CHAPTER I

INTRODUCTION

1.1 General Background of the Study

Securities, in finance, are the instruments which give their legal holders rights to money or other property. In other words, securities are documents that represent an interest or a right in something else; they are not consumed or used in the same way as traditional consumer goods (www.answers.com). Securities include stocks, bonds, notes, mortgages, bills of lading, and bills of exchange. Similarly, Securities trading is the financial activity involving transactions of property such as stocks, bonds, commodities, and currency (www.securities.com).

The development of economy necessitates the growth of the productive activities which, in turn, is the result of the investment in productive enterprises. The establishment of number of such enterprises requires a huge amount of capital in the economy. There are mainly two sources of financing – the internal and external sources. The internal financing comes from the promoters of the enterprise. This source has limited scope because of the limited resources and risks associated with the investments. So nowadays, the external financing, the method of financing through the financial markets, has become the most important and popular source of financing for fostering the productive activities in the economy.

Companies issue new securities in what is known as the primary market, usually with the help of investment bankers. In other words, primary market for securities is the new issues market which brings together the "supply and demand" or "sources and uses" for new capital funds (Bhalla; 2003: 143). The investment bank acquires the initial issue of the new securities from the company at a negotiated price and then makes the securities available for its

clients and other investors in an initial public offering (IPO). In this primary market, company receives the proceeds of security sales. After this initial offering, the securities are bought and sold in the secondary market. Moreover the purpose of a stock exchange or secondary securities market, like any other organized market, is to enable buyers and sellers to effect their transactions more quickly and cheaply than they could otherwise (Valla;2003:144). Securities are often listed in a stock exchange, an organized and officially recognized market on which securities can be bought and sold. Issuers may seek listings for their securities in order to attract investors, by ensuring that there is a liquid and regulated market in which investors will be able to buy and sell securities.

The total capital of the company is divided into several units and each unit is a security. These securities are not liquid assets unless they find the place to trade. Hence, a place is designed where buyer and seller meets and securities are traded. The system that provides liquidity to the securities is termed as Security Trading System and the place is the Stock Exchange Centre.

The stock exchanges provide liquidity to the investors who provide funds for the establishment of the productive enterprises. The stock exchanges also encourage the savers to save more and the enterprising economic units to start productive ventures. Stock exchanges, the organized market for buying and selling financial instruments (known as securities) like stocks, bonds, options, etc, have specific locations where the trades are completed. Exchanges operate as the action markets-buy and sell orders come in more or less simultaneously, and exchange members match these orders (Brigham, Gapenski and Ehrhardt: 2001, 124). The company is not usually involved in the trading of its stock in the secondary market, the essential function of stock exchanges. By providing investors the opportunity to trade financial instruments, the stock exchanges support the performance of the primary markets. This arrangement makes it

easier for companies to raise the funds that they need to build and expand their businesses (www.stockexchange.com).

The basic functions of stock exchange are to provide and allocate capital funds to the firms with profitable investment opportunities and to offer an avenue of liquidity for individuals to invest current income or borrow against future income and thereby achieve their preferred time pattern consumption. Because investing involves uncertainty, stock exchanges provide a means for transferring risk among the parties to these transactions (Lorie & Kimpton: 1985). The stock exchanges and the economy move in similar cyclical patterns. Although some analysts view stock markets in developing countries as 'casinos' that have little positive impact on economic growth, recent evidences suggest that stock exchanges can give a big boost to economic development for the developing countries like Nepal.

Nepal, the capital deficient economy, requires a huge amount of investment to promote productive activities for her rapid economic development. The stock exchange would encourage and mobilize the savings for investments in profitable projects in the Nepalese economy. Stock market in Nepal are a recent phenomenon. It is still in early stage of development. The demand for and supply of funds for investment in productive enterprises is low due to the absence of mechanism for transferring risk which, in turn, may be attributed to the absence of well- developed stock exchanges.

The history of securities market began with flotation of shares by Biratnagar Jute Mills Ltd and Nepal Bank Limited in 1937 (www.nepalstock.com). In 1983, Securities Exchange Act was enacted to develop the securities market, which in turn, was converted to in Securities Exchange Centre in 1984 and, consequently, to the Nepal Stock Exchange (NEPSE) in 1993. It is Nepal's only stock exchange, operating as a non-profit organization operating under Securities Exchange Act, 1984. The basic objective of NEPSE is to arrange

marketability and liquidity to the government and corporate securities by facilitating transactions such as brokers, market makers and others (www.nepalstock.com).

Trading System:

NEPSE has adopted an "Open Out-Cry" system which means that the transactions in securities are conducted in the open auction principle on the trading floor. The buying broker who has the highest bid will post the price and his code number on the buying column, while the selling broker with the lowest offer will post the price and code number on the selling column on the quotation board. The market makers will quote their bid and offer price on their own board before the floor starts. Once the bid price matches with the offer price, contracts between the buying and selling brokers or between the brokers and market makers are concluded on the floor (www.nepalstock.com).

Originally, about 200 years ago, brokers would literally shout: 'I have 100 shares of Erie for sale, how much am I offered?" and then sell to the highest bidder. If the broker had a buy order, he would shout: 'I want to buy 100 shares of Erie, who'll sell at the best price?' The same general situation still exists (Brigham, Gapenski and Ehrhardt; 2001: 124).

1.2   Statement of the Problem

Realizing the importance of securities exchange center as a secondary market of securities and stock, various studies have been undertaken regarding the performance of them.   Rugh (1966) concluded that stock market is the secondary market which embraces buyers and sellers who meets with their specific requirements. In the view of Franfuture (1972) stock exchanges put finger on the pulse of the economy and give the diagnosis to the public in the form of quotation. Without liquidity, many people would not invest at all according to Hirt and Block (1983). Similarly, according to Jacob and Pettit (1984) the principal role of money broker is to assist in the pooling of funds by

the certain security firms that will appeal to the ultimate investors. Investor regards dividend and price changes as return on his investment in securities according to Donald (1990). In the opinion of Weston and Copeland (1995) active markets provides liquidity and facilitates investment and also assures less price change because of efficient market mechanism. Brigham (1999) opined that organized securities exchanges are tangible physical entities with limited numbers of members and board of governors. He also added that OTC should have dealers, brokers and computerized system for efficient functioning of it. Fisher and Jordan (2000) concluded that market mechanism makes possible the transfer of funds from surplus to deficit sectors efficiently and at lower cost. They also opined that investors must be assured of a fast, fair, orderly and open system of purchase and sell at known prices.

According to Mahat (1981) a minimum security base is required for the effective operation of stock exchanges. Similarly according to Rimal (1994) the advantages of secondary market are to provide liquidity or cash and investment opportunities to the investors and to make certain assets more attractive to the buyers and the sellers. Sharma (1996) came with the conclusion that corporate sector is still reluctant on disseminating information timely. Likewise Shrestha (1996) concluded that existing company management should provide timely reporting and fair return on investment to shareholders. Bhatta (1997) depicted that management capability of the entrepreneur is a key factor for the productive ventures. Hence government should come with programs to enhance their capability who may in turn contribute to raise return from the investments. According to Poudel (2001) the shares of commercial banks are less risky that that of other companies and so people are likely to invest in them. Similarly, in the view of Adhikari (2003) if the objectives of Tenth Five Year Plan has incorporated important provisions with respect to the development of the securities market, which if attained, would attract more investments into corporate debt and equity through the individuals. Pandey (2004) found that there should be practice of disclosing information by the firms timely and

accurately. In the opinion of Amatya (2005) there are many problems associated with debt securities market which should be overcome shortly. Likewise in the view of Gautam (2005) purchase/ sale of securities is driven by speculative motive and securities market is confined to only ordinary and preference shares.

The research conducted so far has found that major problems seen in the system are; duality and ambiguities in the regulations, inadequate legal provisions, inadequate market infrastructure, lack of clear demarcation of the regulators, poor corporate cultures, lack of willingness among the corporate sector to disseminate the fair and timely information, lack of professionalism of the market participants, lack of awareness among the investors, lack of self-consciousness investors, lack of providing fair return on investment to investors, etc. Observing these various problems in the NEPSE, this study is therefore, devoted towards examining the present condition of the stock trading system in NEPSE. Specifically, the main issues of the study are as follows:

➢ How many companies are listed in NEPSE and how many, out of them, are able to transact their securities?

➢ What are the annual trend and the current situation of turnover, market capitalization and NEPSE index?

➢ Which sectors' securities are traded most?

➢ What are the current conditions of share price and the turnover (amount traded) of the securities of companies listed in NEPSE?

➢ Does the share price correlate with turnover of the companies?

➢ What role can NEPSE play for the overall development of the economy?

➢ What are the future predictions regarding the different aspects of NEPSE?

➢ What should be done for the systematic growth of securities market in Nepal?

1.3 Objectives of the Study

The main objective of the research is to examine the securities trading system in Nepal. However, the specific objectives of the study are as follows:

➢ To analyze the trend of securities trading system in NEPSE.

➢ To assess the financial perspective of securities trading system in Nepal.

➢ To evaluate the relationship of stock price with the financial variables such as, number of shares traded, amount of capitalization etc.

1.4 Limitations of the Study

The study mainly focuses on the securities trading system of NEPSE. Due to the limited time and resource to conduct the study, it does have some limitations. The research is confined to the activities of NEPSE and so is dependent on the data provided by the NEPSE and SEBON. No attempts are made to examine the reliability of the available secondary data since they are officially released by the related authorities. The non-availability of required data and references are also one of the limitations of the study. This study is only for the partial fulfillment of the requirement of Degree of Masters of Business Studies (MBS). Other main limitations are time constraints, financial problems and lack of research experience.

1.5 Organization of the Study

Following a simple research methodology approach, this study is organized under five different chapters. The title and brief sketch of each chapter is as follows:

Chapter 1: It contains the introduction of the study where it includes background of the study, statement of the problem, objective of the study, research methodology, limitations and organization of the study.

Chapter 2: It incorporates theoretical framework and review of the articles, journals and past researches and other empirical studies conducted inside and outside the country.

Chapter 3: It explains the methodology used in the research to arrive at the results in the context of arriving at the objective of the study. It therefore basically deals with the nature and sources of data, research design, method of data collection and statistical tools and techniques used in analysis of data.

Chapter 4: It deals with the analysis of primary and secondary data collected during the study by using different tools and methods and scoring empirical findings out of the study.

Chapter 5: It covers summary, conclusions and recommendations of the study followed by appendices and bibliographical references.

CHAPTER II
REVIEW OF THE LITERATURE

This chapter is divided into three sections. Section I deals with the conceptual framework while the review of empirical works is included in section II. Section III is devoted with the concluding remarks of this chapter.

2.1 Conceptual Framework:

Nepal Stock Exchange Limited (NEPSE) is the only organized stock market of Nepal. The securities which have been issued through primary market are traded in the stock market (secondary market). Both the primary and secondary markets are complementary to each other. In the absence of one market, other cannot flourish. To make clearer about these markets, let's first discuss about the securities market.

2.1.1 Securities Market:

So far as securities market is concerned, it is an important constituent of capital market. It has a wide term embracing the buyers and sellers of securities and all the agencies and institutions that assist the sale and resale of corporate securities (Rugh;1966:50). Stock markets are the place where the financial assets and liabilities are traded. For this purpose, buyer and seller (individual and agencies) meet with their specific requirements. So, stock market refers to the secondary market because financial assets are traded which are already issued at the same previous time. Its main function is price discovery and that price fully reflects currently available information.

"The primary motive for buying a stock is to result it subsequently at a higher price. In many cases dividend will be expected also. Dividend and price changes are the principle ingredients in what investors regard as "return on yield" (Donald;1990:634). "The existence of well functioning secondary market, where investors came together to trade existing securities, assures the

purchase of primary securities that they can quickly sell them to securities, if the need arises"(John;1992:48).

By providing secondary market, stock market facilitates the successful flotation of new issue. It provides the best opportunity to investor for mobilization of invertible resources. It is an important intermediary, which bridges the gap between the deficit unit and surplus unit. In other words, people and organizations wanting to borrow money are brought together with those having surplus funds in the securities markets. The objective of capital mobilization is the transformations of savings on securities into actual investment. So, it plays a crucial role in the mobilization of a constant flow of saving and channeling these financial resources for expanding productive capacities of the country. The development of a sound securities market with its constituent financial institution is one of the mechanisms which enable the efficient transformation of savings from the hands of surplus spending units to those of deficit spending ones who can use them move productivity and/or have loss/risk aversion (Rugh;1966:56).

According to Weston and Copeland, "stock markets are said to provide at least four economic functions:

1. Security exchanges facilitate the investment process by providing a market place to conduct efficient and relatively inexpensive transaction. Investors thus assured that they would have a place to sell securities that they would otherwise require.

2. They are capable of holding continuous transaction testing the values of securities. The purchase of and selling securities records judgments and values and prospects of companies. Those prospects are judged favorably by the investment community have higher values which facilitate the new financing and growth.

3. Securities are relatively more stable because of the operation of the security markets. Security market improves liquidity by providing

continuous markets that make more frequent but smaller price changes. In the absence of active market price changes are less frequent but more violent.

4. Security Market aids the digestion of new security issues and facilitates their successful flotation. Investors are not interested to invest in new securities, if they had to hold up to maturity periods. Actually stock market provides well functioning secondary market to traded existing securities and assures the purchases of primary securities that they can quickly sell their securities, if the need rises. Stock market also affects economy through creation of liquidity. Only liquid equity markets make the investment less risky and more attractive. It allows saver to acquire an asset and sell quickly and cheaply. The regular inspection in secondary market is also necessary from company side. It helps to attract investment community. Similarly an active stock market has less and frequent price change because it has an efficient market mechanism and information are quickly disseminated to all investors." (Weston & Copeland;1995:728)

About allocation function, Windfield and Curry write that "Stock exchange fulfils its allocation function differ widely partly because the exchange is seeking as the symbol of capitalization, for example the economist Walter Bagehot in the nineteenth century opposed any changes, saying we must not let daylight upon magic. The stock exchange as an institution has been evolved by the time perfected by experience. It is citable of capital, the temples of values. It is the axel on which the whole financial structure of the capitalistic system turns. It is the Bazaar of human effort and endeavor, the mark is here man's courage, ingenuity and labor are marketed" (Winfield and Curry, 1995: 7). The existence of markets for securities is of advantage to both issuers and investors. As to their benefit to issuers, securities market assists business and government in raising funds. In a society with private ownership of the means of production and distribution of goods and services, savings must be directed towards investment in industries where capital is most productive. Government must

also be able to borrow for public improvements. Market mechanism makes possible the transfer of funds from surplus to deficit sectors efficiently and at low cost (Fisher and Jordan; 2000:17).

Securities market can be classified into primary market and secondary market.

➢ **Primary Market:**

Securities available for the first time are offered through the primary securities markets. The issuer may be a brand new company or one that has been in business for many years. The securities offered might be a new type for the issuer or additional amounts of a security used frequently in the past. The key is that these securities absorb new funds for the coffers of the issuer (Fisher and Jordan; 2000:19).

The primary securities market includes all transactions that result in the accumulation of financial capital by firms, governments or individuals to be used in consumption or real capital investment. The participants in this process are many and varied, but an important segment, includes the money brokers who act as a middlemen in the process of exchanging securities or fund. These brokers provide invaluable services. Their principal role is to assist in the pooling of funds by the certain security firms that will appeal to the ultimate investors (Jacob and Pettit;1984:147). All securities, whether in the money or capital markets, are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction and receives direct benefit from the sale of securities. Once the securities begin to trade among individual, business, government or financial institution, savers and investors, they become part of the secondary market (Gitman;1988:30).

➢ **Secondary Market:**

Secondary markets are markets for existing assets, which are currently traded between investors. It is those markets that creates the price and allow for liquidity. If secondary markets did not exist, investor would have no place to sell their assets. Without liquidity, many people would not invest at all (Hirt and Block;1983:24). If investor could not resell securities readily, they would be hesitant to acquire them and such reluctance would reduce the total quantity of funds available to finance industry and government. Those who own securities must be assured of a fast, fair, orderly and open system of purchase and sell at known prices (Fisher and Jordan;2000:18).

Secondary securities markets allow outstanding securities to be traded from old to new owners. The advantage of secondary market is to provide liquidity or cash and investment opportunities to investor and to make certain assets more attractive to buyers and sellers. Secondary market comprises the stock exchange and the over-the counter (OTC) market (Rimal: 1994). Organized securities exchanges are tangible physical entities. Each of the larger ones occupies its own building, has limited number of members and has an elected governing body- its board of governors. Members are said to have "seats" on the exchange, although everybody stands up. These seats, which are bought and sold, give the holder the right to trade on the exchange (Brigham;1999:123).

Organized exchanges are central physical market place where the agents of the buyers and sellers operate through the auction process and trading is done under a set of rules and regulations. Most of the larger investment banking houses operate brokerage departments, and they own seats on the exchanges and are open on all normal working days, with the members meeting in a large room equipped with telephones and other electronic equipment that enable each member to communicate with his or her firms officials through the countries. The over-the-counter (OTC) exchange is not an organization but an intangible market for the purchasers and sellers of securities not listed by the organized

exchanges. Active traders in this market are linked by a sophisticated telecommunication network. The prices at which securities are traded "over the counter" are determined by competitive bids and negotiation. The OTC, in addition to creating a resale market for outstanding securities, is a primary market in which new public issues are sold (Gitman;1988:30).

Today, the over-the-counter market is defined to include all facilities that are needed to conduct security transactions not conducted on the organized exchanges. These facilities consist of; (i) the relative few dealers who hold inventories of over-the-counter securities and who are said to make a market in these securities, (ii) the thousands of brokers who act as agents in bringing the dealers together with investors, and (iii) the computers, terminals and electronic networks that provide a communication link between dealers and brokers (Brigham; 1999:123).

2.1.2 Stock Exchange and its Role

Stock exchange is the most highly centralized and visible institution where already issued securities are bought and sold for investment and speculative purpose. It provides facilities of trading of listed financial securities. Securities exchanges do not directly buy or sell securities rather they provide trading floors on which a continuous auction market is conducted. To transact business on the trading floor of an exchange, an individual must be member, that is, a seat on the exchange must be purchased. Individual or institutional investors who place orders to buy or sell the securities listed on an exchange may not be present when their orders are executed, rather, they must transmit their orders to an exchange member- usually a commission broker- who sees that they are carried out (Jacob and Pettit, 1984:155).

Stock exchange as the market for securities gives everybody assess to a number of different opportunities for capital investment. The function of stock exchange is to provide equal opportunities for many buyers and sellers of

securities as possible. From general economic point of view, the stock exchanges constitute the core of capital market. It has put its finger on the pulse of the economy and gives the diagnoses to the public in the form of quotation (Franfurture: 1972).

In the recent years, the authorities are increasingly recognizing the role of the stock exchange. This institution plays a notable part in the economic life of the country acting as free market securities, where prices are determined by demand and supply. The function of a stock exchange is not only to provide a market for securities but also assist in the raising of funds for government and industries. Thus, free and active markets in stock and share have become a prerequisite for the mobilization and distribution of a nation's savings as to support modern business (Sur, 1980: 40-48).

2.1.3 Participants in the Stock Exchange

➢ Brokers:

Brokers are agents or middlemen, who facilitate the buying and selling of securities for investors. They take buy or sell orders from the investors in their own office and execute the transactions in the floor of the exchange. Besides the basic service of executing orders, brokers also provide services such as holding securities for safe keeping, providing information and advice relating to investment alternatives, extending margin loans and facilitating short sales.

➢ Dealers:

Dealers trade solely for themselves and are prohibited from handling public orders. Since dealers have access on the floor and can own securities on their own name, they benefit from buying at low and selling at high prices. The benefit of the dealers to market is that their buy and sell actions add up liquidity of the securities.

➢ **Market Makers:**

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

2.1.4 Trading Procedure in the Stock Exchange

Securities market trading has traditionally been conducted by traders gathering at a central point to quote buy and sell prices and to strike a deal when prices matched. Early forums for such gatherings were coffee-houses and curb-sides but these gradually gave way to the trading posts of stock exchange floors around which traders gathered to trade the stocks listed on each post. Stock exchanges began as associations of such traders who wished to gather together to trade because of shared interests and mutual trust (Pardy, 1992:1).

