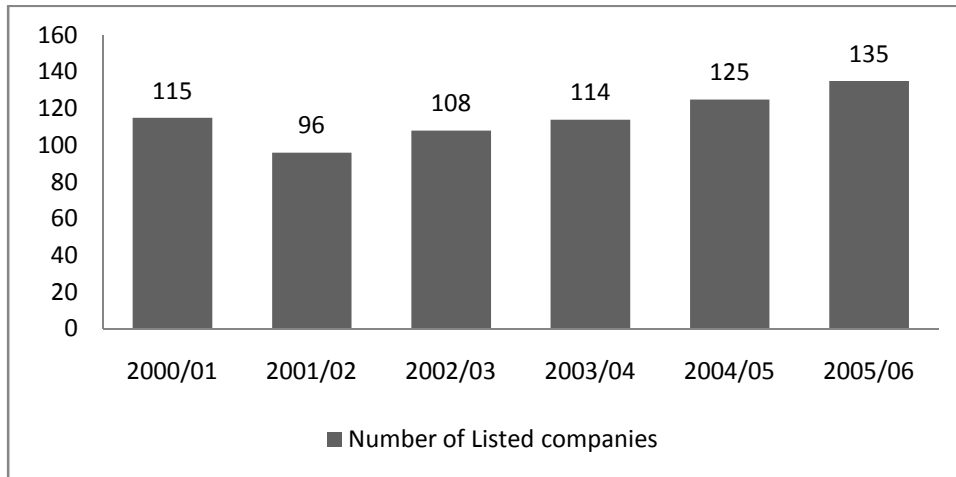


Figure 5 shows the number of listed companies in different years from the fiscal year 2000/01 to 2005/06. Taking the base year as 2000/01, it shows that the number of listed companies is in decreasing in 2001/02 but thereafter till 2005/06 it is increasing trend. The highest number of listed companies was 135 in 2005/06 whereas the lowest number of listed companies was 96 in 2001/02.

Figure 6: Sector wise Paid-up Value

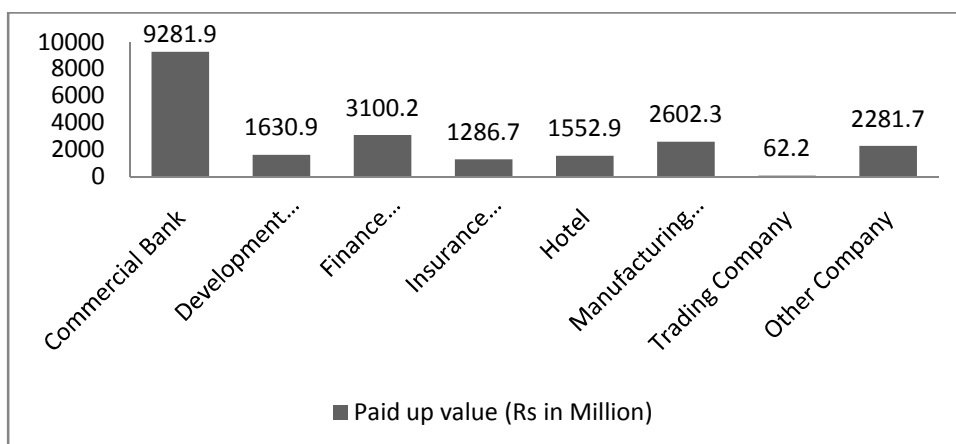


Figure 6 shows the paid up value of listed companies in the fiscal year 2006/07. The commercial banks have the highest paid up value of Rs.9281.9 million whereas the trading

companies have the lowest paid up value of Rs.62.2 million in comparison to other companies.

