CHAPTER- I

INTRODUCTION

1.1 Background of the Study

Share or stock market is a major component of the security market. Stock market is a medium through which corporate sector mobilizes funds to finance productive projects by issuing shares in the market. The efficient collection of small amount of savings and transferring funds into the competitive and efficient uses requires a well functioning capital to facilitate the process. (Paudel; 2003:1)

There are two types of securities market i.e. Primary and Secondary market. The Primary market denotes the market for the original sale of security by an underwriter to the public. After securities have been purchased from the primary market, they can be traded in the secondary market. Principally stock market refers to the secondary market for securities. The secondary market comprises the organized security exchanges and a specialist facilitates the transaction. NEPSE is the only secondary market in Nepal. In secondary market to make transactions, primary role is performed by the brokers, in exchange they receive commissions. Therefore they are the backbone of stock market growth and its smooth functioning. The major function of the stock is to provide ready and continuous market for purchases and sales of securities at a competitive price, thereby imparting future market ability and liquidity to them. Thus, it is a medium through which scattered savings and scarce resources are transferred into productive areas that ultimately help to the economic development and industrializations of the nation.

To maintain high liquidity in the stock market, the market has to be efficient in pricing the shares. In an efficient market, prices "fully reflect" available

information. In this situation at every moment in time the actual prices of the security represent best estimate of its intrinsic value. That is, participants in the market would be dealing with fair prices of the security. In this condition, the investment decision problem of the general investors is greatly simplified because random selection of the stocks which matches their portfolio risk class does not differ in its returns significantly from others. "In essence in a random walk market the security analysis problem of the average investor is greatly simplified. Further the pricing in the market allocate the scarce resource efficiently into the best uses on the interest of the country." "The ideal is a market where prices are accurate signals for capital allocation" (Fama; 1977: 133).

The most sensitive component for any economies of the world is 'capital market'. It plays a vital role to direct the country's economic activities. So that it's smooth operation is significant in this free market world for making the economy of the country at ease.

The history of security market in Nepal only started with the floating of shares from Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. A few landmarks regarding the capital market include the introduction of Company Act in 1951, the first issue of government bond in 1964 and the establishment of Securities Exchange Centre Ltd. in 1976.

The Securities Exchange Center Ltd. was meant to facilitate and promote capital market, and to broker, underwrite, manage public issue, create market for government bonds and other financial services. All this was, before it was converted into the Nepal Stock Exchange in 1993 to further streaming capital market. Currently, Nepal Stock Exchange has the responsibility of imparting free marketability and liquidity to government and corporate securities by facilitating

transactions in its trading floor through market intermediaries such as brokers, market makers, etc.

Nepal Stock Exchange (NEPSE) is a common asset of HMG, Nepal Rastra Bank, Nepal Industrial Development Corporation and licensed members have invested in it.

Trading on the floor began on the basis of 'Open Out Cry System' through licensed brokers in 1993 after the conversion of Securities Exchange Center into NEPSE. After the share trading was registered, a high growth in transaction of shares was witnessed, amounting to Rs.71 crores 30 Lakhs from 3121440 shares in the first year whereas it posted 91crores 51 Lakhs rupees from 2696930 shares in the second year.

Such a movement did last long. Currently, the share market is in a dismal state. There are myriad reasons behind the sluggish movement of shares trading. Some are pointing out the fundamental and technical reasons behind it. But experts think that weak management of Stock Exchange and Security Board as well as market makers has dampened capital market. Thus far, the concerned people are only trading charges against each other for the downward trend of the stock market.

At a time when the country's industrial base is weak, sustaining the capital market can be a hard task. With the performance of the nation's giant companies, national economic indicators can be determined. However, the country still has not experienced in smooth growth of industrial institutions.

After the restoration of multiparty democracy in the country, the Nepali Congress government had emphasized on it, with a view to reform capital market. But a few are the achievements so far. After the adoption of the liberal market economy,

industrial policies were reformulated in order to assist interested individuals to start any undertaking for generating employment as well as income.

Similarly, in the capital market front, Acts like the Security Act 2050, the Security transaction Act 2050, and listing rules and regulation Act 2053 have been formulated.

Trading on the floor at NEPSE completed 11 years but trading on the floor at the NEPSE is restricted to listed corporate securities and government bonds. At present, 27 member brokers, 11 issue managers, 2 market makers and 2 securities dealer operate on the trading floor as per the Securities Exchange Act 1983, NEPSE had listed 62 companies equivalent to Rs. 1 billion 640 million rupees. Among them, there are 5 commercial banks, 25 manufacturing companies, 21 business transitions and others. At that time, the total market value of the total shares was 60 billion 62 million rupees. Now the listed companies at NEPSE have reached 135. Licensed brokers at NEPSE trade the shares through "Open out Cry System." Securities are conduced 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. The market makers quote their bid and offer prices on their own board before the floor starts. Once the bid and offer price match, contracts between the buying and selling brokers or between the brokers and market makers are concluded at the floor.

These days the interest of investors is gradually fading away. Investors have been discouraged with the shares market running at the snail's face. There is no room for satisfaction for investors. Although the country has adopted liberal market policies to revive the economy, it has been not applied into concrete actions in Nepalese context. Brokers have been reporting since long about Nepal's stock market position, however, no action has been taking from the government. The

government has not been able to regulate the companies, and corporate culture is also not being developed among companies, brokers observed.

Present structure of the stock market, it seems outmoded. So that total overhauling of it is deemed necessary. These days total volume shares are transacted about 18147000 on an average.

There are some reasons why stock market is moving in a sluggish way. Some of them include weak management of companies, weak financial performances, lack of factual information, lack of knowledge of capital market, etc.

Stock market is perhaps poorly understood among Nepalese investors. Its development remains almost impossible unless the people accept it as a way of their life. For this, first of all they have to know what stock market is, and how it functions. But such questions are almost unanswered. Yet, the price formation system in NEPSE is not understood by most of them. If it is not understood, it cannot attract the interests of investors. As a result, it is natural for the investors to seek investment opportunities in the fields other than securities. Describing Nepalese stock market, (Pradhan 1994: 42) writes "The Nepalese stock market is characterized by a low trading volume, absence of professional brokers, early stage of growth, limited movement of share price, and limited information to investors." Due to this reality, in Nepal, a large amount of funds is poured into non-productive sectors like house construction, jewelry collection etc. Therefore, development of securities market is necessary to divert the funds towards productive sectors.

The development of a stock market depends legally on financial institution as well as on the availability of a wide array of the financial institution. Therefore, stock market development of a country's financial sector helps in a long term economic

growth. Thus the activities of buying and selling of shares of the stock are extremely important for the allocation of capital within economics and it require on in depth analysis.

Thus, there is no room for debate whether stock market expansion and development will be fruitful for the economic activities or not. The matter of discussion should be properly fit with national economy for the welfare of the countrymen.

1.1.1 Capital Market in Nepal

The market where securities are traded is known as capital market. The capital market is broadly categorized into two markets. They are primary capital market and secondary capital market.

i) Primary Capital Market

The primary capital market denotes the market for the original sale of securities by an underwriter to the public. The use of the words original sale may be somewhat misleading the public several years ago and initial have sold common stock to public company and has now decided to issue additional shares of common stock (a secondary offering). These additional shares will be sold in the market and once the sale is completed, the new shares will be indistinguishable from the shares sold in the initial public offering.

The issuer receives cash that may then invest in the productive assets or the net proceeds from the sale may be used for other purpose. The public receives the newly issued securities for the cash invested. Since in the primary market stocks are traded at par there is no problem of price. (NEPSE, Annual Report; 1999:16)

ii) Secondary Capital Market

After securities have been purchased from the primary market, they can be traded in the secondary market. The secondary market comprises the organized security exchanges and a specialist facilitates the transaction. The major of all capital market transactions occur in the secondary markets. The proceeds from sale of securities in the secondary markets do not go to the organizational issuer instead to the initial owners (sellers) of the securities. NEPSE is only the secondary market in Nepal. Different factors in secondary market are explained as follows:

a) Trading of Stock

In Nepalese practice, the trading of securities viz. government bonds and listed corporate securities is done through Nepal Stock Exchange Ltd. (NEPSE), which is not profit organization, operating under the 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 market intermediaries such as brokers, market makers.

Member of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities at present there are 27 member brokers and 2 market makers, who operate in the trading floor as per security exchange Act, 1983 rules and by laws of the exchange. Beside this NEPSE has also licensed two dealers.

b) Primary Market Dealer and Secondary Market Dealer

Primary market dealer operates as a manager and underwriter regarding the issue while secondary marker dealer operates as a profitable manager. A corporate firm has to fulfill certain criteria to list its securities in the NEPSE for stock trading. At present 135 different companies has listed their securities to make them eligible for trading of stock.

NEPSE has adopted an “Open-Out-Cry” system for the trading purpose. 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 offers will post the price and code 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 matches, contracts between the buying and selling brokers or between the brokers and market makers are concluded on the floor.

NEPSE has fixed the board lot of 10 shares if the face value is Rs.100 or 100 shares if the face value is Rs.10. The transactions on regular trading should be done on at least one board lot. The transactions of less than 10 shares are permitted only on odd lot trading hours.

The opening price of any day shall not be more or less than 10 percent of the previous trading day’s closing price. Once the transactions are done within this range, the price can be changed within this range; the price can be changed within a limit of 5 percent in each consecutive transaction.

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

The rate brokerage on equity transactions ranges from 1 percent to 1.5 percent depending on the traded amount.

With the establishments of democratic system in the country, it can be seen the interesting role and importance of security market. Security market has just shown

some changes of facilities in the real sense. May be it is also because of the already passed recession period that people have become much more optimistic that they want to save some of their income to invest in the security market. (www.nepalstock.com; Jan 2009)

c) NIDC Capital Market

Management related magazine and the advertisement of the satellite television have played important role to make security maker attractive. The underlying reason for the activeness and energy of our security market has to be repeated; it's increased competition between various types of firm striving for survival.

There are two markets under the capital markets; they are primary market and the secondary market. Primary market is a market where the public buys shares directly from the company through the initial offer. Sometimes brokerage firms, agents underwrite the company shares. (NEPSE, 1999; 11-13)

d) Market Index Calculation

Market index is a single figure obtained from averaging the prices of selected securities, which reflects the overall investment performance of a particular market for financial assets for a particular point of time. Index can be constructed in various ways. There are three weighting methods of construction of market index, which are most often used.

i) Price Weight Market Index

A market index in which, the contribution of a security to the value of the index is a function of the securities current market price. It is calculated by summing the price of stocks that are included in the index, and dividing this sum by a constant - the divisor.

$$I = \frac{\sum_{i=1}^{n} P_i}{}$$

Where,

I=index

N=no. of stocks

P_i= Price of i^{th} stocks

ii) Value Weighted Index

It is a market index in which the contribution of a security to the value of the index is a function of the securities market capitalization. It is calculated by multiplying the price of the stocks in the index and their respective number of share outstanding and then dividing the corresponding figure for the day the index was started (i.e. base period). The resulting number is multiplied by any base that may be 10, 1000, 10000 etc.

$$\frac{\sum_{i=1}^{n} P_{it} N_{it}}{\sum_{i=1}^{n} P_{ib} N_{ib}} x100$$

Where,

I = index

P_{it}=Price of i^{th} stock at time t

N_{it} = No.of outstanding j^{th} stock at the time t

P_{ib}= Price of J^{th} stocks in the base period

N_{ib}= No. of share j^{th} stocks in the base period

NEPSE has adopted value weighted index method till the date, 13^{th} Feb 1994 is the base period for construction of the index NEPSE multiplies index by 100 as

base where as India and USA multiply the same figure by 1000 and 10 respectively.

iii) Equal Weighted Index

The third method of constructing market index is equal weighted. This is computed daily by multiplying the level on the previous day to the arithmetic mean of the daily price relative (today's price divided by yesterday price) of the different individual stocks which are included in the construction on index. (Francis; 1986:73-75)

1.2 Focus of the Study

Security prices play in channeling the flow off capital into various industries and firms. The history of security prices both individual and aggregate has probably been most widely and intensively studied.

The behavior of price series has been always a subject matter of controversial debate to the extreme extent among the academics of financial and economic circles. The behavior of past price variation in the general market for securities will or won't be meaningful information forecasting the future behavior of price variation.

The main focus of the study is to test whether the successive price changes of the securities are dependent or independent (whether there is significant difference between NEPSE Index before and after the various event or not). There are various approaches to predict the successive price movement of stocks. Efficient market theory is one of the best approaches. However fundamental and technical approaches are also the best but the implications of efficient market is much more important in one hand while, in Nepalese context extensive study on this issue has not been found. Thus this study focuses on the stock market efficient and Behavior of the Stock Market Prices in Nepalese Security Market.

1.3 Statement of the Problem

To select the right company for share investment is the major problem in Nepal stock exchange. Selection of share depends upon the aim of investors. Such aim can be the investment period, risk bearing capacity, return expected and others. The investor should be clear first whether to invest for long period or short period also to bear risk or not. Besides these, investors should keep information about the company and investment related facts before investing on shares. In such selection process, the investor should consider the MIDAS rule; Marketability (M), Income (I), Diversification (D), Appreciation (A) and Security (S).

Also the malpractices in share market have incurred the uncertainty in the share prices. The irregularities like pooling, cornering or warehousing, organized runs, ramping, wash sale, matching, insiders trading are widespread in Share Market in Nepal. Each of these factors is equally responsible to change the share price astonishingly. So, the main problems behind doing the research are summarized below;

a. Do the investors consider stock price trend before investing in certain company's share?
b. What are the factors that have impact on share price?
c. In which trend the NEPSE Index is following up in average?

1.4 Objectives of the Study

The main objective of this study is to analyze and examine the fluctuation of the stock prices in the security market. However the specific objectives of the study are listed below:

1. To study and analyses the stock price trend and volume of stock traded on the Nepal Stock Exchange.
2. To Study and analyses the stock price of the listed companies in Nepal Stock Exchange.

3. To study and analyses the investors views regarding to the investment in Nepalese Stock Market.
4. To study and analyses the factors that have impact on stock price.

1.5 Significance of the Study

The study on the behavior of stock market prices in Nepalese security market is very helpful to all the parties related to stock market. The significance of the study can be point out as follows:

i. The study helps to provide guideline to the interested investors in the market.
ii. The study is helpful to the people who are curious to know about the price trend of the stock, volume of stock traded, listed of new companies in the secondary market (NEPSE) and the impact of signaling factors on NEPSE index etc.
iii. The study is helpful to the issue managers, stock brokers, securities dealers and the market makers of stock market in Nepal.
iv. With respect to change in financial position of the firms the study is helpful to know about the movement of share price of the corporate firms.

1.6 Limitations of the Study

The study on the behavior of stock market prices in Nepalese security markets haves been conducted on the following limitations and constraints:

i. The research is based upon the data provided by the NEPSE and those data are not verified by the experts.
ii. Only common stocks or ordinary shares are taken for the purpose of the study.
iii. Stock price trend is seen only with the help of NEPSE index.
iv. The study is based only with the help of NEPSE index.

1.7 Organization of the Study

This study is divided into five Chapters. They are as follows:

Chapter - I: Introduction

Chapter - II: Literature Review

Chapter - III: Research Methodology

Chapter - IV: Data Presentation and Analysis

Chapter - V: Summary, Conclusion and Recommendations

CHAPTER – I: INTRODUCTION

Introduction Chapter consists with the general background of the study, focus of the study, statement of the problem, objectives of the study, hypothesis of the study, limitation of the study and organization of the study.

CHAPTER – II: LITERATURE REVIEW

The second chapter, Literature Review, contains the conceptual framework and past research literature on the behavior of stock market prices.

CHAPTER - III: RESEARCH METHODOLOGY

The third chapter, Research Methodology, deals with the carry out of the empirical tests. The study consist research design, sources of data, data gathering procedure, population and sample, research variables and data processing procedure.

CHAPTER - IV: DATA PRESENTATION AND ANALYSIS

The fourth chapter, Presentation and Analysis of Data, deals with the presentation, analysis and interpretation of data. It consists testing of hypothesis, analysis of questionnaires, and analysis of open-end opinions and major findings of the research.

CHAPTER V: SUMMARY, CONCLUSION AND RECOMMENDATIONS

The last chapter covers with the summary, conclusions and recommendations for the further research.

CHAPTER – II

REVIEW OF LITERATURE

2.1 Conceptual Review

Today each and every managerial decision-making is based on financial analysis. Securities raise funds in capital market that certainly helps to expand the national economy. Stock market provides appropriate instrument of investment to households to plan their consumption expenditure of whole life on their preferences. Investors wanted liquidity that facilitates to convert their investments and this was how the stock exchange came into being. Stock exchange means any body of individuals, whether incorporated or not constituted for the purpose of regulating or controlling the business of buying, or dealing in securities.

2.1.1 Common Stock

"Common stock is the basic form of ownership in a company. People who hold common stock have a claim on the assets of a firm after those of preferred stockholders and bond holders" (www.greekshares.com, Feb, 2009).

Common stockholders of a corporation are its residual owners, their claim to income and assets comes after creditors and preferred stockholders have been paid in full. As a result, a stockholder's return on investment is less certain than the return to a lender or to a preferred stockholder. On the other hand, the return to a common stockholder is not bounded on the upside, as are returns to the others. A share of common stock can be authorized either with or without par value. The par value of stock is merely a stated figure in the corporate charter and is of little economic significance. A company should not issue stock at a price less than par value, because stockholders who bought stock for less than par value would be liable for the difference between below the par price they paid and the par value. (Francis and Van Horne; 1983: 85)

The founders of a corporation obtain a corporate charter from the state, have shares of common stock printed, and sell the shares to as many different people as they wish in order to raise the capital to start the new business. Thus, common stock is always the first security issued by every new corporation (Francis; 1983: 37).

Common stockholders have a residual claim on the earnings and assets of their corporation. This means that the law requires corporations first to pay employee's wages, suppliers' bills, and bondholders' interest; then, after all other bills are paid, the common stockholders share in whatever earnings or losses are left. Also, if the corporation comes to its demise in bankruptcy, the law says that all bills must be paid before common stockholders are free to divide up whatever assets remain, if any, from the bankrupt operation.

Common stockowners enjoy certain advantages from their investment. First, they enjoy limited liability that is if the corporation goes bankrupt and does not have enough assets to pay all of its bills, the common stockowners cannot be forced to participate in the payment of unpaid bills. Second, Stockholders enjoy unlimited participation in firm's profits if earnings become highly lucrative. Third, shares of common stock are marketable securities designed to be bought and sold with ease. Finally, only common stockowners are entitled to vote at the stockholders' meetings of the corporation. Thus, stockholders have a voice in management.

When investors buy common stock, they receive certificates that state the number of shares purchased and their par value, if any. When stock is purchased on the market (that is, when it is not a new issue purchased directly from the company), the new owner and the number of shares bought are noted in the stock record book of a transfer agent. The transfer agent is usually a big-city bank appointed by the corporation to keep track of all its shares' owners. After the sale, the former

shareholder's certificate is canceled and the new certificate sent to the registrar, which is usually another bank or trust company. The registrar checks to verify that no errors were made, and when all checks are competed, the certificate is sent to the new shareholder. (Francis; 1983: 37-39)

i) Common Stocks Values

a) Par Value

Par value is the face value of a share of stock. It was originally used to guarantee that the corporation receives a fair price for the value of the firm represented by a share of stock. Another reason for the creation of par values was to keep stockholders with friends in the corporation from getting shares at a low price while other buyers of identical shares have to pay more. Selling shares at reduced prices to friends is a form of price discrimination against many potential investors. (Francis; 1983: 40)

The face value when the stock, established at the time the stock is initially issued is the par value. Without a stock split or other action by the board of directors, the par value of the stock does not change. (Cheney and Mossess; 1995: 417) The par value of new issue is usually Rs.100, as directed by company act 1993.

b) Book Value

Book value per share can be calculated by adding the common stock's total value (or par value plus paid-in surplus plus retained-earnings accounts) in the net worth section of the balance sheet and then dividing by the number of shares of common stock outstanding. Book value gives a picture of the assets of the corporation, but it has no real relation to stock prices. Companies sometimes find their common stock selling for prices far different from book value. (Francis; 1983: 40)

c) Market Value

Market value in the secondary markets is determined by the demand and supplies factors, and reflects the consensus opinion of investors and traders concerning the "value" of the stock. The market value is influenced by many factors including economic and industry conditions, expected earnings and dividends, and market and company risk considerations. (Cheney and Mosses; 1995: 417-418)

ii) Classification of Common Stock on the basis of their Features

a) Blue Chip Stock

Stocks of very large, well-established corporation have been dominant positions; strong balance sheets and size are called blue-chip stocks.

b) Growth Stocks

Stocks whose price grow with the growth of corporation's earnings and dividend with a comparatively higher growth than the average price appreciation.

c) Income Stocks

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

d) Cyclical and Defensive Stocks

Stocks, which are influenced by economic and industrial cycles, are called cyclical stocks whereas stocks which are less susceptible to economic cycles, a recalled defensive stocks.

e) Speculative Stocks

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

f) Small Stocks

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

g) Treasury Stocks

If a corporation decides to buy back its stock, the acquired stocks are called treasury stocks." (Cheney and Mosses; 1995: 419-422)

iii) Characteristics of Common Stocks

a) "Voting Rights or Control

Common Stock is voting stock. The power to vote for the board of directors and for or against major issues (such as mergers or an expansion into new product lines) belongs to the common shareholders because they are the owners of the corporation.

b) Preemptive Rights

The preemptive right allows stock holders to subscribe to any new issue of stock so that they can maintain their previous fraction of the total number of shares sold (usually called the "outstanding shares"). Some states automatically make the preemptive right a part of every corporate charter: in others, its inclusion as part of the charter is optional to grant the preemptive right is to recognize that stockholders are part owners of corporations and as such should have an interest in earnings and assets and a voice in management proportionate to the fraction of voting shares they own. The preemptive right, if exercised, prevents the dilution of ownership control inherent in additional stock shares. Thus, the preemptive right, if exercised, guarantees the investor's undiluted maintenance of voting control, share in earnings, and share in assets." (Francis; 1983: 39)

c) Right of Income and Distribution of Other Shares

As a matter of fact, shareholders have no right to receive income distribution from the corporation. As practice prevails, BOD declares cash dividends if enough financial resources are available. The dividends can be cash dividends, stock dividends, property dividends, etc. (Cheney and Mosses; 1995: 415)

2.1.2 Behavior of Stock Market Prices

There are three approaches to explain the behavior's of stock market prices. They are Technical Analysis, Fundamental Analysis and Efficient Market Theory, Technical and Fundamental analysis is related to the conventional approach where efficient market hypothesis is based on contrary approach. However all theories explains with the behavior of stock market prices.