There are two basic types of trading system; order driven and quote driven. The quotes which drive the trading process may be the bid and offer prices specified in investors' orders or they may be the spread quoted by market makers. The first is called an order driven market and the second a quote driven market. The traditional quote display mechanism is a chalk board at a trading post on a stock exchange floor but these days, it is more often computer screens either centralized on the exchange floor or distributed in brokers offices. Three functions are commonly thought of as constituting the securities trading process: display and comparison of buy and sell quotes; order matching; and order execution. However, the process starts from the order collection and maintenance of client records.

(i) Order Collection and Maintenance of Clients Records:

It is often referred to as 'back office operations' and those two functions are usually performed by brokers. Order collection can be thought of as the starting point of a transaction in which a broker receives instructions from a client and

notes those instructions either in writing or direct to a computer record. The main client records kept are a record of client instructions regarding transactions, ledger entries of money and security transfer and balances, the name in which securities are registered and the location from which they are held, any lines or charges over the securities and details of any authority or power vested in the broker by the client relating to the client's assets. Traditionally, all these records have been kept manually but are now computerized.

(ii) Order Routing:

This is the first step of the transaction process outside the broker's office. It is the process of transmitting a client's order to the correct place for execution. This might be to the broker's trading representative on the floor of a local or distant stock exchange, to an automatic small order execution system, or to an off-exchange market such as a computerized over-the-counter (OTC) market or privately negotiated upstairs market. It can be done via physical delivery of an instruction slip, via telephone or computer link to the broker's booth on the trading floor and then by physical delivery or by hand signal to the trading brokers on the floor itself, by direct entry to a computer based market where the order is instantly displayed, or to an automated switching mechanism which to transact the order. Such order routing facilities are commonly provided by stock exchanges but sometimes by independent IT providers.

(iii) Quotation Display and Comparison:

On reaching the trading place, a client's buy or sell orders are bought together with other orders to begin the price setting process which is the corner stone of a securities market. They are displayed according to price priority and compared with each other to identify where a trade may be possible. In an order driven market, the bid and ask prices of investors are displayed, while in a quote driven market, the buy and sell quotes of market makers are displayed. At least, the highest bid and offer price plus the last sell price are given and on

computer systems, the highest five to tem bid and ask are quoted, sometimes together with their associated buy or sell quantities. Order display and comparison systems are provided by stock exchanges or similar market operators. They may be centralized like a stock exchange or computer trading room, or they may be distributed on a computer network.

(iv)   Order Matching and Selection:

A deal is struck when as a first step, a selling order is matched with a buying order and second, the two are selected as the two sides of a trade. Matching is price based- the buy price must equal the sell price. Selection criteria are more varied and depend on the nature of the market: order or quote driven, automated or manual, continuous or call auction. One method is automatic selection by time priority in which quotes at he same price are executed in order from the first one entered into the system to the last one entered. This is common in continuous auction autonomic execution system. A second method is where brokers exercise some discretion so that from within a group quoting the same price rather than having to deal strictly in time priority, they are able to trade with selected counterparties because of the convenience of the quantities involved or because of considerations such as greater or lesser degree in floor based or computer assisted manual markets. A third computer based or manual calls auction which do not account for time priority, instead they execute the largest possible volume of trades by calculating a single strike price derived from the bids and offers in the system at the time of the call. And finally, quote driven markets display the bid and ask spreads of the market makers rather than bid and offers prices of investors. In this case, client orders are matched with the market maker's quote.

(v)   Order Execution:

A deal is struck when matched buy and sell orders are executed one against the other. This may be done automatically or manually. Manual execution requires a decision and an action both the buy and sell broker. The decision is

acceptance of the terms of the trade and of each other as counterparties; the action is commitment of those decisions to a permanent record of their own and of the exchange and display of the new sale price of it, is different to the last one displayed. In floor based systems, the brokers may each write a sale slip which they deposit immediately for collection by the exchange, keeping a copy for themselves, or they might each write the details in their own trade book and signal to an exchange official that the trade has been executed so that the official can also record the details of the trade. In a floor based system, these actions can be supported to a greater or lesser degree by computerization.

In a non floor based system, brokers may strike a deal by communicating directly via the linked computer terminals which also display the bids and offers, or they may use ancillary telephone or fax communication. They may record their decision separately in their own records and those of the market provider or the records generated automatically by the computer network. Fully automatic execution on computer based systems removes the decision to consummate the trade from the control of the brokers and instead executes the trade automatically once orders are matched.

2.2 Review of Empirical works

A capital market is a complex of institutions and mechanisms through 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 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, bonds, etc, evidencing titles or claims to capital and other resources owned by them to the person who place their savings at their disposal (Sharma: 1996). The share price is determined in the floor by the interaction of market forces i.e. demand and supply. The price is determined at the point of equilibrium between demand

and supply. The shifting of this balance results in incessant adjusting of price in search of the ever-changing new equilibrium. As a result, market price moves upward and downward independently.

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 take 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 Outcry System". Each broker representative should be present in the floor and participate through 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 increasing. Most importantly, the market consciousness has been developed so that investors have begun to think about risks, return and availability of 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 purchase/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).

Development of the securities markets depends crucially on the quality of financial information. GON 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.

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 Government 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 markets, encourage the creation of new saving vehicles, and lead individuals to invest more in corporate debt and equity (Adhikari: 2003).

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 poor performance of companies, unfair share market practices and loss of investors' confidence in the 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 (Shrestha: 1996).

Financial institution and intermediaries play highly significant role in the development of capital market. They help to contribute economy by facilitating collection and mobilization of long term funds to industrialization process. It also observes "the importance of financial institution is still greater in an underdeveloped economy like Nepal where a host of traditional, social and psychological considerations conspire against the direct transaction between surplus units and deficit units" (Mahat, 1981:5). "The transaction in the stock market will ultimately depend on the size of corporate sectors in the economy. After all, only existing securities can be bought and sold. Therefore, a minimum security base will be required to the viable operation of security exchange. So, the investors are enabling to invest their savings in a finally broad number of stocks. For that minimum number of companies with minimum number of securities will here to be listed." (Mahat, 1981:31)

A study was conducted by Aryal (1995) on *"The General Behavior of Stock Market Prices"* whose main objective was to find the laws of price fluctuation in the stock market. The major conclusion of this research was that the general behavior of security prices on Nepal Stock Exchange is remarkably on the assumption of independence as predicted by random walk model of security (speculative) price behavior. Thus, the model of such kind has been refuted at least for Nepal stock market operation. The knowledge of past now becomes useful in predicting the future movements of stock prices so the investors, on the floor of exchange of securities, can make higher expected profits in the future based solely on those historical price series under certain systematic trading scheme (i.e. market average return) of the general market for securities. Finally, with respect to distribution of price changes from the investors' point of view, the sole interest is in the shape of distribution i.e. the only information can make meaningful investment decisions (Aryal: 1995).

Similarly, the research conducted by Bhatta (1997) on *"Dynamics of Stock Market in Nepal"* has the main objective of analyzing the trend of the Nepalese stock market. During the research, he concluded that the stock market and economic activities move in similar direction. They influence each other. The development of the former is reflected in the latter. The stock market raises and mobilizes the invest-able resources to finance the long-term large projects in the economy. The stock market, therefore, can be regarded as a heart of economy. The investors are interested to invest their resources in the shares of corporate sector through the stock market in the Nepalese economy. It is necessary to develop the entrepreneurship and encourage the entrepreneurs to start the productive ventures as soon as possible. Management capability of the entrepreneurs is a key for better performance of the firms. Government should launch programs to enhance management capability of the entrepreneurs which may contribute to raise the return from the investment.

Development of the manufacturing sector is the backbone of an economy, which in turn, assists to foster banking, finance and insurance sectors. Unfortunately, the manufacturing sector does not have a good performance in Nepalese economy. Almost all firms in this sector have a sustained loss. The secondary aspect of the stock market is not also functioning well in Nepal. There is almost no liquidity in the stock market for shares except that of banking and some finance and insurance sectors. Although it has become late to take steps to overcome such problems of the Nepalese stock market in order to make it active and supportive, the stock market has good prospect for the resource mobilization to finance the productive enterprises in Nepalese economy (Bhatta, 1997).

Another study conducted by Shrestha (1999) was on the topic of ***"Stock Price Behavior in Nepal"*** with the aim to examine the efficiency of the stock market in Nepal. He had concluded that the serial correlation coefficients of the daily price changes for 1 and 2 lag days, and runs of the series of daily price changes lead to conclude that the successive price changes are not independent random variable for the 30 sample stocks listed in the Nepal Stock Exchange (NEPSE). Therefore, the random walk theory is not a suitable description for the stock market price behavior in Nepal.

The dependence in the series of price changes observed imply that the price changes in the future market will not be independent from the price changes of the previous days. It implies that the information of the past price changes is helpful in predicting future price changes in a way that the speculation through technical analysis can make higher expected profit than they would be under native buy-and-hold policy (i.e. average market return). Therefore, opportunities are available to sophisticated (both institutional and individual) investors to earn higher return in the market. The existence and participation of the sophisticated investors have not been realized from the findings of this study. It is realized that mostly the native investors have dominated in the

market that can cause prices to diverge significantly from intrinsic values because the very existences of the sophisticated traders cause to erase the opportunities of persistence in prices which establish independence of successive price changes (Shrestha, 1999).

Poudel (2001) has conducted research on *"A Study on Share Price Movements of Joint Venture Commercial Banks in Nepal"*. The main objective of the study was to examine Nepal Stock Exchange Market and to judge whether the market shares of different banking indicators (book value per share and major financial ratio) explain the share price movements. Mr. Poudel concluded that the Nepal Stock Exchange (NEPSE) operates in a weak of efficient market hypothesis indicating that the market prices move randomly. The market values per share do not accommodate all the available historical information. Having good track record of the financial position, the market potential investors buy the shares of joint venture commercial banks. Therefore, the shares of joint venture commercial banks emerge as blue chip in Nepalese stock market. The beta coefficient, which measures the risk of individual security in relative term, suggests that none of the shares of eight sample banks are risky. Therefore, even a risk averter can go for making an investment in shares of these banks. The shares of publicly quoted joint venture commercial banks are less risky as compared to other average stocks traded in the stock exchange (Poudel, 2001).

Pandey (2004) conducted a research on *"Listing, Liquidity and Price Formation in Nepal Stock Exchange"*. The main objective of the study was to examine the current status of listing, liquidity and share price formation in Nepal Stock Exchange. The major findings of the study were as follows:
➢ Companies listing in NEPSE are increasing but the percentage increase is decreasing.
➢ The percentage of listing of finance companies is found to be highest, processing and manufacturing companies in second and bank, insurance, hotel and other sectors covered third, fourth and fifth position respectively.

➢ The company trading is found 67 percent on an average. Considering the total number of listed companies 100, only 67 companies can trade. The ratio of traded companies can not be supposed as good indicator.

➢ Annual turnover and market capitalization is in increasing trend. NEPSE index and total number of share trade is also increasing but more volatile in nature.

➢ The listing rule and bye-laws are complicated and avoiding by the concerned companies. The listing fees are high. Due to the lack of the information, companies have to bear length listing period. Those companies which can not meet proper requirements should be de-listed by the SEBON. To make the better situation, there is a need to encourage the practice of making the firm to disclose their information timely and accurately.

➢ The annual turnover and market capitalization is increasing. Total number of share traded is fluctuating but the securities in amount are increasing.

➢ The size of the stock market in comparison to national economy is in good condition i.e. 7.81%. The growth in market capitalization is increasing i.e. 21% in an average which is assumed to be the satisfactory growth.

➢ The turnover ratio is the measure of real liquidity. The Nepalese stock market in this category is found very good and meets the level of that very liquid market since it has the ratio of 3.33 (Pandey, 2004).

The research conducted by Amatya (2005) on *''Present Status of Nepalese Debt Securities Market''* was with the main objective to study the position of debt securities market in the structure of Nepalese securities market. He found that Nepalese debt market is still at infant stage. Government debt securities market is slightly at maturity stage in comparison to corporate debt securities market. So that, emphasis should be given in the development of corporate debt securities market and if it is done, corporate debt securities market will grow up very soon because there are some positive signals felt by researcher such as oversubscription of HBL and NIBL debenture, declining interest rate on deposit of commercial banks, growing participation of banking sector in

issuing debentures. He also concluded that there are a number of problems due to which debt securities market of Nepal is not growing smoothly. Mainly the problems are investor's increasing attraction towards common stock, lack of public awareness, limited supply of quality bonds, difficult process of issuing debenture, high preference in purchasing banking sector's debentures and low preference in other sectors debentures, political instability, unsystematic government debt securities market, lack of large business organization, insufficient legal provision and few issuances of corporate debt securities in spite of encouraging public response (Amatya, 2005).

Gautam (2005) conducted a research on ***"A Study on the Behavior of Stock Market Prices in Nepalese Security Market"***. The main objective of the research was to analyze and examine the fluctuation of the stock prices in the security market. She concluded that the Nepalese stock market is in infancy stage or it is in developing stage. There is a gap between the theory and practice of investment in Nepalese stock market due to the lack of proper analysis of stock market for the smooth operation of the secondary market. Various measures of stock market development indicate that the stock market in Nepal is underdeveloped and has failed to show impact on the overall national economy. Small market size has made it vulnerable to manipulation and price rigging. Investors tend to avoid stock market because they do not have options to invest in securities according to their risk-return preferences. Similarly, firms shun it because stock market is less reliable source of raising funds for them. Due to this financial system, Nepal has remained basically bank-dominated. The market seems losing confidence of the 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 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.

Nepal Stock Exchange Limited is analyzing stock market behavior in very few areas regarding the stock market so experts should be recruited and analyze market behavior in efficient way so that all parties interested with stock market can get benefit from 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 staffs are making coalition for fraudulent activities towards investors. So, Nepal Stock Exchange should clear this type of change for the development of stock market (Gautam, 2005).

2.3 Concluding Remarks:

Rugh (1966) concluded that securities market embraces buyers and sellers that assist in sale and resale of corporate securities and it bridges the gap between the surplus units and deficit units by transformation of saving to productive activities. Hirt and Block (1983) also agreed with the liquidity functions of stock market. In their view if there would be no liquidity, there would be no any kind of investment in securities. In the same way Jacob and Petit (1984) found that money brokers act as middlemen and are important segments in stock market. In the opinion of Gitman (1988) savers and investors become the part of secondary market once the trading starts between them. Secondary market comprises stock exchanges and OTC market according to Rimal (1994). Likewise Windfield and Curry (1995) opined that stock exchanges are citable of capital and temples of values. Similarly according to Weston and Copeland (1995) stock markets facilitates investment, provides liquidity to securities and helps in smooth flotation of newly issued securities. About the OTC market

Brigham (1999) concluded that OTC should be facilitated with dealers, brokers and computer networks.

On the role of stock exchanges, Franfuture (1972) concluded that stock exchanges being core of capital market provides equal opportunities to buyers and sellers. Likewise According to Sur (1980) in mobilization and distribution of nation's savings stock exchanges plays active role. Jacob and Petit (1984) opined that stock exchanges provide floor for trading listed financial securities. Stock exchanges help in transfer of funds efficiently and at lower cost according to Fisher and Jordan (2000).

According Sharma (1996), the share price is determined in floor through the interaction of buyers and sellers of securities. In NEPSE trading is carried out on Open Outcry System. He concludes that small fraction of transaction represents purchase/ sale by genuine investors and rest is with speculative motive. In the other hand Adhikari (2003) concluded that government should implement its plans and policies into action for strengthening and modernizing NEPSE. Moreover Shrestha (1996) opined that the revival of share market and make it more attractive investing opportunities is possible through fair market practices and transparent NEPSE guidelines. Mahat (1981) in a country like Nepal where traditional, social and psychological considerations prevails, there the importance of financial institution is still greater.

According to Aryal (1995) investors can make higher expected profits in the future based on historical prices on the basis of market averages returns. On the other hand Bhatta (1997) concluded that there is no liquidity in the stock market for shares except that of banking, finance and insurance sectors. Likewise Shrestha (1999) observed that information regarding past prices changes is helpful in predicting future prices changes through technical analysis. According to Poudel (2001) declared that shares of publicly quoted joint venture commercial banks are less risky than other average stocks traded

in NEPSE. Pandey (2004) came with the conclusion that turnover is the measure of real liquidity and NEPSE meets that level. Amatya (2005) found that there are many problems due to which securities market is not growing smoothly. Similarly in the opinion of Gautam (2005) stock market of Nepal has remained bank dominated and moreover scarcity of flotation of stocks prevails in the market.

CHAPTER III
RESEARCH METHODOLOGY

This research has been prepared to analyze the securities trading system in NEPSE at present. The present condition of NEPSE is detected by analyzing the past data along with the future predictions. This section attempts to shed light on the major aspects of research methodology adopted for this study viz. research design, population and sample, nature and sources of data, method of analysis and limitation of study. In this study a comprehensive research methodology has been followed in order to meet the defined objectives.

3.1 Research Design:

Research design includes specification of the method of purposed study and detailed plan for carrying out the study with various empirical data for the analysis of the problem. The study basically analyses the trend and performance of NEPSE based on macro picture along with future predictions. To have an in-depth enquiry, eight sample companies' performance in NEPSE is analyzed. The data for the study is collected from secondary sources and the collected data is presented and analyzed using different tables, figures and statistical tools. Thus presentation and analysis are the core aspects of this study. In this perspective, this research follows descriptive and exploratory research design.

3.2 Nature and Sources of Data

According to the nature of the study, only secondary source was used for the collection of data. The data relating to the study were collected from different articles, newspapers, published and unpublished records and websites of different organizations. As per the objective of the study, the different data collected from Nepal Stock Exchange (NEPSE) and Securities Board of Nepal (SEBON), were specially considered.

3.3 Population and Sample

All the companies currently listed in Nepal Stock Exchange (NEPSE) were considered as the total population. In the fiscal year 2007/08, a total of 142 companies were listed in NEPSE, so all those 142 companies are considered as the population. Since it is difficult to study the entire population, judgmental and convenience sampling method is taken. The purposive sampling technique has been adopted for this study. The listed companies in NEPSE are categorized into 8 different sectors. So, while selecting the samples, care has been taken to include each sector. Because of the resource constraint, one company from each sector was selected. The number of companies and sample according to the sectors are as follows:

Table 3.1

Total Population and Sample

S.No	Types of Listed Companies	Total Population(N)	Percent (%)
1	Commercial Bank	17	11.97
2	Development Bank	23	16.20
3	Finance Company	55	38.73
4	Insurance Company	17	11.97
5	Hotel	4	2.82
6	Manufacturing & Processing Company	18	12.67
7	Trading Company	4	2.82
8	Other Company	4	2.82
	Total	142	100

The sample companies used in this study are as follows:

1   Everest Bank Limited (Commercial Bank)

2   Development Credit Bank Ltd. (Development Bank)

3   United Finance Ltd. (Finance Company)

4   Life Insurance Corp. Nepal Ltd. (Insurance Company)

5   Oriental Hotels Limited (Hotel)

6   Unilever Nepal Ltd. (Manufacturing & Processing Company)

7   Bishal Bazar Co. Ltd. (Trading Company)

8   Butwal Power Co. Ltd. (Other Company)

3.4 Method of Analysis:

All the collected data are illustrated and presented with the help of tables, figures and graphs with detail interpretation. For the analysis of the collected data, different ratios and statistical tools were used.

The ratios used in the study are as follows:

$\Rightarrow$ **Company Trading Ratio**

The company trading ratio is the ratio of the number of traded companies to the total number of listed companies. It is not necessary that the shares of all the companies listed in the stock exchange are traded, so the listed companies whose shares are traded in the stock exchange are called traded companies. The company trading ratio measures the liquidity of a stock exchange i.e. higher the company trading ratio higher the liquidity and vice-versa.

