

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Stock market development and its behaviour is one of the key components of the Nepalese capital market. The rapid development of any country in this modern era depends to a large extent on the level of financial activities. Financial activities play a vital role of catalyst in the process of economic development of a country but for the rapid growth on volume of financial activities enterprises need a huge amount of funds." Capital is the means for development and productivity entities to increase gross domestic product .One of the mechanism of financing the industries from the external source in modern time is the capital market through which the industrial enterprises with corporate organization assembles the funds by issuing various from of securities from the surplus spending units directly and/via financial intermediaries" (*Mahat; 1981: 25*).

For the mobilization of investible resource capital market is an important intermediary through which effective bridging of the deficits and surplus units can be ensured. "Capital market institutions are engaged in mobilization of saving from surplus units and supply funds into the deficit units for productive investment" (*Shrestha; 1999: 1*). "Capital market directly provides liquidity to the investors who provide funds for the establishment of the productive enterprises and on the other, encourage savers to save more and enterprising economic units to start productive venture" (*Bhatta; 1997:1*).

"The development of capital market is closely related with the modernization and the development of the financial system" (*Timilsina; 2001:7*). So, the development and expansion of capital market are essential for the rapid economic growth of the country."Capital market helps for economic

development by mobilizing long-term capital and by creating liquidity, which is needed for productive sector" (*Ojha; 2001:1*).

"The advent of security and security market is not a recent phenomenon. A long array of securities, sophisticated marketplaces, different classes of market participants, upto date self and government regulations and mechanism have evolved over time. Modern innovations are more rampant in security market than in product market. There is proliferation in types of securities day by day. In fact, the development in securities market has been an indicator of the economic development of a country. Therefore securities and securities market have been the reality of business world and a subject of business education" (*Baral; 1999: 2*). "The main objective of security market is to create opportunity for maximum number of people to get benefits from the return obtained by directing the economy towards the productive sector by mobilizing the long-term capital" (*Ojha; 2001: 1*). The objectives can be fulfilled only by the rational and accountable behaviour relating to the three factors of the capital market such as intuition, mediator, and investor.

Securities markets facilitate the exchange of financial assets by bringing together buyers and sellers of securities. Securities markets provide an effective way of raising money for commercial enterprises and at the same time provide an investment opportunity for individuals and institutions. Securities markets have both theoretical and practical perspectives. Securities markets provide value and significance to the financial assets. Practically, the activities of buying and selling securities on the securities markets are extremely important for the allocation of capital within economies. The securities markets serve as a reliable guide to the performance of companies, and thereby promoting efficiency.

The process of stock market development in the country actually started in 1976 when the government established Securities Exchange Centre to provide

and develop market for securities, both the government bond and corporate securities. However, visible impact on the development of financial sector was observed only when the government changed its restrictive policy and opened up hitherto closed financial sector to private sector and foreign participation in the establishment of banks. With the adoption of privatization and economic liberalization policy the process got further impetus and the financial institutions in Nepal included 25 commercial banks, 78 finance companies, 58 development banks, 12 micro-finance development banks. In addition, there is one Employee Provident Fund, one Credit Guarantee and Deposit.

Insurance Corporation and one Citizen Investment Trust. The number of listed companies during 2007/08 for sector-wise is Commercial Banks-17, Manufacturing and Processing-18, Hotels-4, Hydropower-3, Trading-4, Insurance Companies-17, Finance Companies-55, Development Banks-23, and others-1. During this period some discernible improvements took place in the stock market.

Stock market is a place where shares of listed companies are traded or transferred from one hand to another at a fair price through the organized brokerage system.

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

There are two types of securities market i.e. Primary and Secondary market. Principally stock market refers to the secondary market for securities whereas primary market refers to the market for the new issues. In secondary market to

make transactions, primary role is performed by the brokers, in exchange they receive commissions. Therefore they are the backbone of stock market growth and its smooth functioning. The major function of the stock is to provide ready and continuous market for purchases and sales of securities at a competitive price, thereby imparting future market ability and liquidity to them. Thus, it is a medium through which scattered savings and scarce resources are transferred into productive areas that ultimately help to the economic development and industrializations of the nation.

"To maintain high liquidity in the stock market, the market has to be efficient in pricing the shares. In an efficient market, prices "fully reflect" available information. In this situation at every moment in time the actual prices of the security represent best estimate of its intrinsic value" (*Fama; 1965: 40*). That is, participants in the market would be dealing with fair prices of the security. In this condition, the investment decision problem of the general investors is greatly simplified because random selection of the stocks which matches their portfolio risk class does not differ in its returns significantly from others. "In essence in a random walk market the security analysis problem of the average investor is greatly simplified" (*Fama; 1965: 40*). "Further the pricing in the market allocate the scarce resource efficiently into the best uses on the interest of the county. The ideal market is a market where prices are accurate signals for capital allocation" (*Fama; 1977: 133*).

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

The history of security market in Nepal only started with the floating of shares from Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937. A few landmarks regarding the capital market include the introduction of Company Act in 1951,

the first issue of government bond in 1964 and the establishment of Securities Exchange Center Ltd. in 1976.

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

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

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

Such a movement did not last long. Currently, the share market is in a dismal state. There are myriad reasons behind the sluggish movement of shares trading. Some are pointing out the fundamental and technical reasons behind it. But experts think that weak management of Stock Exchange and Security Board as well as market makers has dampened capital market. Thus far, the concerned people are only trading charges against each other for the downward trend of the stock market.

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

After the restoration of multiparty democracy in the country, the Nepali Congress government had emphasized on it, with a view to reform capital market. But a few are the achievements so far. After the adoption of the liberal market economy, industrial policies were reformulated in order to assist formulated in order to assist interested individuals to start any undertaking for generating employment as well as income.

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

Trading on the floor at NEPSE completed 15 years but trading on the floor at the NEPSE is restricted to listed corporate securities and government bonds. At present, 23 member brokers, 7 issue managers, 3 market makers and 1 securities dealer operate on the trading floor as per the Securities Exchange Act 2006, rules and by laws of exchange. Before the trading of shares on the floor began, NEPSE had listed 62 companies equivalent to Rs. 1 billion 640 million rupees. Among them, there are 5 commercial banks, 25 manufacturing companies, 21 business transitions and others. At that time, the total market value of the total shares was 60 billion 62 million rupees. Now the listed companies at NEPSE have reached 159. Licensed brokers at NEPSE and are also planning to add the licensed broker at the number of 50 soon. The NEPSE trade share has started posting the activities through "Automated Trading System" from the 24th of August 2007.

The Automated Trading System adopts the principles of order driven market. The best –buy order is matched with the best-sell order. An order may match partially with another order producing multiple trades. For the order matching the best-buy order is the one with the highest price and the best sell-order is the one with the lowest price. This is because the system views that all buy-orders are available from the point of view of the point of view of the buyers in the market. So of all the buy-orders available in the market at any point of time, a seller would obviously want to sell his shares at the highest possible buy-price that is being offered. Hence, the best-buy order is the order with the highest price and the best –sell order is the order with the lowest price.

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

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

The development of a stock market depends legally on financial institution as well as on the availability of a wide array of the financial institution. Therefore, stock market development of a country's financial sector helps in a long term economic growth. Thus the activities of buying and selling of shares of the stock are extremely important for the allocation of capital within economics and it require on in depth analysis.

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

1.2 Securities Market in Nepal

"A Securities market can be defined as a place for bringing together buyers and seller of financial assets facilitate trading. Securities markets are primary market and secondary market. Market indexes are the indicator of performance of market. For example, either the market is moving upward, downward or is stagnant" (*Bhattarai; 2006: 11*).

i) Primary Market

A primary market is the place where corporations and government issue new securities. All securities, whether in money or capital market are initially issued in the primary market. This is the only market in which the company or government is directly involved in the transaction are received direct benefits from the issue. That is, the company actually receive the proceed from the sales of securities.

The term 'primary market' is used to denote the market for the original sales of securities by an issuer to the public. The issuer received cash which may be invested in productive assets or retirement of debt (*Bhattarai; 2006: 11*).

ii) Secondary Market

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

a) Trading of Stock

In Nepalese practice, the trading of securities viz. government bonds and listed corporate securities is done through Nepal Stock Exchange Ltd. (NEPSE), which is non profit organization, operating under the securities exchange act, 1983. The basic objective of NEPSE is to impart free marketability and liquidity to the government bonds and corporate securities. By facilitating transaction in its trading floor through market intermediaries such as brokers, market makers.

Member of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities at present there are 23 member brokers and 3 market makers, who operate in the trading floor as per security exchange Act, 1983 rules and by laws of the exchange. Beside this NEPSE has also licensed one dealer.

b) Primary Market Dealer and Secondary Market Dealer

Primary market dealer operates as a manager and underwriter regarding the issue. While, secondary market dealer operates as a profitable manager. A corporate firm has to fulfill certain criteria to list its securities in the NEPSE for stock trading. At present 159 different companies have listed their securities to

make them eligible for trading of stock, the listing fee and annual fee of company which can be tabulated as follows:

Table 1.1
Annual Listing Fee for Listed Companies

Paid-up Capital	Listing Fee (Rs.)	Annual Fee (Rs.)
Up to Rs. 10 millions	0.20% or minimum Rs. 15,000.00	Rs. 15,000.00
Above Rs. 10 millions upto Rs. 50 millions	0.15% or minimum Rs. 45,000.00	Rs. 25,000.00
Above Rs. 50 millions upto Rs. 100 millions	0.10% or minimum Rs. 75,000.00	Rs. 35,000.00
Above Rs. 100 millions	0.075% or minimum Rs. 100,000.00	Rs. 50,000.00

Source: www.nepalstock.com

NEPSE has adopted an “Automated Trading System” for the trading purpose. It means the ATS is a fully automated screen based trading system and the posting trading activities on the website. The price range is applicable to individual securities. The trading of individual securities is not halted but allowed within a certain price range. The price band is 10 percent of previous close on either way. During the "at the opening" ATO session the range is five percent on either way of the previous close price. After the ATO session the price band is two percent on either way of the last traded price till it reaches 10 percent of the previous close.