(a) Technical Analysis

Technical analysis is market-oriented philosophy and it can concentrate on the force of supply of and demand for shares as reflected in the actions of market rather than the intrinsic worth of share.

"Technical analysis is the study of the internal stock exchange information as such. The word 'technical' implies a study of the market itself and not of those external factors which are reflected in the market. All the relevant factors, whatever they may be, can be reduced to the volume of the stock exchange transactions and the level of share prices or more generally, to the sum of the statistical information produced by the market." (Felix Rosenfeld; 1975: 297). "Technical analysis involves the study of stock market prices in an attempt to predict future price movements for the common stock of a particular firm. Initially, past prices are examined in order to identify recurring trends or patterns in price movements. Then more recent stock prices are analyzed in order to identify emerging trends to patterns that are similar to past ones. This analysis is done in the belief that these trends or patterns repeat themselves. Thus by identifying an emerging trend or pattern, the analyst hopes to predict accurately future price movements for that particular stock." (Sharpe, Alexander and Bailey; 2003: 12) "The technician tends to look backward. The technician thinks little about future earnings and dividends. The technician usually attempts to predict short-term price movements and thus makes recommendations concerning the

timing of purchases and sales of either specific stocks or groups of stocks (such as industries) or stock in general. It is sometimes said that technical analysis is designed to answer the question - when?" (Sharpe, Alexander and Bailey; 1999: 844)

"Technical analysts maintain that the price of a share at any time (present price) is the balance struck by buyers and sellers at a point in time price movements take place on account of changes in buying and selling pressures. This occurs in account of diverse internal and external factors (profits, political environment, predictions and the likes). Prices stabilize when equilibrium between buyers and sellers is achieved. They believe that a record of price movements over a period of time in the past. As a whole the theory is based on the assumption that the history repeats itself. That human nature does not change and that man is likely to repeat his patterns of past movements will repeat themselves in the future." (Raghu; 1991: 172)

About this approach Jack Clark Francis writes technical analysis is based on the widely accepted premise that security prices are determined by the supply of and demand for securities. The tools of technical analysis are therefore designed to measure supply and demand. Typically, technical analysts record historical financial data on charts, study these charts in an effort to find meaningful patterns, and use these patterns to predict future prices. Some charting techniques are used to predict the movements of a single security; some are used to predict the movements of a market index: and some are used to predict both the action of individual securities and the market action. The basic assumptions underlying technical analysis are listed below:

- Market value is determined solely by the interaction of supply and demand.
- Supply and demand are governed by numerous factors, both rational and irrational.

- Aside from the effects of minor fluctuations in the market, stock prices tend to move in trends that persist for appreciable lengths of time.
- Changes in trends are caused by shifts in supply and demand.
- Shifts in supply and demand, no matter why they occur, can be detected sooner or later in charts of market action.
- Some chart patterns tend to recur, and these recurring patterns can be use to forecast price movements.

Technical analysts seek to estimate security prices rather than intrinsic values; that is, they try to forecast short run shifts in supply and demand that will affect the market price of one or more securities. They tend to ignore such factors as the firms risk and earnings growth in favor of concentrating on various barometers of supply and demand that they have devised. (Francis, 1983: 434-435)

Thus technical analysts discern past pattern or trends, which they believe to repeat in the future and recommend for the timely holding and disposing mechanism, which is profitable. Or that recommend for short-term speculation based on its forecast of profitable pattern.

b) Fundamental Analysis

Fundamental analysis begins with the assertion that the "true" (or "intrinsic") value of any financial asset equals the present value of all cash flows that the owner of the asset expects to receive. Accordingly, the fundamental stock analyst attempts to forecast the timing and size of these cash flows and then converts them to their equivalent present value by using an appropriate discount rate. More specifically, the analyst must attempt not only to estimate this discount rate but also to forecast the stream of dividends that a particular stock will provide in the future; this process is equivalent to forecasting the firms earning per share and payout ratios. Furthermore, the discount rate must be estimated. Once the true value of the

common stock of a particular firm has been determined, it is compared with the current market price of the common stock is fairly priced. Stock that have a true value less than their current market price are known as overvalued or overpriced stocks whereas those that have a true value greater than their current market price are known as undervalued or under priced stocks. The magnitude of the difference between the true value and the current market price is also important information, because the strength of the analyst's conviction that a given stock is mispriced will depend, in part, on it. Fundamental analysts believe that any notable cases of mispricing will be corrected by the market in the near future; meaning that prices of undervalued stocks will show unusual appreciation and prices of overvalued stocks will show unusual depreciation. (Sharpe, Alexander and Bailey; 2003: 12-13)

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 that fundamental analysis is designed to answer the questions "what?" (Sharpe, Alexander and Bailey; 1998: 844) Fundamental analysis theory 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 at appropriate risk adjusted discount rate. The value of the common stock is simply the present value of all the future income which the owner of the share will receive (Francis; 1991: 398). And the actual price should reflect the intrinsic value. But in practice, first it is not known in advance what a stock's income will be in each future period, and second, it is not clear what the appropriate discount rate should

be for a particular stock. So, fundamentalists attempt to reach best estimate of the intrinsic value of share by studying company's sales, profit, dividends, management competency, and numerous other economic and industrial factors, which determine its future income and prospect of the business opportunities. (Francis; 1991: 425)

On the basis of such a study fundamentalists project a company's future profits and earning capacity with reasonable accuracy what the price of a company's share ought to be. This estimated price is termed as intrinsic value. The intrinsic value of the stock is generally away from its present market value. Thus there is difference or gap between them. Fundamentalist reaches and investment decision by comparing this value with current market value, it is believed that price will rise. In this situation, fundamentalists will acquire shares as this difference presents them with an opportunity to make a profit. Alternatively, if the intrinsic value is lower than the market value, the share is overpriced and is an indication to the fundamentalists to sell. Following this rule, they believe, above average return can be attained, and given that market are inefficient in pricing the shares. (Dahal; 2002: 27).

"By nature the fundamentalist is conservative in approach and is generally unwilling to take a quick loss be would rater adopt a buy and hold policy." Therefore fundamental analysis allows that analyst to forecast holding-period yield and risky ness of achieving that yield, but these figures alone do not necessarily prompt a buy or sell action. (Yasasway; 1992: 63)

Technical Analysis or Fundamental Analysis

The two theories explained above have assumed that the pricing of the shares in the market is not efficient. Therefore, while making investment decision, technical analysis theory suggests for the right time of purchasing and selling whereas

fundamental analysis theory recommends for the selection of the appropriate stocks. It is sometimes said that fundamentals analysis is designed to answer the questions 'what?' and technical analysis to answer the question 'when'. (Sharpe, Alexander and Bailey; 1998: 844)

Technical analysis and Fundamental analysis are an inefficient theory based on conventional approach, where technical analysis theory based on the right time of purchasing and selling where fundamental analysis theory is based on the selection of the appropriate stocks.

Security prices are not controlled by any one buyer or seller; there are many independent buyers and sellers. Most security traders are not powerful enough to affect prices significantly. The few investment institutions that are large enough to do so are restrained by law from manipulating prices (although they do sometimes temporarily affect prices by their actions).

There are many independent sources of opinion about security prices. Fundamental analysts and technical analysts have expectations and use techniques that are very different from one another. Thus, often some so called experts will predict price rises for a security that other so called experts consider overvalued.

Economists and fundamental analysts who test various tools of technical analysis are essentially testing security prices to see if they equal intrinsic values. The problem is that it is impossible to tell exactly what the intrinsic value of a common stock is, because different fundamental analysts develop different estimates of the intrinsic value of a stock. Thus, there is no generally accepted observable value to compare to the stock's market price. As a result, technical analysis is subjected to indirect tests.

The indirect tests used to assess technical analysis are based on the notion that stock prices should fluctuate randomly. That is, the stock market mechanism described above proposes that the intrinsic value of a stock changes whenever news about it becomes known. If the stock market is in continuous equilibrium, then the stock's market price equals its intrinsic value, and they should fluctuate together. Technical analysts, however, claim that stock prices do not fluctuate in this way.

The chartists search for, and claim they find, patterns of price fluctuations, patterns that repeat themselves and that cab be used for forecasting. Stated differently, technical analysis is based on a belief in trends and patterns in stock prices such that prices fluctuate inefficiently away from their randomly fluctuating intrinsic values. Looking at stock market prices to see whether they fluctuate in discernible patterns is not only a test of the worth of technical analysis, but can be a test of the hypothesis that prices fluctuate randomly in continuous equilibrium.
If stock prices did not fluctuate efficiently with their intrinsic values, fundamental analysis would be an unprofitable activity. That is, why should an investor bother to estimate a stock's intrinsic value if the stock's market price fluctuates inefficiently away from its value? (Francis; 1991: 463-464)

(c) Efficient Market Hypothesis

The term efficiency may be defined in various ways: allocative efficiency, operational efficiency and informational efficiency.

A market is allocationally efficient when rates of return adjusted for risk are equated at the margin for all investments. A market is operationally efficient when investment funds can be transferred (shifted) at minimum cost. Capital market efficiency exists when prices reflect all available information. Efficient markets imply that all relevant information regarding a given stock is reflected in its current market price. (Weston and Copeland; 1992: 94)

The Efficient Market Hypothesis states that at any given time, security prices fully reflect all available information. The implications of the efficient market hypothesis are truly profound. Most individuals that buy and sell securities (stocks in particular), do so under the assumption that the securities they are buying are worth more that the prices that they are paying, while securities that they are selling are worth less than the selling price. But if markets are efficient and current prices fully reflect all information, then buying and selling securities in an attempt to outperform the market will effectively be a game of chance rather than skill. (www.investorhome.com; Feb, 2009)

The Efficient Market Hypothesis evolved in the 1960s from the Ph.D. dissertation of Eugene Fama. Fama persuasively made the argument that in an active market that includes many well-informed and intelligent investors, securities will be appropriately prices and reflect all available information. If a market is efficient, no information or analysis can be expected to result in out performance of an appropriate benchmark.

According to Fama "An 'efficient' market is defined as a market where there are large number of rational, profit-maximizers actively competing, with each trying to predict future market values of individual securities, and where important current information is almost freely available to all participants. In an efficient market, competition among the many intelligent participants leads to a situation where, at any point in time, actual prices of individual securities already reflect the effects of information based both on events that have already occurred and on events that have already occurred and on events which, as of now, the market expects to take place in the future. In other words, in an efficient market at any point in time the actual price of a security will be a good estimate of its intrinsic value" (www.investorhome.com; Feb, 2009)

“A capital market is said to be efficient if it fully and correctly reflects all relevant information in determined security prices. Formally, the market is said to be efficient with respect to some information set if security prices would be unaffected by revealing that information to all participants.” (Malkiel; 1992: 92) Moreover, efficiency with respect to an information set implies that it is impossible to make economic profits by trading on the basis of that information set. (www.e-m-h.org; Feb, 2009) “I take the market efficiency hypothesis to be the simple statement that security prices fully reflect all available information. A precondition for this strong version of the hypothesis is that information and trading costs, the costs of getting prices to reflect information, are always 0.” (Grossman and Stiglitz; 1980: 13) A weaker and economically more sensible version of the efficiency hypothesis says that prices reflect information to the point where the marginal benefits to acting on information (the profits to be made) do not exceed marginal costs. (Jensen; 1978: 129)

The primary role of the capital market is allocation of ownership of the economy's capital stock. In general terms, the ideal is a market in which prices provide accurate signals for resource allocation: that is a market in which firms can make production-investment decisions, and investors can choose among the securities that represent ownership of firms' activities under the assumption that security prices at any time "fully reflect" all available information. A market in which prices always "fully reflect" available information is called 'efficient'. (Fama; 1970: 383-417)

In such a market a security's price will be a good estimate of its investment value, where investment value is the present value of the security's future prospects, as estimated by well-informed and capable analysts, and can be thought of as the security's price equal its investment value at all times. A market is said to be efficient if it is impossible to make abnormal profits by using a particular set of

information to formulate buying and selling decisions. In an efficient market, investors should expect to make only normal profits and earn a normal rate of return on their investments. In such a market, any new information is immediately and fully reflected in prices. New information is just that new, meaning a surprise. In a perfectly efficient market, price changes are close to random. (Sharpe, Alexander and Bailey; 1999: 106)

"Market efficiency is a description of how prices in competitive markets respond to new information. The arrival of new information to a Competitive market can likened to the arrival of a lamb chop- to a school of flesh-eating piranha, where investors are – plausibly enough the piranha. The instant the lamb chop hits the water; there is turmoil as the fish devour the meat. Very soon the meat is gone, leaving only the worthless bone behind, and the water returns to normal." (Higgins; 1992: 42) Similarly, "when new information reaches a competitive market there is much turmoil as investors buy and sell securities in response to the news, causing prices to change. Once prices adjust all that is left of the information is the worthless bone. No amount of gnawing on the bone will yield any more meat, and no further study of old information will yield any more valuable intelligence" (www.investorhome.com; Feb, 2009)

When tests of the efficient markets hypothesis are carried out, securities markets are tested for varying degrees of efficiency. First, the weakly efficient market hypothesis is examined. The weakly efficient market hypothesis says that historical stock price and volume data for securities contain no information that can be used to earn a trading profit above what could be attained with a naïve buy-and-hold investment strategy. This suggests that technical analysis is worthless. The stock market data support the hypothesis.

Also examined is the semi-strong efficient market hypothesis, which says that markets are efficient enough for prices to reflect all publicly available information. Consequently, only a few insiders, trading on short run price changes, can earn a profit larger than what could be earned by using a naïve buy-and-hold strategy. Securities markets in the United States are probably semi-strong efficient.

Finally, the strongly efficient market hypothesis is examined; it claims that no one can consistently earn a profit larger than what could be earned with a naïve buy-and-hold strategy. The reason given is that no one has monopolistic profit making are found that violate this hypothesis. (Francis; 1983: 464-465)

Above three hypotheses are not mutually exclusive or the three hypotheses about pricing efficiency overlap. They differ only in the degree of market efficiency.

Generally Efficient Market Theory believes that the stock market price in the market is always comparative. It means stock prices is neither overvalued nor under valued that is stock prices is always correctly valued.

i) Theory of Weakly Efficient Market or Random Walk Hypothesis

The weak form asserts that all past market prices and data are fully reflected in securities prices. In other words, technical analysis is of no use. According to Eugene Fama, the weakly efficient hypothesis stipulates that historical price and volume data for securities contain no information which can be used to earn a trading profit above that could be attained with a naïve buy-and-hold investment strategy. This hypothesis suggests that technical analysis is well-recorded but worthless folklore. (Francis; 1991: 543-544) It believes that the current price of stocks already full reflect all the information contained in the historical sequence of prices. Therefore there is no benefit as far as forecasting the future is concerned,

in examining the historical sequence of prices. This weak form of efficient market hypothesis is also known as the random walk hypothesis.

The random walk theory asserts that price movements will not follow any patterns or trends and that past price movements cannot be used to predict future price movements. Much of the theory on these subjects can be traced to French mathematician Louis Bachelor whose Ph.D. dissertation titled "The theory of Speculation" (1990) included some remarkably expectation of the speculator is zero" and he described this condition as a "fair game". (www.investorhome.com, Feb, 2009)

Random walk theory describes that the previous price changes in return are unless in predicting future price or return changes. Eugene Fama argued that "Random walk theory implies the future path of the price level of a security is no more predictable than the path of a series of cumulated random numbers. The series of price changes has no memory i.e. the past cannot be used to predict the future in any meaningful way. The random walk theory statistically consists of separate assumptions: (i) price changes be independent random variable, (ii) price changes conforms to some probably distribution without specifying the particular shape or form of the distribution. (Fama; 1965: 34) Random walk model says that previous price changes or changes in return are useless in predicting future price or return changes. It means if we attempt to predict future prices in absolute terms using only historical price-change information, we will not be successful i.e., successive price changes are independent. This independence implies that prices at any time will on the average reflect the intrinsic value of the security. If a stock's price deviates from its intrinsic value because, among other things, different investors evaluate the available information differently or have different insights into future prospects of the firm, professional investors and astute non professional will seize upon the short term or random deviations from the intrinsic value, and though their

active buying and selling of the stock in question will force the price back to its equilibrium position. (Fisher and Jordan; 1965: 553)

Proponents of random walk recognize that in general, perfect independence assumption does not exist in real world. So they argue that for practical purpose small degree of dependence does not violate random walk hypothesis as long as it cannot be used to forecast future to earn more than average market return. Random walk model is valid as long as knowledge of the past behavior of the series of price change cannot be used to increase expected gains. (Fama; 1965: 35) Out of two hypothesis of the random walk theory, independence of successive price changes is strong and most important one to make theory valid. The second one is price changes conforms to some probability distribution but its shape or form of distribution need not be specified i.e. any distribution is consistent with the theory as long as it correctly characterizes the process generating the price changes. (Fama; 1965: 36) However the parameter of the distribution should be stationary but not so strongly imposed of independence hypothesis is hold true. However, still academic and research point of view. (Fama; 1965: 41)

Though, the subject of market efficiency has been much concerned area of the study for the academicians and researchers in recent times. The paradox of efficient markets is that if every investors believed a market was efficient, then the market would not be efficient because no one would analyze securities. In effect efficient markets depend on market participants who believe the market is inefficient and trade securities in an attempt to outperform the market. In reality, markets are neither perfectly efficient not completely inefficient. All markets are efficient to a certain extent, some more so than others. Rather than being an issue of black or white, market efficiency is more a matter of shades of gray. In markets with substantial impairments of efficiency, more knowledgeable investors can strive to outperform less knowledgeable ones. Government bond markets for

instance, are considered to be extremely efficient. Most researchers consider large capitalization stocks to also be very efficient, while small capitalization stocks and international stocks are considered by some to be less efficient. Real estate and venture capital, which don't have fluid and continuous markets, are considered to be less efficient because different participants may have varying amounts and quality of information.

Thus we can say Nepalese Security Market is an efficient market in terms of information as well as operations because of the less developed capital market in the world.

ii) Market Prices of Shares as the output of the Demand and Supply Interaction

Stocks and shares mostly traded in the securities market are one of the assets into which money can be invested. The investment further is more attractive to majority of individuals because it is also liquid in character. But what is the most influencing factor in determining the price of the stocks is interaction of demand and supply. (Doodha; 1962: 10) In relation to the interacting forces of demand and supply, Ackerman pines that, "the price of a given stock is determined exclusively by the two forces demand and supply, converting one such stock at a given time that the prices and volumes of its past demand pressure, it is likely to encounter in the market that such relationship is the most important, element determining the probable direction of price movement. (Ackerman; 1980: 10)

These are the short conceptual framework about the theories of stock price behavior.