The company traded ratio can be calculated as;

$$\text{Company Traded Ratio} = \frac{NumberofTradedCompanies}{NumberofListedCompanies}$$

$\Rightarrow$ **Market Capitalization Ratio**

The market capitalization ratio is the ratio of market capitalization to the nominal Gross Domestic Product (GDP). The market capitalization ratio can be used as a measure of market size. This ratio serves as an indicator of stock market development under the assumption that stock market size is positively correlated with the ability to mobilize capital and diversify risk. Generally, the market capitalization of developed stock market is greater than 1.

The market capitalization ratio is calculated as;

$$\text{Market Capitalization Ratio} = \frac{MarketCapitalization}{GDP}$$

⇒ **Value Traded Ratio**

The value traded ratio is the ratio of total amount traded on the stock market to the nominal Gross Domestic Product (GDP). It measures the organized trading of firm equity as a share of national output. While not a direct measure of trading costs or the uncertainty associated with trading on a particular market, the assumption behind the value traded ratio is that it positively reflects liquidity on an economy-wide basis. The value traded ratio is the complementary of the market capitalization ratio. Thus, for the measurement of liquidity of a market, both the ratios; market capitalization ratio and value traded ratio are required to get the fact. For the developed market, the value traded ratio is greater than 0.4.

The value traded ratio can be calculated as;

$$\text{Value Traded Ratio} = \frac{ValueTraded}{GDP}$$

⇒ **Turnover Ratio**

The turnover ratio is the ratio of turnover to the market capitalization. Though, it is not direct measure of theoretical defilation of liquidity, high turnover is often used as indicator of low transaction cost. The turnover ratio complements market capitalization ratio. A large but inactive market can have a large market capitalization ratio but a small turnover ratio. While the value traded ratio captures trading relative to the size of stock market. A small liquid market can have a high turnover ratio but a small value traded ratio.

The turnover ratio can be calculated as;

$$\text{Turnover Ratio} = \frac{Turnover}{MarketCapitalization}$$

The statistical tools used in the study are as follows:

1   Correlation Coefficient:

Correlation may be defined as the degree of linear relationship existing between two or more variables. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable. For example, changes in the value of advertisement are associated with the changes in sales; similarly, changes in price are accompanied by changes in quantity demanded.

Though, there are many methods for the study of correlation and to compute the correlation coefficient, Karl Pearson's Method has been used in this study. According to Karl Pearson's Method,

$$\text{Correlation Coefficient}\,(r) = \frac{N\sum XY - \sum X \sum Y}{\sqrt{(N\sum X^2) - (\sum X)^2}\sqrt{(N\sum Y^2) - (\sum Y)^2}}$$

Where,

N = Number of pairs of observations, i.e. total months

$\sum X$ = Sum of observations in series X, i.e. Total of share price.

$\sum Y$ = Sum of observations in series Y, i.e. Total of turnover

$\sum X^2$ = Sum of square of observations in series X

$\sum Y^2$ = Sum of square of observations in series Y

$\sum XY$ = Sum of the product of observations in series X and Y

The value of correlation coefficient 'r' lies between -1 to 1, i.e. -1   r   1.

If r = 1, there is perfectly positive relationship.
If r = -1, there is perfectly negative relationship.
If r = 0, there is no correlation at all.

To test the reliability of the computed value of the correlation coefficient 'r', the probable error (P.E.) is used which is calculated as;

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

Where;

r = Correlation Coefficient

n = Number of pairs of observations

If r < 6P.E. the value of 'r' is not significant i.e. there is no evidence of correlation between the variables.

2. **Time Series Analysis:**

A time series is an arrangement of statistical data in chronological order (based on time period). A time series can be defined as a collection of reading of economic variables belonging to different time period, the time period may be annually, monthly, weekly or so on.

For the measurement of trends, following methods can be used.

$\Rightarrow$ Graphic and Freehand curve method

$\Rightarrow$ Semi-average method

$\Rightarrow$ Moving average method

$\Rightarrow$ Least square method

Out of them, least square method has been used in this study. This is mathematical method of obtaining trend that uses the concept of least square method, simply the technique of fitting regression equation.

For straight line trend between the time series values (y) and the time (x) is given by:

$Y_c = a + bX$ ………….. (i)

Where,

Y_c = Estimated value of Y for any given value of independent variable of X.

a = Y-intercept or value of Y when X = 0

b = Slope of the trend line or amount of change in Y per unit change in X

To determine the straight line trend, we have to determine the values of 'a' and 'b'. The values of 'a' and 'b' are obtained by solving the following two normal equations:

$$\sum Y = Na + b\sum X^2 \ldots\ldots\ldots\ldots \text{ (ii)}$$

$$\sum XY = a\sum X + b\sum X^2 \ldots\ldots\ldots.. \text{ (iii)}$$

Where N is the number of years (or month or any period) for which the data are given.

i) Computation of Predicted values of Annual Turnover

For straight line trend between the time series values (y) and the time (x) is given by:

$$Y_c = a + bX \ldots\ldots\ldots.. \text{ (i)}$$

Where,

X = t-middle year

t = Fiscal year

Y = Annual Turnover

Y_c = Estimated value of annual turnover for any given value of independent variable of X.

a = Y-intercept or value of annual turnover when X = 0

b = Slope of the trend line or amount of change in annual turnover per unit change in X

ii) Computation of Predicted values of Market Capitalization

For straight line trend between the time series values (y) and the time (x) is given by:

$$Y_c = a + bX \ldots\ldots\ldots.. \text{ (i)}$$

Where,

X = t-middle year

t = Fiscal year

Y= Market Capitalization

Y_c = Estimated value of market capitalization for any given value of independent variable of X.

a = Y-intercept or value of market capitalization when X = 0

b = Slope of the trend line or amount of change in market capitalization per unit change in X

iii) Computation of Predicted values of NEPSE Index

For straight line trend between the time series values (y) and the time (x) is given by:

$$Y_c = a + bX$$ ………….. (i)

Where,

X = t-middle year

t = Fiscal year

Y= Annual Turnover

Y_c = Estimated value of NEPSE index for any given value of independent variable of X.

a = Y-intercept or value of NEPSE Index when X = 0

b = Slope of the trend line or amount of change in NEPSE Index per unit change in X

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This chapter is organized into five different sections: (i) trend analysis of securities system in Nepal, (ii) financial perspective of securities trading system in Nepal, (iii) stock price and its relation with turnover of selected companies during FY 2007/08, (iv) future predictions of turnover, market capitalization and NEPSE index and finally ends with v) major findings of the study.

4.1 Trend Analysis of Securities Trading System in NEPSE Ltd.

Nepal Stock Exchange (NEPSE) had opened its trading floor on 13th January, 1994. From that time, NEPSE is involved in the securities trading of different listed companies. Here, attempts have been made to study the status of NEPSE by analyzing its yearly trends on different factors from its beginning year to the last fiscal year i.e. From FY 1995/96 to FY 2007/08.

4.1.1 Growth of Listed Companies in NEPSE

There are 142 listed companies in the last FY 2007/08 (see Appendix 1). The following Table-1 shows the number of listed companies in Nepal Stock Exchange Limited (NEPSE) in different fiscal years, from FY 1995/96 to FY 2007/08.

Table 4.1
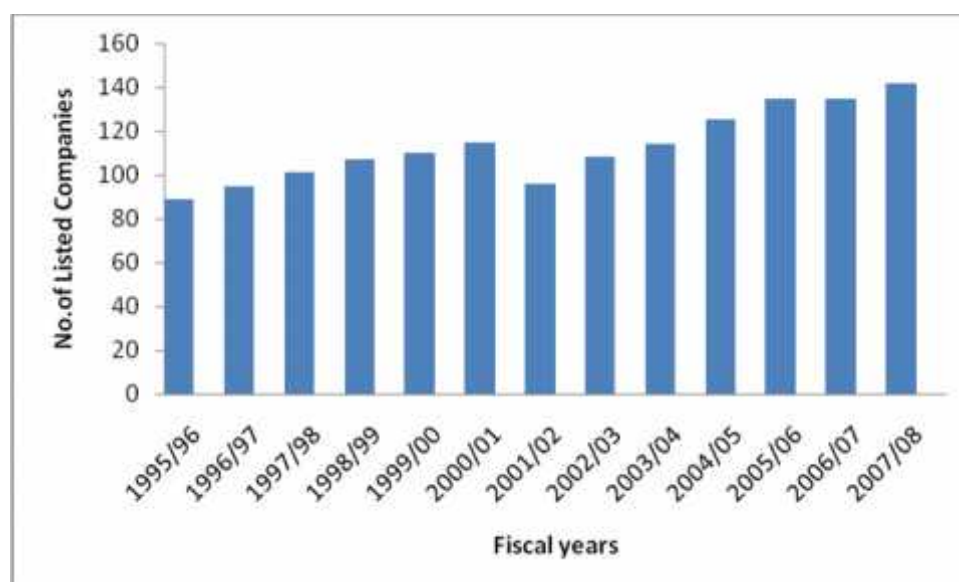
Number of Listed Companies in NEPSE

Fiscal Year	No. of Listed Companies	% increase or decrease
1995/96	89	-
1996/97	95	6.74
1997/98	101	6.32
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
2007/08	142	5.18

Sources: NEPSE, Trading Reports from1995/96 to 2007/08

The table 4.1 can be better understood with the help of following bar diagram.

Figure 4.1

Number of Listed Companies in NEPSE

(From FY 1995/96 to FY 2007/08)

According to the table and figure, the number of listed companies is increasing each year except in the FY 2001/02. However, the increment rate is fluctuating. In the last fiscal year 2004/05, total listed companies in Nepal Stock Exchange Ltd. were 125, which have increased to 135 till the end of this fiscal year with an increment rate of 8 %. This is lower than growth rate (9.65%) of previous fiscal year 2004/05. One of the reasons behind this may be the unfavorable situation in the country. However, this growth rate became Zero in FY 2006/07.Being the same no of companies there is no similarity in number of companies of different sectors. For example no. of development banks have been increased however other manufacturing and trading companies are

decreased in listing of securities. No of listed companies has increased in 2007/08 by 5 %.

In the FY 2001/02, the number of listed companies decreased to 96 from 115 of previous FY. This had happened due to the delisting of the companies by the NEPSE. According to the Stock Exchange Act, 1983, there is the 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 listing fees in NEPSE up to two years.

4.1.2 Annual Turnover of NEPSE

Annual Turnover of NEPSE during different fiscal years from FY 1995/96 to FY 2007/08 is presented in table 4.2:

Table 4.2
Annual Turnover of NEPSE

Fiscal Year	Annual Turnover (Rs. in million)	Growth Rate (%)
1995/96	215.61	-
1996/97	416.23	93.05
1997/98	202.61	(51.32)
1998/99	1499.98	640.32
1999/00	1157.03	(22.86)
2000/01	2344.16	102.60
2001/02	1540.63	(34.28)
2002/03	575.80	(62.63)
2003/04	2144.27	272.40
2004/05	4507.68	110.22
2005/06	3451.43	(23.43)
2006/07	8360.1	142.22
2007/08	22820.76	172.97

Source: NEPSE, Trading Reports from 1995/96 to 2007/08

Annual turnover of NEPSE during the different fiscal years (table 4.2) are presented in following bar diagram (fig.4.2).

Figure 4.2

Annual Turnover of NEPSE

(From FY 1995/96 to FY 2007/08)
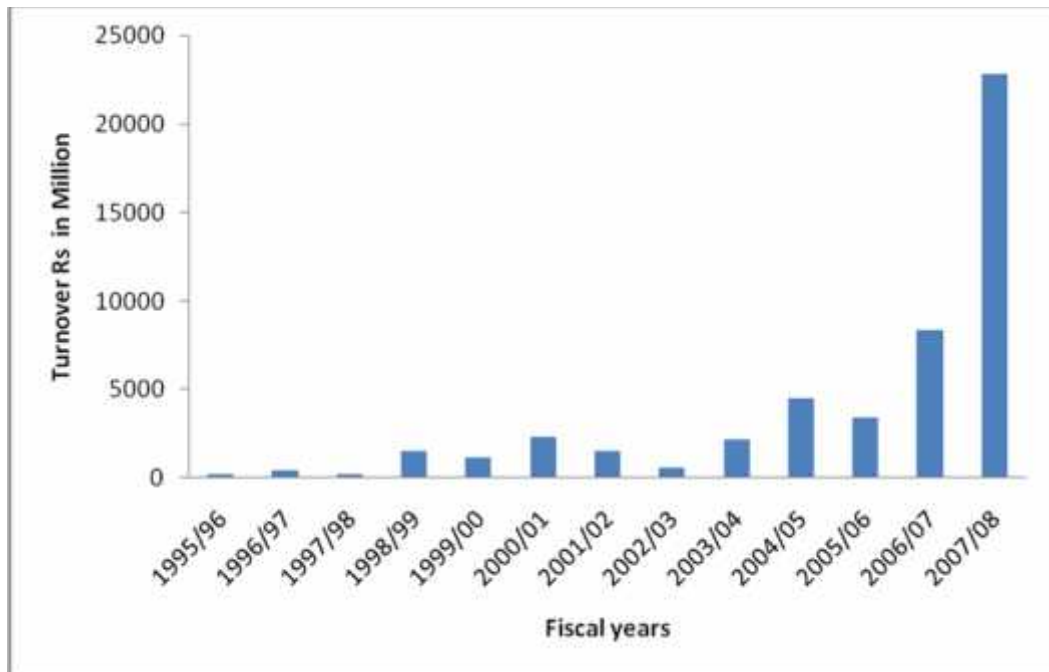
At the end of the fiscal year 2005/06 it has reached to Rs.3451.43 which has decreased by 23.43 % than previous FY. The highest turnover was in the FY 2004/05 of Rs. 4507.68 million and the lowest turnover was in the FY 1997/98 of Rs. 202.61 million. When the growth rate of turnover is considered, it can be noticed that there is increasing and decreasing pattern until the FY 2002/03. After FY 2002/03, it is increasing till the FY 2004/05 in an increasing rate, but it has gradually decreased during FY 2005/06. This is due to unstable political conditions and unfavorable circumstances. However, in the FY 2006/07 it is highly increased by 142.22%.Moreover it is increased in a large extent to 2007/08 i.e. by 172.97 %.From this it can be concluded that people seem to be optimist from the peace process in the country.

4.1.3 Annual Market Capitalization of NEPSE

Annual market capitalizations of NEPSE during different fiscal years from FY 1995/96 to FY 2007/08 are displayed in the table:

Table 4.3

Annual Market Capitalization

Fiscal Year	Market Capitalization (Rs. in million)	Capitalization Growth Rate (%)
1995/96	12295	-
1996/97	12698	3.28
1997/98	14289	12.53
1998/99	23508	64.52
1999/00	43123.3	83.44
2000/01	46349.4	7.48
2001/02	34703.9	(25.13)
2002/03	35240.4	1.55
2003/04	41424.77	17.55
2004/05	61365.89	48.14
2005/06	96763.74	57.68
2006/07	186301.3	92.53
2007/08	366247.56	96.58

Source: NEPSE, Trading Reports from 1995/96 to 2007/08

The table 4.3 can be analyzed from the following bar diagram. The x-axis measures the different fiscal years and along y- axis represents the annual market capitalization of NEPSE during different fiscal years.

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Figure 4.3

Annual Market Capitalization

(From FY 1995/96 to FY 2007/08)
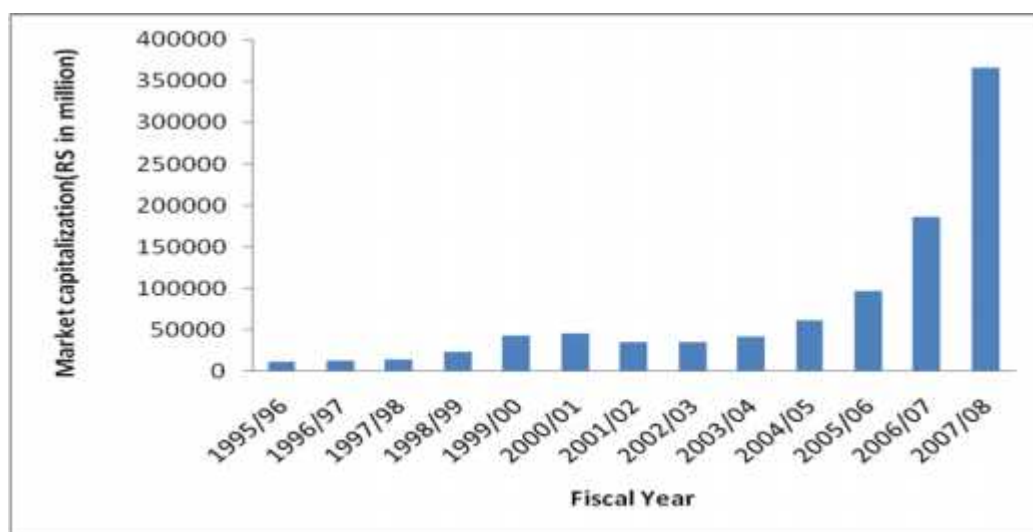
In the table and figure, it can be seen that the market capitalization in the FY 1995/96 was Rs. 12,295 million which at the end of the FY 2007/08 is recorded to be Rs. 366247.56 million. When the annual market capitalization of NEPSE is analyzed from FY 1995/96, it is found that it is increasing the till the FY 2000/01 and has reached Rs. 46349.40 million. Again in the following year i.e. in the FY 2001/02, it has decreased to Rs. 34703.9 million, which is 25.13 % less than that of the previous fiscal year. From FY 2001/02 to FY 2007/08, it is increasing yearly with an increasing rate and it has reached Rs. 366247.56 million. By the end of the fiscal year 2006/07, the market capitalization of the listed securities was Rs.186301.3 million and it increased sharply during the FY 2007/08 where the Capitalization amount is increased by 96 % than previous fiscal year.

4.1.4 NEPSE Index

Market index is a number or indicator that explains how the overall performance of security market is at present based on some past value. The stocks of listed companies are traded in stock exchange centre. In course of transactions, the price of some companies' stock would increase while the price

of other companies' stock may decline over time. However, if the overall performance of the stock market has to be analyzed, an index is needed. Market index serves this purpose. Market index can be computed by using different techniques. A particular stock exchange centre adopts one of the following techniques.

(i)   Value Weighted Index

(ii)   Price Weighted Index

(iii)   Equally Weighted Index

Out of those techniques of computing market index, NEPSE uses value weighted index technique. For the computation of value weighted index, NEPSE has assumed 30 Magh, 2050 (12th Feb, 1994) as base period.

In Table 3, NEPSE index during different fiscal years are presented.

Table 4.4

NEPSE Index (Yearly)

Fiscal Year	NEPSE index	Change (±)
1995/96	185.61	-
1996/97	176.31	-09.30
1997/98	163.35	-12.96
1998/99	216.92	+53.57
1999/00	360.70	+143.78
2000/01	348.43	-12.27
2001/02	227.54	-120.89
2002/03	204.86	-22.68
2003/04	222.04	+17.18
2004/05	286.67	+64.63
2005/06	386.83	+100.16
2006/07	683.95	+297.12
2007/08	963.36	+279.41

Source: NEPSE, Trading Reports from 1995/96 to 2007/08

The yearly NEPSE indexes during different fiscal years (table 4.4) are presented by the following line diagram. Along x- axis, it explains the fiscal years and NEPSE index is demonstrated in y- axis.