Figure 7: Sector wise Annual Turnover

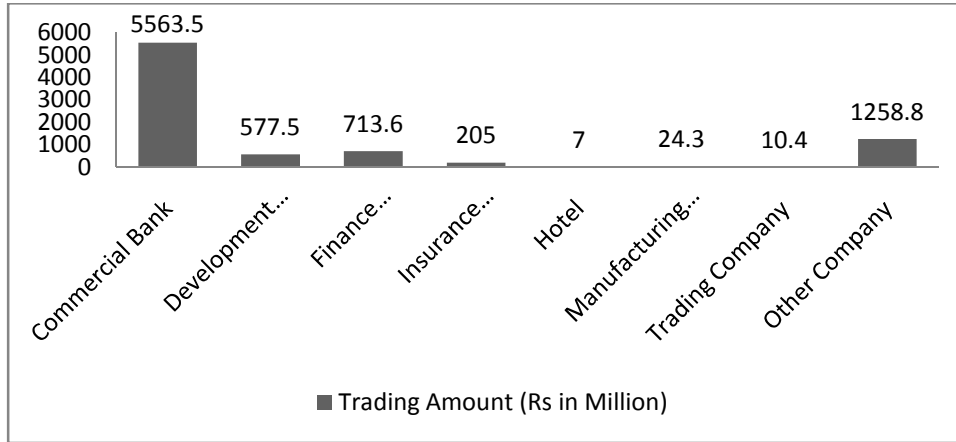


Figure 7 shows the annual turnover of securities traded in the fiscal year 2006/07. The commercial banks have the highest amount of securities traded of Rs.5563.5 million which is 66.55 percent of the total percentage whereas the hotels have the lowest amount of securities traded of Rs.7.0 million which is 0.08 percent of the total percentage in comparison to other companies.

Figure 8: Sector wise Market Capitalization

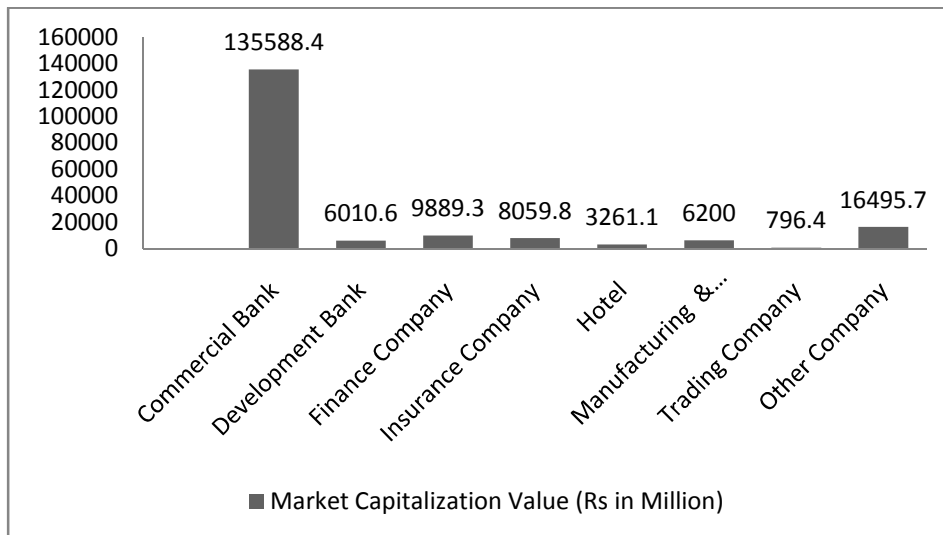


Figure 8 shows the total market capitalization of different companies in the fiscal year 2006/07. The commercial banks have the maximum level of market capitalization of Rs.135588.4 million which is 72.78 percent of the total percentage whereas the trading companies have the minimum level of market capitalization of Rs.796.4 million which is 0.43 percent of the total percentage in comparison to other companies.

Table 14: Sector wise Index up to 2008

Sectors	Feb 13,2004	2004	2005	2006	2007	2008
Commercial Bank	100	210.20	255.01	359.84	574.55	810.39
Development Bank	100	238.57	202.46	251.72	532.86	1095.73
Finance	100	197.39	207.43	247.76	440.52	953.23
Insurance	100	236.31	238.47	334.96	574.92	803.36
Manu. & Process.	100	268.17	273.97	274.00	322.48	385.40
Hotel	100	182.77	173.97	181.26	201.29	413.56
Trading	100	94.40	98.87	148.07	148.51	162.32
Other	100	140.31	142.39	351.39	665.01	817.47
Total	100	210.54	239.61	325.96	525.08	809.91

Source: www.nepalstock.com.np

Table 14 shows the sector wise index from year 2004 to 2008. The index of commercial banks, finance, insurance, manufacturing & processing, trading and other companies have the increasing trend up to 2008; whereas the index of development bank is in decreasing in 2005 but thereafter it is increasing in the year 2006 to 2008. Likewise, the index of hotel is in decreasing in 2005 but thereafter it is increasing in the year 2006 to 2008.