The share price is determined in the floor by the interaction of market forces i.e. demand and supply. The price is determined by the point of equilibrium between

supply and demand, the shifting of this balance results in incessant adjusting of price in search of the ever-changing new equilibrium. Then market price moves upward and downward. There are many reasons that causes the stock price fluctuation, major of them are economic, non-economic and market factors. One basis for the determination of stock prices is dividends. Dividends are strongly influenced by the earning power of the enterprises. There is a very close correlation between corporate earnings and dividend. Earning power, in turns, is strongly influenced by interest rates. In this way, the most fundamental factor in stock price fluctuations lies in changes in corporate earnings, which together with interest rates and business cycle trends, contribute to making up the economic factors influencing stock price. The next influencing factors are non-economic factors, including changes in political conditions, such as war or administrative changes, changes in the weather and other natural conditions, and changes in cultural conditions, such as technological advance and the like. Market factors, or internal factors of the market, consisting of the tone of the market and supply-demand relations, may be cited as the third category that influences the stock prices. The tone of the market is a form of over-estimating the intrinsic value of stock when stock price is high because of business prosperity while underestimating its value at the time of market decline. The relationships of supply-demand are reflected directly in the volume of transactions, but there is also considerable effect from the actions of institutional investors, margin transactions, etc. although margin transactions increase purchases when stock price is going up, once the price begins to fall they become at selling factor and accelerate price decline. The practice of margin in finance has not been introduced, so far, in Nepal. (Sharma; 1996: 63-64)

Securities market in Nepal is witnessed a sharp growth during the past couples of years. The volume of trading has increased. The size of the market has been widened. The number of investing population has grown up in aggregate. The

tendency of raising capital from general public is rising. Most importantly the market consciousness has been developed so that investors have began to think about risks, return and availability or timely corporate information regarding the investment. The market seems loosing confidence of investors. There is poor liquidity for the stocks. A scarcity of floating stocks prevails in the market. Professionalism is still lacking in the service of investors and investment prevailed, where the primary motive is to derive benefit from short-term price fluctuations. It appears that a very small fraction of transaction represents purchases/sales by genuine investors. The rest are driven mainly by the speculative motive. The corporate sector is still reluctant on disseminating information timely. The kinds of securities trading in the market are confined only to ordinary and preference shares. These are various major problems observed in the market now-a-days. (Sharma; 1996: 65-66)

2.2 Review of HMG/N Policies, Plans, Programs and Regulations

2.2.1 Securities Board Nepal (SEBO)

SEBO was established as an apex regulator of the securities market in Nepal by HMG/N on June 7, 1993, under the Securities Exchange Act, 1983. The main objective of SEBO is to regularize and manage the securities market and protect investors' rights.

As per the securities rules and regulations, following are the major functions of SEBO:

- Frame policies and programmers required in securities market and advice HMG/N in this aspect.
- Register securities and grant issue approval.
- Provide license to corporate bodies to operate stock exchange business.
- Provide license to operate securities businesses.
- Supervise and monitor stock exchange and securities businesspersons.

- Conduct research, study and awareness programmers regarding securities market.

A board composed of seven members including a Chairman governs SEBO. The board has representatives from various institutions of the government as well as private sector. The Chairman of SEBO is appointed by HMG/N for the tenure of four years. Other members of the Board include representatives one each from Ministry of Finance, Ministry of Law, Justice and Parliamentary Affairs, Ministry of Industries, Commerce and Supplies, Nepal Rastra Bank (the Central Bank), Federation of Nepalese Chambers of Commerce and Industries and Nepal Chartered Accountants' Association.

SEBO, in order to implement its policies and programs effectively, has two departments, six divisions and ten sections in its organizations structure. Each department is headed by deputy director and each division by officer. Presently, there are 25 staffs in SEBO. (www.sebonp.com; Feb, 2009)

2.2.2 HMG/N Policies and Programmes

HMG/N after adopting liberalized economic policy has been initiating different programmes for the organized development of securities market. In this context, during the period of Eighth Five Year Plan (1992-1997), some infrastructures regarding the securities market regulation were prepared. In the ninth Five Year Plan period (1997-2002), efforts were made to develop an organized and credible market. While implementing the programmes of Ninth Five Year Plan, HMG?N through the budget speech of 2000/01, announced the programmes to amend Securities Exchange Act, initiate necessary steps to bring wider participation in the stock exchange and make its operation more transparent. Similarly, the budget speech has also included the programme to take legal action against those listed companies, not publishing and submitting their audited financial statements of last

two years. Accordingly, 25 companies were de-listed for not publishing their financial statements and not paying annual listing fees to the stock exchange. However, other programmes like amendment of Securities Exchange Act, Standardizing Stock exchange etc., which were perceived to be more important for the securities market development, could not move ahead concretely.

In the fiscal year 2001/02, HMG/N came with the 10th Five Year Plan (2002-2007), which among others also includes various programmes for securities market development. The objective of the securities market development programme is to increase public ownership in the development projects operated by private sector and promote industries by supplying financial resources through securities as well as increase employment opportunities and fulfill the capital requirements to the development projects operated by HMG/N, government enterprises and municipalities issuing debentures in the securities market thereby reducing foreign loan. To meet these objectives, it has taken the policy of modernizing stock exchange, strengthening the regulatory system of the securities market, widening the participation of the stock exchange and making it dynamic, transparent, credible and investor friendly and developing the securities market as an important sources of long-term financial growth by increasing its depth and breadth. It has incorporated the programmes of making public issue effective, enhancing regulatory capability of SEBO, making the securities trading process standard and credible, creating a state of transferring ownership immediately after transaction, diversifying securities market instruments, attracting institutional investors, protecting investors interest, expanding the securities market services nationwide and improving the compliance and integrity of the market (www.sebonp.com; Feb, 2009)

Securities Market Programmes in 10th Plan (2059-2064)

a) Objectives

- To increase public ownership through shares in the development projects to be operated by private sector and to provide returns of such projects.
- To promote industry and trade by supplying the required financial in competitive cost and to increase employment opportunities.
- To issue bonds through securities market to meet the mid-term and long-ter, financing required by development projects to be operated by HMG/N, government enterprises and municipalities, therby gradually reducing the foreign loan.

b) Quantitative Goals

- To increase number of investors investing in share capital of corporate bodies to at least 3 percent of total population.
- To raise at least Rs.5000 million for the corporate bodies through primary market of securities.
- To increase the amount of securities trading to at least Rs. 10000 million.
- To increase the value of total market capitalization to at least 15 percent of total GDP.
- To list additional 40 corporate bodies in the stock exchange.

c) Strategies

- Modernizing the stock exchange.
- Making thesecurities market regulatory system more effective.

d) Policies and Working Policies

- Modernization of stock exchange (Related to strategy 1).

- To make corporate sector dynamic and broad based and to develop effective and investor friendly role of securities market regulators.
- To increase allocation and operational efficiency of securities markets.
- To make securities market mechanism fully transparent and credible.
- Effective securities market regulatory system (Related to Strategy2).
- To develop and expand securities market as an important source of long-term funds.
- To increase depth and breadth of securities market.

e) Programmes and implementation structure

- Establish one window policy for public issue through SEBO and enhance capability of SEBO.
- Arrange for the immediate ownership transfer of securities
- Develop simplified issue and trading system for the securities of privatized government enterprises.
- Constitute a permanent committee with representation of Ministry of Finance, Nepal Rastra Bank, SEBO and Insurance Board for the coordinated development of healthy and competitive financial market as well as for the development of unified financial regulator in the future.
- Expand securities exchange facilities in the other places of the country considering its feasibility for the savers residing there.
- Develop clear regulatory benchmark of SEBO and NEPSE.
- Make the securities trading process and financial statement of the issuer companies more credible and transparent.
- Implement codes of conduct for securities regulators, employees of stock exchange, directors, managers, auditors and advisors of the corporate bodies and for the securities businesspersons.
- Provide training and education on different aspects of securities market and make institutional arrangement for regular research and study.

- Make provision to take insider trading as a criminal offence so as to control such trading.
- Make necessary legal provision for securities trading through nominee system.
- Make necessary arrangement for SEBO to take membership of International Organization of Securities Commission (IOSCO).
- Privatize NEPSE and develop it as a self-regulatory organization following good governance practices.
- Establish central depository system for immediate ownership transfer of securities and to protect investors from frauds that may occur on securities trading.
- Provide incentives for the promotion of companies having wider ownership and good governance practices.
- Make legal provision to encourage mutual funds, debentures and securitization.
- Make arrangement for the trading government bonds in the stock exchange and provide benchmark and liquidity.
- Develop appropriate legal provision to encourage entry of contractual savings in to capital market as well as develop regulatory system of such instruments under securities jurisdiction.
- Simplify entry and exit process of securities businesspersons by following prudential norms.
- Assist ICAN for the establishment of international accounting system and establish and operate disclosure review system of issuing companies.
- Gradually automate securities trading of NEPSE as per feasibility.
- Expand present centralized floor trading system, establish OTC market and develop trading system that can accommodate trading for local areas.

- Make clearing and settlement system of securities transparent and establish and/or utilize central depository system of securities for clearing and settlement. (www.sebonp.com; Feb, 2009)

2.2.3 Regulation of Nepalese Securities Market

Securities market in Nepal, till the recent past, has all the characteristic of an underdeveloped economy. It was characterized by the absence of professional promoters, underwriting agencies, market intermediaries, organized market, regulatory bodies, and rules and regulations. However, after the restoration of democracy in 1990, a trend towards an organized stock market can be marked with numerous developments in the Nepalese securities market, removing its earlier deficiencies.

A detail legislative code has been adopted by the Government to protect the investors' interests. The Securities Exchange Regulation, 1993, provides for those reforms in stock exchange trading methods and practices. The Regulation ahs added further functions, powers and duties of the Securities Board, Nepal (SEBO). The Regulation has authorized the SEBO for internal housekeeping matter, made provision regarding licensing stock exchange and their subsequent operation, specified requirements for the registration and listing of securities along with authority for the registration of market intermediaries such as brokers, market makers, dealers and issue managers. The regulation, different provisions regarding allowances and benefits as well as duties, powers and functions of chairman of SEBO, funding, accounting and auditing are also specified by the regulation.

The Companies Act, 1997, marks an important stage in the development of corporate enterprises in Nepal. The provisions made under this act especially relevant to the securities market are provisions regarding the issuance and publication of the prospectus, which is necessary for public issue of securities. As

per this provision, the details of the content of prospectus are prescribed and the prospectus is to be approved by the Companies Registrar's Office (CRO). Under this act, different provisions have been make for the establishment of a company (either public or private) and its liquidation, conduction of Annual General Meeting (AGM), incorporation of Memorandum and Articles of Association, issue of shares and debentures, preparation of annual accounts and their audit and the annual report.

Securities Exchange Act, 1983 (Second Amendment) provides reforms in securities market regulating practices. It can be taken as the very important legislation of the securities market. The act has been formulated to systematize and regularize the stock exchange in order to maintain the economic interest of the people. It also contributes to the economic development of the country, to protect the interest of the investors and to increase the participation in the industrial sectors. For this purpose, this act provides legal framework for the securities regulatory system by establishing SEBO as an apex regulatory body. As per this act, SEBO provides license for the operation of stock exchange, registers securities and grants issue approval, supervises and monitors stock exchange and market intermediaries. This act also enables SEBO to issue directives and make by-laws and guidelines and also allow the stock exchange to frame by-laws, Similarly, some provisions have been made regarding inside information and other forbidden activities, however, they are not covered broadly.

In order to manage sales and promotion of securities and make the sales and issue manager accountable for their services, SEBO has issued the Securities Management Guidelines, 1998. This Guideline has been made as per the provision of Section 35 of the Securities Exchange Act, 1983 (Second Amendment). The guideline further specified various provisions regarding disclosure, application for registration of securities, agreement between issue managers and issuing

companies, execution procedures of the sales management and code of conduct to be specified etc. Similarly, Share Allotment Guidelines, 1994 issued by SEBO make the share allotment procedures fair the transparent. The directives were intended to crate broader ownership according to the mass participation policy.

Thus, from the foregoing brief discussion, it is clear that the Securities Exchange Act, 1983 (second amendment) and Securities Exchange Regulation, 1993 set up a general framework for regulating securities market, which has facilitated and encouraged the development of securities market of Nepal.

2.3 Review of Journals and Articles

Nandan Hari Sharma, (1996) in his article, *"Capital Market (A Conceptual View in the Context of Nepal)"* focused on the importance of shareholders awareness and mentioned , capital market is a "Complex of institutions and mechanisms though which the savings of the people are mobilized and placed at the disposal of spending units like central government, state, local bodies, statutory corporations, etc. and business enterprises and individuals to meet their regular and planned development expenditure including that for expansion, diversification and modernization of their existing enterprises or for setting up new ones. Such entities issue financial instruments like securities, shares, debentures, bond, etc., evidencing titles or claims to capital and other resources owned by them, to the persons who place their savings at their disposal.

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

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

One basis for the determination of stock prices is dividends. Dividends are strongly influenced by the earning power of the enterprises. There is a very close correlation between corporate earnings and dividends. Earning power, in turn, is strongly influenced by changing economic trends, which are closely, related to interest rates. In this way, the most fundamental factor in stock price fluctuations lies in changes in corporate earning, which together with interest rates and business cycle trends, contribute to making up the economic factors influencing stock price.

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

Market factors, or internal factors of the market consisting of the tone of the market and supply-demand relations, may be cited as the third category that influences the stock prices. The tone of the market is a phenomenon of excessive expectations which takes the form of over-estimating the intrinsic value of stock when stock price is high because of business prosperity while underestimating its value at the time of market decline.

The relationships of supply-demand are reflected directly in the volume of transaction, but there is also considerable effect form the actions of institutional investors, margin transactions, etc. Although margin transactions increase purchases when stock price is going up, once the price begins to fall they become a selling factor and accelerate price decline. The practice of margin finance has not been introduced, so far, in Nepal.

The stock price fluctuations are influenced by the mixture of a wide variety of factors, centering upon the relational factors of dividends and corporate earning power. Since the Stock Exchange opened in Nepal on January 1994, the price level rose sharply upward. The market index reached up to 265. However, the initial show up could not sustain as the stock prices were supposed to be much beyond the backing of the fundamental of the company.

The buying and selling of securities takes place in the floor of Nepal Stock Exchange Limited. The transactions are carried out only through licensed brokers and market makers. However, brokers cannot transact shares in their own account. Market makers are not allowed to do transaction on behalf of other investors. In the floor, trading is carried out on "Open Outery system". Each broker representative should be present in the floor and participate though written bids and offers. The trading reports are published after the floor is closed.

Securities market in Nepal is witnessed a sharp growth during the past couples of years. The volume of trading has increased. The size of the market has been widened. The number of investing population has grown up in aggregate. The tendency of raising capital from general public is rising. Most importantly the market consciousness has been developed so that investors have began to think about risks, return and availability or timely corporate information regarding the investment.

The market seems loosing confidence of investors. There is poor liquidity of the stocks. A scarcity of floating stocks prevails in the market. Professionalism is still lacking in the service of investors and investment management. A system of preponderance of speculative trading is guessed to be prevailed, where the primary motive is to derive benefit from short term price fluctuations. It appears that a very small fraction of transaction represents purchases/sales by genuine investors. The

rest are driven mainly by information timely. The kinds of securities trading in the market are confined only to ordinary and preference shares. These are various major problems observed in the market now-a-days (Sharma;1996: 63-66).

Capital plays a vital role in the economic development of a country. Being a capital deficient country, Nepal has to make every endeavor to mobilize available capital efficiently. Securities markets provide mobility of the scattered savings. Retail investors with limited capital fund could also participate in the industrial development process of the country though their investment in the securities. However, both individuals and institutions are putting most of their savings into bank deposits and bullion markets because of the present state of the securities market. Thus, long-term savings that should be invested in the securities markets are going into short-term investments. Presently, stock exchange facility is available only in Kathmandu valley. Hence, there is a scope of expanding this facility in other regions of the country. Privatization of public enterprises such as Nepal Telecommunication Corporation, Royal Nepal Airlines and other public enterprises using share sale mode of privatization as announced by HMG/N in the budget speech of FY 2003/04 could provide a huge investment opportunity in the securities markets.

Development of the securities markets depends crucially on the quality of financial information. HMG/N has established Accounting Standards Board and Auditing Standards Board for improving accounting and auditing standards. These Boards have developed some accounting and auditing standards to be implemented in the country. It is expected that the implementation of these standards would improve quality of financial information. Improved financial information would help to make informed investment decisions in the securities markets leading to efficient securities markets in the country.

Nabraj Adhikari (2003) in his article "*Securities Markets in Nepal"* mentioned that the Tenth Five Year Plan (2002-2007) has objectives such as developing and expanding securities market as an important source of long-term funds, increasing the depth and breadth of the market, modernization of the stock exchange etc, regarding the capital market development. Corporate and Financial Governance Project, which presently is in the inception phase of its implementation, has the objectives of strengthening institutional capability of SEBO and CRO, modernizing NEPSE and establishing central depository system of securities. Successful implementation of these plans and projects could bring institutional investors into the market, encourage the creation of new savings vehicles and lead individuals to invest more in corporate debt and equity.

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

In order to curb the fraudulent practices and discourage the dissemination of misleading information in the current share market of Nepal, the regulating authorities must govern the activities in the share market. There should be immediate check on the unfair share trading practices. Wash sales should be discouraged by immediate action. Nepal Stock Exchange can form a watch dog team to investigate on the real existence of a share transaction. The present practice of share trading by mutual consent is a kind of wash sales that should be discouraged as it creates distortion in the price determined by the market forces. Such action helps in avoiding fictitious name created by several different share

brokers in share transaction and also to check on the creating and illusion of rising price.

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

At the same time, the concerned authority has to discourage the practice of churning by the brokers since it helps brokers to transaction to the clients. Moreover, it is a right time for the concerned authorities to develop transparent guidelines to have strict vigilance and control on misuse of insider information. Insiders should be debarred from leaking price sensitive information by imposing heavy penalties and punishment for breach of legal provision.

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

Immediate measures lies in giving attention to shareholders' grievances like timely conduction of annual general meeting improving the quality, standard and coverage of reporting, developing minimum return on investment strategy and encourage to work together with shareholders by management. It is important that

whatever suggestions given by shareholders in annual general meeting should be followed by company management to have better linkage and satisfactory relationship with shareholders. Action plan should be developed with clear cut and transparent strategy to achieve given target rate of return by linking with company's dividend policy. Operational efficiency and profitability of companies should be improved to regain the shareholders' confidence so that they will have automatic demand for shares of companies and thereby raise the share price. Management has to change philosophy of running company affairs that it is only by maximizing shareholders' wealth that it can act as the trusted agent of shareholders' to serve their interest best. Voting by presence should be encouraged to have true representative of shareholders in company's board and voting by proxy device should be discouraged as far as possible.

Investors and shareholders should be self-conscious to protect their rights by demanding timely information from companies. Shareholders can form their committee to work together with management to serve their purpose. This will help in developing understanding between shareholders and company management to tackle the problems by mutual and workshops should be managed by the self-initiation and active involvement of shareholders to draw the attention of the company management and concerned authorities to explore practical ways and means of restoring shareholders' rights and also safeguarding their interest. The existing shareholder organization has to be redefined and revitalized its role in protecting shareholders' rights.

Manohar K. Shrestha (1996), in his article "*Why Share Market Inactive?; Problems and Measures"*, mentioned that in its early start, share market proved highly optimistic within a period of six months due to favorable conditions of better and prospective return by company management, active role of brokers and market makers, relaxation of control on the operations of stock exchange by the

concerned authorities and growing condition of investors. There has been a remarkable rise in NEPSE index. But, later on, there has been a continuous government, poor performance of companies, unfair share market practices and loss of investors' confidence in share market. As a result of these unfavorable developments, share market entered an era of worst bearish trend resulting from tremendous fall in NEPSE index. In order to revive the downtrend in share market, various reformative measures are urgently necessary to curb on unfair share market practices through the development of comprehensive and transparent stock exchange guidelines by the concerned authorities. The existing company management has to reorient its positive attitude towards investors and shareholders by improving the quality of timely reporting and providing the expected return to win the losing confidence of shareholders. Investors should be self-conscious in the selection of brokers for trading in securities and organize themselves to be active to protect their rights. All these will help in the revival of share market to make it more active by attracting the investing public.

Jagdish Agrawal (July 2000), in his article "*Nepal's Capital Market: What it Takes to Improve"*, writes that there are many loopholes in our Stock-Exchange Act. Investors feel insecure here. A few years back there was a company called Nimrod Pharmaceutical Company that floated in shares, but where are they now? Similarly, it has been more than a year that Bansbari Leather age has allotted its shares, but why didn't the company list its shares in the market? It has been three years that Gorakhkali Rubber Udhyog hasn't called for its AGM Government remained silent in all these cases. This is why the general Public as well as the intuitional buyers are not felling secure in investing in stock market.

Investment in share has traditionally been done by rating the institutions on the basis of price earning ratio or dividend. Hardly do investors compare current assets with current liabilities or take a look at the debt equity ratio. Unless

investors begin analyzing the intricate financial details of corporate institutions before making investment decision, the market cannot develop smoothly.

Share investment has traditionally been guided by the investors' returns. Most earnings of investors here have been in the form of dividends rather than capital gains, though high dividend are often seen, in corporate finance theory as a wasteful use of scares capital. With the commercial bank becoming the only potential investment destination, with other stock market participants hardly making profit and even if they did failing to meet investor's expectations, demand for shares of commercial banks outpaced supply and their prices boomed.

Bhaskar Sharma (June 2001) in his article, "*Nepal's Only Secondary Market in Shambles"* writes now the latest slums in the secondary market, despite a pretty good performance by commercial banks, make it more apparent that investment in the past was done on whim. Even officials at the stock exchange and the securities board refute investors' allegations of the market manipulation and insiders' trading of last February discreetly claimed that the Nepalese stock market is in a nascent stage. And that, investment are made more on an impulse, rather than through market study and credit rating.