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Figure 4.4

NEPSE Index (Yearly)

(From FY 1995/96 to FY 2007/08)
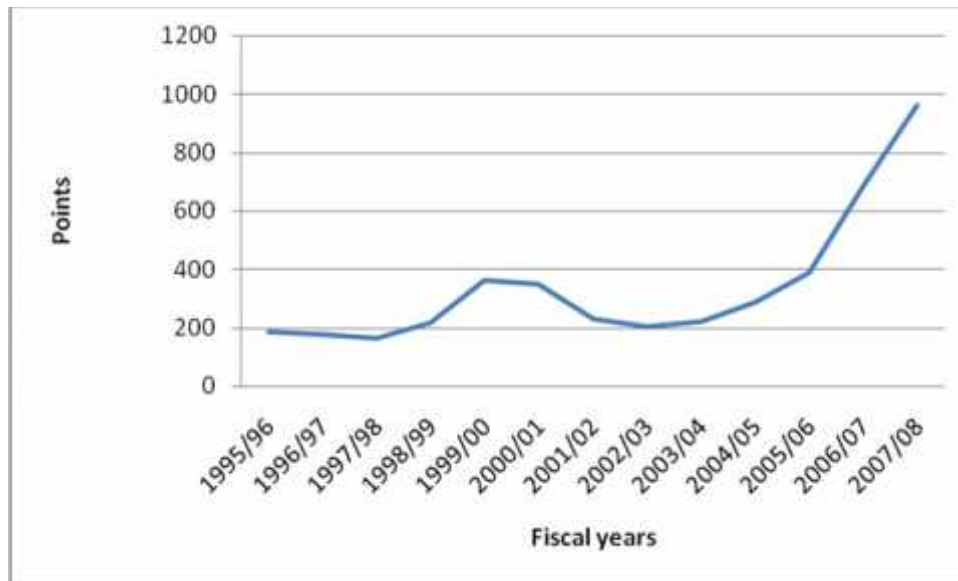
The table 4.4 and figure 4.4 shows the annual NEPSE index. The NEPSE index in the FY 1995/96 was 185.61which increased to 963.36 in the last FY 2007/08. During this period of time (i.e. from FY 1995/96 to FY 2007/08), the NEPSE index has been fluctuating yearly. From FY 1995/96 to FY 1997/98, the NEPSE index has been decreasing yearly which reached 163.35 points in the FY 1997/98. Thereafter it has been increasing from the FY 1997/98 to FY 1999/00 and reached to 360.70 points in the FY 1999/00. Again from FY 1999/00 to 2001/02, the NEPSE index has decreased and reached to 204.86 in FY 2001/02. From FY 2001/02 to the last FY 2007/08, the NEPSE index has increased which has closed at 963.36 points in the last FY 2007/08. By the end of the fiscal year 2006/07, the NEPSE index of the listed securities (Price Index) remained at 683.95 points, which is 297.12 points higher than that of the last fiscal year end index of 386.83 points. This increasing trend is same in the FY 2007/08 too where the index reached to 963.36 with the increase of 279.41 points.

4.2 Financial Perspective of Securities Trading System in Nepal

Liquidity is another aspect that is facilitated by the stock exchanges. Liquid equity market provides investment opportunities to the investors and to make a certain assets more attractive. It allows savers to acquire asset and sell it quickly and cheaply. Different ratios can be used to witness the liquidity of a stock market. Here Company Trading Ratio, Market Capitalization Ratio, Value Traded Ratio, and Turnover Ratio are employed to find out the liquidity position of NEPSE.

4.2.1 Company Trading Ratio

Company trading ratio is the ratio of the total number of companies traded to the total number of companies listed. It is not necessary that the shares of all the companies listed in the stock exchange are traded, so the listed companies whose shares are traded in the stock exchange are called traded companies. The company trading ratio measures the liquidity of a stock exchange i.e. higher the company trading ratio higher the liquidity and vice-versa. The table-3 shows the traded companies out of listed companies in NEPSE during different fiscal years from FY 1995/96 to FY 2007/08.

Table 4.5
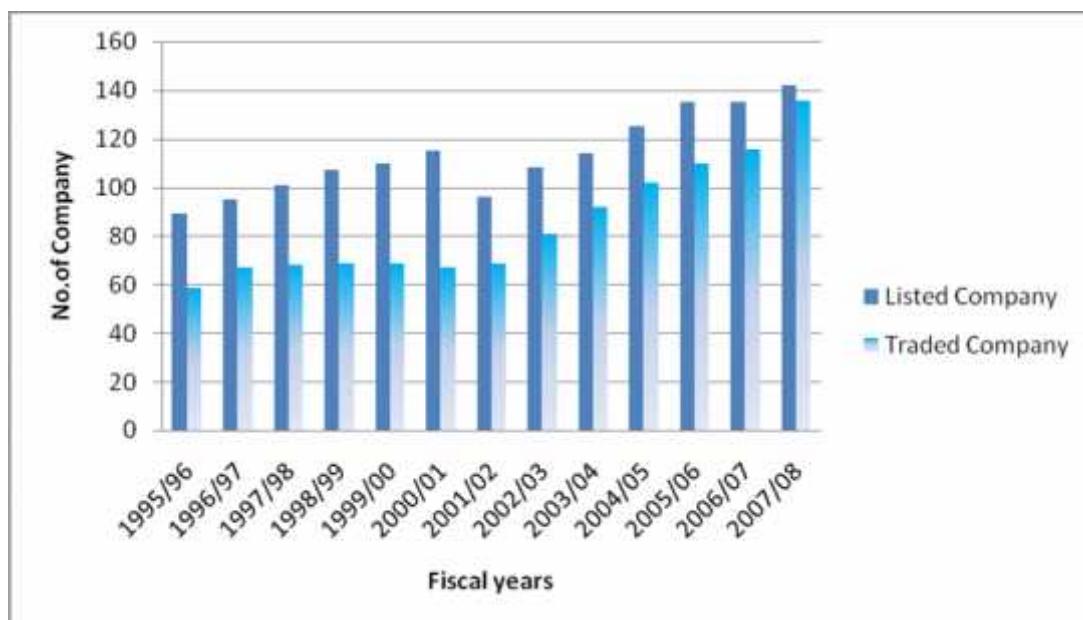**Number of Traded Companies Out of Listed Companies**

Year	Listed Company	Traded Company	Traded Ratio (%)
1995/96	89	59	66.29
1996/97	95	67	70.53
1997/98	101	68	67.33
1998/99	107	69	64.49
1999/00	110	69	62.73
2000/01	115	67	58.26
2001/02	96	69	71.88
2002/03	108	81	75.00
2003/04	114	92	80.70
2004/05	125	102	81.60
2005/06	135	110	81.48
2006/07	135	116	85.92
2007/08	142	136	95.77

Source: NEPSE, Trading Reports from 1995/96 to 2007/08

The Yearly Company Trading Ratio of NEPSE (table 4.5) is presented with the help of bar diagram (figure 4.5): fiscal years in x-axis and number of listed companies and traded companies along y-axis.

Figure 4.5

Company Trading Ratio (FY 1995/96 to 2007/08)

From the table and figure, the number of trading companies is highest in the FY year 2007/08. The numbers of trading companies are increasing yearly with the increase in the listed companies except in the FY 2000/01 where the number of trading companies reduced to 67 from 69 of previous FY 1999/00. Increasing trend of company trading ratio can be taken as a satisfactory indicator in the development of securities market in Nepal.

4.2.2 Market Capitalization Ratio

The market capitalization ratio is the ratio between market capitalization and Gross Domestic Product (GDP). Market Capitalization Ratio shows the contribution of market capitalization to the GDP. Market capitalization ratio of different fiscal years are calculated and presented in the table 4.6.

**Table 4.6**

Market Capitalization Ratio (1995/96 to 2007/08)

Fiscal Year	GDP at Producer's Prices (Rs. in million)	Market Capitalization (Rs. in million)	Market Capitalization Ratio (%)
1995/96	248913	12295.0	4.94
1996/97	280513	12698.0	4.53
1997/98	300845	14289.0	4.75
1998/99	342036	23508.0	6.87
1999/00	379488	43123.3	11.36
2000/01	441519	46349.4	10.50
2001/02	459443	34703.9	7.55
2002/03	492231	35240.4	7.16
2003/04	536749	41425.8	7.72
2004/05	589412	61366.9	10.41
2005/06	654055	96763.7	14.79
2006/07	727089	186301.3	25.62
2007/08	820814	366247.56	44.62

Source: Central Bureau of Statistics and NEPSE, Annual Report 2007/08.

The table 4.6 can be analyzed from the bar diagram given (fig.4.6). The x-axis shows the fiscal years and along y-axis GDP and market capitalization is displayed.

Figure 4.6

Market Capitalization Ratio (1995/96 to 2007/08)
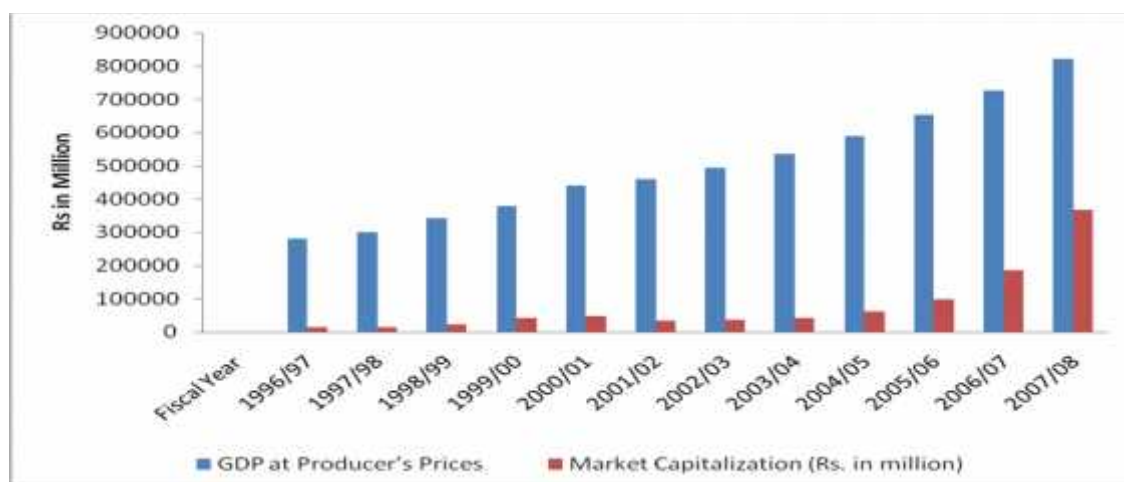
Market capitalization ratio was 4.94% in the FY 1995/96 which reached to 44.62% in the last FY 2005/06. The highest market capitalization ratio was in the last FY 2007/08 of 44.62% and the lowest ratio in FY 1996/97 of only 4.71%. GDP of the country is increasing yearly. When the market capitalization ratio is observed from FY 2002/03 to last FY 2007/08, it is found that the contribution of market capitalization to GDP is also increasing. Thus, it can be taken as a good indicator for the development of securities market and hence, the further increase in the market capitalization ratio can be expected in the future.

4.2.3 Value Traded Ratio

The value traded ratio is the ratio of value traded or turnover to the Gross Domestic Product (GDP). Value traded ratio is the complementary of the market capitalization ratio. For testing the liquidity of the security market, value traded ratio is also needed to compare. Value Traded Ratios during different fiscal years from FY 1995/96 to FY 2007/08 are calculated and presented in the table 4.7:

Table 4.7
Value Traded Ratio

Fiscal Year	GDP at Producer's Prices (Rs. in million)	Annual Turnover (Rs. in million)	Value Traded Ratio (%)
1995/96	248913	215.61	0.09
1996/97	280513	416.23	0.15
1997/98	300845	202.61	0.07
1998/99	342036	1499.98	0.44
1999/00	379488	1157.03	0.30
2000/01	441519	2344.16	0.53
2001/02	459443	1540.63	0.34
2002/03	492231	575.80	0.12
2003/04	536749	2144.27	0.40
2004/05	589412	4507.68	0.76
2005/06	654055	3451.43	0.53
2006/07	727089	18147.25	2.50
2007/08	820814	22820.76	2.78

Source: NEPSE, Annual Reports from 1995/96 to 2007/08

From the table 4.7, it can be seen that the value traded ratio is fluctuating during the different fiscal years and it contributes to GDP in nominal quantity. From FY 2002/03 to FY 2004/05, it was in increasing trend and it has increased to2.78 percent at the end of FY 2007/08, which is a good indicator for the development of securities market in Nepal.

4.2.4 Turnover Ratio

The turnover ratio calculates the activeness of the share market. This ratio calculates the trading relative to the size of the stock market. Turnover ratio is used to determine the liquidity of the stock market. Higher the turnover ratio, higher will be the liquidity and vice-versa. Turnover Ratios during different fiscal years from FY 1995/96 to FY 2007/08 are calculated and presented in the following table:

Table 4.8

Turnover Ratio (From FY 1995/96 to FY 2007/08)

Fiscal Year	Annual Turnover (Rs. in million)	Market Capitalization (Rs. in million)	Turnover Ratio (%)
1995/96	215.61	12295	1.75
1996/97	416.23	12698	3.28
1997/98	202.61	14289	1.42
1998/99	1499.98	23508	6.38
1999/00	1157.03	43123.3	2.68
2000/01	2344.16	46349.4	5.06
2001/02	1540.63	34703.9	4.44
2002/03	575.80	35240.4	1.63
2003/04	2144.27	41424.77	5.18
2004/05	4507.68	61365.89	7.35
2005/06	3451.43	96763.74	3.57
2006/07	18147.25	186301.28	9.74
2007/08	22820.76	366247.56	16.04

Source: NEPSE, Annual Reports from 1995/96 to 2007/08

The turnover ratio can be analyzed from the following bar diagram, figure 4.7:

Figure 4.7

Turnover Ratio (1995/96 to 2007/08)

In the table 4.8 and figure 4.7, it can be observed that the calculated turnover ratio is 1.75% in the FY 1995/96 which reached to 16.04% in the FY 2007/08. The highest turnover ratio was in the FY 1994/95 of 8.13% and the lowest ratio in FY 1997/98 of only 1.42%. When the value of traded ratios of different fiscal years was examined, it is found to be fluctuating. But from the FY 2002/03 to the FY 2004/05, it was increasing in an increasing rate; however it has declined in 2005/06. After the FY 2005/06, this ratio is increasing gradually till the FY 2007/08.

4.2.5 Analysis of Present Status

Present condition of NEPSE is expected to be better than the past but it can not be considered as a satisfying condition. To predict the condition of NEPSE in future, the analysis of present status is the most. For the analysis of current status of NEPSE, monthly analysis has been done in different aspects during the last FY 2007/08.

4.2.5.1 Number of Listed Companies under Different Sectors in FY 2007/08

The number of listed companies in NEPSE at the end of fiscal year 2007/08 was 142 (see appendix 1). These companies are categorized into 8 different sectors. Each sector possesses the different number of listed companies. The numbers of listed companies according to the sectors are presented in the table 4.9:

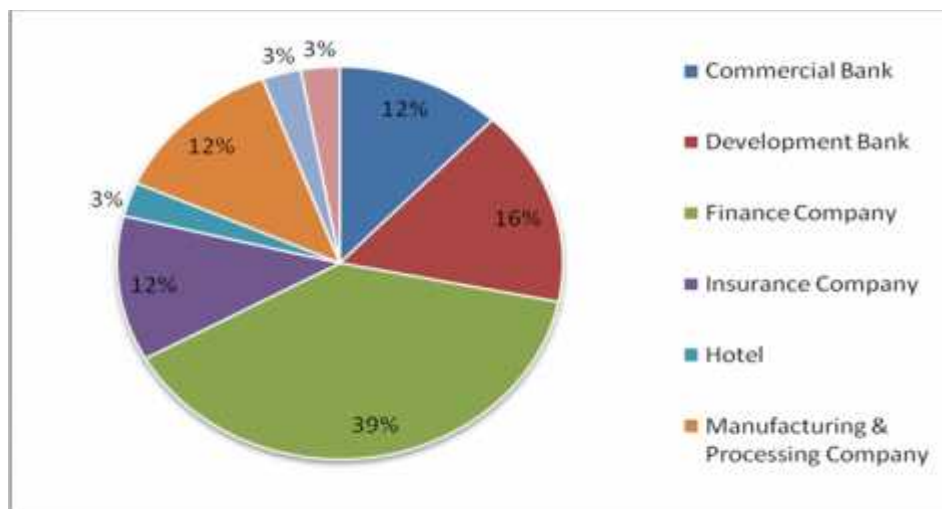**Table 4.9**

Sector-wise Number of Listed Companies in FY 2007/08

S. No.	Sectors	Numbers	Percentage
1	Commercial Bank	17	11.97
2	Development Bank	23	16.20
3	Finance Company	55	38.73
4	Insurance Company	17	11.97
5	Hotel	4	2.82
6	Manufacturing & Processing Company	18	12.67
7	Trading Company	4	2.82
8	Other Company	4	2.82
	Total	**142**	**100**

Source: SEBON, Annual Report 2007/08

The following pie-chart (fig. 4.8) presents the number of listed companies under different sectors in the FY 2007/08.

Figure 4.8

Sector-wise Number of Listed Companies in FY 2007/08

From the table 4.9 and pie-chart 4.8, it can be observed that, in FY 2007/08, the number of listed companies in NEPSE is 142. Out of them, 17 companies from Commercial Bank sector, 23 companies from Development Bank sector, 55 companies from Finance sector, 17 companies from Insurance sector, 4 from Hotel sector, 18 companies from Manufacturing & Processing sector, 4 companies from Trading sector and 4 companies from Other Company sector. When the pie chart is analyzed, it is found that, Finance sector covers the largest area of 38.73 % of total listed companies. And the least area is covered by Hotel trading and other sector which has covered only 3% of the total.

4.2.5.2 Turnover in FY 2007/08

The total amount of securities traded in the FY 2007/08 is Rs. 18,147.25 million. In the previous fiscal year, it was Rs. 3451.43 million. The sector-wise turnover in the FY 2007/08 is presented in the table 4.10:

Table 4.10
Sector-wise Turnover of NEPSE in FY 2007/08

S.No.	Sector	Turnover (Rs. in Million)	Percentage (%)
1	Commercial Bank	14351	62.90
2	Development Bank	2075	9.09
3	Finance Company	2518.5	11.04
4	Insurance Company	264.9	1.16
5	Hotel	27.7	0.12
6	Manufacturing & Processing Company	343.4	1.5
7	Trading Company	33.6	0.15
8	Other Company	3206.5	14.06
Total		**22820.8**	**100.00**

Source: SEBON, Annual Report 2007/08

Sector-wise turnover of NEPSE in FY 2007/08 (table 4.10) is presented by the pie-chart 4.9:

Figure 4.9

Sector-wise Turnover in FY 2007/08
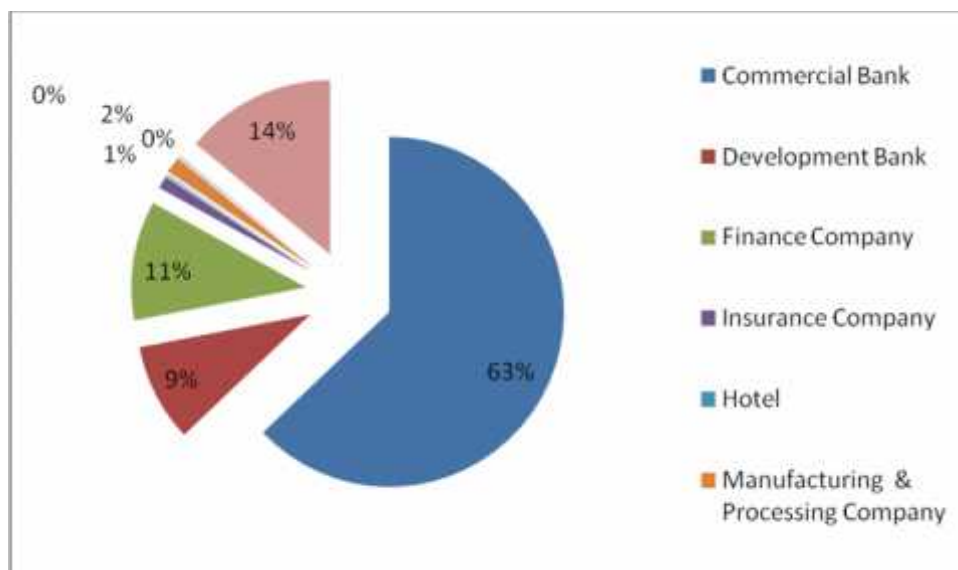
From the table 4.10 and figure 4.9,   it is found that, Commercial Bank sector has the largest turnover of Rs. 14351million which is 62.9% of the total. Trading amount of Development Bank is Rs. 2075 million which covers only 9.09% of the total. Finance sector has the turnover of Rs. 2518.5million which is 11.04% of the total and the Insurance sector covers 1.16% of the total with

the turnover of Rs. 264.9million. The least turnover is of Hotel sector which covers only 0.12% of the total with the turnover of only Rs. 27.7 million. The turnover of Manufacturing & Processing sector is of Rs. 343.4 million which is 1.50% of the total and the trading sector has the turnover of only Rs. 33.6million with 0.15% of the total. Lastly, the other sector has the turnover of Rs. 3206.5 million which is 14.06% of the total.