NEPSE has fixed stock trading days and hour during which the numbers are allowed to enter the floor to make the transactions as tabulated below:

Table 1.2
Stock Trading Days and Hours

Trading Days	Trading Hours	Type of Trading
Monday – Friday	12p.m. – 3 p.m.	Regular
Friday	12 p.m. – 3 p.m.	Odd lot

Source: NEPSE Annual Report 2008/09

WAN has formally started from 13th October 2007. Now stock brokers do not have to come to the NEPSE's office to sell or buy shares they can do that sitting in their own office. In the first phase, NEPSE granted permission to Malla and Mall stock broker limited, Shree Krishna and premiere securities limit to trade through WAN. Presently 18 brokers transact from their office via WAN. All the brokers with the following infrastructures can get access to WAN a price board, separate rooms with computers to post client orders or settle shares and provide up to date information to clients.

NEPSE exchange started the over the counter market from 4th June 2008 to give shareholders a chance to sell or buy the shares of companies that are delisted and that are not listed on NEPSE for failing to meet the listing criteria. The shares of the 38 companies' can now be traded in the OTC market. But NEPSE has decided to restrict the shares trading of Nepal Bank Limited in the ITC as per the request of Nepal Rastra Bank. The shares trading of Nepal Bank Limited has had negative impact on the ongoing financial sector Reform Project.

In the OTC market one does not have to go to brokers to trade shares, one can come to NEPSE and trade, paying a commission of two percent transactions of up to Rs. 25,000, 1.5 percent for transactions of above Rs. 25000 but under Rs. 500000 and one percent for transactions of over Rs. 5000000 NEPSE has implemented index-based circuit breakers with effect from 21st September 2007. In addition to the circuit breakers, price range is also applicable on individual securities. The index –based circuit breaker system applies at 3 stages of the NEPSE index movement, in both way viz. 15 points, 20 points and 25 points or 3%, 4% and 5%, whichever is breached earlier. These circuit breakers when triggered bring about a trading halt in all equity.

NEPSE has adopted a T+3 settlement system. Settlement will be carried out on the basis of paper versus payment. The trading is done at "T" and at T+1 and

the buying brokers have to submit bank vouchers for settlement. At T+2, the selling brokers must submit share certificates. At T+3, NEPSE prepares billing for payment and this will be forwarded to the bank (www.nepalstock.com)

c) Walls of NIDC Capital Market

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

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

d) Market Index Calculation

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

i) Price Weight Market Index

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

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

Where,

I = index

N = no. of stocks

P_i = Price of 1th stocks

ii) Value Weighted Index

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

$$I = \frac{\sum_{i=1}^n P_{it} N_{it}}{\sum_{i=1}^n P_{ib} N_{ib}} \times 100$$

Where,

I = index

P_{it} = Price of ith stock at time t

N_{it} = No. of outstanding jth stock at the time t

P_{ub} = Price of Jth stocks in the base period

N_{ib} = No. of share in jth stocks in the base period

NEPSE has adopted value weighted index method till the date, 13th Feb 1994 is the base period for construction of the index NEPSE multiplies index by 100 as base where as India and USA multiply the same figure by 1000 and 10 respectively.

iii) Equal Weighted Index

"The third method of constructing market index is equal weighted. This is computed daily by multiplying the level of the index on the previous day to the arithmetic mean of the daily price relative (today's price divided by yesterday

price) of the different individual stocks which are included in the construction on index" (*Francis; 1986: 73-75*).

1.3 Focus of the Study

"Security prices play in channeling the flow of capital into various industries and firms. The history of security prices both individual and aggregate has probably been most widely and intensively studied" (*Aryal; 1995: 5*).

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

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

1.4 Statement of the Problem

In Nepal the development of capital market is a recent phenomenon. The relationship between financial development and economic growth, with focus on developmental role of stock markets, has been in debate for some time in the past. Empirical studies suggest that financial development does matter and stock markets do drive economic growth. Unfortunately, in Nepal, despite a

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

The capital market mobilizes the savings of individuals or institutional investors as investment in shares, debentures, bonds, mutual funds and other financial instruments, which in turn are deployed for productive purpose in various sectors of the economy which have potential to yield a higher return on their investments.

An efficient capital market is one where the stock price reflects all information related to it. The information is of utmost importance to all the active investors in the secondary market to make their investment decision whether purchase of new shares or sale of existing holdings. The information reflects the financial health and soundness of institutions as well as its future prospects. The positive or negative spiral that is created in the market through positive or negative dissemination of institution's information has a direct bearing on its share price.

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

Political instability and interference, economic imbalances, ineffective implementation of liberal economic policy are the main problems in the Nepalese stock market. “The big challenge to international and domestic monetary policies is to separate the economies from the politics. Often, unfortunately, the politics dominates. So, one should try to build a structure that minimizes the impact of politics” (*Backer; 2002: 52*). Therefore, we should try to reduce, if not eliminate the impact of politics on economy our efforts must be directed towards creating conducive environment for its development.

Due to the lack of proper government policy, the prices of securities especially common stocks have been rapidly declining. Low trading volume, absence of professional broker, early stage of growth, limited movement of share price, limited information to investors, price instability in the secondary market, lack of proper investment decision of the investors etc. are the burning issues in Nepalese stock market. The government has not brought any packages to reform the stock market that’s why investors are losing confidence on the performance of share market mainly due to their experience of fraudulent and scandalous activities undertaken by a handful of market swindlers. There has been also more subtle problems involving misuse of insider information and growing tendency of frauds in securities transaction. Moreover, credulous investors too are responsible for showing irresponsible behaviors due to the greed for quick gains from the share market. The unhappy episodes have also emerged from wrong advice of the brokers. Thus, market disorders, price manipulation and fraudulent share market activities all taken together have resulted the present bearish market in the county. However the stock market in Nepal is in infancy stage. These problems can be solved only when the real determinants of stock prices are diagnosed and identified. Thus the present study is carried out to analyses the behavior of stock market prices in Nepalese security market and recommend for the improvement in the development of Nepalese stock market.

In general the main issues or problems in Nepalese stock market can be listed as follows:

- Centralized stock exchange located in Kathmandu valley.
- Lack of motivational factors such as tax benefits, special concessions etc. to the investors.
- Lack of proper information to the investors.
- High fluctuations in stock market prices.
- Slow privatization process.
- Lack of proper management in corporate level.

Nepalese capital market does not have a long history; however how the stock market indicators are changing over the period is one of the burning issues. The research studies about these issues are not available in the Nepalese context. On these grounds this research will deal with the following issues.

- What is the growth position of the primary market in Nepal?
- What is the growth position of listed companies in Nepalese securities market?
- What is the growth position of market capitalization in Nepalese securities market?
- What is the growth position of NEPSE index in Nepalese securities market?
- What is the growth position of number of transaction and number of listed securities in Nepalese securities market?

1.5 Objectives of the Study

The main objective of this study is to examine the growth situation of the Nepalese securities market. The other specific objectives of this research are as follows:

- To analyse the stock price trend and volume of stock traded on the Nepal Stock Exchange.

- To analyse the stock price of the listed companies in Nepal Stock Exchange.
- To analyse the investors views regarding to the investment in Nepalese Stock Market.
- To analyze the trend of capital market indicators like market capitalization, number of transactions, number of securities traded and number of securities listed etc.
- To forecast the future market prices by using regression analysis.

1.6 Significance of the Study

Securities market is one of the important components for the economic development of any country but in Nepal it is still in an infancy stage. Many practices have been done for the development of this sector by government in various period of time. However, in this short history how is it growing and what developments in different sectors, like trading mechanism, trading volume, index etc, have the market achieved till the date, is necessary to discuss in detail.

The significance of the study can be point out as follows:

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

1.7 Hypothesis of the Study

The hypotheses of the study are as follows:

H₀:-

- There is no significant difference between NEPSE Index before and after the Maoist problem was solved.
- There is no significant difference between NEPSE Index before and after the closure of multinational companies.
- There is no significant difference between NEPSE Index before and after the interim government.

H₁: -

- There is significant difference between NEPSE Index before and after the Maoist problem was solved.
- There is significant difference between NEPSE Index before and after the closure of multinational companies.
- There is significant difference between NEPSE Index before and after the interim government.

1.8 Limitations of the Study

The research is not a comprehensive study about the development of the capital market. Therefore it involves the following limitations:

- The secondary data is taken only the periods of ten years.
- The research is based upon the data provided by the NEPSE and those data are not verified by the experts.
- Only common stocks or ordinary shares are taken for the purpose of the study.
- Stock price trend is seen only with the help of NEPSE index.
- The study is based only in the stock market of Nepal.
- The study is based on only two commercial banks, two finance companies, two Insurance companies and two development banks.

1.9 Organization of the Study

This study is divided into five different chapters as below:

Chapter I: Introduction

Chapter II: Review of Literature

Chapter III: Research Methodology

Chapter IV: Data Presentation and Analysis

Chapter V: Summary, Conclusion and Recommendation

The first chapter will be about the background of the study, statement of problem, objective of the study, significance of the study, limitations of the study and organization of the study.

The second chapter will be concentrated upon review of literature and will be subdivided into two sections. The first section deals with the conceptual framework and the second section deals the review from previous studies such as review of journals, articles, magazines and review of previous thesis.

The third chapter provides the methodology adopted in the research. It comprises research design, sources of data, methods and techniques of data analysis.

The fourth chapter deals the presentation and analysis of data by using various statistical tools.