Share trading scandal formed the headline of major dailies of Nepal a few days ago. The news was that some of the staffs of Nepal Merchant Banking and Finance Ltd. (NMB), the share registrar of Standard Chartered Bank Nepal Ltd., were involved in unauthorized sale of the shares of investors not present in the country. They were also alleged of Cheating such shareholders of their dividend. As a share registrar the company's duties were to update the shareholder's information, distribute the benefits provided by the client company to the latter's shareholders and to verify the signature of the shareholder at the time of ownership transfer of shares. But the staff forged the signatures of the company's

shareholders so as to sell their shares without the knowledge of the shareholders and to claim themselves the dividend allotted to such shareholders. When the scandal was reported by the media, NMB blamed one of its staffs and registered a forgery case in the District Police Office Kathmandu. The accused is still learnt to be in the police custody. As stated in the news, though some other staffs also were involved in this scandal, NMB has registered the case against only one of its staff. Another of the NMB staff accused this scandal is reported to have escaped out of the country.

If such types of scandals, whether they are reported by the media or not, are repeated frequently and no attempts at made or rectify and to punish the guilty, there is no doubt that sooner or later the capital market will loose the investors.

A close study of this case brings the deficiencies of our market to the forefront. The major deficiencies are obviously lack of professionalism among the market participants and lack of interest in compliance. The issuer company cannot escape from its responsibility simply by blaming the registrar. It must satisfy those investors whose shares have been stolen. The share registrars are found to be careless and a question can be raised on their professionalism and honesty. The stockbroker has also made a mistake by executing the shares trading without identifying the client and thus violating the codes of conduct for stockbrokers issued by Securities Board (SEBO), the regulator of the capital market in Nepal. As the code clearly states that the brokers must identify their clients, such scandal could have been avoided had the broker complied with the code. Also the regulators are equally responsible as they are not effectively monitoring the activities of securities business person and taking legal action against their name compliance under the prevailing rules and regulation.

As the capital market of Nepal is still in the infant stage the regulator system and regularize the securities trading still has deficiencies. This leaves scope for anyone to take unfair benefit from the market at the cost of ordinary investors are found to be irrational and concerned with short term gains. In this scenario, we cannot expect perfect behavior from all the market participants. The major problems seen in the system are duality and ambiguities in the regulations, inadequate legal provision to control the market. Lack of adequate market infrastructure, lack of clear demarcation of duties of the regulators, poor corporate culture, lack of professionalism o he market participants, poor compliance and lack of clear legal provision for taking action to address the non-compliance cases.

In its Annual Report for the fiscal year 2001/02, SEBO states that it has made some attempts to address the issues through issuance of guidelines directives and disclosure formats to the market participants, codes of conduct for the stock brokers etc. It has also prepared a draft for the new securities exchange act which was presented to the ministry of finance in 1980 to initiate the necessary legislative process. However, it is still to be enacted by the parliament. Even though SEBO has made attempts to solve the problems, they are still there. It cannot escape of its duty to explain the present state of the market and deficiencies existing in the system. Taking necessary support from the government should take the required step to better coordinate the market participants to develop a healthy capital market in the country. Moreover it is important to discipline the market participants and educate them of their moral duty to comply and make other comply with the prevailing rules and regulation. Only this can create the atmosphere where scandals like this one are not repeated. (New Business Age; April 2003, 44)

Share Marketplace plays a fundamental role in channeling economy of and individual and a corporate region. On that account, it is a prolific zone of a

country's financial system. In other words, share market is an important component of financial sector that provides and facilitates an ordinary exchange of long-term economic allegations. The concept of provincial market has also emerged in the stock exchange. If we can't move with the universal expansion we should at least consider the regional components. Establishing Credit Rating Agency (CRA) and Central Depositary System (CDS) of securities' is another challenge. The ADB has clearly stated in its report that CRA and CDS are essential for the successful operation of the capital market.

Lack of adequate and effective trading mechanism with Nepal Stock Exchange (NEPSE), the only secondary market in the country for securities transaction, is virtually blocking an early issuance of a newer financial instrument into the capital market. Even official at the Securities, Board, the regulatory authority governing the stock market operations in the country conceded that lack of proper set up has prevented new entrants into the financial markets and marred the development of capital markets.

Despite the political turmoil and conflict-hit investment confidence, country's secondary market posted an unpredicted growth in the first quarter of the current fiscal year. The Nepal Stock Exchange's transactions during the review period skyrocketed around 2400 percent, a growth that the Nepse posted for the first time in its 10 years of operation. According to information released by the NEPSE, the total transactions during the period stood at 2.67 billion rupees, up from 110 million in the corresponding period last year.

Mukunda Dhungel, general manager of the NEPSE attributed the bulk share trading of Standard Chartered Bank for the remarkable growth of the Nepse's transactions. "The Nepse witnessed transactions on the bank's shares worth Rs. 2.20 billion during the period," he said.

Ishwori Rimal, president of Securities Brokers' Association said that robust growth at the secondary market is natural at a time when commercial banks, major trading companies at the Nepse floor, are performing excellence.

Ajay Agrawal, a broker at the Nepse said that as the people do not have proper place to put their money, they are attracted toward the stock exchange. "Due to the Maoists revolt, people are hesitating to invest in other sectors. The lower interest rates at commercial banks have also discouraged them to deposit money at banks. As a result the investment flow turned to the share market," he said.

The market capitalization at the Nepse has stood at around 600 million dollars as compared to market capitalization of over 230 billion dollars on the Bombay Stock Exchange, Nepal' neighboring country's stock exchange. The Nepse's market capitalization is 11 percent of the total gross domestic product of the country, which is around 470 billion rupees.

Though the performance of stock exchange was robust, its physical condition is still at the rudiments. Shares are traded manually and automation of stock exchange seems to be a distant dream while regulations with respect to the share trading are like an empty book.

Economists say the rudimentary state of the country's stock exchange that began its operation since 1994 is coming across as a major hurdle to attract potential investors, primarily foreign ones. "In addition to that, as our stock exchange is not at par the international standards, it is failing to reflect the investors' confidence," said they.

Deepak Raj Kafle, Chairman of the Sebo stressed on the need to enact investors in the capital market. "Lack of necessary laws has been stalling the growth of the

capital market, he said. He however, said that enforcement of the securities Act that is awaiting royal seal will help to ameliorate the capital market along with the secondary market

2.4 Thesis Review

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

Dilip Raj Baral, (2003), in his Master's Thesis, *"Stock Price Movement in Nepalese Securities Market"*, has major objective of studying and analyzing the stock price movement in Nepalese securities market and other supporting objectives are as below:

a. To study and analyze the stock price and volume.
b. To study and analyze the rate of newly listed companies and maintenance of already listed companies in NEPSE.
c. To study and analyze the investors views regarding the decision on stock investment.
d. To suggest the findings of the study to the interested parties related to stock investment.
e. To study & examine the signalling factors impact on stock price with the help of NEPSE index.

The major findings of Baral are as follows:

a. Studying the annual trend analysis of Nepalese stock price market, it was found that stock price trend is decreasing from many years as smoothly but from one year price of stock is decreasing as rapidly.
b. On analyzing the price trend of three years NEPSE index in different months (36 months) with the help of monthly trend showed that the price trend of different months of the year 2000 was in increasing trend 2001 in decreasing

trend while that of 2002 was sometimes in increasing and sometimes in decreasing trend. So from this trend analysis we can say there is no relationship of price trend between three successive years.

c. Studying the sector wise monthly trend analysis for one year (Poush 2058 to Mangsir 2059), it was found that unsystematic activities of the Nepalese stock price market. No exports can certainly forecast about the stock price.
d. Volume of stock traded in stock exchange during the study period was found in increasing trend but in last year it was in decreasing trend.

Mr. Baral concluded that even though Nepalese stock market is in the growth stage; it has crossed the initial stage but not reached in the matured stage as defined stock price trend is running unsystematically. Majority of investors of Nepalese stock market price invests their money from the view point of income and investors process and its other factors like NEPSE index price trend and investments facilitators are not doing their work in systematic way.

Kiran Dhamala, (2004), in his Master's Thesis, *"Determinants of Share Price in Nepalese Financial Market"*, has major objective of tracing out the most influential determinants of share price in Nepal. The other supporting objectives of his studies are as follows:

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

The major findings of the research pointed out by Dhamala are as follows:

a. HBL's MPS is negatively correlated with major financial indicators. But it has positive relationship with DPS and DPR respectively.
b. NBL's MPS has positive relationship with EPS and ROE, whereas it has negative relation with other financial variables.
c. NBBL's MPS is positively correlated with EPS, NWPS and DPS which are statistically significant at 1% and 5% levels of significance. Further, MPS is positively correlated with DPR and ROE.
d. NIBL's MPS is reversely correlated with major financial variables. However, MPS and DPS is statistically significant at 1% level of significance.
e. AFCL's MPS has positive correlation with main financial variables except ROE, with which it has negative relationship. But no such relationship is statistically significant.
f. KFL's MPS has positive relationship with major financial variables except DPR and ROE, with which it has opposite relationship. The relationship of MPS with EPS and NWPS is statistically significant at 5% level.

Mr. Dhamala concluded that there is not a single financial indicator that has dominant role to determine MPS. The same financial indicator that has significant role in the fixation of MPS for one company is not significant for another company. 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. If considered on the basis of the average data for the past five years, MPS of ten financial institutions has higher positive correlation with major financial indicators such as EPS, NWPS and DPS, and such relationship is significant.

Aparna Giri, (2005), in her Master's Thesis, *"A Study on Share Price Behaviour of Listed Commercial Banks"*, has the major objective to know the behaviour of share prices in Commercial Banks. The other objectives of her research are:

a. To provide a glimpse of the present Nepalese stock market.
b. To analyze the share price behaviour of the commercial banks listed at Nepal Stock Exchange.
c. To examine the risk involved in the common stock investment of the sample commercial banks.
d. To suggest viable option on the basis of finding.

The major findings of Giri are as follows:

a. Large number of serial correlation of the daily log price changes of ten commercial banks' stocks for the sample period is significantly departed from zero. This depicts that past and present price changes can screen out some valuable information in forecasting future price changes. Thus there exists sufficient opportunity for the sophisticated investors.
b. Because of the persistence in the stock price movements, professional traders either individual or institutional can beat the market. Therefore to make more profit, acute fundamental and other analyses are required which accurately predicts the appearance of the new information in the market, which has impact on the prices than the naïve buy and hold strategy.
c. Common stock of NBBL yields the highest realised rate of return of 76.06% whereas it is negative in case of NBL and NIC stocks. Regarding the total risk, NBBL is the riskiest among all stocks as it consists of highest 142% of the total risk, whereas NIC is recorded as least risky as it contains only 5.03% of the total risk. Similarly, the stocks of BOK and EBL fall into the second and third position in terms of standard deviation.
d. Through the coefficient of variation analysis, it is found that there is highest percent of per unit risk for the stocks of SBI. Due to negative realised

returns, NIC and NBL have negative coefficient of variation. Stocks of NBBL are more aggressive to market changes as revealed by the highest beta coefficient of 3.93.

Giri concluded that the serial correlation coefficients of the daily price changes lead to weakly efficient market hypothesis does not offer a satisfactory explanation to these speculative price series. The independence in the series of the price changes observed implies that the price changes in the future market will not be independent from the price changes of the previous days. It brings about that the information of the past price changes is helping in predicting future price changes. In the meanwhile, the statistical analysis regarding the risk and return of the sampled stocks show that most of these stocks seem to be risky than the average stock.

Prabin Shrestha, (2006) in his Master's Thesis, *"Share Price Behaviour of Commercial Banks listed in NEPSE"*, has major objective of detecting share price behaviour. The other supporting objectives of his research are as follows:

a. To analyze the stock price movement of the NEPSE market.
b. To test the random walk or weak efficient market hypothesis.
c. To test whether the successive price changes are independent or dependent with the price of historical change.

The major findings of Shrestha are as follows:

a. The total numbers of actual and expected runs are statistically significant for most of the equity shares, which implies that their price changes are significantly different from random series. Result of run test also supports the result of autocorrelation. Therefore, today's price change is dependent on the information of yesterday's price.

b. The mean absolute values of the autocorrelation coefficients are lower when the lag days are increases. This means the information of past price changes have little role to predict the future price changes for longer days.
c. Half of the sample companies' share have greater than average value of K (18.87%) difference between actual and expected number of runs, which indicates significant difference between the actual and expected number of runs.
d. Because the persistence hypothesis has been supported by the result of autocorrelation and run test, professional investors either individual or institutional can beat the market. Therefore, to make greater profit than "naïve buy and hold strategy", acute fundamental or other analysis are required which accurately predict the appearance of the new information in the market that affects the price of shares.

After careful analysis of data, Shrestha concluded that the dependence in the series of price changes implies that the price changes in the future will be dependent with the historical price. Thus, the information of historical price is helpful to predict future prices of the shares. Another conclusion drawn from the opinion based survey with share brokers and individual investors is that the share price movements are caused by flow of several kinds of information in the market. The respondents of the survey slightly accepted the existence of weak form of efficient market hypothesis in Nepalese stock market.

Nischal Regmi, (2006), in his Master's Thesis, *"Role of Financial Indicators in Determining Share Price in Nepalese Financial Market"*, has the major objective of determining role of financial indicators in share price. The other supporting objectives of his research are:

a. To examine and evaluate the relationship of MPS with various financial indicators like NWPS, EPS, DPS, ROE, etc.

b. To analyze the market trends of MPS with various financial indicators like EPS, NWPS, DPS, ROE, etc.
c. To find out whether stocks of the sampled companies are equilibrium priced of not.
d. To identify qualitative factors affecting the stock price.

The major findings of Regmi are as follows:

a. NABIL's MPS is positively correlated with all financial indicators but these values are not statistically significant at either 5% or 10% level of significance.
b. NIBL's MPS has negative correlation with all financial indicators.
c. For all other banks, the correlation coefficients of MPS with other financial indicators are both positive and negative. These values are statistically significant at either 5% or 10% level of significance.
d. Relationship with all financial indicators of MPS for NFCL is positively correlated and the relationship is statistically significant at 5% level of confidence with EPS and at 10% level of confidence with NWPS and DPS.
e. For other Finance Companies, the correlation coefficient of MPS with other financial indicators, are both positively and negatively correlated and the relationship is statistically significant for KFL and UFCML and for others it is insignificant.

Mr. Regmi concluded that MPS of NABIL, NFCL and ACE is positively correlated with all the financial indicators studies. Similarly, MPS of BOK, KFL, UFCML and HISEF is positively correlated with most of the financial indicators studied. For other company like NIBL, MPS is negatively correlated with all of the financial indicators studied, and for SBI, MPS is negatively correlated for most of the financial indicators. The relationship is statistically significant for some of the financial indicators for some of the companies. The market price of share in

Nepal is not indicative of a Company's financial performance in the stock market. The share market is imperfect and is not efficient and is liable to manipulation.

Shanker Devkota, (2008) in his Master's Thesis, *"Stock Price Determinants in Nepal Stock Exchange"*, has a major objective of identifying the prime determining factor of share price fluctuation of Nepalese Commercial Banks. The other supporting objectives of his research are:

a. To examine and evaluate the relationship between MPS with the various financial indicators like EPS, BPS, DPS etc.
b. To analyze the market trends of MPS with financial indicators.
c. To conduct the opinion survey of potential investors regarding various aspects of share behaviours in Nepal.

The major findings of Devkota are as follows:

a. DPS of BOK is much volatile in comparison to MPS, BPS and EPS. Bank of Kathmandu has positive correlation with between their Market price per share and DPS, BPS and EPS. This indicates that they directly affect the Share Price of BOK.
b. BPS and EPS are positively correlated in the case of Everest Bank Limited whereas DPS is negatively correlated. This indicates that increase in DPS of this Bank don't contribute on the increase of Share Price rather it decreases it. But increase in BPS and EPS increase the share price and vice versa. DPS is much volatile in comparison with MPS, BPS and EPS.
c. The correlation between MPS and other indicators are found to be insignificant for most of Banks. It shows that they individually influence very less but jointly they influence a lot. There can be other factors which influence the share price of the organisation.
d. Dividend pattern plays a great role on share price movement. Higher the DPS, more will be the Share Price. Most of the investors like to analyse the Dividend pattern of the company before they invest in their shares.

Mr. Devkota concluded that due to the inadequate knowledge regarding the share market among Nepalese investors, capital market of Nepal has not been well developed yet. The investors generally tend to earn profit from share and they think that EPS and DPS are prime factor to be analysed and to be considered on investing their savings on Share Price. Most investors are unknown to laws and policies regarding share market. Poor rules and regulations as well as ineffective regularity mechanism of market makers are the problems of Nepalese Capital Market. Finally, EPS and DPS are the major influencer of the Share Price. Besides this, political situation, annual general meeting, assets structure and capital structure of the organisation also influence the share price of the company.

Research Gap

Since the above mentioned studies on share price behavior in Nepal offer limited findings. Therefore, more extensive testing measures, more close time period (in most of the study data taken as weekly or monthly basis which is not real representation of the market) and adjustment of necessary variables are needed in order to be more conclusive about the efficiency of Nepalese stock market. Aryal's study has now become old since it was based on eight months of time period covering from starting day of the organized stock market. Moreover, the companies included in the sample were randomly selected and did not fulfill any criteria. Similarly, Shrestha's study was based on thirty randomly selected sample stocks. The study was confined to initial stage of the organized market without adjusting required variables.

Most of the studies on share price behavior conducted in the context of Nepal were based on secondary sources of information only. No study has been conducted on price behavior related to stock market efficiency by using share brokers and individual investors as primary sources of information. There was a need to conduct a survey with the share brokers and individual investors who are the major stakeholders of the stock market, in order to find out more subjective facts

on share price behavior which cannot be tested through the use of the secondary source of information.

The earlier studies were based on randomly selected sample stocks while this present study is based on fully paid up and actively traded equity shares related to commercial banks. During the study period, there were 236 working days in NEPSE where all of the sample stocks have traded at least 200 plus days. Moreover, the earlier studies were conducted when the organized stock market was at the initial stage without adjusting necessary information, while this present study is based on the data after eleven years of establishment of organized stock market i.e. NEPSE which adjusted necessary information in the price series of the stocks. Thus, the earlier studies on share price behavior needed to be updated and validated because of the many charges taking place in the stock market in Nepal. This study is an effort to attempt in this direction.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

Human nature is always curious to learn, understand or investigate the phenomenon raising the questions like why, how, what etc. The knowledge has something to do with knowing. Knowing may be through acquaintance or though the description of the characteristics of certain things. The things with which we can be acquainted are the things of which we directly aware. Direct awareness may come though perception and sensation.

Research is essentially a systematic inquiry seeking facts through objective verifiable methods in order to discover the relationship among them and to deduce from them broad principles or laws. It is really a method of critical redefining problems formulating hypothesis or suggested solution. Collecting, organizing and evaluating data, making deductions and making conclusions to determine whether they fit the formulated hypothesis. Thus the term "Research" refers to a critical, careful and exhaustive investigation or inquiry or examination or experimentation having as its aim the revision of accepted conclusion, in the light of newly discovered facts.

This research methodology chapter includes design, nature of data, data gathering procedure, population and data procession procedures.

3.2 Research Design

A research design is a plan for the collection and analysis of data. It present a series of guide posts to enable the researcher to progress in the right direction in order to achieve the goal.

Research design includes secondary data as well as primary sources of data as per the study needed. The research design was followed with exploratory and analytical approach.

3.3 Population and Sample

All the companies listed in the stock exchange were considered as the total population. Out of them, 6 companies that were in existence and doing share transaction in NEPSE were considered as the sample for the study. The companies were categorized into eight groups as done by the stock exchange.

A total of 135 companies were listed but numbers of transacting companies are valued from 67 to 116 from the year 1996/97 to 2006/07. The table below clearly describes total population and sample.

Table 3.1

Total Population and Sample

S.N	Types of the Listed Companies	Total Population	Sample Considered	Sample Companies
1.	Commercial Banks	15	2	HBL , NIBL
2.	Manufacturing and Processing	29	-	
3.	Trading	8	-	
4.	Finance	50	2	NFCL,KFCL
5.	Insurance	15	2	EICL, SICL
6.	Hotel	4	-	
7.	Others	6	-	
8.	Development Banks	8	-	
	Total	**135**	**6**	

Source: Trading Report NEPSE, 2008

3.4 Data Gathering Procedure

As the study was based on primary as well as secondary data information's are collected by annual report published by Nepal Stock Exchange Limited (NEPSE) and Security Exchange Board of Nepal (SEBON) for secondary data collection process. Similarly, for the investors, brokers, NEPSE staffs and other related parties of stock market.

To get reliable information, discussions were also conducted with investors, NEPSE staff and other related parties with NEPSE.