4.2.5.3 Monthly turnover of NEPSE during FY 2007/08:

The monthly turnover of NEPSE during FY 2007/08 is presented in the following table 4.11:

Table 4.11

Monthly Turnover during FY 2007/08

Months	Turnover (Rs. In Million)
Shrawan, 2064	171.76
Bhadra, 2064	44.16
Ashwin, 2064	202.44
Kartik, 2064	92.1
Mangsir, 2064	273.24
Poush, 2064	303.08
Magh, 2064	118.19
Falgun, 2064	187.64
Chaitra, 2064	91.83
Baishakh, 2065	151.93
Jestha, 2065	217.85
Ashadh, 2065	249.78

Source: NEPSE, Trading Report 2007/08

The monthly turnover (table 4.11) during the FY 2007/08 is presented by the figure 4.10:

Figure 4.10
Monthly Turnover of NEPSE during FY 2007/08
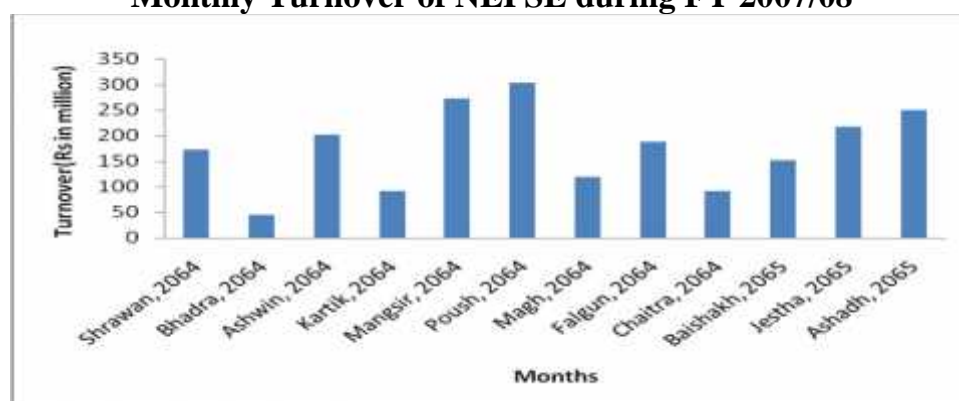
The table 4.11 and figure 4.10, shows that in the month of Poush 2064 the turnover is at the highest as compared to others months. The least turnover is recorded in the month of Bhadra, 2064 with only Rs 44.16 million. The monthly turnover is fluctuating during the year. At the beginning month i.e. Shrawan, 2064 the turnover is Rs. 171.76million which has reached to Rs. 249.78 million at the end month i.e. Ashadh, 2065.

4.2.5.4. Market Capitalization of Listed Companies in FY 2007/08

By the end of the FY 2007/08, the market capitalization value of the listed securities has reached to Rs. 366247.50 million. In the last fiscal year, this value was Rs. 186301.30 million. Sector-wise market capitalization value for FY 2007/08 is presented in the following table.

Table 4.12
Sector-wise Market Capitalization in FY 2007/08

S.No.	Sector	Market Capitalization (Rs. in million)	Percentage (%)
1	Commercial Bank	259955.3	70.98
2	Development Bank	17997.80	4.91
3	Finance Company	37674.4	10.29
4	Insurance Company	11241.4	3.07
5	Hotel	4809.6	1.31
6	Manufacturing & Processing Company	7516.9	2.05
7	Trading Company	1170.2	0.32
8	Other Company	25881.9	7.07
	Total	**366247.50**	**100.00**

Source: SEBON, Annual Report, 2007/08

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Figure 4.11

Sector-wise Market Capitalization in FY 2007/08
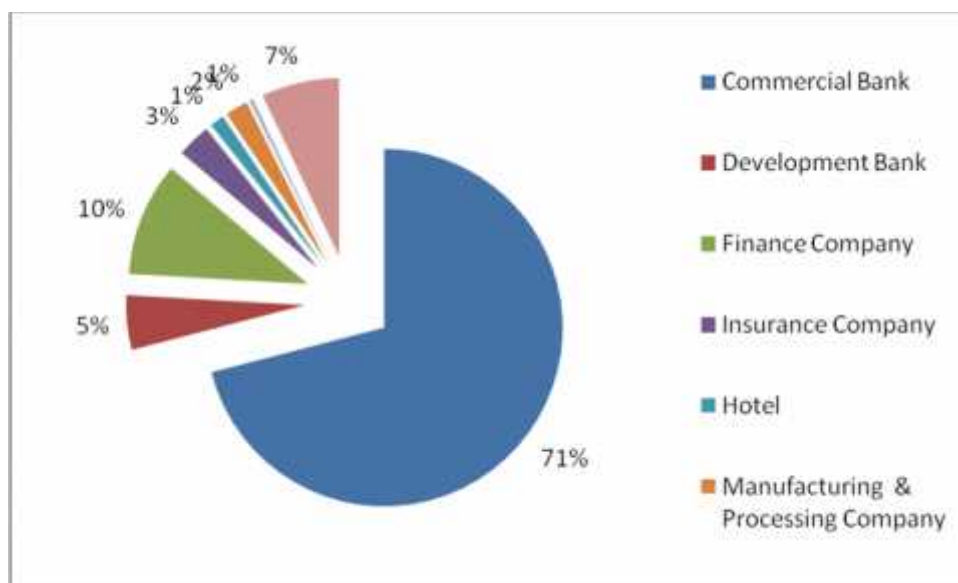
From the table 4.12 and chart 4.11, it can be observed that, the market capitalization of commercial bank is Rs. 259955.3 million which is the highest among the 8 sectors and which cover 70.98% of the total. The second highest market capitalization value is of finance Companies amounting Rs. 37674.4million which occupies 10.29% of the total. Among the 8 sectors, the lowest market capitalization value is possessed by the Trading Company sector with the amount of Rs. 1170.2 million which counts only 0.32 % of the total.

4.2.5.4 Monthly NEPSE Index during FY 2007/08

In the fiscal year 2007/08, the price index of the listed securities in Nepal Stock Exchange Ltd. (NEPSE Index) reached to 963.36 points with the increase of 279.41 points as compared to fiscal year 2006/07.The monthly NEPSE Index (closing) during the FY 2007/08 is presented in the table 4.13.

Table 4.13

Monthly NEPSE Index during FY 2007/08

Months	NEPSE Index (Points)
Shrawan, 2064	705.96
Bhadra, 2064	817.08
Ashwin, 2064	861.37
Kartik, 2064	915.38
Mangsir, 2064	1025.91
Poush, 2064	958.91
Magh, 2064	814.43
Falgun, 2064	714.76
Chaitra, 2064	746.69
Baishakh, 2065	806.26
Jestha, 2065	930.65
Ashadh, 2065	963.36

Source: NEPSE, Trading Report 2007/08

The monthly trend of the NEPSE Index (table 4.13) during FY 2007/08 is presented in the figure 4.12.The line diagram represents the monthly NEPSE Index.

Figure 4.12

Monthly NEPSE Index during FY 2007/08
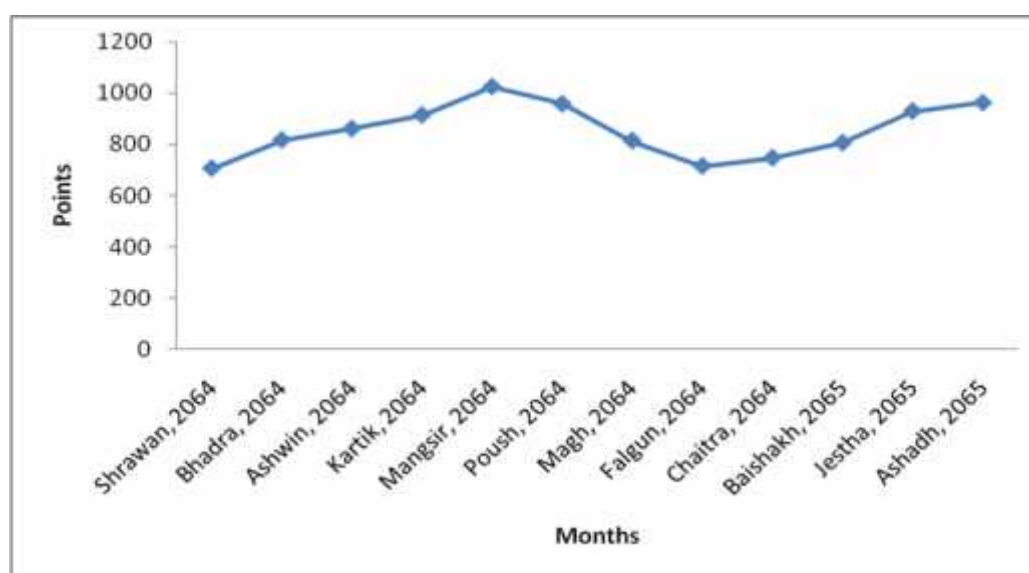
From the table 4.13 and figure 4.12, it can be concluded that the monthly NEPSE index shows increasing trend from Shrawan 2064 to Mansir 2064. After that month it is decreasing till Falgun, 2064, then increased from Chaitra

2064 to 746.69 and then increases in Baishakh 2065 to 930.65 till Jestha, 2065 and again in the last month of As and the hadh, 2065, it is in increasing trend. Thus, the NEPSE index is fluctuating but with the narrow margin of points. In the month of Mansir there is the highest index with 1025.91 points and the lowest index is in Shrawan 2064 with 705.96 points.

4.3 Stock Price and its relation with Turnover of Selected Companies during FY 2007/08

The turnover of any companies has the positive relation with the stock price. Here an experiment has been carried out to evaluate the relationship between stock price and companies' turnover during the FY 2007/08.

4.3.1 Monthly Share Price & Turnover of Everest Bank Limited.

Monthly share price and turnover of Everest Bank Ltd. is presented in the table 4.14:

Table 4.14
Monthly Share Price & Turnover of Everest Bank Ltd.

Months	Share Price	Amount Traded
Shrawan, 2064	2290	33.84
Bhadra, 2064	2675	56.94
Ashwin, 2064	2830	48.64
Kartik, 2064	2774	0.06
Mangsir, 2064	2660	14.82
Poush, 2064	2500	22.24
Magh, 2064	2280	12.99
Falgun, 2064	2012	15.45
Chaitra, 2064	1960	7.06
Baishakh, 2065	2548	15.41
Jestha, 2065	2600	24.72
Ashadh, 2065	3132	41.72

Source: NEPSE, Trading Report 2007/08

The monthly trend of share price and turnover of Everest Bank Ltd. (table 4.14) are shown in the figures 4.13 and 4.14 respectively:

Figure 4.13

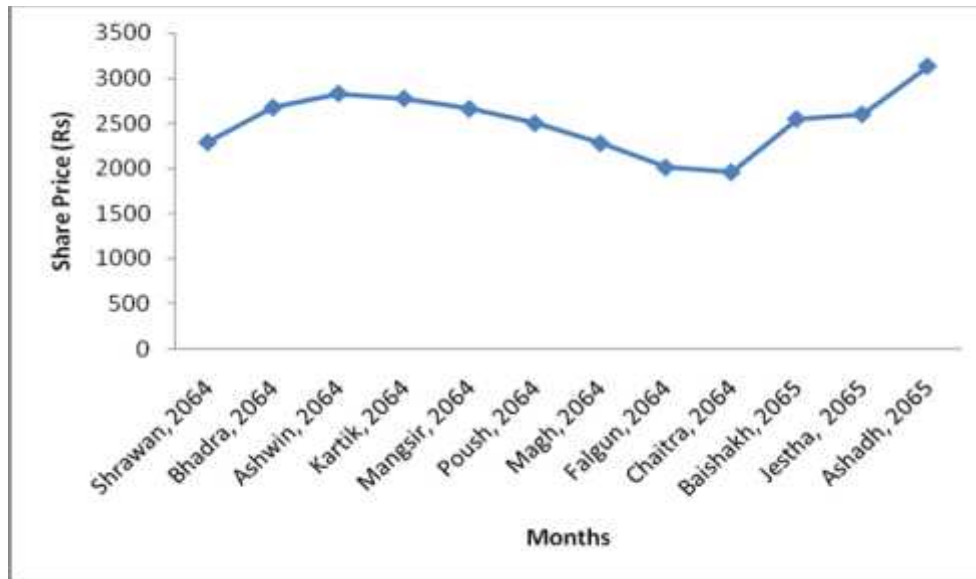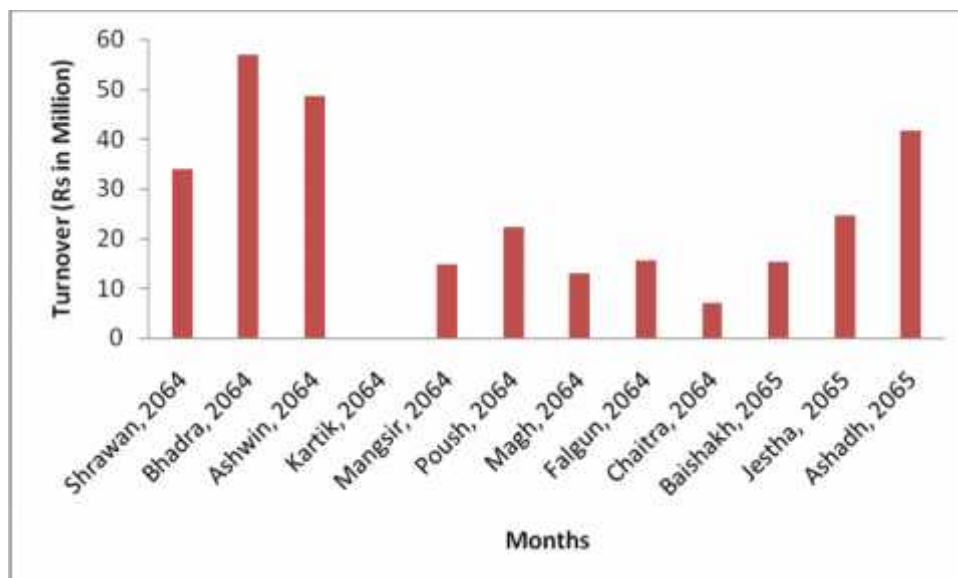**Monthly Share Price Trend of Everest Bank Ltd.**

Figure 4.14

Monthly Turnover of Everest Bank Ltd.

From the table 4.13 and figures 4.14, it is found that the share price was Rs. 2290 and the turnover Rs. 33.84 million of Everest Bank Ltd. in the beginning month of Shrawan, 2064. At the ending month of Asadh, 2065, the share price is Rs. 3132 and the turnover is Rs. 41.72 million. During the year, the highest share price is in the month of Bhadra, 2064 of Rs. 2675 and the least in the

month of Chaitra, 2064 of Rs. 1960. Similarly, the highest turnover is in the month of Bhadra, 2064 of Rs. 56.94 million when the closing share price has reached Rs. 3132 and the least turnover is in the month of Kartik 2064 of Rs. 0.06 million.

4.3.2 Monthly Share Price & Turnover of Development Credit Bank Limited.

Monthly share price and turnover of Development Credit Bank Ltd. is presented in the table 4.15:

Table 4.15
Monthly Share Price & Turnover of Development Credit Bank Ltd.

Months	Share Price (Rs.)	Turnover (Rs. in million)
Shrawan, 2064	765	16.08
Bhadra, 2064	900	10.43
Ashwin, 2064	1759	73.35
Kartik, 2064	2275	113.25
Mangsir, 2064	2866	244.87
Poush, 2064	2900	35.15
Magh, 2064	650	2.53
Falgun, 2064	592	17.35
Chaitra, 2064	625	7.85
Baishakh, 2065	765	14.59
Jestha, 2065	880	90.59
Ashadh, 2065	855	51.30

Source: NEPSE, Trading Report 2007/08

The monthly trend of share price and turnover of Development Credit Bank Ltd. (table 4.15) are shown in the figures 4.15 and 4.16 respectively:

Figure 4.15

Monthly Share Price of Development Credit Bank Ltd.
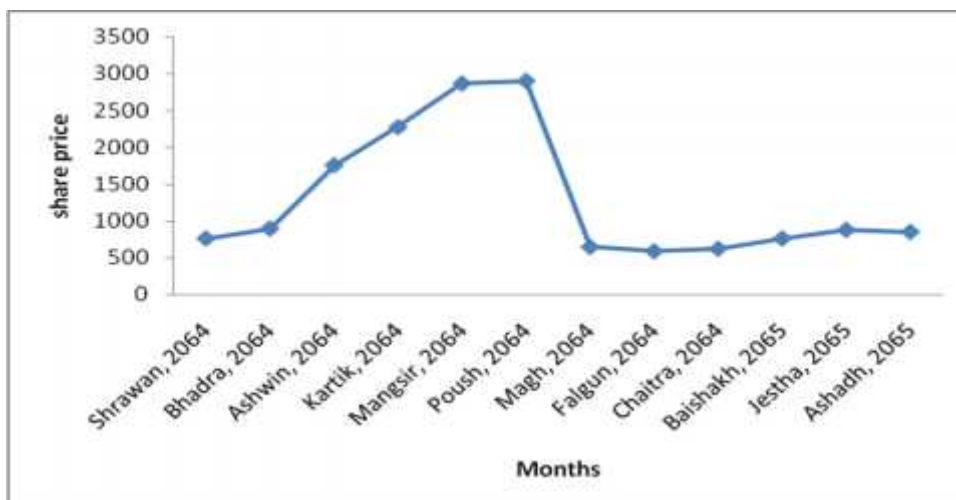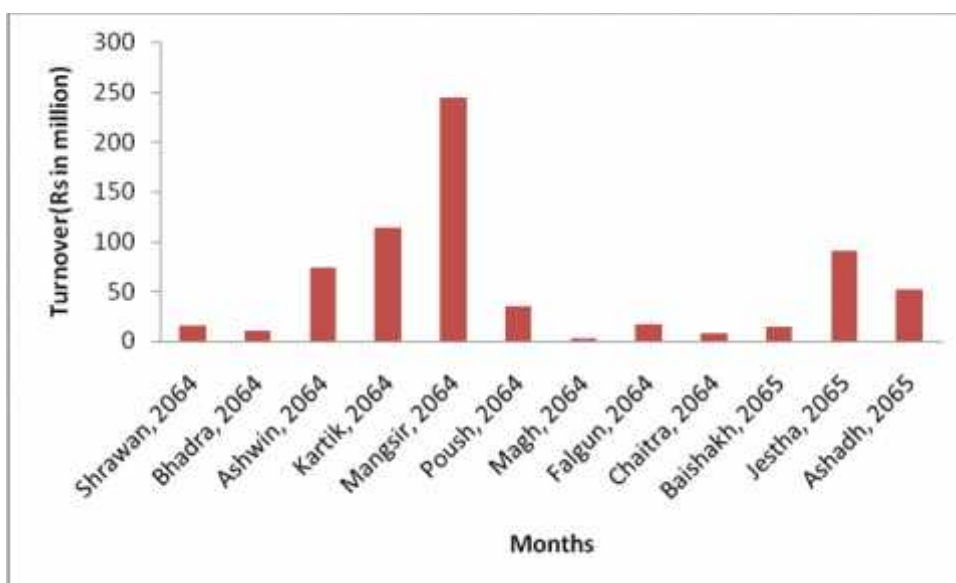

Figure 4.16

Monthly Turnover of Development Credit Bank Ltd.