The last chapter gives the summary, conclusions and different recommendations regarding to it.

CHAPTER – II

REVIEW OF LITERATURE

This chapter deals with the review of literature to make the basic knowledge for the study. Review of literature means reviewing research studies or other relevant propositions in the related area of the study so that all the studies their conclusions and deficiencies may be known and further research can be done. “The purpose of literature review is to develop some expertise in one area, to see what new contribution can be done and to receive some ideas for developing a research design. It is done to know the outcomes of those investigations in area where similar concepts and methodologies had been used successful. In this connection a review of previous related research projects will help the researcher to formulate a satisfactory structure for the project” (*Joshi; 2001:89*).

The literature review chapter includes:

- Conceptual Review
- Review of NG Policies, Programs and Regulations
- Review of Journals and Articles
- Thesis Review

2.1 Conceptual Review

The stock market, its growth and regulation is not so old in Nepalese security market. Currently most of the investment sectors are influencing from the worldwide globalization and liberalization. The incident in one corner of the world brings the changes in the whole world. For example we can take the major issue on the World such as Global warming, Oil and food price hives and terrorism.

2.1.1 Common Stock

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

Common stockholders of a corporation are its residual owners, their claim to income and assets comes after creditors and preferred stockholders have been paid in full. As a result, a stockholder's return on investment is less certain than the return to a lender or to a preferred stockholder. On the other hand, the return to a common stockholder is not bounded on the upside, as are returns to the others. A share of common stock can be authorized either with or without par value." The par value of stock is merely a stated figure in the corporate charter and is of little economic significance. A company should not issue stock at a price less than par value, because stockholders who bought stock for less than par value would be liable for the difference between below the par price they paid and the par value" (*Francis and Van Horne; 1997: 85*).

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

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

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

"When investors buy common stock, they receive certificates that state the number of shares purchased and their par value, if any. When stock is purchased on the market (that is, when it is not a new issue purchased directly from the company), the new owner and the number of shares bought are noted in the stock record book of a transfer agent. The transfer agent is usually a big-city bank appointed by the corporation to keep track of all its shares' owners. After the sale, the former shareholder's certificate is canceled and the new certificate sent to the registrar, which is usually another bank or trust company. The registrar checks to verify that no errors were made, and when all checks are completed, the certificate is sent to the new shareholder" (*Francis; 1983: 37-39*).

i) Common Stocks Values

a) Par Value

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

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

b) Book Value

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

c) Market Value

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

ii) Classification of common stock on the basis of their features:

a) "Blue Chip Stock

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

b) Growth Stocks

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

c) Income Stocks

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

d) Cyclical and Defensive Stocks

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

e) Speculative Stocks

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

f) Small Stocks

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

g) Treasury Stocks

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

iii) Characteristics of Common Stocks

a) "Voting Rights or Control

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

b) Preemptive Rights

The preemptive right allows stockholders to subscribe to any new issue of stock so that they can maintain their previous fraction of the total number of shares sold (usually called the "outstanding shares"). Some states automatically

make the preemptive right a part of every corporate charter: in others, its inclusion as part of the charter is optional to grant the preemptive right is to recognize that stockholders are part owners of corporations and as such should have an interest in earnings and assets and a voice in management proportionate to the fraction of voting shares they own." The preemptive right, if exercised, prevents the dilution of ownership control inherent in additional stock shares. Thus, the preemptive right, if exercised, guarantees the investor's undiluted maintenance of voting control, share in earnings, and share in assets" (*Francis; 1983: 39*).

c) Right to Income and Distribution of Other Shares

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

2.1.2 Behavior of Stock Market Prices

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

(a) Technical Analysis

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

"Technical analysis is the study of the internal stock exchange information as such. The word 'technical' implies a study of the market itself and not of those external factors which are reflected in the market all the relevant factors,

whatever they may be, can be reduced to the volume of the stock exchange transactions and the level of share prices; or more generally, to the sum of the statistical information produced by the market" (*Felix Rosenfeld; 1975: 297*). "Technical analysis involves the study of stock market prices in an attempt to predict future price movements for the common stock of a particular firm. Initially, past prices are examined in order to identify recurring trends or patterns in price movements. Then more recent stock prices are analysed in order to identify emerging trends to patterns that are similar to past ones. This analysis is done in the belief that these trends or patterns repeat themselves. Thus by identifying an emerging trend or pattern, the analyst hopes to predict accurately future price movements for that particular stock" (*Sharpe, Alexander and Bailey; 2003: 12*). "The technician tends to look backward. The technician thinks little (if at all) about future earnings and dividends. The technician usually attempts to predict short-term price movements and thus makes recommendations concerning the timing of purchases and sales of either specific stocks or groups of stocks (such as industries) or stock in general. It is sometimes said that technical analysis is designed to answer the question "when?" (*Sharpe, Alexander and Bailey; 1999: 844*).

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

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

- Market value is determined solely by the interaction of supply and demand.
- Supply and demand are governed by numerous factors, both rational and irrational.
- Aside from the effects of minor fluctuations in the market, stock prices tend to move in trends that persist for appreciable lengths of time.
- Changes in trends are caused by shifts in supply and demand.
- Shifts in supply and demand, no matter why they occur, can be detected sooner or later in charts of market action.
- Some chart patterns tend to recur, and these recurring patterns can be used to forecast price movements.

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

Thus technical analysts discern past pattern or trends, which they believe to repeat in the future and recommend for the timely holding and disposing

mechanism, which is profitable. Or that recommend for short-term speculation based on its forecast of profitable pattern.

(b) Fundamental Analysis

"Fundamental analysis begins with the assertion that the "true" (or "intrinsic") value of any financial asset equals the present value of all cash flows that the owner of the asset expects to receive. Accordingly, the fundamental stock analyst attempts to forecast the timing and size of these cash flows and then converts them to their equivalent present value by using an appropriate discount rate. More specifically, the analyst must attempt not only to estimate this discount rate but also to forecast the stream of dividends that a particular stock will provide in the future; this process is equivalent to forecasting the firm's earnings per share and payout ratios. Furthermore, the discount rate must be estimated. Once the true value of the common stock of a particular firm has been determined, it is compared with the current market price of the common stock to see if it is fairly priced. Stocks that have a true value less than their current market price are known as overvalued or overpriced stocks, whereas those that have a true value greater than their current market price are known as undervalued or underpriced stocks. The magnitude of the difference between the true value and the current market price is also important information, because the strength of the analyst's conviction that a given stock is mispriced will depend, in part, on it. Fundamental analysts believe that any notable cases of mispricing will be corrected by the market in the near future, meaning that prices of undervalued stocks will show unusual appreciation and prices of overvalued stocks will show unusual depreciation" (*Sharpe, Alexander and Bailey; 2003: 12-13*).

"In the fundamental approach, the security analyst or prospective investor is primarily interested in analyzing factors such as economic influences, industry factors and pertinent company information such as product demand, earnings, dividends and management in order to calculate an intrinsic value for the firm's securities. He reaches an investment decision by comparing this value with the

current market price of the security. The fundamentalist tends to look forward. He is concerned with such matters as future earnings and dividends. It is sometimes said that fundamental analysis is designed to answer the questions "what?" (*Sharpe, Alexander and Bailey; 1998: 844*). "Fundamental analysis theory claims that at any point of time an individual stock has an intrinsic value, which is equal to the present value of the future cash flows from the security discounted at appropriate risk adjusted discount rate. The value of the common stock is simply the present value of all the future income which the owner of the share will receive" (*Francis; 1991: 398*). "And the actual price should reflect the intrinsic value. But in practice, first it is not known in advance what a stock's income will be in each future period, and second, it is not clear what the appropriate discount rate should be for a particular stock. So, fundamentalists attempt to reach best estimate of the intrinsic value of share by studying company's sales, profit, dividends, management competency, and numerous other economic and industrial factors, which determine its future income and prospect of the business opportunities" (*Francis; 1991: 425*).

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

About this approach Yarasway N.J. writes in his book *Equity Investment Strategy* "By nature the fundamentalist is conservative in approach and is generally unwilling to take a quick loss he would rather adopt a buy and hold policy" (*Yarasway; 1985:43*). Therefore fundamental analysis allows that analyst to forecast holding-period yield and riskiness of achieving that yield, but these figures alone do not necessarily prompt a buy or sell action.

(c) Technical Analysis or Fundamental Analysis

"The two theories explained above have assumed that the pricing of the shares in the market is not efficient. Therefore, while making investment decision, technical analysis theory suggests for the right time of purchasing and selling whereas fundamental analysis theory recommends for the selection of the appropriate stocks. It is sometimes said that fundamentals analysis is designed to answer the questions 'what?' and technical analysis to answer the question 'when'" (*Sharpe, Alexander and Bailey; 1998: 844*).

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

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

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

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

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

The chartists search for, and claim they find, patterns of price fluctuations, patterns that repeat themselves and that can be used for forecasting. Stated differently, technical analysis is based on a belief in trends and patterns in stock prices such that prices fluctuate inefficiently away from their randomly fluctuating intrinsic values. Looking at stock market prices to see whether they fluctuate in discernible patterns is not only a test of the worth of technical analysis, but can also be a test of the hypothesis that prices fluctuate randomly in continuous equilibrium.

"If stock prices did not fluctuate efficiently with their intrinsic values, fundamental analysis would be an unprofitable activity. That is, why should an investor bother to estimate a stock's intrinsic value if the stock's market price fluctuates inefficiently away from its value?" (*Francis; 1991: 463-464*).