3.5 Data Processing Procedure

Data collected from secondary sources were analyzed by using statistical tools like monthly trend analysis, bar diagram and correlation coefficient analysis. Data collected from questionnaires were in raw from. They were classified and tabulated in the required from. Sample arithmetic percentage tools were used for analysis. Major findings were based on the analysis and interpretation of data.

3.6 Statistical Procedure

Simple percentages were used as an arithmetical tool to interpret data. Paired t-test was used as statistical tool to test null hypotheses. For the test of hypothesis 10 NEPSE index before the data are as follows:

i) Karl Person's Coefficient of Correlation

It is statistical tool for measuring the intensity or magnitude of linear relationship between the two variables series Karl Pearson's measure, known as Personian correlation coefficient between two variables (series) X and Y, usually denoted by 'r(X,Y)' or simply

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

where,

n = number of observations in series X and Y.

ΣX= sum of observations in series X.

ΣY= sum of observations in series Y

ΣX^2=sum of square observationin series X.

ΣY^2= sum of square obesrvations in series Y

ΣXY= sum of the product of obervations in series X and Y.

The value of 'correlation coefficient 'r' lies between –1 to 1, i.e. $-1 \leq r \geq 1$.

If r = 1, there is perfect positive relationship.

If r = -1, there is perfect negative relationship.

If r = 0, there is no correlation at all.

ii) Probable Error (P.E) of correlation coefficient

Probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the computed value of the correlation coefficient, 'r'. The probable error (P.E.) is defined by:

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

Where,

r = correlation coefficient.

n = number of pairs of observations.

If r < P.E. (r) the value of 'r' is not significant no matter how high r value is i.e. there is no evidence of correlation between the variables.

If r> 6P.E. the value of r is significant. i.e. correlation is significant.

Run Test

Run test is a non- parametric test which can be defined as a sequence of consecutive price change of the same sign followed and preceded by price changes of other sign. There exist three types of price changes in a series i.e. positive, negative and no-change. Therefore there are three types of runs. Hence, a run of length I of any sign can be defined as sequence of I consecutive price changes of the same sign followed and preceded by any other signs of price changes. Run Test is performed to examine whether the actual number of runs confirmed to the expected number of runs. If the observed run and the expected number of runs are not significantly differing from each other, then it is concluded that the independence assumption of the successive price changes is uphold. Run analysis ignores the magnitude of changes and observes only direction of changes in a given time series.

Run Test for Randomness

A run is defined as a succession of identical symbols. The total number of runs in any given size sample indicates whether the sample is random or not. Very few runs would be an indication of a pattern or a trend. Too many runs would also cast doubt about the randomness of the sample. For example, in an experiment of 10 tosses of a coin if we got the sequences such as HHHHH, TTTTT, making 2 runs or on the other hand if we got HTHTHTHTHT, which is 10 runs, then both these outcomes would not be considered as random.

The concept of (+) or (-) also gives us the direction of change an established standard. For example, if we wanted to know whether the stock market increases

or decreases are random in nature, or whether there is a trend or a pattern, this direction could give us a very good idea. Let us assume that for given 10 consecutive months, the stock market index was increasing every month compared to the previous month, so that a trend would be established in that there would be only 1run consisting of 10 (+s). Accordingly, a (+) would be considered a change from an established value in one direction and a (-) would be considered a change in the other direction.

Now, if the samples are small in size, so that n_1 and n_2 are less than or equal to 20 each, then we can test the null hypothesis that the occurrences of pluses and minuses are random by comparing our value of (r) with the critical value of (r) given in the appropriate tables at a pre-determined level of significance. If there were too few runs and the value of r is small, the null hypothesis would be rejected. Similarly, if there were too many runs and the value of r is large, the null hypothesis would be rejected. Hence the value of r must be compared with two table values of less than as well as more than the critical values of (r). If the calculated value of 'r' lies between the two tabulated critical values of 'r' i.e. I_1 and I_2 then null hypothesis is accepted.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

Data presentation and analysis is the one of the important part of the research work. In this section the study tires to find out the proof from the mathematical calculation for the theoretical statement. Once the study is complete successful to prove the statement, if would, of course, be the concrete & substantial.

The basic objective of this chapter is to analyze and elucidate the collected data following the conversion of unprocessed data to and understandable presentation. Thus, this chapter presents the analysis and interpretation of the data related to stocks prices' NEPSE market index, volume of shares traded, etc.

As stated earlier in the methodology section, this study consists of both primary as well as secondary data. Secondary data have been collected particularly from monthly and annual trading report of Nepal Stock Exchange. Similarly, data collected from primary sources (interview and questionnaire method) have been analyzed under the heading of opinions survey that helps to garner information on investment behaviors of investors. However primary data collection does not fully satisfy the need of research work on this topic. As a consequence, the study has utterly relied on the secondary source of data. Data collected from the secondary sources are also tested with sophisticated statistical tools. Data presentation and analysis reveals performance of securities during the year 2005/06 to 2006/07.

The main purpose of this chapter is to examine the piece trend of different joint stock company with the help of NEPSE index. The study also aims to analyze the number of stock traded during eight years of period of different joint stock companies. In the same way the study try to check the impact of signaling effect on fluctuation of stock price with the help of different major events during the year 05/06 to 06/07. Similarly the study also focuses on the study that the listing rate of different corporate bodies in Nepal stock Exchange (NEPSE). The study also wants to explore investors attitude by taking primary data with field survey filled by different parties interested with sock market is considered.

Price is the major element in the stock market analysis. For analyzing stock market behavior the price trend can be used. By seeing the NEPSE index trend one can conclude its nature in different aspects, e.g. trend of price in different period.

Similarly the number of stock traded is also traded is also accounted for seeing pattern of volume traded in stock market. In other hand, the rate of listing new joint stock companies in Nepal Stock Exchange (NEPSE) is another important factor to see the growth of joint sock companies in the development of Nepalese stock market. Analysis has been classified to generalize the facts of the information.

Finally, this chapter contains, analyzes the investment attitudes of investors in the stock exchange, effect of signaling factor on NEPSE index with the help of hypothesis test etc.

4.2 Presentation and Analysis of Secondary Data Analysis

This section provides interpretation and analysis of secondary data. Thus this section id exclusively devoted for the analysis of common stocks of different companies through price trends, signaling factors impact on NEPSE index with the

help of NEPSE index provided by Nepal Stock Exchange Center, volume of stock traded, Rate of listing of New Companies in Secondary Market and maintenance of them in NEPSE is considered. For doing such h presentation statistical tools such as correlation coefficients analysis, bar diagram, pie chart, t-statistics are used.

4.2.1 Number of Companies Delisted from the Stock Exchange

According to Stock Exchange Act, 1983 there is provision of delisting the companies which are not able to disclose the documents regarding annual general meeting, audit report, and unable to pay the annual fees of listing in NEPSE up to two years can be deleted from NEPSE. Due to these very provisions NEPSE has deleted 25 companies from its list in the fiscal year 2001/02 that's why the number of listed companies in 2001/02 was only 96 from 115 in the fiscal year 2000/2001. NEPSE has started such type of activities for the first time in its history. In fiscal year 2003/04 NEPSE has deleted 1 company i.e. Nepal Bank Limited. It has also deleted 12 companies in the fiscal year 2006/07.

4.2.2 Statistical Analysis

Under this sub-unit statistical tools trend analysis including graphical analysis, bar diagrams and hypotheses test are done for analysis.

4.2.3 NEPSE Index

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

The index is taken as a measuring tool whether the performance of stock market is good or not. This clearly focuses on the price of stocks that is increasing or decreasing in the market. Because the prices of stocks go up and down in a

particular period compared to the previous period as disclosed by index. The highest index suggests the increase in market price of the stocks and implies the better performance of companies and vice-versa. Thus the NEPSE index shows the behavior of stock prices in the capital market.

The computation formula for price index is as follows:

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

$$P_{01} = \frac{\sum P_1 x Q_1}{\sum P_0 x Q_0} x100$$

Where,

P_{01} = NEPSE Price Index

P_1 = Today's Stock Price

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

Q_0 = Base Listed Shares.

Table 4.1

NEPSE INDEX

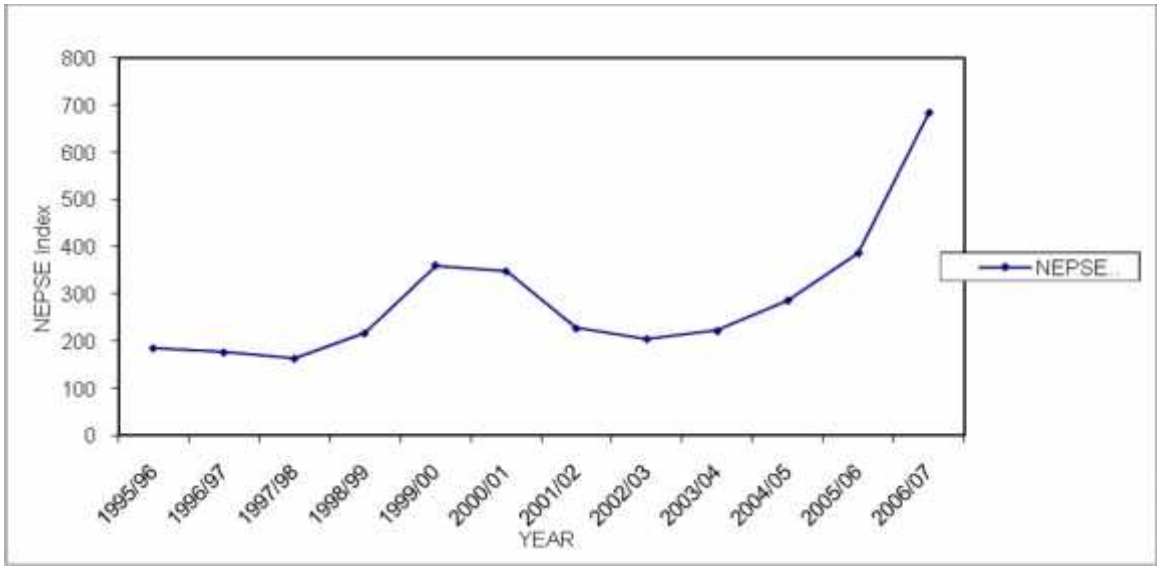
Fiscal Year	NEPSE Index	% Change in Index
1995/96	185.61	-
1996/97	176.31	-5.01
1997/98	163.35	-7.35
1998/99	216.92	32.79
1999/00	360.70	66.28
2000/01	348.43	-3.40
2001/02	227.54	-34.70
2002/03	204.86	-9.97
2003/04	222.04	8.39
2004/05	286.67	29.11
2005/06	386.83	34.94
2006/07	683.95	76.81

Source: Trading Reports, NEPSE, 2008

The NEPSE index was highest in the year 2006/07 with 683.95 and it was lowest in the year 1997/98 by 163.35 points. The NEPSE index for the fiscal year 2006/07 is 683.95 which is much highest than 386.83 of the previous year 2005/06.

Figure 4.1

NEPSE Index



4.2.4 Monthly Trend Analysis

One of the suitable techniques for analyzing price trend is monthly trend analysis. For this purpose NEPSE Index of two years are taken during the different months of year 2005 and 2007. Tabular as well as Graphical measures are considered for presenting and analyzing the data in table 4.2 as follows:

Table 4.2

NEPSE Index (closing) of different months of the year 2062/63 (2005/06)

Months	NEPSE Index	Months	NEPSE Index	Months	NEPSE Index	Months	NEPSE Index
Shrawan	300.05	Kartik	302.39	Magh	317.69	Baisakh	385.89
Bhadra	293.35	Mangsir	303.12	Falgun	339.79	Jestha	372.01
Ashwin	297.34	Poush	305.50	Chaitra	334.77	Ashad	386.83

Source: Trading Reports NEPSE, 2005/06

The above table shows the NEPSE index from Shrawan to Ashad 2062/63. Taking base month as Shrawan, NEPSE index shows the increasing trend from the month of Bhadra till Falgun 2062.Thereafter it slightly decreased in month of Chaitra and it again increased in the month of Baisakh 2063. From the investment point of view, increasing trend is better than decreasing trend. In lumpsum, NEPSE index represent the increasing trend all over the fiscal year 2062/63.

Figure 4.2

NEPSE Index

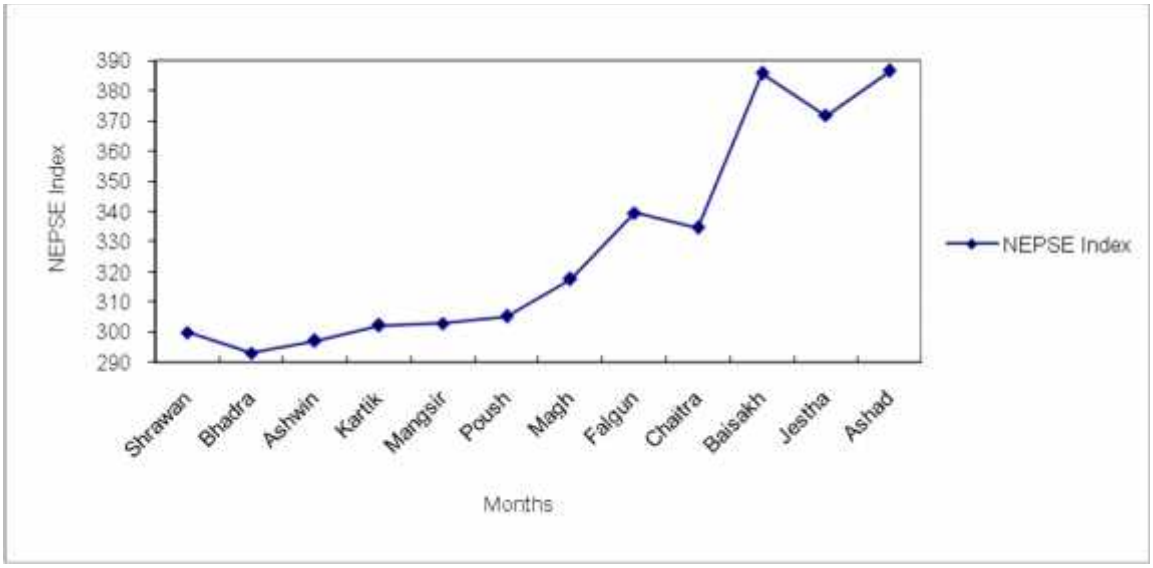


Table 4.3

NEPSE Index (closing) of different months of the year 2063/64 (2006/07)

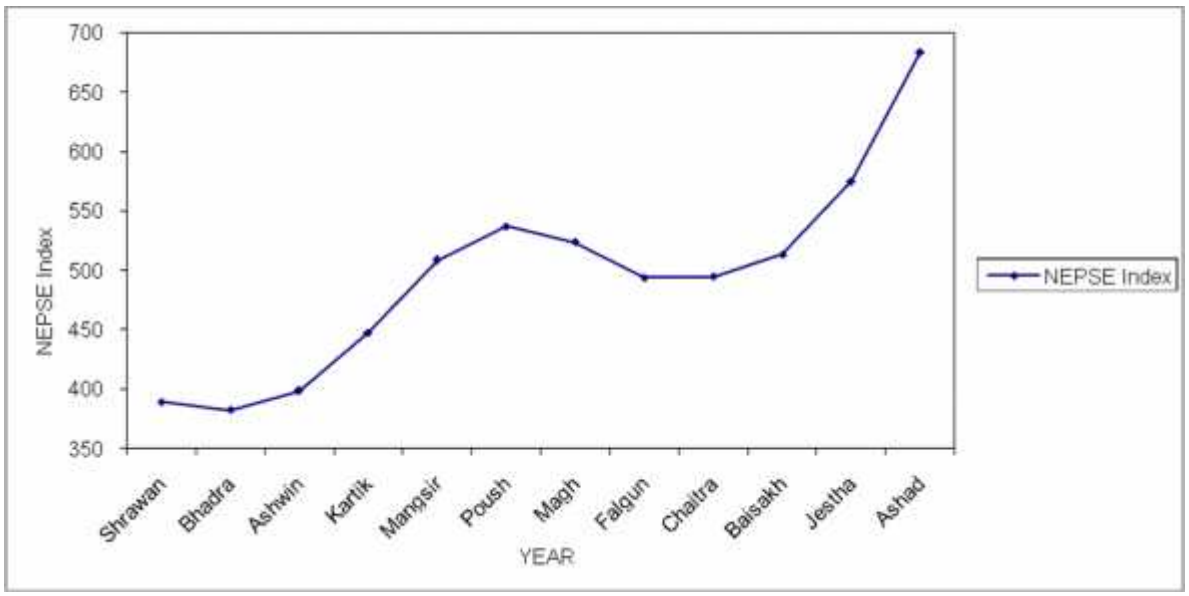
Months	NEPSE Index	Months	NEPSE Index	Months	NEPSE Index	Months	NEPSE Index
Shrawan	389.23	Kartik	447.43	Magh	523.94	Baisakh	513.45
Bhadra	382.56	Mangsir	508.58	Falgun	494.06	Jestha	575.04
Ashwin	398.44	Poush	537.09	Chaitra	494.59	Ashad	683.95

Source: Trading Report NEPSE, 2006/07

The table 4.3 shows the NEPSE index from Shrawan to Ashad 2063/64. Taking base month as Shrawan, NEPSE index shows the increasing trend from the month of Bhadra till Poush 2063.Thereafter it slightly decreased till the month of Falgun which remain somewhat constant in the month of Chaitra as well. After the month of Chaitra, it rises significantly till the month of Ashad 2064. From the investment point of view, increasing trend is better than decreasing trend. In lumpsum, NEPSE index represent the increasing trend all over the fiscal year 2063/64.

Figure 4.3

NEPSE Index



4.2.5 Annual Trend Analysis

One of the suitable techniques for analyzing price trend is annual trend analysis. For this purpose NEPSE Index of eleven years are taken during the different years from 1996/97 to 2006/07. Tabular as well as Graphical measures are considered for presenting and analyzing the data in table-6 as follows:

Table 4.4

Annual trend analysis from fiscal year 1996/97 to 2006/07

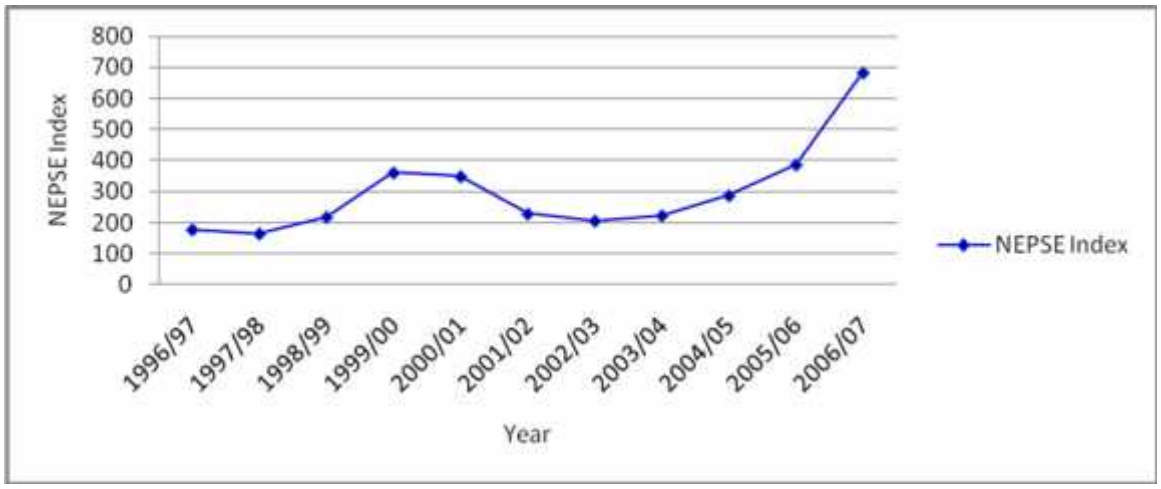
Year	NEPSE Index	Year	NEPSE Index
1996/97	176.31	2002/03	204.86
1997/98	163.35	2003/04	222.04
1998/99	216.92	2004/05	286.67
1999/00	360.70	2005/06	386.83
2000/01	348.43	2006/07	683.95
2001/02	227.54		

Source: Trading Reports, NEPSE, 2008

The above table shows that price during the different fiscal years are not constant. Taking base year as 1996/97, it showed that the price trend from the fiscal year 1996/97 to 1997/98 is in decreasing trend. From 1997/98 to 1999/00 it is in increasing trend and thereafter it is in decreasing trend again till 2002/03.Thereafter it is in increasing trend till 2006/07 with a steep rise in the year 2006/07. The table and graph shows that there are ups and downs in NEPSE index or in price trend in different years from the fiscal year 1996/97 to 2006/07.

Figure 4.4

NEPSE Index



4.2.6 The Numbers of Listed Companies in Stock Exchange

The table 4.5 shows the number of listed companies in Nepal Stock Exchange (NEPSE) Ltd. from the fiscal year 1996/97 to 2006/07. The table clearly shows that the no. of listed company is increasing in every fiscal year except 2001/2002 because of the non-disclosure of necessary information correctly and timely. The numbers of listed companies in NEPSE are 135 in fiscal year 2005/06 which remains same in the fiscal year 2006/07 as well.