Table 15: Sector wise NEPSE Sensitive Index up to 2009

Sectors	Nov13,2006	Nov13,2007	Nov13,2008	Jan13,2009
Commercial Bank	116.80	228.68	196.92	156.52
Development Bank	135.68	510.18	235.17	201.20
Finance	102.51	275.75	335.01	310.11
Insurance	100.63	234.50	249.95	216.45
Manufact.& Proces.	97.86	138.00	171.04	168.00
Hydro Power	-	222.98	195.31	179.04
Sensitive Index	115.03	232.87	210.31	173.11

Source: www.nepalstock.com.np

Table 15 shows the sector wise NEPSE sensitive index from year 2006 to 2009. The index of commercial banks, development banks and hydro power have the increasing trend in the year 2007 but thereafter it is decreasing in the year 2008 to 2009. Finance companies have the increasing trend of index up to 2008. Likewise, the index of insurance and manufacturing & processing have the increasing trend till 2008 but thereafter it is decreasing in the year 2009.

4.2. Major Findings of the Study

Based on the analysis of data and their interpretation the study's major findings in relation to the objectives set could be summarized as follows:

- The market capitalization value is in erratic trend in every sector in each year. The proportion of market capitalization of banking sector is highest among eight sectors.
- The market capitalization of listed companies in NEPSE at the end of fiscal year 2006/2007 shows that the Commercial Banks are the largest and Trading is the smallest. The ranking of the companies on the basis of the market capitalization from highest to lowest are Commercial Banks, Others, Finance Companies, Insurance Companies, Manufacturing & Processing ,Development Banks, Hotels, and Trading.
- The capital market in Nepal was bullish in the initial periods but it turned bearish in the successive year. In the initial period, share price, trading, market capitalization has negatively moved in the subsequent years. But now the capital market is passing through the bearish trend in Nepal. There is lack of investors' opportunities and the economy is passing through the recession year by year.
- Having good track record of the financial position, the market potential investors buy the shares of joint venture commercial banks. Therefore, the shares of joint venture commercial banks emerge as blue chip in the Nepalese stock market.
- It was found that investors in the stock market take the investment decision on the basis of market price of shares. The prices of shares are fluctuating during the study period.

- On analyzing primary data it was found that the stock market in Nepal is in developing stage as investors are not well aware about the stock market.
- It was found that the investors' motive for owning shares of company is to receive the dividends from the shares.
- Volume of stock traded in stock exchange during the study period was found in increasing trend but last year it was in decreasing trend.
- It was found that investors of Nepalese stock market take decision on the basis of their own analysis.
- According to the major portion of respondents of Nepalese stock market, it were found that HMG's policy is not clear and perfect in Nepalese stock price market.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMENDATION

5.1. Summary

Securities markets refer the buying and selling price of the stock, bond, share, and debt. They exist in order to bring together buyers and sellers of securities, meaning that they are mechanisms created to facilitate the exchange of financial assets. Capital market is the backbone of any economy, and Nepal is not an exception. Under the capital market, stock market has played the crucial role to pull and push the proper economy balance of the country. So by promoting the stock market in sizeable economic sector gives the economic development by mobilizing swing into different productive sectors for making suitable investment environment. Here, different elements like price trend of NEPSE index, volume of stock traded rate of newly listed companies have been analyzed.

The main objective of the study was to analyze the stock price trend and volume of stock traded on the Nepal Stock Exchange, to evaluate different types of securities issue by the company and to examine the growth rate of paid- up value, turnover and market capitalization of the listed securities; and suggests the findings of the study to the interested parties related to stock market and its price.

According to the nature and objectives of the study, this study is totally based on the secondary data and information obtained from various financial reports, annual reports, regular publications, news, journals, and official web-sites etc.

In order to analyze the market trend of NEPSE index, annual trend analysis has been presented through NEPSE index table and its trend line. From the analysis it was found that the price trend is not predictable trend during the study period of different years of 2001/02, 2002/03 and 2003/04. But from the year 2004/05, the NEPSE index move gradually in upward slope.

Volume of stock traded was not in the same direction .As the different years; the trend of volume of stock traded was fluctuating in up and down manner during the whole study period.

Capital market plays an important role for the economic development by the process of collection, saving and stimulating capital formation. For the development of efficient capital market, it is essential to gear up saving and create suitable investment atmosphere as well as a sound corporate culture. With a well-developed capital market, it is possible to take better advantage of opportunities. Nepalese capital market is not well developed; however its performance is showing a gradual improvement for providing investors the opportunity to participate in primary and secondary market activities. Although stock market investing is assumed the least understood, investor's attitude towards financial investment has been increasing and the demand is high especially for common stock. Stock market one of the parts of capital market has greatest attraction, not only for the professional or institutional investors but also for the individual or private investors.