2.1.3 Stock Market Development and Long-term Growth

"Although the role of financial sector in the economic development of a nation remained controversial for sometime, recent theories in finance suggest that stock markets do promote long-term growth. It has been experienced that the development of stock markets in the emerging nations passes through four main stages" (*Papaioannou & Duke; 1993:36*). Development of equity markets in any country requires political and economic stability and growth-oriented policies as pre-condition. At the second stage, equity prices rise and the investors gradually gain confidence in the equity market. They accept equity as an alternative to traditional bank deposits and government securities. At the second stage, equity markets gain more credibility and market liquidity increases. Investors long for rise in risk adjusted returns and demand a wide variety of securities to match their risk preferences. Rules and regulations are refined and the equity markets start functioning on the basis of self-discipline. Equity markets at this stage gradually get integrated to the international markets and attract foreign investors. At the third stage, equity markets become an integral part of the overall financial system. Investors get higher, less volatile returns and easily absorb new issues of stocks and bonds. The volume of trading increases as the equity markets become more liquid and firms go for initial public offerings to replace their debts. At this stage a mechanism for risk transfer develops, creating markets for equity and currency – hedging instruments such as derivatives and index products. At the final stage the equity markets get highly integrated with the global markets and the equity risk premiums match with the internationally competitive levels. Equity markets at this stage achieve stable growth and attain a mature state.

"Despite its history of more than 25 years with respect to the above-mentioned observation, the equity market in Nepal has barely entered the first stage of development. Due to current political and economic instability, absence of growth-oriented policies and weak regulatory framework of stock market has failed to gain investors' confidence. Unavailability of timely information and

weak supervision and monitoring has made the stock market highly risky for general investors. Investors have not yet accepted investment in stock as an alternative to bank deposits and government securities except in the case of stock of some commercial banks" (*K.C. and Snowden; 1997: 43*).

"By encouraging and dissemination of information, stock markets reduce cost of mobilizing savings and facilitate investments. Well-developed stock markets enhance efficiency of market for corporate control by mitigating the agency problems between the stockowners and managers. In countries where stock discipline is effective, firms tend to be more productive, thereby creating more wealth per unit of money invested" (*Diamond and Verecchia; 1982: 23, Jensen and Murphy; 1990:65, Greenwood and Smith; 1997: 71*).

Stock markets help expansion of economic activity by providing liquidity to financial assets traded in them. Investments in real assets require long-term commitment of capital, however, investors are reluctant to commit their investment less risky because they allow savers to buy and sell financial assets they hold cheaply and quickly and restructure their portfolios any time according to their risk-return preferences. At the same time, firms enjoy permanent access to long-term capital through equity issues. By making assets less risky and providing easy access to permanent source of capital, liquid stock markets improve allocation of resources, boost investment and enhance long-term economic growth. Very liquid stock markets may sometime deter economic growth by encouraging investor myopia. It is argued that such stock markets may weaken investors' commitment to exert corporate control because they prefer to sell the stocks of the misgoverned companies rather than to monitor and force managers to improve their performance. However, empirical studies suggest that greater stock market liquidity boosts and in many cases precede economic growth.

2.1.4 Historical Background of Nepalese Stock Market

"The rapid development of any country in this modern era depends to a large extent on the level of financial activities. Financial activities play a role of catalyst in the process of economic development of a country but for the rapid growth on volume of financial activities, enterprises need a huge amount of funds. Capital is the means for development and productivity entities to increase gross domestic product .One of the mechanism of financing the industries from the external source in modern time is the capital market, through which the industrial enterprises with corporate organization assembles the funds by issuing various form of securities from the surplus spending units directly and/via financial intermediaries" (*Mahat;1981:25*). "For the mobilization of investible resource capital market is an important intermediary through which effective bridging of the deficits and surplus units can be ensured. Capital market institutions are engaged in mobilization of saving from surplus units and supply funds into the deficit units for productive investment" (*Shrestha; 1999:1*). "Capital market directly provides liquidity to the investors who provide funds for the establishment of the productive enterprises and on the other, encourage savers to save more and enterprising economic units to start productive venture" (*Bhatta; 1997:1*). "The development of capital market is closely related with the modernization and the development of the financial system" (*Timilsina; 2001:7*). So, the development and expansion of capital market are essential for the rapid economic growth of the country. "Capital market helps for economic development by mobilizing long-term capital and by creating liquidity, which is needed for productive sector" (*Ojha; 2001: 1*).

"The act of raising funds by issuing shares to the general public in Nepal started in 1937. Though, the development of securities markets could not be a national policy for a long time, the then industrial policy of Nepal led to institutional development of securities markets with the establishment of securities Exchange Center in 1976. Securities Exchange Centre used to manage and operate primary and secondary markets of long-term government

securities and corporate securities. After some years of establishment policies and programs were made to develop and promote stock exchange, issue manager, underwriter, securities dealer, stock broker and portfolio manger in the markets with the objective of avoiding possible conflict of interest between various market participants" (*Adhikari; 2003: 3*).

The process of stock market development in the country actually started in 1976 when the government established Securities Exchange Centre to provide and develop market for securities, both the government bonds and corporate securities. However, visible impact on the development of financial sector was observed only when the government changed its restrictive policy and opened up hitherto closed financial sector to private sector and foreign participation in the establishment of banks. With the adoption of privatization and economic liberalization policy the process got further impetus and the financial institutions in Nepal grew at a faster pace especially in quantitative terms.

The concept of the stock market in Nepal is very new. It is still in infancy stage though it was begun with the flotation of shares by Nepal Bank Limited (NBL) and Biratnagar Jute Mills (BJM) in 1937 under the company Act, 1936. At that time, the participation on the ownership structure of the corporate sector was restricted mostly to the Rana family. Consequently, the expansion of the capital market to the desired level has been restricted. No significant attempts had been made in four five year plans to reform the capital market. The establishment of Securities Exchange Center (SEC) in 1976 was the first and most important attempt made by the government to develop the stock market. Initially, bonds and national savings certificates only. Then it acted as an issue manager for corporate securities and started to list and provide market for the corporate stocks from fiscal year 1984/85 under the Securities Exchange Act, 1983. Thus, the SEC served to promote the primary as well as secondary market for government and corporate securities from fiscal year 1984/85. Although, the growth of the economy, the share of corporate sector in the

national economy is still very low due to the negligible size of the corporate sector.

The incorporation of the Securities Board, Nepal (SEBO/N) under the Securities Exchange Act, 1983 and conversion of the SEC into the Nepal Stock Exchange (NEPSE) under the government policy on capital market reform has greatly contributed to the development of primary as well as secondary market for the corporate securities. The rise in stock prices and the market liquidity for corporate securities were observed immediately after the incorporation of the (SEBO/N) and the NEPSE for one year only. This has positive and immediate impact on the primary market (*Sharma; 1996: 63*). But after a year, again downward trend in the primary as well as secondary market is observed and this phenomenon has been continuing till now.

2.1.5 Present Status of Nepalese Stock Market

Equity market has shown impressive recovery from the sharp fall in 1994 with the lag effect elongated till late 1998. At present, it has been performing more strongly than in the earlier years. The improvement in the equity market has been attributed to various factors including good prospect of corporate earnings and broader household participation in the stock market. Investors not only rely on the statement of the brokers, but they also have a concern over the financial information of the concerned company. Therefore, the shares of companies with better prospects of dividend, capital increment and growth have normally higher prices in the stock market. At present, the stock market in Nepal has witnessed its strength surprisingly, and this has raised hopes for sustained growth of corporate undertakings.

By the end of 2009 the financial sector in Nepal included 30 commercial banks, 78 finance companies, 58 development banks, 12 micro-finance development banks. In addition, there is one Employee Provident Fund, one Credit Guarantee and Deposit Insurance Corporation, and one Citizen

Investment Trust. The numbers of listed companies during 2007/08 for sectorwise were Commercial Banks-17, Manufacturing and Processing-18, Hotels-4, Hydropowers-3, Trading-4, Insurance Companies-55, Development Bank-23 and Others-1. During this period some discernible improvements took place in the stock market. In May 26 1993, Securities Board Nepal (SEBO) was established with the objectives to regulate, supervise and monitor the security market. Similarly, the Securities Exchange Centre was converted into Nepal Stock Exchange Limited (NEPSE) with the objectives to provide secondary market for securities transaction. An open outcry system was introduced by NEPSE for securities transaction, where the investors are allowed to deal in securities only through licensed brokers.

2.2 Review of Nepal Government Policies, Programs and Regulations Securities Board Nepal (SEBO/N)

"Securities Board, Nepal was established on May 26, 1993 under the provision of securities exchange Act, 1983(amendment). Since its establishment, SEBO/N has been concentrating its efforts on improving the legal and statutory framework which are the bases for the healthy development of the capital market. As a part of its continuous effort to build a sound system, the securities Exchange Act, 1983 was amended for the second time on Jan 30, 1997. this amendment paved the way for establishing SEBO/N as an apex regulatory body as it widened the horizon of SEBO/N by bringing market intermediaries directly under its jurisdiction and also made it mandatory for the corporate bodies to report to SEBO/N annually as well as semi annually regarding their performance. Although second amendment in the act established a direct relationship of SEBO/N with the market intermediaries and the listed companies, supremacy in its jurisdiction is yet to be established and clearly recognized" (*Bhattarai; 2006: 38*).

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

- To advise Nepal Government on the issue related to the development of capital markets and the protection of the investors interest.
- To approve stock exchange for the operation and to oversee them for healthy trading of securities.
- To register and regulate market intermediaries involved in the primary issues as well as in the secondary trading of securities.
- To regulate the public issues of securities including the mutual and trust funds.
- To monitor and supervise the securities transactions.
- To conduct conferences, workshops, seminars and to participate in such programs conducted at regional or international levels and to join the forum and exchange with outside regulators.