Table 4.5

Number of listed companies in NEPSE

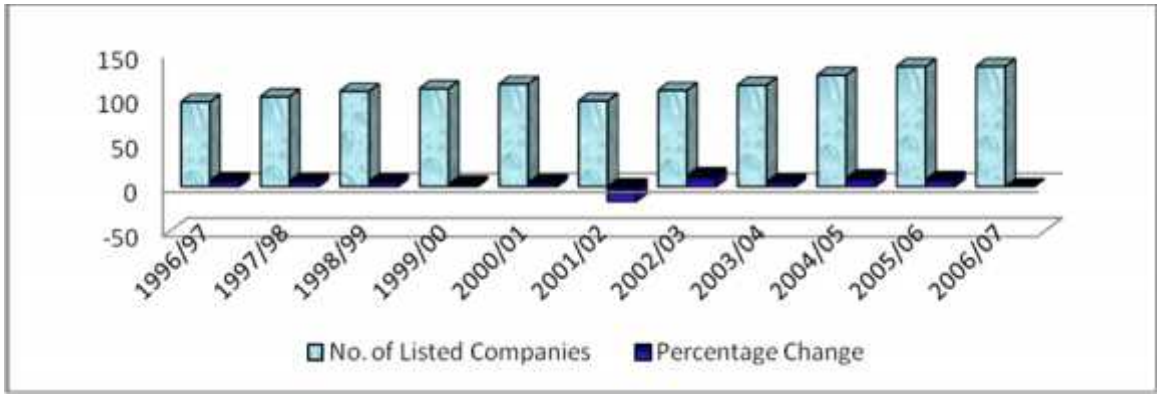
Fiscal Year	No. of Listed Companies	Percentage(%) increasing/decreasing
1996/97	95	6.74
1997/98	101	6.31
1998/99	107	5.94
1999/00	110	2.80
2000/01	115	4.55
2001/02	96	-16.52
2002/03	108	12.5
2003/04	114	5.56
2004/05	125	9.65
2005/06	135	8.00
2006/07	135	0.00

Source: Annual Reports, NEPSE, 2008

The table 4.5 shows that the number of listed companies increased from 95 in the fiscal year 1996/97 to 135 in the fiscal year 2006/07. The percentage change in the no. of listed companies ranged from -16.52% in the fiscal year 2001/02 to 12.50% in the fiscal year 2002/03.

Figure 4.5

Number of Listed Companies



Number of Transacted Companies and Volume of Stock Traded

Even though the number of listed new companies is in increasing trend, the no. of transacting companies is not in satisfactory increasing trend. Table 4.6 shows that the volume of stock traded is in decreasing trend in the second year and for third year it is increased in some extent but from 2004/05 it increased in great extent. Similarly volume of transacting companies is in negligible increasing trend.

Table 4.6

Number of Transacted companies and volume of Stock Traded

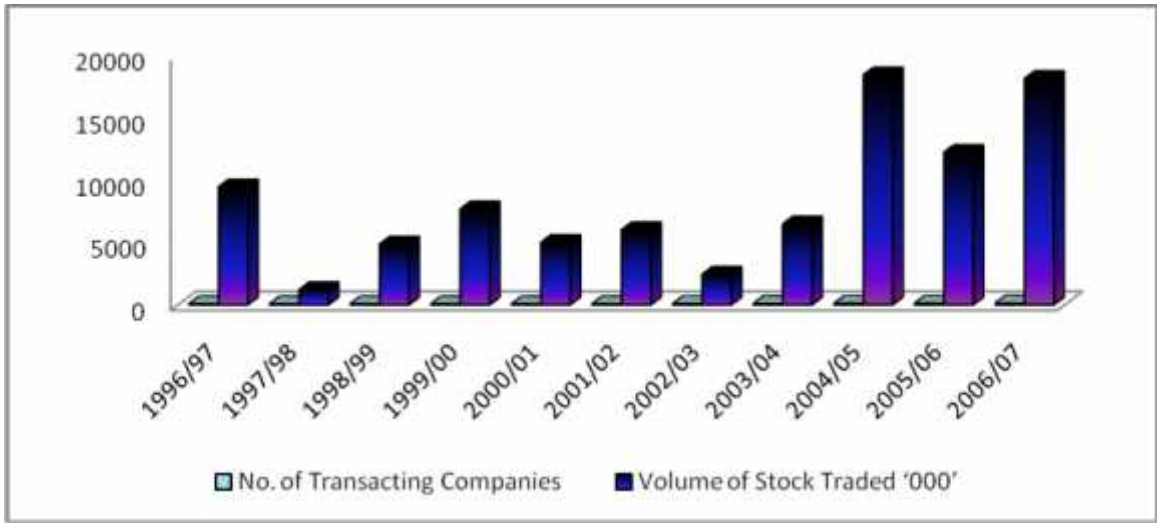
Fiscal Year	No. of Transacting Companies	Volume of Stock Traded '000'
1996/97	67	9443
1997/98	68	1195
1998/99	69	4857

1999/00	69	7674
2000/01	67	4989
2001/02	69	6005
2002/03	80	2428
2003/04	92	6468
2004/05	102	18433
2005/06	110	12221
2006/07	116	18147

Source: Annual Reports, NEPSE, 2008

Figure 4.6

No. of Transacted Companies and Volume of Stock Traded



4.2.7 Paid-up Value of Listed Companies

The paid-up values of share of listed companies as per the annual report of NEPSE in fiscal year 2006/07 are summarized below according to sector-wise.

Table 4.7

Paid up value of Listed Companies (2006/07)

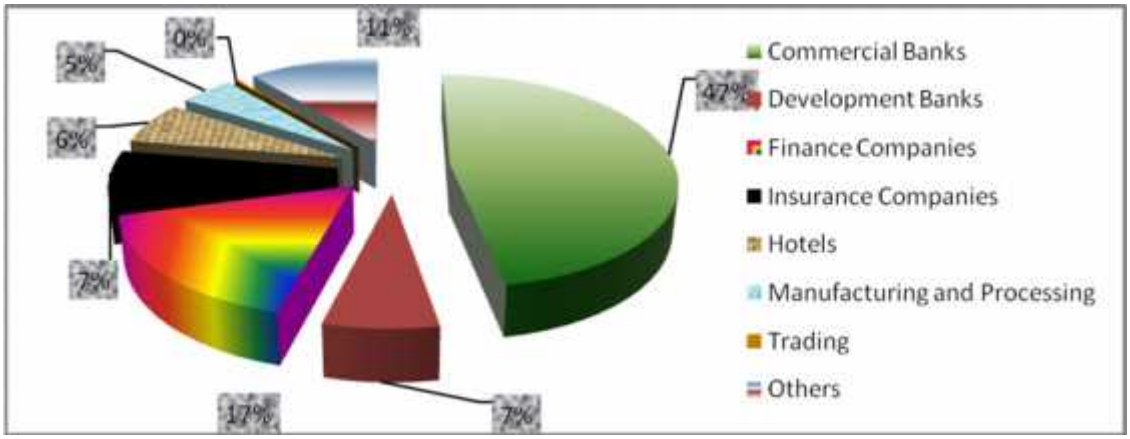
S.N.	Sector	Paid-up (Rs. In million)	Percentage
1.	Commercial Banks	9772.93	47.19
2.	Development Banks	1419.74	6.85
3.	Finance Companies	3482.18	16.81
4.	Insurance Companies	1411.70	6.82
5.	Hotels	1331.96	6.43
6.	Manufacturing and Processing	954.75	4.61
7.	Trading	54.13	0.26
8.	Others	2283.98	11.03
	Total	**20711.37**	**100**

Source: Annual Reports, NEPSE, 2008

Above table clearly showed that the paid-up value of listed securities in the end of this fiscal year was Rs.20.71 Billion as compared to the paid-up value of Rs.18.83 billion in the previous year 2005/06. The commercial banks have highest paid up value and whereas trading companies have the lowest paid-up value. It showed that the performance of commercial banks were better than others.

Figure 4.7

Paid-up Value of Listed Companies



4.2.8 Market Capitalization of Listed Companies

The market capitalization of listed companies as per the annual report of NEPSE in fiscal year 2006/07 is presented in the table 4.8.

Table 4.8

Market Capitalization of Listed Companies (2006/07)

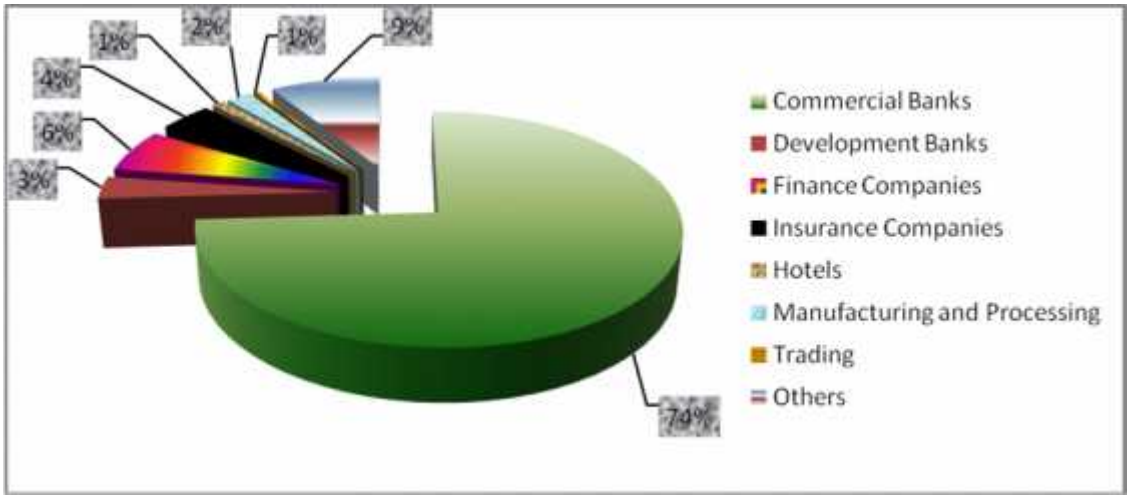
S.N.	Sector	Paid-up (in Million)	Percentage
1.	Commercial Banks	138086.43	74.04
2.	Development Banks	5980.80	3.21
3.	Finance Companies	11491.40	6.16
4.	Insurance Companies	7959.78	4.27
5.	Hotels	1935.59	1.04
6.	Manufacturing and Processing	3760.28	2.02
7.	Trading	787.40	0.42
8.	Others	16503.02	8.85
	Total	**186504.7**	**100.00**

Source: Annual Report NEPSE, 2006/07

The market capitalization value of listed securities in the end of this fiscal year is Rs.186.50 billion. The market capitalization value was Rs. 96.76 billion and 61.36 billion in the last two year 2005/06 and 2004/05 respectively.

Figure 4.8

Market Capitalization of Listed Companies



4.2.9 Closing Market Prices of Selected Companies

i) Closing Market Prices of Selected Commercial Banks

The closing market price of the selected banks i.e. Himalayan Banks Limited and Nepal Investment Bank Limited are presented in the tabular and graphical form as follows:

Table 4.9

Closing Market Prices of Selected Banks

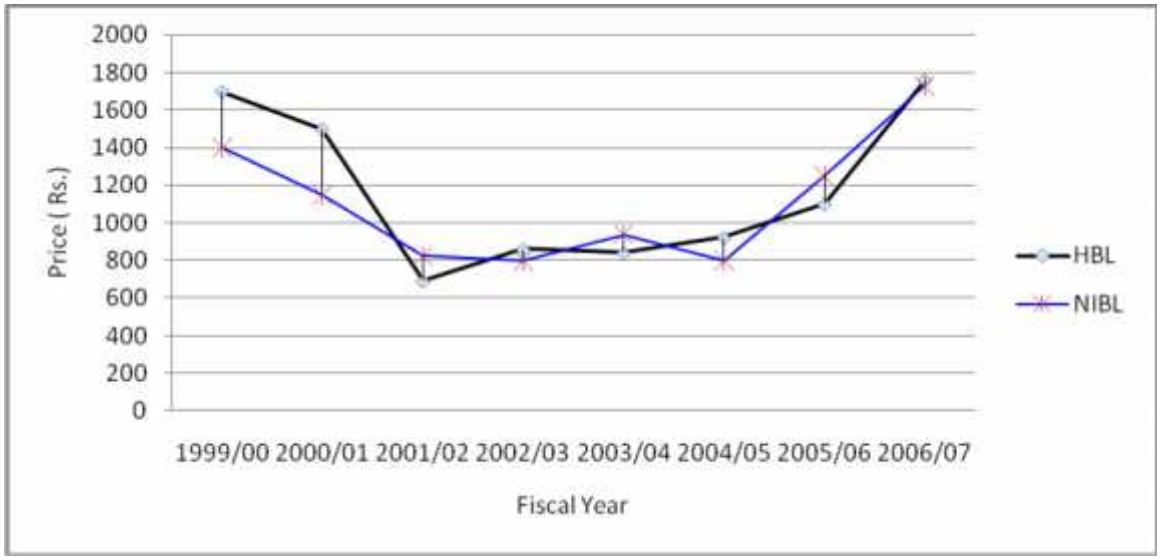
Fiscal Year	HBL in (Rs.)	NIBL in (Rs.)
1999/00	1700	1401
2000/01	1500	1150
2001/02	690	825
2002/03	859	800
2003/04	840	940
2004/05	920	800
2005/06	1100	1250
2006/07	1760	1729

Source: Annual Reports, NEPSE, 2008

From the above table, it can be concluded that the market price of both bank was in decreasing order from the fiscal year 1999/00 to 2001/02. The market price of the Himalayan Bank Limited was poorly decreased in the fiscal year 2001/02 it means the lowest market price of HBL was in the year 2001/02. And the lowest price of NIBL was in the fiscal year 2002/03 and 2004/05 whereas the highest market price of both HBL and NIBL was in the year 2006/07 with somewhat same market price.

Figure 4.9

Market Price of Selected Banks



ii) Closing market Price of Selected Finance Companies

The closing market price of the selected finance companies i.e. National Finance Company Limited and Kathmandu Finance Company Limited are presented in the tabular and graphical form as follows:

Table 4.10

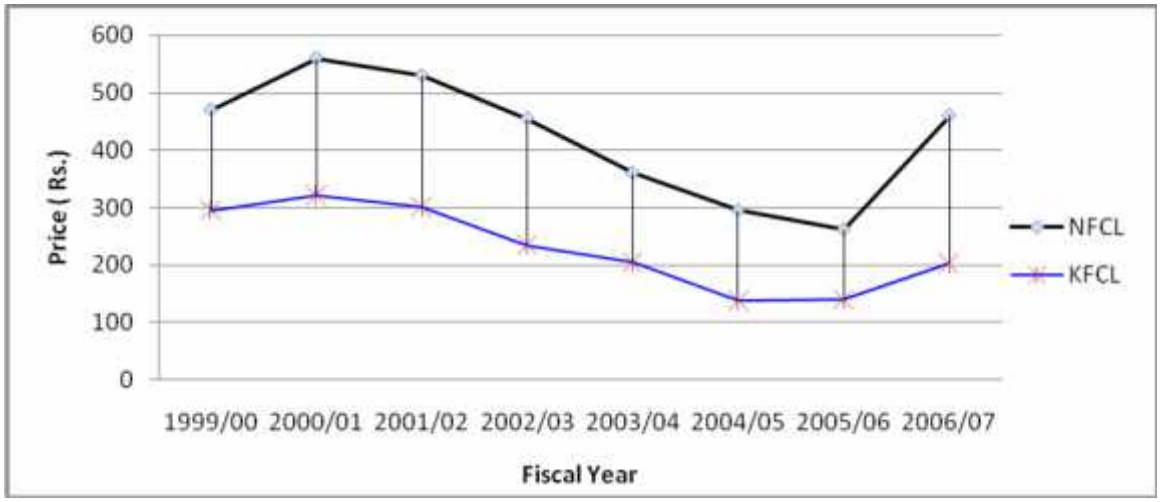
Closing Market Price of Selected Finance Companies

Fiscal Year	NFCL in (Rs.)	KFCL in (Rs.)
1999/00	470	295
2000/01	560	321
2001/02	530	300
2002/03	455	235
2003/04	360	205
2004/05	295	138
2005/06	262	140
2006/07	460	203

From the above table, it can be concluded that the market prices of both finance companies were in decreasing order from the fiscal year 2001/02 till the fiscal year 2005/06. But in this fiscal year 2006/07, it increases to some extent with steep increases shown in NFCL.

Figure 4.10

Market Price of Selected Finance Companies



iii) Closing Market Price of Selected Insurance Companies

The closing market price of the selected Insurance companies i.e. Everest Insurance Company Limited and Sagarmatha Insurance Company Limited are presented in the tabular and graphical form as follows:

Table 4.11

Closing Market Price of Selected Insurance Companies

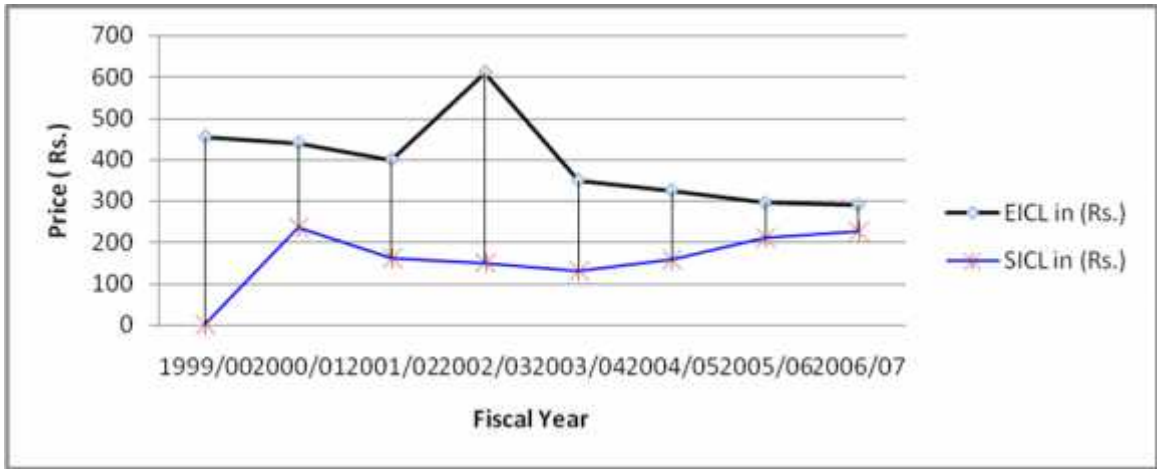
Fiscal Year	EICL in (Rs.)	SICL in (Rs.)
1999/00	455	-
2000/01	440	236
2001/02	400	162
2002/03	610	150
2003/04	350	131
2004/05	325	158
2005/06	295	210
2006/07	290	227
Total	**3165**	**1274**

Source: Annual Reports, NEPSE, 2008

From the above table, it can be concluded that the market price of Everest Insurance Company was in fluctuating trend but the market price of Sagarmatha Insurance Company was in decreasing order till 2003/04 thereafter it slightly increased.

Figure 4.11

Market Price of Selected Insurance Companies



4.2.10 Correlation Coefficient Analysis

i) Correlation Coefficient Analysis Between EPS and DPS

The Correlation coefficient between EPS and DPS of the selected companies are as follows:

Table 4.12

Correlation Coefficient of Selected Companies (EPS and DPS)

S.N	Name of the Company	Correlation Coefficient (r)	Probable Error (PE)	Test of Significant
1.	Himalayan Bank Ltd.	0.96	0.02	Significant
2.	Nepal Investment Bank Ltd	0.64	0.15	Insignificant
3.	National Finance Co. Ltd	0.46	0.20	Insignificant
4.	Kathmandu Finance Co. Ltd	0.55	0.17	Insignificant
5.	Everest Insurance Co. Ltd	0.39	0.22	Insignificant
6.	Sagarmatha Insurance Co. Ltd	0.74	0.12	Significant

Source: Annex III

Above table showed that the correlation coefficient between EPS and DPS. The calculated correlation coefficient of all selected companies showed that there is positive relation between their EPS and DPS. When tested the correlation coefficient with probable error the result of all selected companies are insignificant except HBL and SICL because the value of r is less than 6 times P.E whereas in case of HBL and SICL, the value of r is greater than 6 times P.E.

ii) Correlation Coefficient Analysis Between EPS and NWPS

The correlation coefficient between EPS and NWPS of the selected companies are as follows:

Table 4.13

Correlation Coefficient of Selected Companies (EPS and NWPS)

S.N.	Name of the Company	Correlation Coefficient (r)	Probable Error (PE)	Test of Significant
1.	Himalayan Bank Ltd.	0.39	0.22	Insignificant
2.	Nepal Investment Bank Ltd.	0.076	0.25	Insignificant
3.	National Finance Co. Ltd.	0.50	0.19	Insignificant
4.	Kathmandu Finance Co. Ltd.	0.49	0.19	Insignificant
5.	Everest Insurance Co. Ltd.	0.76	0.11	Significant
6.	Sagarmatha Insurance Co. Ltd.	0.92	0.04	Significant

Source: Annex IV

Above table showed that the correlation coefficient between EPS and NWPS. The calculated correlation coefficient of all selected companies showed that there is positive relation between their EPS and NWPS. When tested the correlation coefficient with probable error the result of HBL, NIBL, NFCL, KFCL are insignificant because the value of r is less than 6 times P.E. while EICL and SICL is significant because the value of r is greater than P.E.