From the table 4.15 and figures 4.15&4.16, it is found that the share price is Rs. 765 and the turnover Rs. 16.08 million of Development Credit Bank Ltd. in the beginning month of Shrawan, 2064. At the ending month of Ashadh, 2065, the share price is Rs. 855 with Rs. 51.30 million turnovers. During the fiscal year, the highest share price is recorded in the month of Poush 2064 of Rs. 2900 and the least in the month of Falgun, 2064 of Rs. 592. Similarly, the highest

turnover is in the month of Mansir, 2064 when it has reached to the amount of Rs. 244.87 million with the closing share price of Rs. 2866. And the lowest turnover is in the month of Magh, 2064 of Rs. 2.53 million when the closing share price is ended at Rs. 650.

4.3.3 Monthly Share Price and Turnover of United Finance Limited.

Monthly share price and turnover of United Finance Ltd. are presented in the table 4.16:

Table 4.16
Monthly Share Price & Turnover of United Finance Ltd

Months	Share Price (Rs.)	Turnover (Rs. in million)
Shrawan, 2064	451	0.29
Bhadra, 2064	502	0.31
Ashwin, 2064	679	0.30
Kartik, 2064	705	0.11
Mangsir, 2064	800	0.26
Poush, 2064	850	0.12
Magh, 2064	884	0.43
Falgun, 2064	936	0.62
Chaitra, 2064	900	0.36
Baishakh, 2065	925	1.25
Jestha, 2065	683	4.01
Ashadh, 2065	935	2.47

Sources: NEPSE, Trading Report 2007/08

Monthly share price and turnover of United Finance Ltd. (table 4.16) are shown in the figures 4.17 & 4.18 respectively:
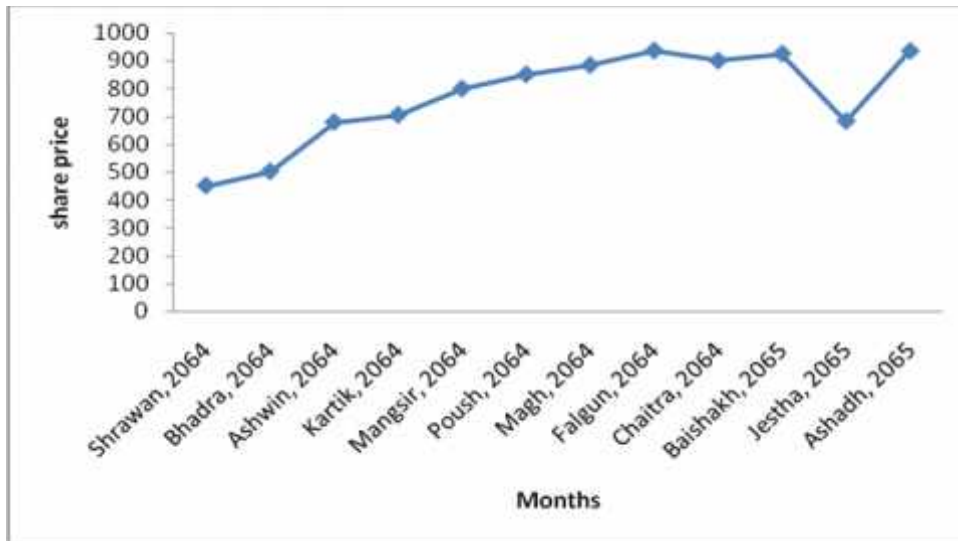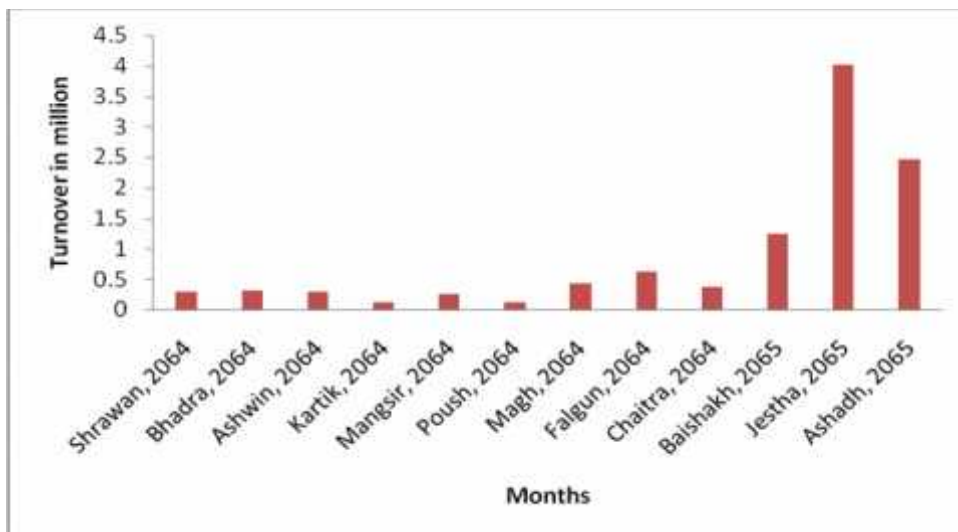
Figure 4.17

Monthly Share Price of United Finance Ltd.

Figure 4.18

Monthly Turnover of United Finance Ltd.

From the table 4.16 and figures 4.17 and 4.18, it can be seen that the share price is Rs. 451 and the turnover Rs. 0.29 million of United Finance Ltd. in the beginning month of Shrawan, 2064. At the ending month of Ashadh, 2065, the share price is Rs. 935 with the turnover of 2.47 million. Similarly During the fiscal year, the highest share price is in the beginning month of Shrawan, 2064 of Rs. 451 and the lowest is in the month of Falgun, 2065 of Rs. 936. Similarly,

the month of Jestha, 2065 has the highest turnover of Rs 4.01 million and in the month of Kartik, 2064 it has least turnover of Rs 0.11 Million.

4.3.4 Monthly Share Price & Turnover of Life Insurance Corp. Nepal Ltd.

Monthly share price and turnover of Life Insurance Corp. Nepal Ltd. are presented in the table 4.17:

Table 4.17
Monthly Share Price & Turnover of Life Insurance Corp. Nepal Ltd.

Months	Share Price (Rs.)	Turnover (Rs. in million)
Shrawan, 2064	884	10.53
Bhadra, 2064	880	1.8
Ashwin, 2064	885	2.92
Kartik, 2064	925	2.23
Mangsir, 2064	1404	5.76
Poush, 2064	1333	9.39
Magh, 2064	1024	5.27
Falgun, 2064	865	1.32
Chaitra, 2064	1024	1.9
Baishakh, 2065	962	1.26
Jestha, 2065	1092	1.05
Ashadh, 2065	1012	3

Source: NEPSE, Trading Report 2007/08

The monthly share price and turnover of Life Insurance Corporation Nepal Ltd. (table 4.17) are shown by the figures 4.19 and 4.20 respectively:

Figure 4.19
Figure 4.19
Monthly Share Price of Life Insurance Corporation Nepal Ltd.
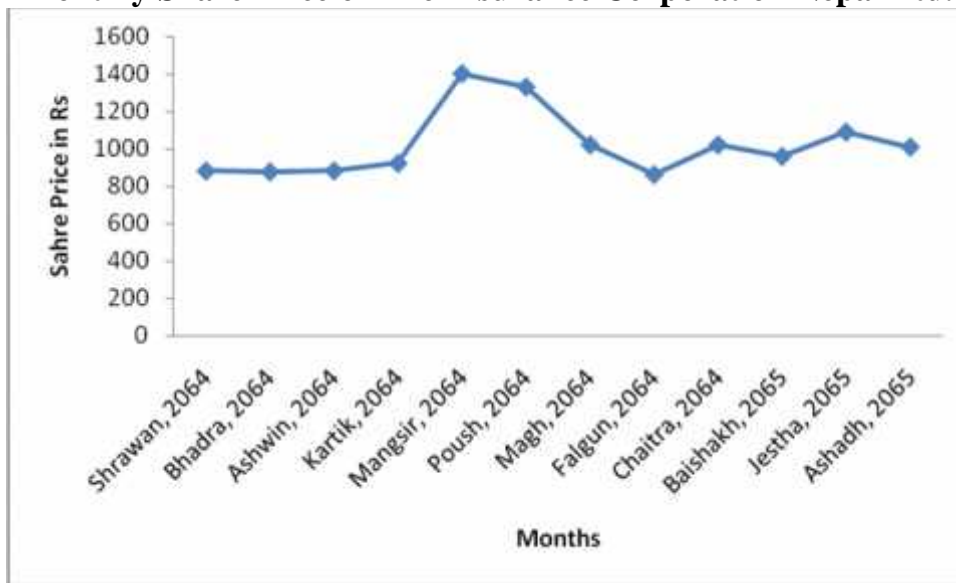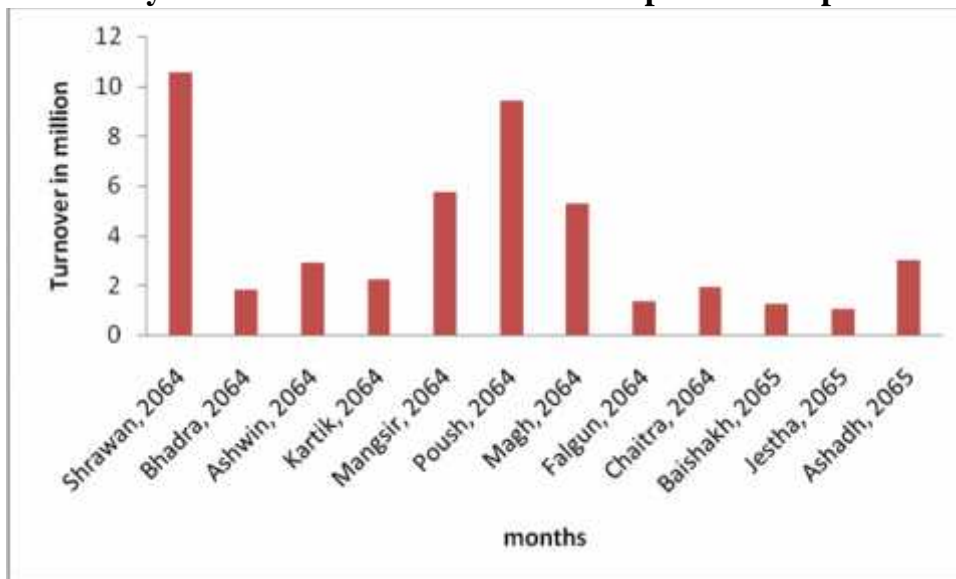

Figure 4.20
Monthly Turnover of Life Insurance Corporation Nepal Ltd.

The table 4.17 and figures 4.19 and 4.20 show that Life Insurance Corp. Nepal Ltd has the share price of Rs 884 and the turnover of Rs. 10.53 million in the beginning month of Shrawan, 2064. At the ending month of Ashadh, 2065, the share price is recorded to be Rs. 1012 with the turnover of Rs. 3 million. During the fiscal year, the highest share price is found to be Rs. 1404 in the month of Mansir, 2064 and the lowest share price is Rs. 880 in the month of Bhadra, 2064. Similarly Shrawan, 2064 has the highest turnover of Rs. 10.53 million when the closing share price is Rs. 884 and the lowest turnover is Rs.

1.8 million in the month of Bhadra 2064 when the share price closed at Rs. 880.

4.3.5 Monthly Share Price & Turnover of Oriental Hotels Limited.

The monthly share price and turnover of Oriental Hotels Limited are presented in the table 4.18 for the FY 2007/08. It can be noticed from the table 4.18 that the share price of Oriental hotel is in decreasing trend.

Table 4.18
Monthly Share Price & Turnover of Oriental Hotels Limited

Months	Share Price (Rs.)	Turnover (Rs. in million)
Shrawan, 2064	118	3.27
Bhadra, 2064	111	0.35
Ashwin, 2064	115	0.17
Kartik, 2064	111	0.98
Mangsir, 2064	122	1.18
Poush, 2064	214	3.25
Magh, 2064	202	0.37
Falgun, 2064	195	1.47
Chaitra, 2064	186	0.27
Baishakh, 2065	167	1.15
Jestha, 2065	186	0.59
Ashadh, 2065	185	0.26

Source: NEPSE, Trading Report 2007/08

The monthly share price and turnover of Oriental Hotels Limited (table 4.18) are shown in the figures 4.21 and 4.22 respectively:

Figure 4.21

Monthly Share Price of Oriental Hotels Limited
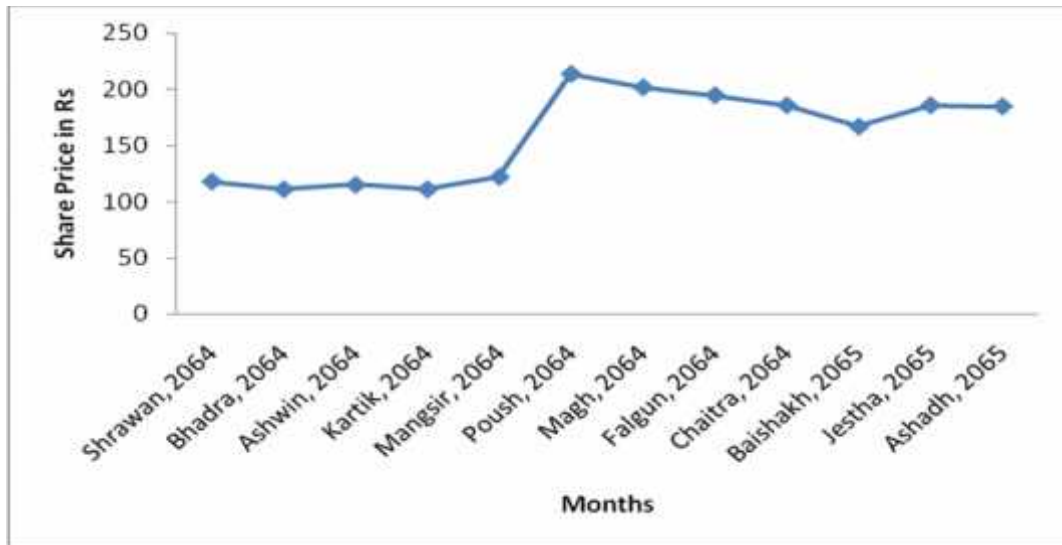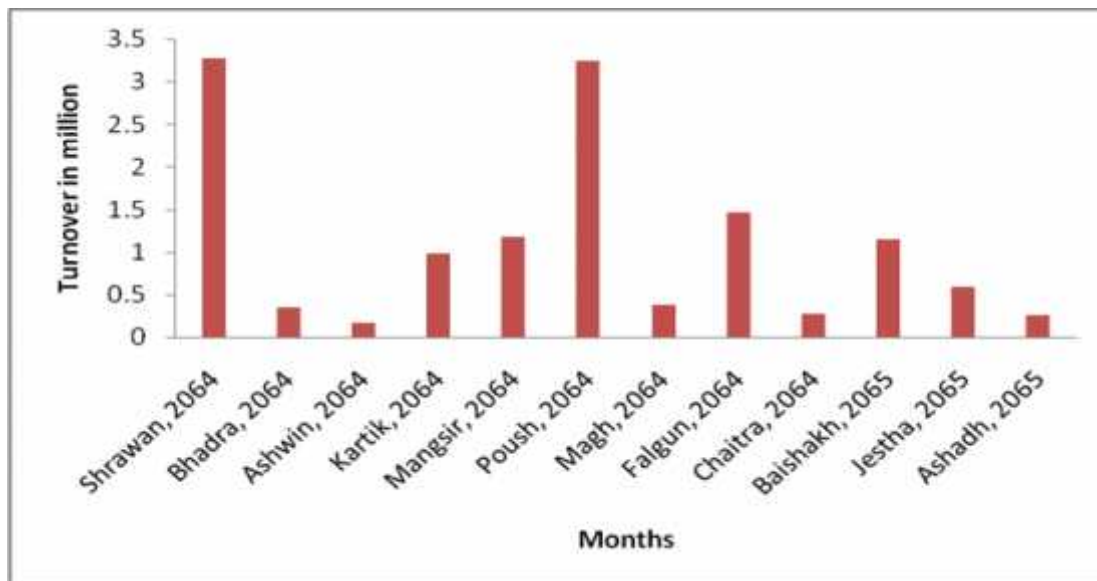

Figure 4.22

Monthly Turnover of Oriental Hotels Limited

From the table 4.18, it can be observed that the share price is Rs. 118 and the turnover Rs. 3.27 million of Oriental Hotels Limited in the beginning month of Shrawan, 2064. At the ending month of Ashadh, 2065, the share price is ended at Rs. 185 with the turnover of Rs. 0.26 million. The Line diagram figure 4.21 shows the fluctuating movement in the share price.

During the fiscal year, the monthly share price remains mostly at Rs. 111. However, the highest records in the month of Poush, 2064 with share price of Rs.214 with turnover of Rs 3.25 million. And, the highest turnover was in the month of Shrawan, 2064 of Rs. 3.27 million with the closing share price of Rs. 118.

4.3.6 Monthly Share Price & Turnover of Unilever Nepal Ltd.

The monthly share price and turnover of Unilever Nepal Ltd. are presented in the table :

Table 4.19

Monthly Share Price & Turnover of Unilever Nepal Ltd.

Months	Share Price (Rs.)	Turnover (Rs. in million)
Shrawan, 2064	3401	0.17
Bhadra, 2064	3450	0.51
Ashwin, 2064	3450	0
Kartik, 2064	3450	0
Mangsir, 2064	3450	0.1
Poush, 2064	3587	2.69
Magh, 2064	3658	0.11
Falgun, 2064	3749	5.59
Chaitra, 2064	3875	1.15
Baishakh, 2065	3840	1.56
Jestha, 2065	3960	0.39
Ashadh, 2065	4100	1.25

Source: NEPSE, Trading Report 2007/08

The monthly share price and turnover of Unilever Nepal Ltd (table 4.19) are shown in the figures 4.23 and 4.24 respectively:

Figure 4.23

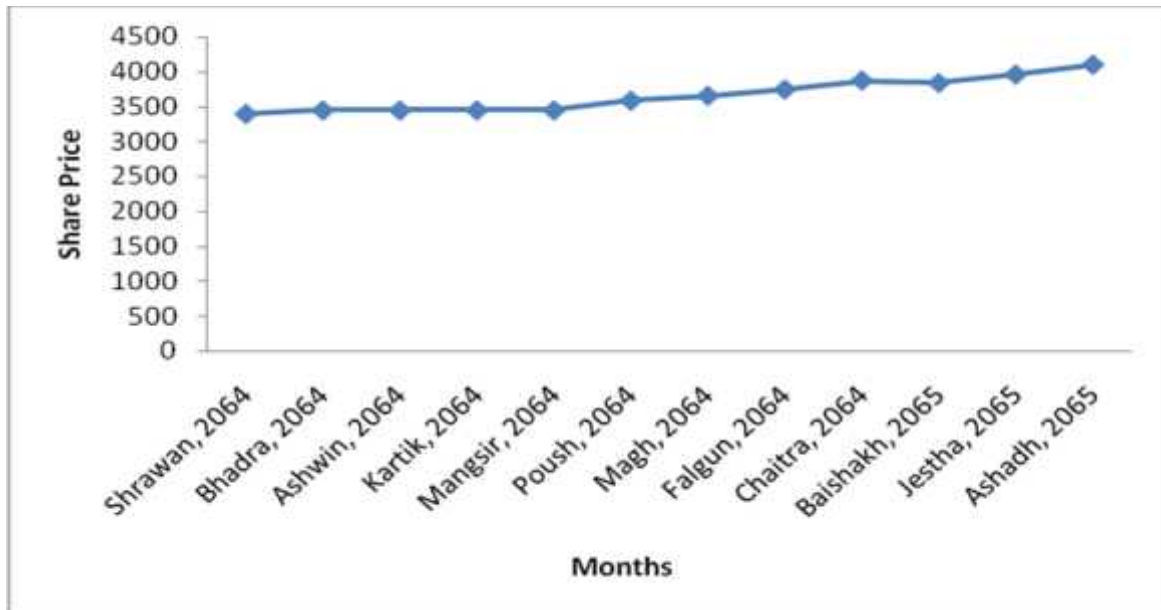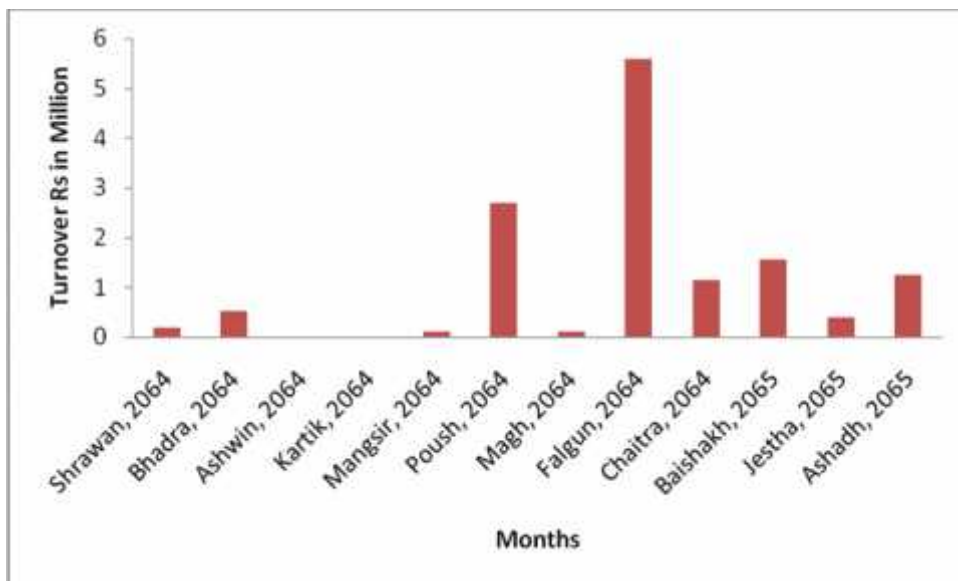**Monthly Share Price of Unilever Nepal Ltd.**

Figure 4.24

Monthly Turnover of Unilever Nepal Ltd.