A brief review of available literature has been conducted; sound methodology has been developed for the analysis of the gathered information. Tables and graphs are drawn to present the data and results as simply as possible. The study primarily depends on the secondary data

collected from SEBO/N and www.nepalstock.com.

5.2. Conclusion:

Even now, Nepalese stock market is in the growth stage; it has crossed the initial stage but not reach in the matured stage as defined stock price trend is running unsystematically. The zigzag movement of price trend in monthly as well as annually trend line was emphasized that unsystematic activities of the Nepalese stock price trend. No experts can confidently forecast about the stock price trend in future. Volume of stock trade in stock exchange centre during the study period was also in up and down. Only number of listed and transaction companies bring ray of hope to the investors for investing their funds in capital market.

The growing importance of stock markets in the developing countries has opened up many avenues for research in the relationship between financial development and economic growth, with focus on developmental role of stock markets. Investment in stock market is the portion of this study. Stock markets provide an effective way of raising money for commercial enterprises and at the same time provide an investment opportunity for individuals and institutions. Stock markets facilitate the exchange of financial assets by bringing together buyer and sellers of stock. Stock market involves trade off between risk and return.

Generally public people are least understood about stock market and face conceptual thoughts about its risk. Risk is the uncertainty, which relates to the degree of ups and down return. Investing like many other activities involves risk in order to achieve return. As it has

highest expected return, stock market attracts most of the investors. Stock market investment can be boost up investor's fund as well and crash down like boulders from the mountains.

Hence, we can conclude that the Nepalese stock market is not efficient enough to determine MPS in accordance with the respective financial performance. The market price of share in Nepal is not indicative of a company's financial performance in Stock Market. The share market in imperfect and is not efficient and is liable to manipulation. Basically, value of share price is to be determined by the future prospects of the company on the basis of past financial indicators. Unfortunately, our stock market does not run on the basis of proper information about the company.

5.3. Recommendations:

The recommendations based on this study are as follows:

- Traditionally, the purchase of land, construction of building and saving on the bank had been the major area of investment for the people but their attitudes changing towards shares, debentures, and other new securities. So, the government policies and programmers should direct towards the development of domestic stock market (over the counter market) for mobilizing saving and providing equitable investment opportunities for the people of all regions.

- For the benefit of small investors, central depository system (CDS) should be implementing as soon as possible.

- Currently there are only 24 stock brokers they give priority to big investor. Therefore, number of share brokers should increase up to 50 so that small shareholders can be benefited.

- Common stock investment won't be fruitful until the analysis of an individual security; industry and overall market won't be analyzed properly. To make investment fruitful, buy the under priced common stocks when market is rising and sell the over-priced common stocks and hold that will perform better than the market.

- The Nepalese stock market (NEPSE & SEBO) should take some effective initiatives to control random fluctuations of MPS and establish the system of regular monitoring and evaluation of stock market.

- The public investors should not invest their savings in shares of public companies haphazardly. They should at least analyze or get suggestions from expert about the financial position and the level of investment risk prior to taking an investment decision.

- People in Nepal have shown in the tendency to run after those companies which have allocated higher bonus, probably at the cost of future growth and opportunities. People invest their hard money on the basis of rumors and hearsay that are spread in financial market rather than intuitive rational financial thinking. Therefore, there is need of credit rating agencies and investment banks to analyze the companies.

- The public companies should provide updated reports to the investors periodically, informing actual financial position of the company. And the investment guidelines should be provided also to them through news and media.
- Investor should analyze the required rate of return and expected return of the company he/she is going to invest. If the stock is under-priced, it is better to buy that and vice versa.
- Most of the stockbrokers lacked adequate infrastructures and proper record keeping and documentation of securities legislations and materials relevant to the stock brokering business. Some broker had not even displayed their signboards. It is recommended for all the stock brokers for proper record keeping, their signboards visibly, placing the certificate of the stockbroker in the office.

While much work remains to be done, a growing body of evidence suggests that stock market is not merely casinos where players come to place bets. Stock markets provide services to the non financial economy that are crucial for long term economic development. The ability to trade securities easily may facilitate investment, promote the efficient suggests that stock market price encourages or at least strongly forecasts corporate investment even though much of this investment is financed through retained earnings, bank loans rather than equity issues.

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