A board composed of seven members including a Chairman governs SEBO/N. The board has representatives from various institutions of the government as well as private sector. The Chairman of SEBO/N is appointed by the Government of Nepal for the tenure of four years. Other members of the Board are Joint Secretary from Ministry of Finance, joint secretary from Ministry of Law, Justice and Parliamentary Affairs, a representative from Federation of Nepalese Chambers of Commerce and Industries, a representative from Nepal Rastra Bank (the central bank), and Nepal Chartered Accountants, and a member appointed by the Government from amongst the experts pertaining to management of securities market, development of capital market, financial or economic sector.

SEBO/N, in order to implement its policies and programs effectively, SEBO/N in its new organizational structure has four departments and twelve divisions including one chairman's office. Under accounts and administrative department, there are four divisions namely Accounts and Administrative

Divisions, Reports Review Division and Education and training Division. There are also three divisions under the corporate Finance and information Department namely corporate finance divisions, Corporate Reports Review Division and Collective Investment Scheme Division. Likewise, under the Market Regulation Department, there are namely, Securities Market Regulation Division, Securities Business Regulation Division and legal and enforcement Division. Finally, under Market Supervision Department, there are two divisions namely Securities market and securities Business Division and corporate Supervision Division. Presently, there are 28 staffs (including Chairman) in SEBO/N (*SEBO/N; 2066/07: 16*).

With the approval from the office of company registrar, Nepal stock Exchange, the only share market in the country, has been transformed into a profit making institution. The decision to transform the NEPSE as a profit making company was taken during the 26th general assembly held recently.

With this decision, the organization and financial structure of the company has also been reviewed. The board members have been dropped down to seven from nine. The total capital of the company will be raised to Rs 160 million from Rs 50 million while running capital will go up from Rs 30.5 million to Rs 50 million. To manage the increasing capital stock, NEPSE said a Central Deposit System (CDS) will be created.

The reformed NEPSE board of directors includes representatives from government of Nepal, Nepal Rastra Bank and Nepal Industrial Development Corporation (NIDC) .The representation from NEPSE and brokers has been cancelled citing the conflict of interest between the two sides.

Nepal Government Policies and Programmes

Nepal Government after adopting liberalized economic policy has been initiating different programmes for the organized development of securities

market. In this context, during the period of Eighth Five Year Plan (1992-1997), some infrastructures regarding the securities market regulation were prepared. In the ninth Five Year Plan period (1997-2002), efforts were made to develop an organized and credible market. While implementing the programmes of Ninth Five Year Plan, Nepal Government through the budget speech of 2000/01, announced the programmes to amend Securities Exchange Act, initiate necessary steps to bring wider participation in the stock exchange and make its operation more transparent. Similarly, the budget speech has also included the programme to take legal action against those listed companies, not publishing and submitting their audited financial statements of last two years. Accordingly, 25 companies were de-listed for not publishing their financial statements and not paying annual listing fees to the stock exchange. However, other programs like amendment of Securities Exchange Act, standardizing stock exchange etc., which were perceived to be more important for the securities market development, could not move ahead concretely.

Nepal Government came with the 10th Five Year Plan (2002-2007), which among others also includes various programs for securities market development. The objective of the securities market development programme is to increase public ownership in the development projects operated by private sector and promote industries by supplying financial resources through securities as well as increase employment opportunities and fulfill the capital requirements to the development projects operated by Nepal Government, government enterprises and municipalities issuing debentures in the securities market thereby reducing foreign loan. To meet these objectives, it has taken the policy of modernizing stock exchange, strengthening the regulatory system of the securities market, widening the participation of the stock exchange and making it dynamic, transparent, credible and investor friendly and developing the securities market as an important sources of long-term financial growth by increasing its depth and breadth. It has incorporated the programs of making public issue effective, enhancing regulatory capability of SEBO, making the

securities trading process standard and credible, creating a state of transferring ownership immediately after transaction, diversifying securities market instruments, attracting institutional investors, protecting investors interest, expanding the securities market services nationwide and improving the compliance and integrity of the market (www.sebonp.com).

2.3 Review of Reports, Journals and Articles

Bary Borsworth (1975) published an article on "*Industrial Production and Prices of Common Stock*" has revealed that the stock market and economic activity move in similar cyclical patterns. This fundamental relationship shows that stock prices are meaningful in the sense of reflecting real economic variables.

Mitchell and Mulherin (1994) conducted a study on "*The Impact of Public Information on the Stock Market*" and studied the relation between the number of news announcements reported daily by Dow Jones and company and aggregate measures of securities market activity including trading volume and market returns. They have a belief that much of the disagreement regarding the news-market relation is due to the differing emphasis of the various studies. Thus, they have tried to contribute to the debate by relating aggregate measures of market activity such as trading volume and market returns to the broad sample of macroeconomic and firm specific news announcement released by Dow Jones and Company. They found that the number of news and stories and market activity is directly related and share common-day-of-the-week patterns. They also noted that the relation between news and market activity remain significant in regression that control for the day of the week. The result was also robust even after the inclusion of non-information sources of market activity.

Levine (1996), a Senior Economist in the Finance and Private Sector Department Division of the World Banks's Policy Research Department, has

mentioned in his article "*Study on Stock Market Liquidity*" that stock markets may affect economic activity through the creation of liquidity. Many profitable investments require a long-term commitment of capital, but investors are often reluctant to relinquish control of their savings for long periods. Liquid equity markets make investment less risky – and more cheaply if they need access to their savings or want to alter their portfolios. At the same time, companies enjoy permanent access to capital raised through equity issues. By facilitating long-term, more profitable investments, liquid market improves the allocation of capital and enhances prospects for long-term economic growth. Further, by making investment less risky and more profitable, stock market liquidity can also lead to more investment.

He found that stock market liquidity rather than stock market size and volatility of the stock market matters for growth. He has shown that with taking examples of 38 countries with more liquid stock markets in 1976 grew faster than those economics with less liquid stock market in 1976 between 1976 and 1993. Thus, stock market liquidity helps to forecast economic growth. He has used three measures of stock market liquidity, viz. value traded ratio turnover and the value-traded ratio divided by stock price volatility. The study has revealed that countries that had more liquid stock markets in 1976 enjoyed both faster rates of capital formation and greater productivity over the next 18 years, because liquid stock markets encourage more investment.

The U.S. Department of Commerce (1985) conducted study on " Stock Prices and The Business Cycle" has found that the general correspondence between stock prices and business cycle, where weighted moving average of a stock price index is mapped against the peaks and troughs of business cycle since 1948. The market has reflected all the recessions in the economy since 1948.

Shrestha (1992) in his research "*Shareholder's Democracy and AGM Feedback*" has focused various issues related to protection of shareholder's expectation. "Success of companies directly depends on the protection of their

owners. But how can this be accomplished is main question. Thus, it is necessary to develop a possible guidance for enhancing the efficiency for public limited companies to contribute directly in the growth of national economy on one hand and ensuring handsome return to the shareholders on the other hand to make their investment meaningful and worthwhile. At present, the overall shareholders' democracy in terms of the protection of their interest is basically focused on the payment of satisfactory dividend and the maximization of shareholders' wealth by appreciating the value of shares they hold".

He has indicated why the share market is inactive and what problems are the main causes for inactiveness and what measures should be done etc. are carefully defined. Similarly, how the securities frauds and manipulations have occurred and to what extent they can be overcome would be highlighted to draw adequate feedback to the regulating and controlling authorities to devise suitable laws to prevent such frauds and minimize manipulation in share price. The downfall of share market is mainly due to the unfair share market practices that went indicted for a long period in Nepal's share market. There has been a growing tendency to sell worthless and fraudulent securities since promoters were not questioned regarding their moral standing and honest integrity of professionalism. In practice, a handful of Banniya traders (Canny people) began to dominate the share market as they are very little exposed to the managerial and institutional culture of managing share market activities by honest and fair dealings.

Pradhan (1993) has conducted a research, "*Stock Market Behavior in Small Capital Market: A Case of Nepal*". For the study, he collected the data of 17 enterprises from the year 1986 to 1990. His research study was carried out to meet the following objectives.

- To assess the stock market behavior in Nepal.

- To examine the relationship of market equity, market value to book value, price earnings and dividends with liquidity, profitability, leverage, assets turnover and interest coverage.

After using statistical tools like regression model, he presented the following findings:

- The stock with larger ratio of dividend per share to market price per share have lower leverage ratio.
- The leverage ratio of dividends per share to market price per share has higher liquidity.
- The liquidity position of stock paying lower dividends is also more variable as compared to the stock paying higher dividends.
- The stock with larger ratio of dividend per share to market price per share has higher earnings.
- There is positive relationship between the ratios of dividends per share and interest coverage.
- The dividend per share and market price per share are positively correlated.
- The dividend payout and profitability has positive relationships.
- There is a positive relationship between dividend payout and turnover ratios.
- Assets turnover, earning and interest coverage are more variable for the stocks paying higher dividends.

Mahat (2000) in his report “*Future Prospects of NEPSE in Capital Mobilization*” is able to analyze the situation in Nepal where the industrial sector has very little access to private saving. Also, indicates the availability of industrial securities is nearly absent the development of financial institutions that links the surplus spending units with the deficit spending ones is in the rudimentary stage.

His study also demonstrated, relatively, very limited financial contribution or other financial institutions to this sector, but he does not indicate those factors, which help to uplift the financial contribution to the other sectors like, provident fund and NIC etc.

It is acknowledged that a greater use of resources available in the financial system of the industrial development of the country may not be very smooth and easy. He also specified the growth and potential measures of security market, capital market specified the growth and potential measures of security market, capital market regarding primary and secondary market. He just show the preliminary and basic problems of industrial sector but not in broad way. So, according to his topic, the sufficient future prospects / measures are not available in his study but can find in basic context. There is not indication in the relations of primary and secondary market with economic condition of the country in his study.