4.2.11 Run test for Randomness

The simple run test for randomness is used whether the movement of market price of sample taken is random or not. For this purpose, the tests have been done individually to each bank, finance and insurance company taking the month wise closing market price of the fiscal year 2006/07. The below run tests are based on the table of critical values of ‘r’.

Table 4.14

Run Test for HBL

Month	Market Price	Sign	Runs
Shrawan	1100	+	1
Bhadra	1045	-	2
Aswin	1102	+	
Kartik	1262	+	3
Marga	1300	+	
Paush	1210	-	
Magh	1150	-	4
Falgun	1020	-	
Chaitra	1100	+	
Baisakh	1190	+	5
Jestha	1360	+	
Ashad	1760	+	

H_O : The market price movement of HBL is random.

H1: The market price movement of HBL is not random.

Here,

n_1(number of +ve signs)=8

n_2(number of –ve signs)=4

Number of runs (r) =5

At α=0.05, we can test whether the market price movements is random or not. At the critical value of 'r' for n_1=8 and n_2=4 from the 'r' tables, the critical values of 'r' i.e. I_1 is 3 and I_2 is 11. Since the value of 'r' lies in between 3 and 11 i.e. 5, the null hypothesis is accepted i.e. the market price movement of HBL is random.

Table 4.15

Run Test for NIBL

Month	Market Price	Sign	Runs
Shrawan	1275	+	1
Bhadra	1270	-	2
Aswin	1456	+	3
Kartik	1120	-	4
Marga	1280	+	5
Paush	1270	-	
Magh	1245	-	6
Falgun	1095	-	
Chaitra	1100	+	
Baisakh	1170	+	7
Jestha	1475	+	
Ashad	1729	+	

H_O : The market price movement of NIBL is random.

H1: The market price movement of NIBL is not random.

Here,

n_1(number of +ve signs)=7

n_2(number of –ve signs)=5

Number of runs (r) =7

At α=0.05, we can test whether the market price movements is random or not. At the critical value of 'r' for n_1=7 and n_2=5 from the 'r' tables, the critical values of 'r' i.e. I_1 is 3 and I_2 is 11. Since the value of 'r' lies in between 3 and 11 i.e. 7, the null hypothesis is accepted i.e. the market price movement of NIBL is random.

Table 4.16

Run Test for NFCL

Month	Market Price	Sign	Runs
Shrawan	263	+	
Bhadra	280	+	1
Aswin	304	+	
Kartik	300	-	2
Marga	300	0	
Paush	300	0	
Magh	305	+	
Falgun	340	+	
Chaitra	352	+	
Baisakh	355	+	3
Jestha	455	+	
Ashad	460	+	

H_O : The market price movement of NFCL is random.

H1: The market price movement of NFCL is not random.

Here,

n_1(number of +ve signs)=9

n_2(number of –ve signs)=1

Number of runs (r) =3

At α=0.05, we can test whether the market price movements is random or not. At the critical value of 'r' for n_1=9 and n_2=1 from the 'r' tables, the critical values of 'r' i.e. I_1 is 2 and I_2 is 13. Since the value of 'r' lies in between 2 and 13 i.e. 3, the null hypothesis is accepted i.e. the market price movement of NFCL is random.

Table 4.17

Run Test for KFCL

Month	Market Price	Sign	Runs
Shrawan	140	+	
Bhadra	147	+	1
Aswin	150	+	
Kartik	165	+	
Marga	165	0	
Paush	175	+	2
Magh	175	0	
Falgun	175	0	
Chaitra	175	0	
Baisakh	177	+	
Jestha	195	+	3
Ashad	203	+	

H_O : The market price movement of KFCL is random.

H1: The market price movement of KFCL is not random.

Here,

n_1(number of +ve signs)=8

n_2(number of –ve signs)=0

Number of runs (r) =3

At α=0.05, we can test whether the market price movements is random or not. At the critical value of 'r' for n_1=8 and n_2=0 from the 'r' tables, the critical values of 'r' i.e. I_1 is 2 and I_2 is 11. Since the value of 'r' lies in between 2 and 11 i.e. 3, the null hypothesis is accepted i.e. the market price movement of KFCL is random.

Table 4.18

Run Test for EICL

Month	Market Price	Sign	Runs
Shrawan	295	+	1
Bhadra	295	0	
Aswin	295	0	
Kartik	295	0	
Marga	281	-	2
Paush	291	+	
Magh	301	+	3
Falgun	305	+	
Chaitra	290	-	4
Baisakh	290	0	
Jestha	290	0	
Ashad	290	0	

H_O : The market price movement of EICL is random.

H1: The market price movement of EICL is not random.

Here,

n_1(number of +ve signs)=4

n_2(number of –ve signs)=2

Number of runs (r) =4

At α=0.05, we can test whether the market price movements is random or not. At the critical value of 'r' for n_1=4 and n_2=2 from the 'r' tables, the critical values of 'r' i.e. I_1 is 2 and I_2 is 9. Since the value of 'r' lies in between 2 and 9 i.e. 4, the null hypothesis is accepted i.e. the market price movement of EICL is random.

Table 4.19

Run Test for SICL

Month	Market Price	Sign	Runs
Shrawan	210	+	1
Bhadra	210	0	
Aswin	210	0	
Kartik	200	-	2
Marga	200	0	
Paush	201	+	3
Magh	200	-	4
Falgun	223	+	5
Chaitra	223	0	
Baisakh	223	0	
Jestha	225	+	6
Ashad	227	+	

H_O : The market price movement of SICL is random.

H1: The market price movement of SICL is not random.

Here,

n_1(number of +ve signs) = 5

n_2(number of –ve signs) = 2

Number of runs (r) = 6

At α=0.05, we can test whether the market price movements is random or not. At the critical value of 'r' for n_1=5 and n_2=2 from the 'r' tables, the critical values of 'r' i.e. I_1 is 2 and I_2 is 9. Since the value of 'r' lies in between 2 and 9 i.e. 6, the null hypothesis is accepted i.e. the market price movement of SICL is random.

4.3 Presentation and Analysis of Primary Data

ANNEX-I reveals important information as to outlook of investment decision of investors. In the course of availing first hand data to justify the study on the topic primarily, interviews and questionnaire methods have been made applicable.

4.3.1 Interview with Experts

While taking interview with senior officials of NEPSE, within the periphery of investors awareness about investment decision, it was learnt that the reason behind frequently swing in the market price of shares is due to lack of institutional investors who can properly analyze and study the market trends before making their investment decisions. According to the officials, Nepalese stock market is dominated by retailing investors come forward to act in bullish trend. They emphasized that stability cannot be fully achieved unless rational and institutional investors come forward to participate in the secondary market. However, they agreed the fact that lately the investors have become more sensitive and professional at least in comparison to investors in 1993 and1994, when market was at the nascent stage. At the time of interview, the question has been asked about which method of analysis do you adopt? Most of the exports replied that they used technical as well as fundamental analysis method of stock price behavior.

While conducting the informal discussion with many investors in the stock market, claimed that though they made investment decision after analyzing shares, they got less than the expected return from investment. They accused brokers and NEPSE officials of joining hands for price manipulation. They also shared the experience of sharp wealth devaluation in the past days. It was learnt that unprecedented swings in the Nepal Stock Exchange Market index caused uproar among investors.

In this way, it was seen in the Nepalese Stock Exchange, investors and officials were at loggerheads' over the cases of stock market slack, blaming each other or the volatility of stock prices. Thought, they have different theories to offer over the price fluctuations, the effort to improve the domestic stock market should be done from all quarters.

4.3.2 Questionnaire Analysis

Another measure applied to garner information relevant to the topic is questionnaire method. A number of questions were put up by means of so copies of questionnaire.

Categorically, the questions raised through this means were of three types namely, Yes/No Questions, Multiple Choice Questions and Open- End Questions. The questionnaire so collected is thus related to find out the opinion of investors on investment action for trading shares though secondary market. Their responses have been analyzed as follows;

i) Sector of Investment Analysis

Regarding the sector of investment the investors are asked in which sector they are interested to invest. The responses achieved from them are presented in the following table 4.20.

Table 4.20

Sector-wise Preference for Investment

S.N.	Research Variable	No. of Investors	% of Investors
1.	Bank/Finance	25	50%
2.	Manufacturing & Processing	10	20%
3.	Trading	8	16%
4.	Other	7	14%
Total		**50**	**100%**

Source: Field Survey, 2008

The table shows that 50 % of the investors are interested with banking sector, 20% of them are interested with manufacturing and processing, 16% wanted to invest in trading sector and remaining 14% wanted to invest in other area. From the table 4.20 it is clear that most of the investors i.e. 50% of them are attracting by banking/finance sectors.

ii) Investors' Awareness Analysis

To investigate whether investors are aware about the Nepalese stock market, the query was raised. The responses obtained from them are presented in the following table 4.21.

Table 4.21

Investors' Awareness on the Stock Market

S.N.	Research Variable	No. of Investors	% of Investors
1.	Yes	8	16%
2.	No	32	64%
3.	Don't Know	7	14%
4.	No Response	3	6%
	Total	**50**	**100%**

Source: Field Survey, 2008

The above table shows that 64% said that they are not aware, only 16% replied that they are aware about this. Remaining 14% don't know about this and 6%

shows no response at all. Regarding the awareness most of the investors said that they were not familiar with stock markets, brokers, trading mechanism.

iii) Factors Influencing Analysis

Various factors affect either positively or negatively to the stock price. So to examine which factor influences most to the share price of Nepalese Listed Companies, the respondents were asked on this. The responses obtained are presented in the table 4.22.

Table 4.22

Influencing Factors on the Stock Market Price

S.N.	Research Variable	No. of Investors	% of Investors
1.	Company's Profit	8	16%
2.	Company's Performance	1.	20%
3.	Company's Board of Directors	2	4%
4.	Company's Dividend	14	28%
5.	Signaling Factor	11	22%
6.	Above All	5	10%
	Total	**50**	**100%**

Source: Field Survey, 2008

On this query different broker, individual investors, institutional investors and NEPSE staffs gave different views on their own ideas. 16% of them gave their views as company's profits as the influencing factor, 20% gave theirs views as company's performance, 4% said as company's board of directors, 28% said as company's dividend, 22% said as signaling factors and rest 10% said as above all.

iv) Decision Making Analysis

To investigate on which basis does the decision on share investment in certain company of investors relied on, the respondents where given list of options to choose. The responses obtained are presented in Table 4.23.

Table 4.23

Basis of Decision Making on Secondary Market

S.N.	Research Variable	No. of Investors	% of Investors
1.	Family Advice	2	4%
2.	Rumor	-	-
3.	Own Analysis	20	40%
4.	Market Price	28	56%
	Total	**50**	**100%**

Source: Field Survey, 2008

Regarding the decision to invest in shares in the secondary market, different respondents (brokers, individual investors, institutional investors, NEPSE staffs and others) replied as so no body said that he/she takes the decision on the basis of family advice and rumors, 40% of the investors replied that theirs basis of decision making is own analysis, 56% investors replied that theirs basis of decision making is own analysis, 56% investors replied that their basis of decision making is market price and only 4% of the investors replied that their basis of decision is family advice.

v) Investors' Satisfaction Analysis

Regarding the question whether the investors are satisfied or not with their investment, the inquiry was made. The responses obtained from the respondents are presented in Table 4.24.

Table 4.24

Data Regarding Investors' Satisfaction

S.N.	Research Variable	No. of Investors	% of Investors
1.	Yes	10	20%
2.	No	30	60%
3.	Don't Know	8	16%
4.	No Response	2	4%
	Total	**50**	**100%**

Source: Field Survey, 2008

The above table shows that 60% of the respondents replied that they are not satisfied. Only 20% of the respondents replied that they are satisfied. 16% of the respondents replied that they are unknown about this fact and remaining 4% shows no response at all.

vi) Investors' Difficulties Analysis

The problems facing by the investor in share transaction are hindering the stock growth of Nepal. So, to examine whether the investors are facing the difficulties or not, the respondents were asked. The answers obtained from them are presented in Table 4.25.

Table 4.25

Views of Difficulties Faced by Investors

S.N.	Research Variable	No. of Investors	% of Investors
1.	Yes	32	64%
2.	No	12	24%
3.	Don't Know	6	12%
4.	No Response	-	-
	Total	**50**	**100%**

Source: Field Survey, 2008

Regarding the difficulties such as for purchasing and selling shares by most of the investors in stock market majority of them i.e. 64% were replied that they were facing the problem, 24% of them replied they were not facing such type of problem and remaining 12% said that they don't know about that.

vii) Government Policy Analysis

To examine whether the government policy is transparent and clear, the respondents were asked on this matter. The responses obtained are depicted in Table 4.26.

Table 4.26

Government Policy Analysis on the Stock Market

S.N.	Research Variable	No. of Investors	% of Investors
1.	Yes	40	80%
2.	No	7	14%
3.	Don't Know	3	6%
	Total	**50**	**100%**

Source: Field Survey, 2008

The table 4.26 shows that 80% of the respondents replied that government policy of stock market is not clear and perfect, 14% of the respondent replied that government policy of stock market is clear and perfect but 6% of the respondent replied that they are unknown the policy of government in the stock market.

viii) Participation in Company's Management Analysis

To examine the interest of respondents to enter in the company's management, the respondents were asked on this matter. The responses obtained from them are delineated in the Table 4.27.

Table 4.27

Participation on Company's Management

S.N.	Research Variable	No. of Investors	% of Investors
1.	Yes	28	56%
2.	No	10	20%
3.	Don't Know	6	12%
4.	No Response	6	12%
	Total	**50**	**100%**

Source: Field Survey, 2008

The above table 4.27 shows that 56% of the responses replied in positive way, 20% replied that they didn't want to be elected, 12% gave no idea and remaining 12% showed no response.

ix) Environment Analysis

To detect whether environmental factors affect the stock market of Nepal, the respondents were asked to express their view. The opinions obtained from them are presented in the Table 4.28.

Table 4.28

Opinion of Environmental effects

S.N.	Research Variable	No. of Investors	% of Investors.
1.	Political Environment	8	16%
2.	Economic Environment	8	16%
3.	Socio-cultural Environment	4	8%
4.	Technological Environment	5	10%
5.	International Environment	7	14%
6.	Above All	18	36%
	Total	**50**	**100%**

Source: Field Survey, 2008

About the environmental factors that effect the Nepalese stock market or not, different individual investors, institutional investors, brokers, NEPSE staffs and others gave their own idea about this, among them, 16% respondents replied that the political environment effect the Nepalese stock market, 16% respondents replied that economic environment effect the Nepalese stock market, 8% replied that socio-cultural environment effect the Nepalese stock market,10% replied that technological environment effect the Nepalese stock market, 14% replied that international environment effect the Nepalese stock market and 36% replied that all environmental factors effect the Nepalese stock market.

x) Trend Analysis

To know the type of trend that is suitable in Nepal's stock market, the respondents were asked to express their view. The different opinions obtained from them are depicted in Table 4.29.

Table 4.29

Suitable Trend of Stock Price Movement

S.N.	Research Variable	No. of Investors	% of Investors
1.	Bullish Trend	38	76%
2.	Bearish Trend	-	-
3.	Optimum Trend	6	12%
4.	None of Above	`6	12%
	Total	**50**	**100%**

Source: Field Survey, 2008

Regarding the suitability trend of stock price movement, different investors, NEPSE staffs and brokers gave the different opinion about the trend on which 76% gave their opinion about bullish trend, 12% gave their opinion about optimum trend and 12% gave their opinion about none of the above trend.

xi) Causes of Holding the Shares

To know the real causes behind which investors are driven to hold shares of listed companies, the respondents were asked to express their view. The opinions obtained are presented in Table 4.30.

Table 4.30

Causes of Holding the Shares of Company

S.N.	Research Variable	No. of Investors	% of Investors
1.	Social Status	12	24%
2.	Income	20	40%
3.	Marketing	10	20%
4.	Above All	8	16%
	Total	**50**	**100%**

Source: Field Survey, 2008

Different parties were asked for their interest on investment motives if they were interested with dividend, social status and marketing and above all, 24% of the

investors said as social status, 40% of the investors said as income, 20% of the investors said as marketing and 16% of the investors as above all.

xii) Investors' Open- End Analysis

Only two open-end questions are asked to the investors under the study to take their opinions on the important aspect of secondary market. Thus, in relation to the narrative question number 12 and 13 on ANNEX I, only 65% questions were duly filled out of 100 questionnaire papers. The cores of issues of the responses are discussed as below:

So far as investors' experience on investment problem is concerned, it was found quite astonishing. Some key experiences, which are considered to be worthy, are cited here. Some investors express their views that due to non-transparent operation and delay in and disseminating the information regarding company's financial status and shares they were in dilemma whether to purchase or sell the shares. Similarly, other blamed that brokers in the secondary market did not provide proper advices to the clients. As a result, they have to bear losses while trading the stocks. The brokers purchase the shares for their clients on an "execution-only basis" and do not take responsibility for their quality of advises they offer. Therefore, according to them, brokers perform the function in the capital market not for investors' sake but only for reaping their commissions form investors. While some other stated that due to lack of computer aided technology for analyzing the security and very few numbers of security analyst or firms involved in forecasting market trends and future price of shares, they feel difficulty to take right investment decisions on right time. Likewise, it was acknowledged that some of the investors were reluctant to make further investment in the secondary market since they had bitter experience for making transfer of ownership of shares in the register of shareholder was time consuming. According to them, completion of transfer process almost took about three to four

months, so they felt their interest was not protected. That's why, all of the respondents who faced this type of problem laid emphasis to think twice whether or not to investment in shares through secondary markets.

In this way, a fraction of investors seemed to be apprehensive to sell the shares of that company which they bought from primary market. It is so because; Securities Exchange Act 1983 has laid down the provision of compulsory listing of securities before trading on the stock exchange. The shares they possessed are not listed at in the Nepal Stock Exchange (NEPSE). Thus, their perplexity sounds like appropriate.

The views expressed over the solution of trading problems as well as improvement of the confidence of investors to invest in secondary market were more or less similar to one another. All of them laid priority on the access to information so as to know the financial strength of company as well market trend of securities.

Frequently fluctuation of stock market prices, lower quality of professional services and delay in procedures for making transfer of ownership of shares have caused a great loss to the confidence of investors. Similarly, the settlements of traded shares were not carried out within the given duration. Among other things, some suggested to enshrine special provisions in the act to protect the right of security holders. So for the Acts, making the provision only from the side of company management has enacted i.e.; Company Act and Stock Exchange Act. Instead, the companies themselves are violating the provisions laid down in the Acts from time to time.

Moreover, some prominent suggestions, the investors prescribed to include the confidences of investors for investing in the secondary market are as follows:

- The stock exchange should carry out periodic research and analysis and make public the findings, which they believed would help them to make better investment decision.
- The securities Board, an apex body for monitoring and regulating the Nepalese Stock Market Regulatory regimes up to international standards.
- Current manual method of securities trading should be substituted by computer-based technology, which enhances the pace of trading activities.
- Investors should be provided with investment guidelines.
- The role of market players in the stock market should made effective in promoting the capital market on the country.

4.4 Major Findings of the Study

- The number of listed companies increased in each fiscal year except in the fiscal year 2001/02, when 25 companies were delisted from NEPSE Index.
- The calculated value of correlation coefficient showed that there is positive correlation coefficient between EPS & DPS of all sampled companies. However, there is highest positive correlation coefficient of +0.96 in Himalayan Bank Ltd.
- The closing market price of Himalyan Bank Ltd. (Rs. 1760) is higher than Everest Bank Ltd. (Rs. 1729), NFCL (Rs. 460) is higher than KFCL (Rs.203) and EICL (Rs. 290) is higher than SICL (Rs. 227).
- The market price movement of the selected sample companies is found to be random.
- Lack of awareness in the investors is major problem in Nepalese security market.

- Both paid up value and market capitalization of commercial banks are higher than the other companies listed in NEPSE.
- The annual trend analysis showed that the price trend in NEPSE Index is in fluctuating trend. The price was highest (360.70) in the fiscal year 1999/00 and lowest (163.35) in the fiscal year 1997/98. The monthly trend analysis of two fiscal year 2006/07 and 2005/06 shows that the price is highest in Ashad month.
- The primary data analysis shows that half of the respondents (50%) gave preference to banking sector for investment. Similarly, the majority of the respondents (64%) are not fully familiar with the stock markets mechanism. Also, company's dividend pattern (28%) is most fascinating factor of investment.
- The majority of the respondents (56%) made investment decision on the basis of market price of share. Similarly, the majority (60%) are not satisfied with the earning they got from the investment decision and 64% are facing difficulties in share transactions.
- 80% of the respondents are in the view that the government policy for stock market is clear and perfect. Likewise, 56% of the respondents are interest to be elected to the company's management.
- 36% of the respondents said that all viz, political, economic, socio-cultural, technological and international environment are responsible to fluctuate the stock market.
- 76% of the respondents affirmed that the bullish trend is suitable for Nepalese security market. Similarly, 40% opined that income is the main motive that driven the investors to invest in share.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The last chapter of the thesis presents the summary, conclusion and recommendations. Summary refers the short form of whole study, conclusion draw from the analysis and recommendation suggests the improving to test the causes of stock price behavior in Nepalese stock market. Generally, study is related with the price of secondary stock market. There are no any price behaviors in the primary stock market but there are high price behaviors in the secondary stock market. Due to exchange process were possible by only brokers and market makers. The various statistical tools and financial tools were adopted as test methodology.