From the table 4.19 and figures 4.23 and 4.24, the turnover of Unilever Nepal Ltd. is Rs. 0.17 million for the share price of Rs. 3401 in the beginning month of Shrawan, 2064. At the end month of FY Ashadh 2065, the share price ends at Rs. 4100 with the turnover of Rs. 1.25 million. In the month of Ashwin and

Kartik, 2064, there are no any transaction made and the share price of previous month Bhadra, 2064 is assumed to be remained same during Ashwin and Kartik, 2064.The price index is constant or its movement is constant.

During the fiscal year, the highest share price is recorded to be Rs. 4100 in the month of Ashadh 2065. And the lowest share price is Rs. 3401 in the month of Shrawan, 2064. Similarly, the highest turnover is Rs. 5.59 million in the month of Falgun, 2064 when the closing share price is Rs. 3749 and the lowest turnover is Rs. 0.1 million in the month of Mangsir, 2064 when the closing share price is Rs. 3450.

4.3.7 Monthly Share Price & Turnover of Bishal Bazar Co. Ltd.

The monthly share price and turnover of Bishal Bazar Co. Ltd. are presented in the table 4.20:

Table 4.20
Monthly Share Price & Turnover of Bishal Bazar Co. Ltd.

Months	Share Price (Rs.)	Turnover (Rs. in million)
Shrawan, 2064	2701	0.6
Bhadra, 2064	2700	0.15
Ashwin, 2064	2700	2.03
Kartik, 2064	2700	1.65
Mangsir, 2064	2754	0.31
Poush, 2064	2754	0
Magh, 2064	2700	0.14
Falgun, 2064	2500	4.83
Chaitra, 2064	2070	6.23
Baishakh, 2065	2142	6.81
Jestha, 2065	2300	6.88
Ashadh, 2065	2201	3.96

Source: NEPSE, Trading Report 2007/08

The monthly share price and turnover of Bishal Bazar Co. Ltd. (table 4.20) are shown in the figures 4.25 and 4.26 respectively:

Figure 4.25

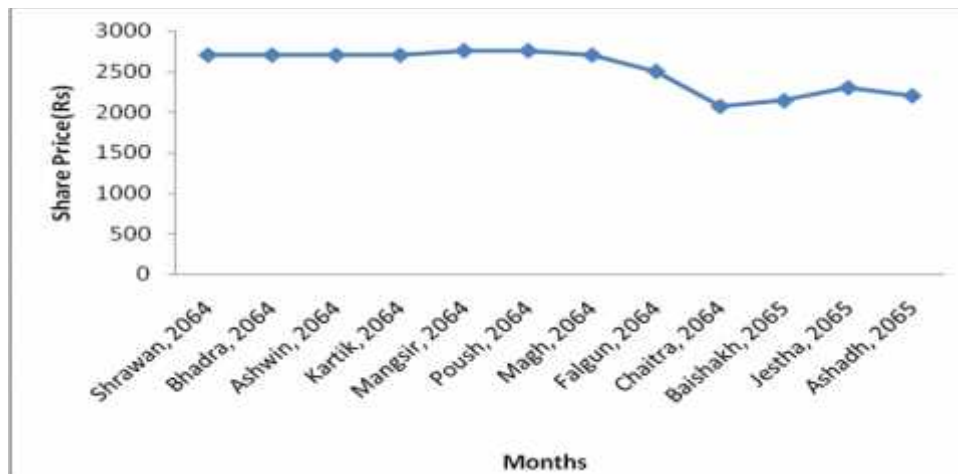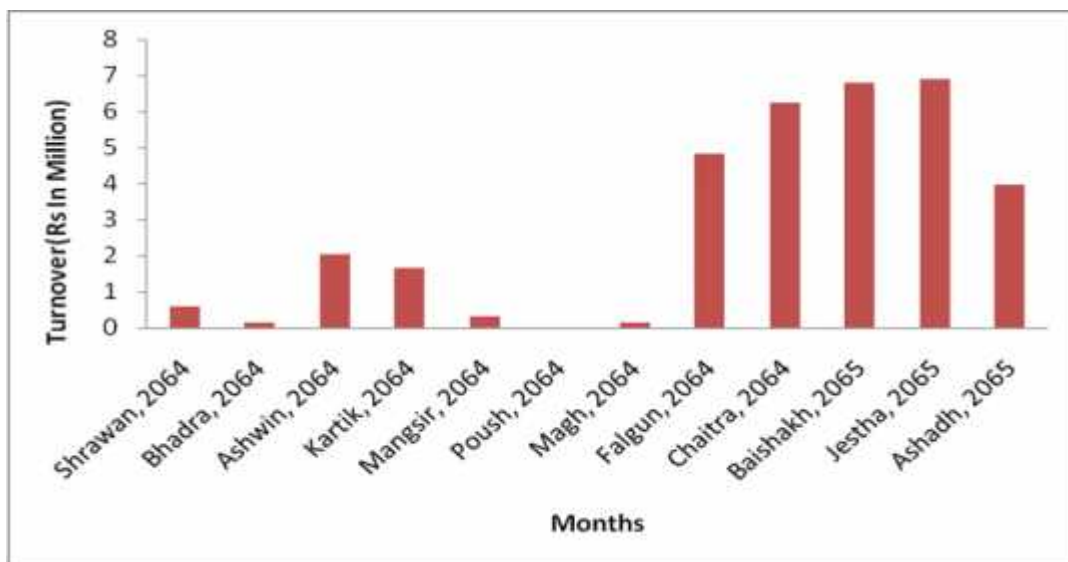**Monthly Share Price of Bishal Bazar Co. Ltd.**

Figure 4.26

Monthly Turnover of Bishal Bazar Co. Ltd.

From the table 4.20 and figures 4.25 and 4.26, it can be seen that the share price is Rs. 2701 and the turnover Rs. 0.6 million of Bishal Bazar Co. Ltd. in the beginning month of Shrawan, 2064. At the ending month of Ashadh, 2065, the share price is Rs. 2300 and the turnover was Rs. 6.68 million. This shows that share price is in decreasing trend while turnover is in increasing trend.

During the fiscal year, the highest share price is Rs. 2754 in the month of Mansir and Poush and the lowest share price is Rs. 2070 in the month Chaitra,

2064. Similarly, the highest turnover is Rs. 6.81 million in the month of Jestha, 2065 when the closing share price is Rs. 2300 and lowest turnover is in the month of Bhadra 2064 of Rs 0.15 million when share price remains at Rs 2700.

4.3.8 Monthly Share Price & Turnover of Butwal Power Co. Ltd.

The monthly share price and turnover of Butwal Power Co. Ltd. are presented in the table 4.21:

Table 4.21
Monthly Share Price & Turnover of Butwal Power Co. Ltd.

Months	Share Price (Rs.)	Turnover (Rs. in million)
Shrawan, 2064	1420	24.61
Bhadra, 2064	1750	46.63
Ashwin, 2064	1750	9.16
Kartik, 2064	1681	1.76
Mangsir, 2064	1640	130.35
Poush, 2064	1640	16.05
Magh, 2064	1480	34.44
Falgun, 2064	1165	7.33
Chaitra, 2064	1111	17.88
Baishakh, 2065	1201	19.26
Jestha, 2065	1340	7.40
Ashadh, 2065	1559	9.79

Source: NEPSE, Trading Report 2007/08

The monthly share price and turnover of Butwal Power Co. Ltd. (table 4.21) are shown in the figures 4.27 and 4.28 respectively:

Figure 4.27

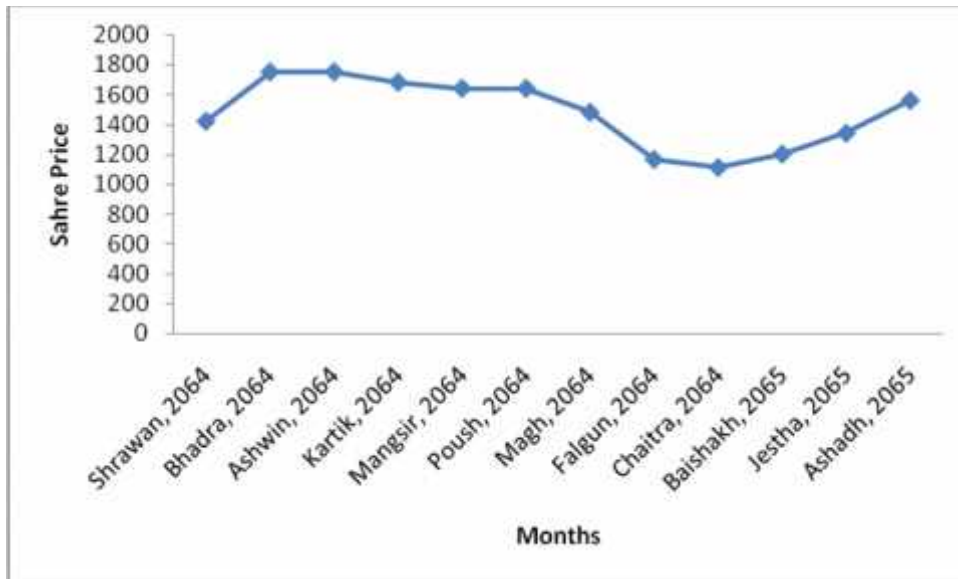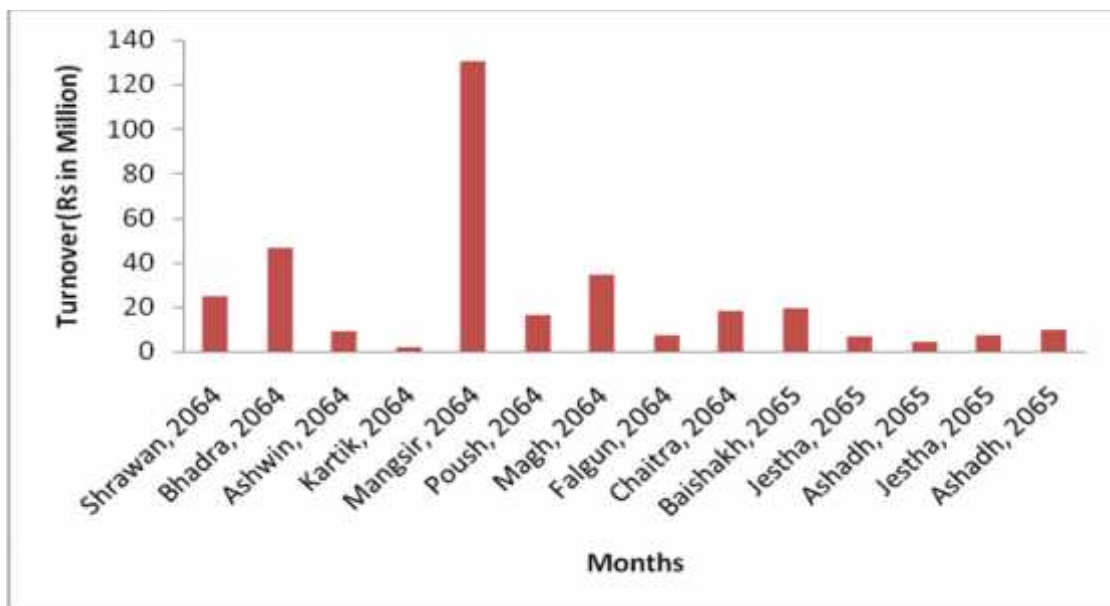**Monthly Share Price of Butwal Power Co. Ltd.**

Figure 4.28

Monthly Turnover of Butwal Power Co. Ltd.

From the table 4.21 and figures 4.27 and 4.28, it is observed that the share price is Rs 1420 with the turnover of Rs 14.61 million in the beginning month of Shrawan, 2064. At the end of Ashadh, 2065 the share price has reached to Rs 1559 with the turnover of Rs. 9.79 million. The share price was lowest during Chaitra, 2064 of Rs 1111 and highest share price was Rs 1750 during Bhadra

and Ashwin 2064. The highest turnover was recorded in the month of Mansir 2064 of Rs 130.35 million when Share price was Rs 1640 and the lowest was in the month of Kartik 2064 of Rs 1.76 million. The share price has remained constant during Bhadra and Ashwin, 2064. So it can be concluded that share price is in increasing trend while turnover is in decreasing trend.

4.3.9 Correlation Coefficient Analysis

The correlation coefficient between monthly share price and turnover of different selected companies during FY 2007/08 in NEPSE are presented in the table 4.22:

Table 4.22
Correlation Coefficient between Share Price & Amount Traded

S.No	Name of the Company	Correlation Coefficient (r)	6PE	Test of Significance
1	Everest Bank Limited	0.4668	0.9138	Insignificant
2	Development Credit Bank Ltd.	0.6942	0.6052	Insignificant
3	United Finance Ltd.	0.1137	0.1922	Insignificant
4	Life Insurance Corp. Nepal Ltd.	0.3946	0.9863	Insignificant
5	Oriental Hotels Limited	0.0658	1.1632	Insignificant
6	Unilever Nepal Ltd.	0.2990	1.0638	Insignificant
7	Bishal Bazar Co. Ltd.	-0.9320	0.1534	Insignificant
8	Butwal Power Co. Ltd.	0.2658	1.0857	Insignificant

Source: Appendix 3

The table 4.22 shows the calculated values of correlation coefficient between monthly closing share price and turnover of different selected companies during the FY 2007/08 (see Appendix 3). According to the table, the correlation coefficients of 7 companies are positive which shows the positive relation between share price and turnover. While the only one company i.e., Butwal Power Company has the negative correlation coefficient, which shows that there is negative relation between share price and turnover of these companies. When the correlation coefficients are tested with the probable error

(P.E.), the result of all the eight companies; Everest Bank Ltd., Development Credit Bank Ltd, United Finance Ltd., Oriental Hotels Ltd., Unilever Nepal Ltd., Bishal Bazar Co. Ltd., and Life Insurance Corp. Nepal Ltd and Butwal Power Company Ltd, are found to be insignificant because the value of correlation coefficient (r) is less than the value of 6 times P.E. This means that there is no any significant relationship between share price and the turnover of the selected companies.

4.4 Future Predictions

The future predictions of different aspects are done using the Time Series Analysis for the next five fiscal years i.e. from FY 2008/09 to FY 2012/13.

### 4.4.1 Time Series Analysis to predict the Turnover of NEPSE.

The predicted values of Turnover of NEPSE using Time Series Analysis for the next five fiscal years (from FY 2008/09 to FY 2012/13) are presented in the table 4.23 and figure 4.29:

Table 4.23
Predicted Values of Turnover of NEPSE

Fiscal Year	Predicted Turnover (Rs. in million)
2008/09	11386.46
2009/10	12472.04
2010/11	13557.62
2011/12	14643.2
2012/13	15728.78

Source: Appendix 4

Figure 4.29
Predicted Values of Turnover
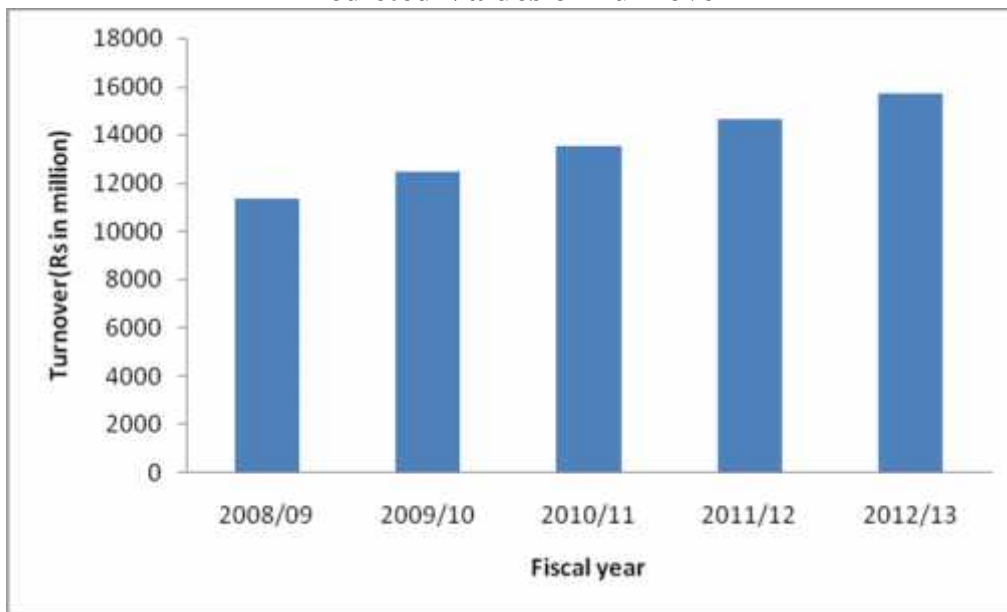
As stated in the table and figure, the predicted value of turnover is Rs. 11386.46million in the FY 2008/09 which is estimated to increase to Rs. 12472.04 million in the FY 2009/10. Likewise, it is estimated to reach to Rs. 13557.62 million and Rs. 14643.2 million in the FY 2010/11 and FY 2011/12 respectively. After that, it is further estimated to reach Rs. 15728.78million in the FY 2012/13. All the predicted values of turnover (from FY 2008/09 to FY 2012/13) are lower than that of FY 2007/08 where the turnover was Rs. 22820.76 million. The actual turnover in the future is likely to be different than the predicted values because, in the past, the percentage change in the values of annual turnover was very high.