The prices, turnover of stocks increased tremendously after the opening of the trading floor. Even prices of stocks with huge accumulate losses and the companies established only a couple of month back went up and up which is not conducive for the healthy growth of market. Such unnatural high prices are accounted for the poor transparency and the pouring of large number of people without having a minimum knowledge on shares in the market.

It may be appropriate to mention at this stage that the expansion and the growth of the stock market have a direct correlation with the overall growth and expansion of the private sector in the Nepali Economy. If the private sector is to assume a lead role in future economic development, it is necessary to provide a ready source of capital to sustain such efforts. An important component of the capital markets is the stock exchange, which performs a pivotal role in channeling individual as well as industrial savings in the private sector.

Joshi (2008) on a study entitled “*Monthly Seasonality in Nepalese Stock Market: Implication for Investors*” found that the mean return is positive for the first eight calendar months and negative for the rest of calendar months. In addition, the month with highest average return is the Kartik month which corresponds to the mid-October to mid November of the Gregorian calendar and the month with the lowest mean return is the Poush which corresponds to the mid December to mid January of the Gregorian calendar. Moreover, Aasar and Kartik are the only two months with more than 80 percent of the positive returns for the given sample period whereas Jestha and Falgun have less than 50 percent of positive return. The standard deviation which means the volatility (risk) of stock return is highest for the Falgun and lowest for the Aswin. These imply the non-existence of risk return trade off. The overall results show that we could observe Kartik effect in Nepalese stock market.

There are at least two reasons for the existence of Kartik effect. The first is the compulsory information release as per the legislation. Company Act (2063) requires that every public company to conduct its Annual General Meeting (AGM) within the one year from the date of operation and six months (after the completion of fiscal year) thereafter. While Banking and Financial Institution Act (2063) requires that licensed banking and financial institution to carry out an audit of financial statements within the five months from the end of the FY. The second may be due to the cultural (non economic) influences on the stock market. The great festival Dashain and Tihar which falls mostly on the Ashwin and Kartik induces good mood and optimism among the investors and hence drives up the market during these months.

The general implication for the investors is that they should buy a market portfolio at the end of Chaitra because the markets are at low and they almost rise in the next eight months with the greatest rise in the Kartik followed by Aasar and sell the portfolio at the end of Kartik to obtain handsome profits. The

investor should then invest in a risk free assets (such as treasury bills) from the beginning of Mangsir to the end of Chaitra.

Investment in share has traditionally been done by rating the institutions on the Basis of price earning ratio or dividend. Hardly do investors compare current assets with current liabilities or take a look at the debt equity ratio. Unless investors are analyzing the intricate financial details of corporate institutions before making decision the market cannot develop smoothly.

Obeidat (2009) conducted a study on “*The Internal Financial Determinants of Common Stock Market Price: Evidence from Abu Dhabi Securities Market*” with objectives to investigate the separate effect of each of EPS, DPS, and BVPS, on a common stock market price and to determine the entire effect of EPS, DPS, and BVPS as a whole on a common stock market price. All listed companies in the Abu Dhabi Securities Market are included in the study except those companies which were listed after the starting of year 2002. Four hypotheses are under consideration in this study. The simple linear regression method was used to test the first three hypotheses based on t-test, while the multiple linear regression method was used to test the last hypothesis based on F-test. Moreover, the correlation method is used to support the findings.

Based on the data analysis, the study finds that EPS has a significant effect on the common stock market price. In more details, the study finds that stockholders and investors are highly interested in EPS as one important financial indicator, so they take with their consideration, the value of EPS in determining the price they are willing to pay to acquire that stock, and the price they accept instead of that stock when they need to sell the stock. The analysis finds insignificant effect of DPS on the common stock market prices. In general, most stockholders in Arab Stock Exchanges are more interested with capital earnings than dividends. Also, a significant effect of BVPS on the common stock market prices in Abu Dhabi Securities Market. Furthermore,

entire three independent internal financial factors (EPS, DPS, and BVPS) have a significant effect on the common stock market prices in Abu Dhabi Securities Market.

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

- Improvement in the statutory and regulatory framework of the capital market.
- Development of widely participated capital market. Improvement in the securities board’s institutional capacity.

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

- Bring clear demarcation in the role and responsibilities borne by the securities board and other regulatory agencies i.e. stock exchange, NRB, ORC etc.
- Reduce the duplication in the role and responsibilities of Board and other regulatory agencies.
- Show the ways of coordination between the services Board and other regulatory agencies.
- Promote public confidence in the regulatory system and market structure.
- Introduce a system of recognizing self-regulatory bodies by encouraging them to share and take responsibilities in certain areas.
- Establish securities board as a central market regulator and rest in with wider investigation and enforcement power.

- Empower the securities board to audit the registered corporate bodies, mutual funds, as custodians and clearing houses in relation to their financial reporting issues.
- Promote the development of ‘full-survive’ securities house and,
- Gives focused attentions for the establishment and up grading of necessary legislative infrastructure to address on going needs.

Nepalese capital market offers a wide range of financial services and instruments. It also has to provide the opportunity for a large number of investors to participate directly or through mutual savings schemes. While implementing this policy the securities board:

- Advises the government regarding the development of a secondary market for government securities and the opening of foreign portfolio investment.
- Coordinates with NRB to formulate prudential standards for the primary issue as well as secondary trading of government bonds.
- Studies the possibility of introducing as over the counter exchange system and brings in the concept of introducing broker in order to facilitate easy entry and exit process for the benefit of investors.

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

Now the latest slums in the secondary market, despite a pretty good performance by commercial banks, make it more apparent that investment in the past was done on whim. Even officials at the stock exchange and the securities board, refusing investor’s allegations of the market manipulation and

insiders' trading of last February, discreetly claimed that Nepalese Stock Market is in a nascent stage. And that, investment are made more on an impulse, rather than market study and credit rating.”

“There are many loopholes in our Stock-Exchange Act. Investors feel insecure here. A few years back there was a company called Nimrod Pharmaceutical Company that floated in shares, but where are they now? Similarly, it has been more than a year that Bansbari Leather has allotted its shares, but why didn't the company list its shares in the market? It has been three years that Gorakhkali Rubber Udhog hasn't called for its AGM. Government remained silent in all these cases. This is why the general public as well as the institutional buyers are not felling secure investing in stock market.”

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

In the paper “Privatization principle and practice” Donaldson David and J. Wagle, Dillip M, writes “There is a symbolic link between privatization and capital market. In most of the cases, privatization represents the first time that private voices are heard on SOE Boards. Indeed, for many, a change in the whole legal structure of company governance is a necessary first step. Borrowings from banks tend to become more commercial and less the result of political pressure. Often new firms of finance are lapsed on domestic and international capital markets for the first time. At the same, a large privatization program often has a dramatic effect in capital market development adding greatly to stock and variety of corporate assets available to public.”

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

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

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

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

corporate culture, lack of professionalism of the market participants, poor compliance and lack of clear legal provision for taking action to address the non-compliance cases etc are other problems of Nepalese Stock market..

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

2.4 Review of Thesis

There are not sufficient dissertations concerning with this particular topic but the researches more or less related with the topics are reviewed here.

Bhatta (1997) has conducted a research on the topic of “*Dynamics of Stock Market in Nepal*”, the objectives of the research are as follows:

- To analyze the trend of the Nepalese stock market.
- To diagnose and compare sector-wise financial status of the stocks in Nepalese stock market.
- To analyze the market share prices of Nepalese stock market.
- To find out the impact of secondary on primary market and vice versa.
- To recommend for the improvement of stock market in Nepal.

The main findings of his research are:

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 venture 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 sector.

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.

Shrestha (1999) has conducted research on “*Stock Price Behavior in Nepal*”; this study aims to examine the efficiency of the stock market in Nepal. The specific objectives of the study are:

- To examine the serial correlation of the successive daily price changes of the individual stocks.

- To determine whether the sequence of price changes is consistent with changes of the series of random numbers expected under the independent Bernoulli process.
- To determine the efficiency of the stock market through the theoretical model of efficient market hypothesis in the Nepalese stock market.
- To provide feedback policy input towards institutional development of efficient market.

The main findings of the study are:

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 exchanges ltd. (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."

He analyzed 30 listed companies' stock price and found that the successive price changes are dependent. He finally concluded that the NEPSE is not efficient in pricing shares even in its weak form. Shrestha too had used autocorrelation and run test to detect the dependence among the stock price series. The outcomes of both the models were found to be similar and rejecting the null hypothesis that the successive price changes is independent. Though his research was not based on the total market return movement, the result drawn from analyzing the movement of major stocks traded in the market can be generalized for efficiency level of overall NEPSE. Moreover this research work with the analysis of total market return and banking sector stock return will be useful to verify his findings as well.

Panta (2000) in her thesis "*Current Problems and Prospects of Securities Market in Nepal*", studied the trend of the Nepalese stock market and present state of primary and secondary market as well as problems and prospects of Nepalese stock market. The main findings of her study are:

- The development of stock market primarily depends on program and their implementation.
- In Nepal, the overall policy environment has not been conducive to the development of stock market. Therefore, it is difficult to develop more efficient secondary market, trading system for both equity and debt security.
- Lack of investor's confidence in stock market since many listed companies resulted not trading on regular basis or hold AGM.
- Restriction on foreign portfolio investment hindered market development.
- NEPSE does not have appropriate policies, memberships and fee structure to attract member outside the Kathmandu.
- In Nepal, banks dominate primary market in government debt instruments, OTC trading is not permitted; therefore, secondary market is totally inactive.

- Lack of necessary provisions in the laws and regulation for the privatization and automatics of stock exchange as well as for the establishment of central depository of securities (CDS).