5.1 Summary

Securities market refers the buying and selling price of the stock, bond share and debt. Capital market is the backbone of any economy, and Nepal is not an exception. Under the capital market, stock market behavior has played the vital role to pull and push the proper economy balance of the country. So by promoting the stock market in sizeable economic sector gives raises the economic development by mobilizing swing into productive sectors by making suitable investment environment. Different elements like price trend of NEPSE index, volume of stock traded, rate of listing, paid up value and market capitalization, closing market price of sampled companies, correlation coefficient analysis, run tests for randomness and signaling factors, have been analyzed.

The main objective of the present research was to examine and study the price trend, with the help of NEPSE index, volume of stock traded, rate of listing of new companies on stock exchange and maintenance of them, analyze the paid up value and market capitalization, impact of signaling factors on NEPSE index, to find out

the correlation coefficient between sampled companies, run tests for randomness and analyze the closing market prices of sampled companies. These are the important factors for stock market to analyze the behavior of stock market prices.

According to the nature and objective of the study, primary data as well as secondary data has been used to meet the objective. Secondary data were collected from annual report of NEPSE index, daily newspaper, library search, newspaper, magazine, bulletin and other journals. Questionnaires were distributed and interviews were made to gather information. Information was tabulated and presented as per the requirement of the study. From the analysis it was found that price trend is not in predictable trend during the study period of different months of 2005/06 and 2006/07.

Volume of stock traded was not in the same direction as the different years. Volumes of stock traded during the fiscal year 1996/97 to 2006/07 were not in any order of increasing or decreasing. The trend of volume of stock traded was in fluctuating manner in these years. Similarly rate of listing of new companies were not in satisfactory condition as it was also in very few increase companies couldn't give the any type of result. The volumes of transacting companies are very few and also in fluctuating trend from 1996/97 to 2001/02 after which it is in increasing trend till 2006/07. Annual stock price trend from many years were in decreasing trend in the stock market but in recent year 2006/07 it rises to almost double than the previous year 2005/06. The paid up value and market capitalization of listed companies in NEPSE were to some extent satisfactory than the previous years. There were positive correlation coefficient of the sampled company when tested with EPS & DPS and EPS & NWPS.

To look over whether the movement of market price of sample companies taken is random or not, the simple run test for randomness is carried out. And it has shown

that each bank, finance and Insurance Company's market price movement is random.

5.2 Conclusion

From the above research study we can conclude that the Nepalese stock market is in developing stage. 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 in developing stage and has shown little impact on the overall national economy. Small market size has made it vulnerable to manipulation and price rigging. Though some investors tend to avoid stock market because they do not have options to invest in securities according to their risk-return preference. Similarly firms shun it because stock market is less reliable source of raising funds for them. Due to this financial system in Nepal has remained basically bank-dominated.

The market seems gaining to some extent the confidence of investors. There is poor liquidity for the stocks. A scarcity of floating stock prevails in the market. Professionalism is still lacking in the service of investors and investment management. A system of preponderance of speculative trading is guessed to be prevailed where the primary motive is to derive benefit from short term price fluctuations. It appears that a very small fraction of transaction represents purchases/sales by genuine investors. The rest are driven mainly by the speculative motive. The corporate sector is still reluctant on disseminating information timely. The kinds of securities trading in the market are confined only to ordinary and preference shares. These are various major problems observed in the market now-a-days.

Nepal Stock Exchange Limited is analyzing stock market behavior in very few areas regarding the stock market. So experts should be recruited and analyzed market behavior in efficient way so that all parties interested with stock market can get benefit form this. The data analysis showed that Nepal Stock Exchange is not providing facilities for investors such as general awareness about investment, investment procedure for general public and movement of stock trend in different periods and their cause are not explained. Most of the investors are complaining that the market makers, brokers and Nepal Stock Exchange Limited staff's are making coalition for fraudulent activities towards investors. So Nepal Stock Exchange should clear this type of change for the development of stock market.

5.3 Recommendations

On the basis of major findings and conclusion drawn, the following recommendations were given.

- NEPSE index plays major role for creating investment prosperity. So for removing stock market difficulties such as transaction facilities should be managed in effective way by formulating investor's protection act.
- Approval process should be streamlined to make it easy and hassle free. If possible, one window policy should be adopted in providing approval.
- Increase awareness amongst the general public about the capital market, regarding nature of risk and return, through promotional campaigns, seminars, publications and programs in FM/TV etc.
- NEPSE can expand its services to the regional levels rather than just concentrating solely in the valley. They should also replace the old and outdated open cry system with on-line trading system following international standards.
- Discourage the possibilities of insider's trading through improved corporate governance and initiate strict corrective measures for compliance.

- The price fluctuation trend is not predictable by general investors so technician facilities should be realized by Nepal Stock Exchange Ltd., so that general investors should also get benefit from the Nepal Security Exchange Centre Ltd.,
- The study of stock market behavior should be done in periodic manner so that proper results can be drawn for betterment of stock market from the side of NEPSE.
- Government of the nation should formulate proper and perfect rules, regulation, articles of association and code of conduct to develop the capital market of the country. For this purpose national and international stock experts should hire to develop the system.
- The listed companies' data their performance appraisal, their conduction of work, their productivity, their commitment to NEPSE should be updated and analyzed in time and again. If any company is found in doing works against NEPSE should immediately take action on it.
- The stock market lacks the existence of sophisticated investors, it is recommended to regulatory bodies to carry out programs using various media and spot program to inform and attract the potential investors in investing its shares.
- The implementation of computer assisted trading system (CATS) in NEPSE trading floor was found to be very necessary since it was realized by many respondents of these sectors.

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ANNEXES

Annex - I

Questionnaire

1. In which of the following sector do you want to invest in the shares?
   a) Banking ( ) b) Manufacturing & Processing ( )
   c) Trading ( ) d) Others ( )

2. Do you think investors in the Nepalese Stock Market are aware?
   a) Yes ( ) b) No ( ) c) Don't Know ( )

3. What is the major influencing factor for the stock price?
   a) Company's Profit ( ) b) Company's Performance ( )
   c) Company's Board of Director ( ) d) Company's Dividend ( )
   e) Signaling Factor ( ) f) Above all ( )

4. On which basis do you make decision to invest in shares in the secondary market?
   a) Family Advice ( ) b) Rumors ( )
   c) Own Analysis ( ) d) Market Price ( )

5. Are you satisfied with the profit earned from your own investment decision?
   a) Yes ( ) b) No ( ) c) Don't Know ( )

6. Are the government's policies clear and perfect in Nepalese Stock Market?
   a) Yes ( ) b) No ( ) c) Don't Know ( )

ANNEX II

7. Do you want to get elected to the company management?

   a) Yes ( ) b) No ( ) c) Don't Know ( )

8. Does the environment affect the Nepalese Stock Market?

   a) Yes ( ) b) No ( ) c) Don't Know ( )

9. In which of the following trend of stock price behavior is suitable for Nepalese security market?

   a) Bullish trend ( ) b) Bearish Trend ( )

   c) Optimum trend ( ) d) None of Above ( )

10. For what purpose do you want to own shares of a company?

    a) Dividend ( ) b) Social Status ( )

    c) Marketability ( ) d) Above all ( )

11. Do you think are there any difficulties in trading shares in Nepalese Stock Market?

    a) Yes ( ) b) No ( ) c) Don't Know ( )

12. If yes how these difficulties can be solved?

    a) ……

    b) ……

    c) ……..…….....

13. In your option, what are the majors to be taken for developing Nepalese Secondary Market?

    a) ……

    b) ……

    c) …….....

Name: ……...……

Address: ……

No. of Listed Companies in NEPSE

	Commercial Banks.	Code
1	Nabil Bank Ltd.	NABIL
2	Nepal Investment Bank Ltd.	NIB
3	Standard Chartered Bank Ltd.	SCB
4	Himalayan Bank Ltd.	HBL
5	Nepal SBI Bank Limited	SBI
6	Nepal Bangladesh Bank Ltd.	NBB
7	Everest Bank Ltd	EBL
8	Bank of Kathmandu	BOK
9	Nepal Industrial & Co.Bank	NICB
10	Machhachapuchhre Bank Ltd	MBL
11	Laxmi Bank Limited	LBL
12	Kumari Bank Ltd	KBL
13	Lumbini Bank Ltd.	LUBL
14	Nepal Credit & Com. Bank	NCCB
15	Siddhartha Bank Limited	SBL
	Manufacturing and Processing	
16	Morang Sugar Mills Ltd.	MSM
17	Bottlers Nepal Ltd.(Balaju)	BNL
18	Biratnagar Jute Mills Ltd.	BJM
19	Nepal Lube Oil Ltd.	NLO
20	Nepal Vanaspati Ghee Udhyog Ltd	NVG
21	Raghupati Jute Mills Ltd.	RJM
22	Butwal Spinning Mills Ltd.	BSM
23	Gorakhakali Rubber Udhyog Ltd.	GRU
24	Jyoti Spinning Mills Ltd (ord.)	JSM
25	Arun Vanaspati Udhyog Ltd.	AVU
26	Bottlers Nepal (Terai)Ltd.	BNT
27	Harisiddhi Brick and Tile Fac.Ltd.	HBT
28	Birat Shoe Ltd.(Ord.)	BSL
29	Uniliver Nepal Ltd.	NLL
30	Nepal Khadya Udhyog Ltd.	NKU
31	Himgiri Textile Industries Limited	HTL

32	Shree Bhrikuti Pulp& Paper Ltd	SBPP
33	Fluer Himalayan Limited	FHL
34	Shree Ram Sugar Mills Ltd	SRS
35	Nepal Bitumin and Barrel Udyog	NBBU
36	Himalayan Distillery Ltd.	HDL
	Hotels	
37	Yak and Yeti Hotel Ltd.(Ord.)	YHL
38	Soaltee Hotel Ltd.	SHL
39	Taragaon Regency Hotel	TRH
40	Oriental Hotel Ltd.	OHL
	Others.	
41	National Pro.& Eco.Dev.Centre Ltd.	ESC
42	Nepal Film Dev.Co. Ltd.	NFD
	Hydro Power	
43	National Hydro Power Co.	NHPC
44	Butwal Power Co. Ltd.	BPCL
45	Chilime Hydro power Co.	CHCL
	Tradings.	
46	Salt Trading Corporation	STC
47	Bishal Bazar Co. Ltd.	BBC
48	Nepal Byapar Bikash Co.(Koshi)Ltd.	NBCK
49	Nepal Trading Ltd.	NTL
50	Nepal Welfare Company Ltd.	NWC
	Insurance	
51	Nepal Insurance Co.Ltd.	NICL
52	Rastriya Beema Sansthan	RBS
53	National Life &Gen.Insu.Co.Ltd.	NLG
54	Himalayan Gen.Insu. Co.Ltd.	HGI
55	United Insurance Co.(Nepal)Ltd.	UIC
56	Everest Insurance Co. Ltd.	EIC
57	Premier Insurance co. Ltd.	PIC
58	Neco Insurance Co.	NIL

59	Alliance Insurance Co. Ltd.	AIC
60	Sagarmatha Insurance Co.Ltd	SIC
61	NB Insurance Co. Ltd.	NBIL
62	Nepal Life Insurance Co. Ltd.	NLIC
63	Life Insurance Co. Nepal	LICN
64	Prudential Insurance Co.	PICL
65	Lumbini General Insurance	LGI
66	Shikhar Insurance Co. Ltd.	SIK

Finance

67	Nepal Finance and Saving Co.Ltd.	NFS
68	NIDC Capital Markets Ltd.	NCM
69	National Finance Co. Ltd.	NFC
70	Nepal Share Markets Ltd.	NSM
71	Annapurna Finance Co.Ltd.	AFC
72	Kathmandu Finance Limited.	KFL
73	Peoples Finance Limited.	PFCL
74	Union Finance Co. Ltd.	UFCL
75	Citizen Investment Trust	CIT
76	Nepal Aawas Bikas Beeta Co. Ltd.	NABB
77	Narayani Finance Limited	NFL
78	Ace Finance Company Ltd.	ACE
79	Yeti Finance Company Ltd.	YFL
80	Gorkha Finance Ltd.	GFLK
81	Samjhana Finance Co. Ltd.	SFC
82	Universal Finance Ltd.	UFLK
83	Nepal Housing & Merchant Fin.	NHMF
84	General Finance Ltd.	GFL
85	Maha Laxmi Finance Ltd.	MFL
86	Lalitpur Finance Ltd.	LFC
87	Goodwill Finance Co. Ltd.	GFCL
88	Paschimanchal Finance Co. Ltd	PFC
89	Pokhara Finance Ltd.	PFL
90	Lumbini Finance Ltd.	LFLC
91	Nepal Merchant Bank & Fin.Co.	NMBF
92	Siddhartha Finance Limited	SFL
93	Alpic Everest Finance Co. Ltd.	AEFL

94	Nepal Bangladesh fin. & Leasing	NBFL
95	United Finance Ltd	UFL
96	International Leasing & Fin. Co.	ILFC
97	Shree Investment Finance Co. Ltd	SIFC
98	Central Finance Co. Ltd.	CFCL
99	Nepal Shree Lanka Merchant Bank	NSLMB
100	Premier Finance Co. Ltd	PFCLL
101	Nava Durga Finance Co.Ltd.	NDFC
102	Butwal Finance Ltd	BFL
103	Janaki Finance Ltd.	JFL
104	Standard Finance Ltd.	STFL
105	Om Finance Ltd.	OFL
106	Cosmic Mer.Bank & Fin.	CMBF
107	Fewa Finance Co. Ltd.	FFCO
108	KIST Merchant Bank. & Fin	KIST
109	World Merchant Bank Ltd	WMBF
110	Birgunj Finance Ltd	BJFL
111	Capital Mer. Bamk & Fin	CMBF
112	Everest Finance Ltd,	EFL
113	Prudential Bittiya Sans	PBS
114	Shrijana Finance(Bittiya Sa	SFFIL
115	Royal Mer. Bank.& Fin	RMBF
116	Guheyshwori Mer. Bank. Fin	GMBF
117	IME Financial Institution	IME
118	Bhajuratna Fin.& Sav. Co. Ltd.	BFL
119	Patan Finance Ltd.	PFL

Development Bank Ltd.

120	Nepal Industrial Dev. Corp.	NIDC
121	Nepal Development Bank	NDB
122	Development Credit Bank Ltd.	DCBL
123	Nirdhan Utthan Bank Ltd.	NUBL
124	Chhimek Vikash Bank Ltd.	CBBL
125	Paschimanchal Bikash Bank	PBBL
126	Diprox Development Bank	DDB
127	Gandaki Dev. Fin. Inst.	GDFI
128	Business Dev. Fin. Inst.	BDFI

129	Siddhartha Vikash Bank Ltd	SVB
130	Bhrikuti Vikash Bank Ltd.	VBB
131	Sanima Vikash Bank Ltd.	SBBL
132	Narayani Industrial Dev. Bamk	NDB
133	Bageshowori Dev.Bank	BDB
134	Sahayogi Bikas Bank	SBB
135	Gurkha Development Bank	GDB

ANNEX III

EPS, DPS and NWPS of Sample Companies

EPS, DPS and NWPS of Selected Banks (HBL and NIBL):

FY	HBL			NIBL		
	EPS	DPS	NWPS	EPS	DPS	NWPS
1999/00	83.07	50	219.19	53.68	25	303.10
2000/01	93.57	57.50	240.19	33.17	0	275.96
2001/02	60.26	35	220.02	33.59	30	307.95
2002/03	49.45	25	247.81	39.56	20	216.23
2003/04	49.05	20	246.93	51.70	15	246.89
2004/05	47.91	31.58	239.59	39.50	12.5	200.79
2005/06	59.24	35	228.72	59.35	55.46	239.67

EPS, DPS and NWPS of Selected Finances Co. (NFCL and KFCL):

FY	NFCL			KFCL		
	EPS	DPS	NWPS	EPS	DPS	NWPS
1999/00	63.94	28	243.67	31.25	20	328
2000/01	67.20	30	277.43	37.55	23	342
2001/02	55.70	20	291.80	37.05	10	339
2002/03	35.73	20	307.47	33.85	50	309
2003/04	42.15	21.05	252.83	2.77	-	418
2004/05	69.12	10.53	271.94	17.97	10.53	435
2005/06	17.37	10.53	184.65	31.35	10	483

EPS, DPS and NWPS of Selected Insurance Co. (EICL and SICL):

FY	EICL			SICL		
	EPS	DPS	NWPS	EPS	DPS	NWPS
1999/00	42.89	20	227.58	11.40	5	126.25
2000/01	61.05	20	302.78	14.24	7	137.94
2001/02	65.20	-	375.98	18.67	8	158.50
2002/03	61.74	100	416.93	20.40	10	174.03
2003/04	57.22	-	470.82	28.15	-	214.54
2004/05	16.87	-	259.65	30.21	-	238.94
2005/06	13.94	-	188.00	30.13	-	302.75

Correlation Coefficient Analysis between EPS and DPS of Himalayan Bank Ltd. (HBL):

Year (n)	EPS(X)	DPS(Y)	X^2	Y^2	XY
1999/00	83.07	50	6900.62	2500.00	4153.50
2000/01	93.57	57.50	8755.34	3306.25	5380.28
2001/02	60.26	35	3631.27	1225.00	2109.10
2002/03	49.45	25	2445.30	625.00	1236.25
2003/04	49.05	20	2405.90	400.00	981.00
2004/05	47.91	31.58	2295.37	997.30	1513.00
2005/06	59.24	35	3509.38	1225.00	2073.40
	442.55	254.08	29943.18	10278.55	17446.53

We have,

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

$$= \frac{7x17446.53 - 442.55x254.08}{\sqrt{(7x29943.18) - (442.55)^2}\sqrt{(7x10278.55) - (254.08)^2}}$$

=0.96

and

$$\text{P.E (r)} = 0.6745 \text{ x } \frac{1-r^2}{\sqrt{n}} \qquad = 0.6745 \text{ x } \frac{1-(0.96)^2}{\sqrt{7}} \qquad = 0.02$$

Note: for other companies same as above.

Correlation Coefficient of Selected Companies (EPS and DPS)

S.N	Name of the Company	Correlation Coefficient (r)	Probable Error (PE)
1.	Himalayan Bank Ltd.	0.96	0.02
2.	Nepal Investment Bank Ltd	0.64	0.15
3.	National Finance Co. Ltd	0.46	0.20
4.	Kathmandu Finance Co. Ltd	0.55	0.17
5.	Everest Insurance Co. Ltd	0.39	0.22
6.	Sagarmatha Insurance Co. Ltd	0.74	0.12

ANNEX IV

Correlation Coefficient Analysis between EPS and NWPS of Himalayan Bank Ltd. (HBL):

Year (n)	EPS(X)	NWPS(Y)	X^2	Y^2	XY
1999/00	83.07	219.19	6900.62	48044.26	18208.11
2000/01	93.57	240.19	8755.34	57691.24	22474.58
2001/02	60.26	220.02	3631.27	48408.80	13258.41
2002/03	49.45	247.81	2445.30	61409.80	12254.20
2003/04	49.05	246.93	2405.90	60974.42	12111.92
2004/05	47.91	239.59	2295.37	57403.37	11478.76
2005/06	59.24	228.72	3509.38	52312.84	13549.37
	442.55	1642.45	29943.18	386244.73	103335.35

We have,

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

$$= \frac{7x103335.35 - 442.55x1642.45}{\sqrt{(7x29943.18) - (442.55)^2}\sqrt{(7x386244.73) - (1642.45)^2}}$$

= -0.39

and,

P.E (r) = 0.6745 x $\frac{1-r^2}{\sqrt{n}}$ = 0.6745 x $\frac{1-(-0.39)^2}{\sqrt{7}}$ =0.22

Note: for other companies same as above.

Correlation Coefficient of Selected Companies (EPS and NWPS)

S.N.	Name of the Company	Correlation Coefficient (r)	Probable Error (PE)
1.	Himalayan Bank Ltd.	0.39	0.22
2.	Nepal Investment Bank Ltd.	0.076	0.25
3.	National Finance Co. Ltd.	0.50	0.19
4.	Kathmandu Finance Co. Ltd.	0.49	0.19
5.	Everest Insurance Co. Ltd.	0.76	0.11

6.	Sagarmatha Insurance Co. Ltd.	0.92	0.04