**4.4.2 Time Series Analysis to predict the Market Capitalization of NEPSE.**

The predicted values of Market Capitalization of NEPSE using time series analysis for the next five fiscal years (from FY 2008/09 to FY 2012/13) are tabulated as (table 4.24):

Table 4.24
Predicted Values of Market Capitalization of NEPSE

Fiscal Year	Predicted Market Capitalization (Rs. in million)
2008/09	206512.22
2009/10	225307.26
2010/11	244102.3
2011/12	262897.34
2012/13	281692.38

Source: Appendix 5

Figure 4.30
Predicted Values of Market Capitalization of NEPSE
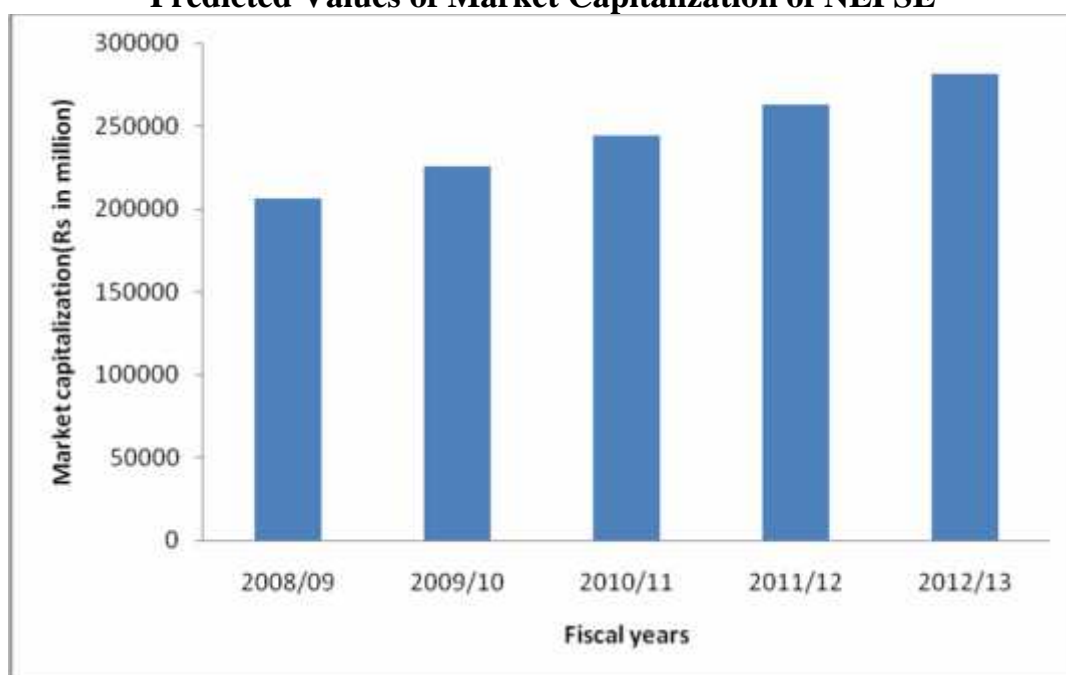
According to the prediction, the market capitalization is estimated to decrease in the FY 2008/09 as compared to the FY 2007/08. The predicted value of Market Capitalization for the FY 2008/09 is predicted Rs. 206512.22 million which is less than that of FY 2007/08 where the market capitalization was Rs. 366247.56 million. In FY 2009/10, the market capitalization is estimated to reach to Rs. 225307.26 million according to the prediction which is more than that of FY 2008/09 but less than that of FY 2007/08. The predicted value of market capitalization in the FY 2010/11 is Rs. 244102.3 million, in 2011/12 is estimated to be Rs. 262897.34 million and in 2012/13 it is predicted to be Rs. 281692.38million which is still less than FY 2007/08.

**4.4.3 Time Series Analysis to predict NEPSE Index for next five years.**

The predicted values of NEPSE Index using the Time Series Analysis for the next five fiscal years (from FY 2008/09 to FY 2012/13) are presented in the table 4.25and figure 4.31:

Table 4.25
Predicted Values of NEPSE Index

Fiscal Year	Predicted NEPSE Index
2008/09	643.81
2009/10	687.14
2010/11	730.47
2011/12	773.80
2012/13	817.13

Source: Appendix 6

Figure 4.31
Predicted Values of NEPSE Index
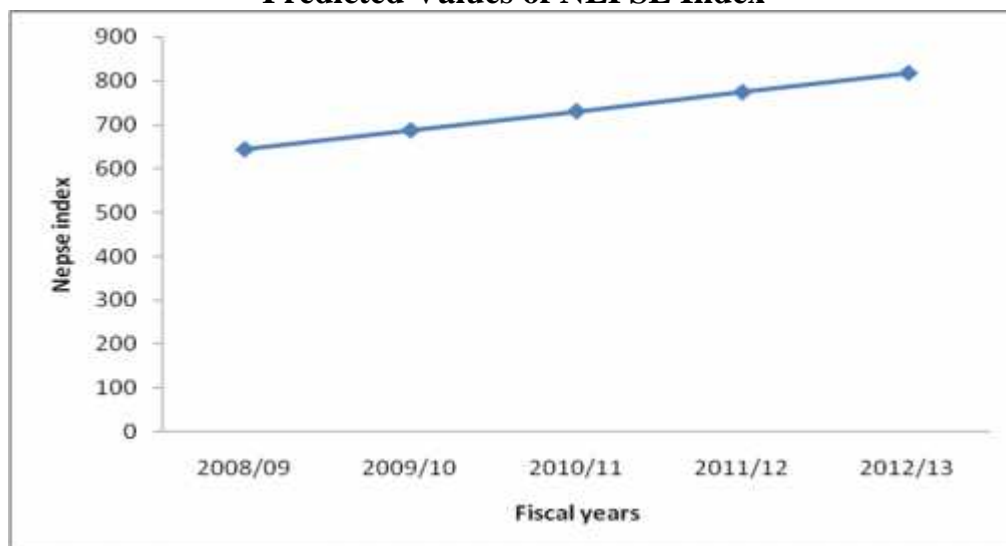
As stated in the table 4.25 and figure4.31, NEPSE Index will decrease to 643.81 points in the FY 2008/09 from 963.36 points of FY 2007/08. In the FY 2009/10, NEPSE index will reach 687.14 which can be considered good indication in the development of securities market. The NEPSE index further increases to 730.47 points in the following fiscal year of 2010/11 and, it will reach to 773.8 in FY 2011/12 and to 817.13 in FY 2012/13. However it can be noticed that all the predicted value calculated from FY 2008/09 to 2012/13 is less than that of FY 2012/13.

4.5 Major Findings:

After the detailed presentation and analysis of the furnished secondary data, some of the major findings emerged which can be listed out as:

➢ Rate of listing of companies are increasing but all the listed companies are not traded. In FY 2007/08, 95.77% of total listed companies are traded. This is considered to be a good trading ratio in comparison to previous years

➢ Annual turnover of NEPSE is found to be fluctuating throughout the different fiscal years. In 2007/08 there is abnormal growth i.e. it is 172.97% more than of previous FY 2006/07.From this data it is found that this fiscal year is good for the security transactions.

➢ Market capitalization is in increasing trend since 2002/03 and it has reached to 366247.56 million during FY 2007/08. But it counts only 16.6 % to GDP in FY 2007/08.

➢ The annual NEPSE index and total number of share traded is inclining but more volatile in nature.

➢ The percentage of listing of finance sector is found to be highest, manufacturing and processing the second and subsequently comes commercial banks and insurance companies.

➢ In the FY 2007/08 commercial banks contributes 70.99% to market capitalization.

➢ All of the selected sample companies have increased turnover and their share prices as well in the FY 2007/08.

➢ Similarly all of the sample companies have insignificant correlation coefficient between share price and turnover. This depicts that there is no relation between share price and the turnover of the companies.

➢ When values are predicted for next five years of annual turnover, market capitalization and NEPSE index it is estimated to grow.

CHAPTER V
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary and Conclusions

Stock exchange is the backbone of any economy and Nepal is not an exception. Development of vivacious and dynamic stock exchange is the pre-requisite for the upliftment of the economic conditions of the country. Hence, the development of efficient stock exchange becomes essential to assist in the development of the whole economy. So the promotion of the stock exchange in a sizeable extent would promote the economic development through increased mobilization of saving and their channeling into productive sectors, and thereby creating suitable economic outcomes in the economy.

Securities trading system is the main function performed by a stock exchange. The security exchange should follow sound trading system for the effective and efficient trading of the securities. In this light, this study was carried out mainly focusing on the trading system of Nepal Stock Exchange (NEPSE), the only organized securities exchange of Nepal. The securities trading systems in NEPSE still has different deficiencies like low trading volume, absence of professional brokers, early stage of growth, limited movement of share prices, limited information to investors, price instability, lack of sound investment decisions of the investors, etc. Furthermore, due to the slow growth of corporate sector in the country, stock market of Nepal is not developing as expected.

This research, conducted with a view the main objective of analyzing the present condition of securities trading system in Nepal Stock Exchange (NEPSE), put forward sub objectives such as to studying the trend of number of listed companies and traded companies in NEPSE, annual trend behavior and turnover of market capitalization, NEPSE Index and liquidity position, relationships between share price and amount of securities traded in NEPSE.

To accomplish the above mentioned objectives, this research was based upon the secondary data for the quantitative assessment. For this, annual reports of NEPSE, SEBON, daily newspapers, library search, magazines, bulletin and other journals were especially considered. For this analysis, 8 companies among 142 listed companies were randomly selected as the sample for the study. The secondary data were presented by the use of different tables and analyzed with different statistical tools like correlation coefficients, bar diagrams, pie charts and trend analysis with detailed interpretation as per the requirement of the study. The main points could be summarized as below:

➢ This research was based on the recent historical data furnished by the NEPSE and SEBON and has covered 13 years from 1995/96 to 2007/08. The data showed that the number of listed companies in NEPSE is in an increasing trend but the rate of increment is fluctuating yearly.

➢ In the fiscal year 2007/08, securities market has shown positive signs in line with the country heading towards political stabilization and with the estimation of rising trend of major economic indicators like gross domestic product at basic price, gross national income, and national saving and gross domestic saving. The securities markets as a whole has shown its dynamism with the rising number of companies floating share, increase in the number of listed companies, significant increase in market capitalization and market index and percent of turnover on market capitalization as compared to previous fiscal year.

➢ The development of NEPSE primarily depends on the government's policies and programs and their proper implementations.

➢ There is a close relationship between indicators of NEPSE and economic development of the country. The underdevelopment of Nepalese economy is reflected in NEPSE and vice-versa.

➢ The underdevelopment of NEPSE is obvious from the low market size, low turnover ratio, low volume traded and low institutional development

which can be seen from the data furnished in presentation and analysis part, however it is in increasing trend and can be expected more.

➢ While analyzing the annual trends of turnover, market capitalization and NEPSE index, it can be expected that the situation will improve as the increasing pattern is witness in all of these indicators especially after the FY 2002/03.The latest development in Nepal Stock Exchange is witnessed from the data of 2007/08. Thus, it can be inferred that the development of NEPSE will be paced in the coming years.

➢ Out of the listed companies, the companies traded are also increasing annually, a good indicator in the development of securities market in the country.

➢ Out of the companies the securities of which traded in NEPSE, the securities of banking sector are traded mostly, not so good indicator for the development of securities market. So, an attempt should be made to increase the trading of securities of other sectors as well.

➢ The banking sectors which has attracted maximum number of investors as observed in the sectorwise turnover of NEPSE in FY 2007/08, contribute 83% in total turnover and 86 % to total market capitalization of NEPSE. This ratio is not decreasing but increasing every year.

➢ Different ratios were used to find the liquidity of the NEPSE, which showed satisfactory condition of liquidity in the market.

➢ Trading of stocks in terms of number of transactions, number of shares traded and value of shares traded are very low in NEPSE.

➢ Annual turnover counts less than 2.78% of GDP. This is because of low market share prices and a limited number of stocks listed in NEPSE.

➢ The contribution of market capitalization to GDP counts only 44.62% in FY 2007/08. This is due to negligible development of corporate sectors.

➢ The annual turnover represents only 16.04 % of market capitalization in 2007/08 which has increased from previous year's contribution of 9.74%.

➢ When correlation coefficient analysis was made between the share price and amount traded of the selected listed companies, it was found that most of the companies did not have significant correlation coefficient between the share price and amount traded or turnover. It shows that the share trading is not affected by the changes in the stock prices, which indicates the immaturity of the securities trading system in NEPSE. In addition, it does indicate that the investors are not aware of the share price changes. This can be considered as major deficient factor for the development of securities market which is probably attributed to the insufficient flow of information regarding different aspects of the concerned companies shares of which are traded.

➢ While making future predictions regarding different aspects of NEPSE, there are indications that there will be the pace in the development of NEPSE. This analysis thus evidences positive developments in the securities market of the country. However, the predicted figure is found to be less than that of the actual figure of FY 2007/08.

Whatever the result, one can not avoid the problems that occur during the trading of securities. Thus, NEPSE should initiate different programs in order to attract the investors by providing regular information regarding different aspects of the companies the shares of which are being traded.

Development of stock exchange is one of the major factors for the development of the economy. Most importantly, they encourage investment by providing places for buyers and sellers to trade securities. This investment, in turn, enables companies to obtain funds to expand their businesses. Therefore, stock exchanges need to be studied and analyzed by the experts regularly. But in the Nepalese context, it is not being properly analyzed hindering the growth of the smooth operation of secondary market. So, the investment in NEPSE has not yet been able to tap the theoretical investment potential of the country.

Nepal Stock Exchange Limited (NEPSE), which is the only stock exchange of Nepal, has presently the history of about 15 years. The transactions turnover reveals various ups and down. However, from the past 3-4 years, the performance of the market is on increasing trend. So, we can expect that this increment in the performance of NEPSE will further continue in the future which will boost the development of securities market in the country.

On the other hand, it can be said that, in comparison to the stock exchange of other countries, only a dim shape of the stock market has been visualized in national scenario in Nepal. As NEPSE is growing in the nascent stage, the turnover of stocks, market capitalization, number of transactions and volume traded are still very thin. It has not been able to create continuous market. Still, a lot of things need to be done for the entire growth of the Nepalese capital market so that it will, to an extent, stand in international standard. It can be said that economic development will be possible only by mobilizing sufficient amount of internal and external capital. People will invest their money when they feel that the market is efficient and transparent. So, the market needs to be more transparent with the availability of different investment alternatives and sufficient systems should be developed to control the possible fraud and errors. However there are many problems in NEPSE. The major conclusions derived from the study could be grouped as follows:

➢ Correlation coefficient is a measurement of relationship between two variables. Correlation analysis also shows that there is not significant relationship between share price and turnover, i.e. it was found all of the companies are not closely related to the market returns. Therefore, it can be concluded that the overall return has no relationship with the market return, which implies that the return of individual company is not affected by any change in market return.

➢ The political instability, the unstable policies and other law-related issues are the prominent factors for the underdevelopment of the

NEPSE. Due to political instability, investors are not willing to invest not only in share market but also in all other sectors.

➢ Restoration of peace and political stability have created good investment environment. Investors are excited to invest in securities in recent days and people have become more aware than before about the securities market.

➢ The NEPSE is not being able to create continuous market. It may be because of dominance of the individual investors in stock market. The volatile and rudimentary nature of NEPSE indicates high dissatisfaction among the investors. It may be mainly due to the lack of awareness amongst the investors, low habit of investing in stocks and holding strategy of the investors.

➢ One of the essential ingredients that is required for the efficient functioning of NEPSE is fair and timely disclosure of the information. Information deficiency may be one of the reasons for determination of share price by speculation. Regulatory submission and disclosure of information by the listed companies are meant for ensuring good corporate governance, transparency and investors protection. But it is found that most of the listed companies do not submit these kinds of information to NEPSE.

➢ The rationality of the investors in Nepal is quite low as they have little approach to the information. They have very little knowledge of the trading procedure and price formation mechanism in NEPSE.

➢ The government policies are always determinant factors to influence the NEPSE. Some of the reasons for the low level of activity in NEPSE may have to do with tax regulations. However, there are no strict regulations to mitigate the problems of insider trading and manipulation of market. Thus, due to lack of effective law prohibiting such abuses and due to ineffective enforcement of existing laws, NEPSE is lacking fair game.

➢ The development of the manufacturing sector becomes the backbone of an economy which, in turn, assists to foster the banking and finance and insurance sectors. Unfortunately, manufacturing sector does not have a good performance record in the Nepalese economy. Almost all firms in this sector have sustained loss. The investment in banking sector is considered secured. This may be one of the reasons that people invest in banking sectors. Thus, the government should make and implement policies for the development and growth of manufacturing sectors as well.

It can be concluded that poor governance, political instability, lack of strict and favorable policies to follow in practice, lack of commitment to implement the policy and the lack of investors' awareness are affecting the effectiveness and efficiency of NEPSE. The problems and challenges need to be overcome shortly in order to have pace in the development of the securities market which will be a pre-requisite to the economic development of the country.

5.2 Recommendations

NEPSE has stepped in its 15th year. However, as in other developing countries, it is still in its nascent stage. The existing operational problems and brittle legal framework are the factors for the underdevelopment of NEPSE. Therefore, based on the study findings and also above-mentioned conclusions, certain tangible recommendations emerged, which are depicted as below:

o The listed companies should furnish reliable information in order to attract individual and institutional investors. The listed companies the shares of which are not traded in NEPSE should disclose the financial status publicly in order to make the investors know about their exact financial condition.

o NEPSE should regularly update the information furnished by the listed companies and analyzed timely. If any company is found working against NEPSE rules, the company should be immediately taken into

action. The NEPSE should have high speed settlement and clearance system, investor-friendly environment, well-equipped office, computerized system and efficient staff. NEPSE should also focus towards the possibility of substitution of present trading mechanism by electronic trading system.

o   Information brochure should be modified timely to ensure fair share transactions. Studies should be conducted to inform investors regarding compliance of legal provisions. Other relevant studies to bring into light on the performance of the listed companies are also necessary.

o   The market should be made transparent with the prompt dissemination of information to meet the expectations of investors of different parts of the country so that the involvement of the investors outside the Valley could be enhanced.

o   Investments in the manufacturing sector should be enhanced. The government should think of the financial status of the firms in the manufacturing industries so as to make the appropriate policies and programs for raising the rate of return on investments.

o   Investors should be encouraged to invest in non-banking sectors. For this, the non-banking companies should think about their policy regarding the dividends on their stocks.

o   For the development of securities market in Nepal, more institutional investors are needed and developed so that the small investors could also participate in investing in the shares of different companies. NEPSE should also start the trading of different bonds and debentures including governmental bonds, because these fixed-rate yielding securities are very essential to construct the sound portfolio for the investors.

o   Shares should be purchased as an investment rather than for speculation in the stock market.

o   Generally, Nepalese investors are not aware of their investment scheme. Therefore, they should be made aware of the investment scheme on the basis of proper analysis of risk and return. Investors should always be

aware of their strength and weakness and risk-taking capabilities so that superior forecasting and sound understanding of stocks may give winning edge to them.

o   Nepalese investors lack proper knowledge of stock markets. They should, therefore, need to read daily newspapers and journals and annual reports of NESPE and SEBON. They provide extensive statistical data and financial news which may, in turn, increase the forecasting capabilities of the investors. The investors should always be sensitive especially to developments in stock price and volume traded of the listed companies.

o   The stock brokers should be professional to enhance the awareness among the investors. They should be friendly towards the investors by furnishing them with sufficient and reliable information and suggestions.

In brief this study recommends that the transparency and openness of transactions, flow of reliable and sufficient information, presence of professional entrepreneurs, and brokers, investors' increased awareness about the market, political stability and peaceful environment and the government commitments to create and implement policies and programs friendly to the development of the securities trading are essential for the faster development and sound growth of NEPSE.

5.3 Directions for Future Research

The study focuses on the securities trading system of Nepal i.e. NEPSE.

This study has accomplished its purpose; however, a further investigation in the other facets of the area is sought. The following have been identified as the prospective areas of further research and study.

1.   Nepalese stock market is highly dominated by the banking sector. Manufacturing and trading sector have managed to have nominal contributions to overall activities of NEPSE. So, a sectoral analysis of

banking and non banking securities can be carried out to draw the real scenario of security market in Nepal.

2. Nowadays banks have started lending against shares of some listed firms which has led to undue advancement in share prices. Research can be undertaken to study how and to what extent this practice has affected the share prices and security trading.

3. A growing awareness about investing in shares can be felt with the volume expansion of the security market day by day. While the only security exchange of Nepal, NEPSE has been operating in Kathmandu so far, prospects of NEPSE can be explored in the context of outside-the-valley markets.

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