She did point out the transparency and openness of transaction, quality professional services, in adequate corporate financial disclosures and improved legal, regulatory, and supervisory framework are the urgent needs of Nepalese stock market. Therefore, it is important that the basic assumption in any effort for protecting investors interest or boosting their confidence or developing the stock market is that business, which should be enable to operate in an environment that remains conducive to growth and expansion but complete replication of any tailor made model, as applied anywhere, may not work because the specific in Nepalese stock market is different from other developed market.

Regarding political instability, she was absent to indicate the Maoist activities which have made the status / condition of country very poor. These activities have not only affected the political environment but also have affected the tourism; hotel management etc. or we can say that all financial as well and non-financial activities within the country are very poor.

Sherpa (2001) has conducted research on “*Corporate Information Disclosure and its Effect on Share Price*”. The primary objectives of this study were to obtain an insight on corporate information disclosure with special reference to Nepalese stock market and its listed companies. To attain the mentioned objectives, the following specific objectives are set.

- To highlight the corporate disclosure practice in Nepal.
- To identify the extent of disclosure of each of the item of information and to develop the information disclosure index.

- To check the quality of corporate disclosure of Nepalese listed companies measured by company characteristic namely asset size, number of shares outstanding and earning margin.
- To see the relationship between corporate information disclosure and stock prices.

His research study began with the construction of disclosure index for which he collected 59 informational items, classified according to their importance and calculated mean value after the collection of primary data. Thereafter, he selected 33 listed companies, used their annual reports and calculated disclosure scores, which was followed by use of various statistical tools like regression, correlation etc. to attain the mentioned objectives.

From the detail analysis, he found that most of companies do not disclose adequate and qualitative information on their annual reports, and most of disclosed information consisted of only relationship between disclosure scores and variables like earning margin, asset size etc. The important findings of his research are that there is positive relationship between market price of share and disclosure score. In other words, the company having greater disclosure score had the higher prices of stock.

Dahal (2002) conducted a research on "*Stock Market Behavior of Listed Joint Stock Companies in Nepal*". The study aims to find out the behavior of stock market in Nepal on the basis of secondary as well as primary data. The Objectives of the study:

- To study and analyse stock price trend and volume of stock traded on the secondary market.
- To study and analyse companies and maintenance of listed companies in Nepal Stock Exchange Ltd.
- To study and analyze the investors views regarding the decision on stock investment.

- To study and examine the signaling factors' impact on stock price with the help of NEPSE index.
- To suggest the abstract result to the interested parties related to stock market.

Major findings of the study:

Most of the investors were asked for their preference of investment sector major portion of them said that they were attached with banking sectors for investment.

- On analyzing primary data it was found that the stock market in Nepal is in developing stage as investors are not well aware about the stock market.
- Investment process and its other factors like NEPSE index, price trend and investments facilitators are not doing their work in systematic way.
- The investors were not satisfied with their investment as they were asked whether they were satisfied or not to their investment.
- It was found that the investors' motive for owning shares of company is to receive the dividends from the shares.
- The investors were found interested to be elected in company's management.
- When investors were asked if they faced any difficulties in the stock market, majority of them replied that they were facing difficulties in Nepal stock market.
- It was found that investors in the stock market take the investment decision on the basis of market price of shares.
- The efficiency of stock markets' different parties, brokers, market makers, security exchange limited were not found efficient by analyzing interviewers' expression as they were not getting required support from these parties.
- On analyzing the price trend of two years NEPSE Index in different months with help of monthly trend showed that the price trend of different

months of the year 2000 was in increasing trend, while that of year 2001 is in decreasing trends. So from this trend analysis we can say there is trend between two successive years.

- While analyzing the rate of listing of new companies showed that increasing trend from the year 1997 to the year 2001.
- Volume of stock traded in stock exchange during the study period was found in increasing trend but in last year it was in decreasing trend.
- On analyzing paired t-test for signaling factors with reference to major seven events it was found that signaling effects had played major role in fluctuation of the stock price.
- He concludes that signaling factors plays major role for fluctuating NEPSE Index. The study was verified by taking major seven events. Royal massacre, case-fire, September -11 attack, State of emergency, prime minister's visit to USA, parliament dissolve and king's visit to India.

Baral (2003) conducted a research on "*Stock Price Movement in Nepalese Securities Market*". The main objectives and findings of his studies are as follows:

Objectives of the study:

- To study and analyze stock price and volume.
- To study and analyze the rate of newly listed companies and maintenance of already listed companies in NEPSE.
- To study and analyze the investors views regarding the decision on stock investment.
- To suggest the finding of the study to the interested parties related to stock investment.
- To study and examine the signaling factors impact on stock price with the help of NEPSE index.

Findings of the study:

- Most of the respondents were asked about the major influencing factors of stock price movement, they said that company's dividend affect the stock price.
- Founding to the respondents bullish trend of the stock price movement is suitable for Nepalese security market.
- Most of the investors were asked for their preference of investment sector major portion of them said that they were attaching with income.
- Most of the investors were asked for their preference of investment sector major portion of tem said that they were attached with banking sectors for investment.
- According to the major problem of respondents, international environment direct moves the price of stock market.
- According to the major portion of respondents of Nepalese stock market, it were found that Nepal Government's policy is not clear and perfect in Nepalese stock price market.
- According to the field survey in the Nepalese stock market, it was found that investors are not aware about investment.
- Most of the respondents said that underwriters of Nepalese stock market are honest which was found at the time of field survey.
- It was found that investors of Nepalese stock market take decision on the basis of theirs own analysis.
- According to the majority proportion of the respondents, there are not any problems for trading of stock in stock market.
- Taking the interview with the exports of Nepalese stock market, most of them follow the technical as well as fundamental analysis method of stock price movement.
- Studying the annual trend analysis of Nepalese stock price market, it was found that stock price trend is decreasing form many years as smoothly but from one year price of stock is decreasing as rapidly. Taking the

decision as long period, forecast of exports may be correct because of system wise decreasing trend.

- Investment process and its other factors like NEPSE index price trend and investment facilitators are not doing their work in systematic way.
- On analyzing primary data it was found the stock market in Nepal is in developing stage as investors are not well aware about this.
- On analyzing the price trend of three years NEPSE index in different months (36 months) with the helps of monthly trend showed that the price trend of different months of the year 2000 was in increasing trend 2001 in decreasing trend while
- that of 2002 was sometimes in increasing and sometimes in decreasing trend. So from this trend analysis we can say there is no relationship of price trend between 3 successive years.
- Studying the sector wise monthly trend analysis for one year (Poush 2058 to Mangsir 2059), it was found that unsystematic activities of the Nepalese stock price market. No exports can certainly forecast about the stock price.
- Studying the annual trend analysis of Nepalese stock price market, it was found that stock price trend is decreasing form many years as smoothly but from one year price of stock is decreasing as rapidly. Taking the decision as long period, forecast of exports may be correct because of systemize decreasing trend.
- While analyzing the rate of listing of new companies should that increasing trend from the year 1994/95 to the year 2000/01 and decreasing trend in 2001/02.
- Volume of stock traded in stock exchange during the study period was found in increasing trend but in last year it was in decreasing trend.
- On analyzing paired t-test for signaling factor with reference t major three events it was found that signaling effects had played major role in fluctuation at stock price.

- On analyzing the multiple bar diagram to find out the stock price leading companies in stock market. It was found that manufacturing and processing companies and insurance companies are price leading in the study period (Poush 2058 to Mangsir 2059).

Baral also concluded that the Nepalese stock market is in the growth stage.

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

Although, the above studies help to trace out the situation of Nepalese capital market but these studies are unable to cover the overall situation of Nepalese capital market, its growth and its behaviour. There are not any studies has been documented till data that covers the situation of stock market growth and its bevhaviour in Nepal. So, there is a necessity to conduct the study to trace out the present as well as historical trend of Nepalese capital market real sense and this study tries to attempt this as per as possible.

Neupane (2004) conducted a study on “*Determinants of Stock Price in NEPSE*” and concluded his study with following major findings:

- In Nepal Stock Exchange DPS, BVPS and EPS individually do not have consistent relationship with the MPS among the listed companies.
- The pricing behavior varies from one company to another but EPS, BVPS and DPS jointly have significant effect in MPS. So, there may be other major factors affecting the share price significantly.
- NEPSE is in its primary stage and stock brokers lack professionalism to create investing opportunities.
- Manufacturing and processing, trading and hotel sector have week performance as compared with financial sector.

Aryal (2005) has conducted research on “*The General Behavior of Stock Market* “. The specific objectives of this study are:

- To discuss theoretically the movements of stock market prices as predicated by the random walk model.
- To develop the empirical probability distribution of successive price changes of an individual common stock and a stock market as a whole.
- To examine whether the successive price changes of stocks market are independent to each other or not.

The main findings of the Study are:

- On the basis of run tests and serial correlation, it seems that the independent assumption of random walk model in stock prices is rejected by the collected sample data of 21 companies at least as a description of price behavior in Nepal Stock Exchange.
- The stock price changes are dependent on each other.
- The random walk of security speculative price behavior has been refuted at least in the Nepalese context, which clarifies that the knowledge of the past becomes useful in predicting the future movements of stock market price.
- There exists frequent persistence than reaction in the general stock market climate because of the investors’ irrational behavior that causes the irrational movement of prices of stock.
- The general stock market of Nepal for the initial period appeared to be inefficient in incorporating the possible appearance of information into the successive price changes. Therefore, the investing public are not aware of the information available publicly, appropriate in adjusting with the actual market price.

His research revealed NEPSE to be an inefficient market. He performed a test of weak form efficiency by examining whether the stock price behavior follows a random walk or not. He concluded that the knowledge of past is useful in

predicting the future movements of stock market prices. Therefore, investors on the floor of the exchanges for securities can make higher than expected profits in the future based solely on the historical prices series under the existing trading mechanisms than they would be under buy and hold strategy.

Joshi (2006) has conducted research on “*Role of Nepal Stock Exchange in the Secondary Market*”. The main objectives of this study are:

- To assess the past and present behavior of business operation in the Nepal Stock Exchange Market.
- To forecast the future trends of business and economic activity in the NEPSE in terms of quality, value and volume.
- To prescribe ways and means by which secondary market would be more effective and meaningful.

The main recommendations in her study are:

- NEPSE should introduce digital technology and online marketing in its trading procedure.
- The rules and regulations should be up to date.
- Privatization process needs to be carried out effectively in order to develop Nepalese stock market.
- Tax system should be reformed which should encourage and stimulate capital formation.

Paudel (2007) conducted a research on "*The Movement of Stock Price (Analysis of Joint Venture Commercial Banks)*". Eight joint venture commercial banks are taken as a sample banks on this study.

Objectives of the study:

- To examine the movement of stock market price in relation t Nepal joint ventures commercial banks are either dependent or independent to historical prices of stocks.

- To evaluate return and risk proportion of investments on stock of joint ventures commercial banks.
- To categorized the nature of stock tendency in relation to price stability.
- To study group wise overall behavior of NEPSE index.
- To recommend for the improvement of stock market in Nepal.

Major findings of the study:

- Trade off relationship exists between the risk and return i.e. higher the risk higher the return and vice versa.
- There isn't an extreme relationship exists between MPS with EPS and DPS.
- The variation of MC highly depends up on the PC and Inv. made by the banks.
- P-E ratio explains the investors' attitude of paying.
- Investors are not much aware of risk and return portfolio of the investment. They are added their funds on the basis of assumption and expectations rather than analysis.
- A risk aversion investor prefers secured and safe return by bearing of less risk; whereas a risk taking investor would like bearing of additional risk to maximize his/her return.
- The stocks of all sampled companies are under priced since their expected rate of returns is higher than the respective required rate of returns. Since, the stocks are under priced therefore it is better to buy and hold the stock.

He also concludes that the NEPSE index is highly influenced by the government policies, programs and the mode of its implementation. Regarding this, it observed that conversion of SEC into NEPSE and the establishment of SEBON in 1993, which reflects government policy to reform the capital market and foreign investment under the extended structural adjustment (ESAP), introducing of modern open-out-cry system, liberalization policy have inspired

and motivated the investors to do investment in securities. As a result, share prices significantly increased to a peak in the initial periods.

Paudel (2008) has conducted a thesis on "*A Study on Share Price Movements of Joint Venture Commercial Banks in Nepal*" is undertaking by using financial and statistical tools (standard deviation, correlation, beta, t-test etc).

Objectives of the study:

- 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.
- To analyse the scenario why the shares of selected banks emerge as blue-chips to the potential investors and to make a conclusion on the basis of financial ratios analysis.

Main findings of the study:

- The market share and the growth rate of different banking indicators used are not captured by the market shares of these banks.
- The ordinary least square equation of book value per share on market value per share reveals that the independent variable does not fully explain the dependent variable on the basis of the above mentioned two points; Nepal Stock Exchange operates in a weak form of efficient market hypothesis, indicating that the market price move randomly. The market value per share does 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 the Nepalese stock market.
- The beta coefficient, which measures the risky ness of individual security in relative term, suggests that none of the shares of eight samples 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.

Paudel concludes that the Nepal Stock Exchange operates in a weak form of efficient market hypothesis, indicating that the market prices move randomly. The market values per share do not accommodate all the available historical information.

Acharya (2009) has conducted a research on “*Determinants of Stock Price in Nepalese Commercial Banks*”. The objectives of the research:

- To identify factors affecting share price.
- To analyze correlation among various financial indicators.
- To identify qualitative factors affecting the stock price listed in NEPSE.
- To draw the conclusion regarding the factors that plays the crucial role and gives necessary suggestions and recommendation to the all concerned.

The major findings of the study:

- The MPS has high correlation with EPS and is significant at 0.01 level of significance. The correlation of MPS with EPS, DPS and BVPS is significant at 0.01 level of significance.
- The market price per share has high degree of positive relationship with EPS in all sample banks and MPS largely depends on EPS.
- The simple regression analysis of MPS on DPS shows that regression coefficient (b) is positive for SCBNL, BOK, NBL, NIBL, HBL, MBL and NICBL and negative for remaining banks SBI and EBL.
- The simple regression analysis of MPS on BVPS shows that regression coefficient (b) of SCBNL, BOKL, NBL, SBI, EBL, KBL, MBL and NICBL are positive and negative for NIBL and HBL.
- Earnings, book value, dividend payment, growth rate, and risk associated

with the company information disclosed and political stability is the major factors affecting the share price in NEPSE.

Research Gap

Earlier studies and researches on the stock price movements in NEPSE are carried out on the apparent approach by taking the most common indicators in consideration.

During the review of previous thesis, it is found that no research has been conducted by taking these sample companies, which the researcher has selected in this research.

So it is believed that this study will fulfill the gap, which had been made by the earlier researcher. Researcher has taken sample from only the first class commercial banks which also could predict the sensitive stock moment as well. To identify determinants of stock price in NEPSE previous researcher used limited information based on secondary source of data. No study has been conducted by taking so much of indicators/determinants like the researcher has taken in account. Furthermore it also shows that there are very few research-works conducted on various aspects of securities price formation of commercial banks in the field of stock market. The studies conducted in developed security markets may not entirely be relevant in the security markets of underdeveloped country like Nepal. Their applicability to test in the context of smaller and underdeveloped capital market likes ours. The changes taken place after the completion of these studies might have reduce their relevance.

Therefore it is necessary to test the validity of these studies and their applicability in our context. Most of above stated studies use technical method and statistical methods like run test, correlation coefficient, NEPSE trend etc. for analysis purpose.

Only few of studies use fundamental analysis tools for the research work. More than that, some few studies are concerned about the financial indicators like EPS, DPS, & BVPS which are the most influencing factors for the MVPS. So this study tries to analyze the relationship of these factors along with DR, CR, T/O, RPS, DPR with MVPS of selected companies as well as it also tries to show influencing factor on market price of the stock. Various quantitative and qualitative factors affect the share price formation. Many studies documented that dividend is one of the most influencing factors in share price formation. The fundamental analysts say that the price of stock is the present value of the future cash flows and the price of stock must be equal to this value. The role of brokers and market makers is crucial in pricing. Another factor playing a major role in price formation is information and the signaling effects. Political turmoil, unstable government, lack of farsighted policies and other macro economic factors are equally play the vital role in the price fluctuation and make impact in a decisive role in share price formation which researcher try to analyze during study.

CHAPTER - III

RESEARCH METHODOLOGY

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

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

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

3.1 Research Design

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

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

3.2 Population and Sample

All the companies listed in the stock exchange is consider as the total population. Out of the total population 168, only 6 companies that is in existence and doing share transaction in NEPSE is consider as the sample for the study. The companies were categorized into eight groups as done by the stock exchange.

.The table below clearly describes total population and sample.

Table 3.1
Total Population and Sample

S.N.	Types of the Listed Companies	Total Population	Sample Considered
1.	Commercial Banks	30	2
2.	Manufacturing and Processing	18	-
3.	Trading	4	-
4.	Finance	61	2
5.	Insurance	17	2
6.	Hotel	4	-
7.	Others 2 and Hydro power 3	5	-
8.	Development Banks	29	-
Total		168	6

Source: Trading Report NEPSE 2008/09

3.3 Data Gathering Procedure

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

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

3.4 Data Processing Procedure

Data collection from secondary sources is analyzed by using statistical tools like monthly trend analysis, bar diagram, correlation coefficient analysis, regression analysis and paired t-test. Simple arithmetic percentage tools are used for analysis. Major findings are based on the analysis and interpretation of data.

3.5 Research Variable

Major market behavior tools such as NEPSE index, impact of signaling factors on stock price, volume of stock traded, rate of listing of new companies in stock exchange and maintenance of them in stock exchange.

For analyzing signaling factors impact on NEPSE index with signaling factors the following major events are analyzed:

- Maoist problem was solved.
- Closures of Multinational Companies
- Interim government

3.6 Statistical Procedure

Simple percentages are used as an arithmetical tool to interpret data. Paired t-test is used as a statistical tool to test null hypotheses. For the test of hypothesis 10 NEPSE index before and after five major events were considered. Other statistical procedures used to analyze the data are as follows:

i) Karl Pearson's Coefficient of Correlation

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

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

Where,

n = number of observations in series X and Y.

ΣX = sum of observations in series X.

ΣY = sum of observations in series Y.

ΣX^2 = sum of square observations in series X. ΣY^2 = sum of square observations in series Y.

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

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

If $r = 1$, there is perfect positive relationship.

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

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

ii) Probable Error (P.E.) of Correlation Coefficient

Probable error of the correlation coefficient denoted by P.E. is the measure of testing the reliability of the computed value of the correlation coefficient, 'r'.

The probable error (P.E.) is defined by:

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

Where,

r = correlation coefficient.

n = number of pairs of observations.

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

If $r > 6\text{P.E.}$ the value of r is significant i.e. correlation is significant.

iii) Regression Analysis

Regression analysis means the estimation of prediction of the unknown value of one variable from the known value of the other variable. It is a mathematical measure of the average relationship between two or more variables in terms of

the original units of the data. In regression analysis, there are two types of variables. The variable whose value is influenced or is not be predicted is called dependent variable and the variable which influences the values or is used for prediction, is called independent variable.

Line of Regression of X on Y

The line of regression of X on Y is the line, which gives the best estimate of X for any given amount of Y. The regression equation is expressed as:

$$Y = a + bX$$

We shall get the normal equations for estimating ‘a’ and ‘b’ as:

$$\Sigma Y = na + b\Sigma X \dots\dots\dots (i)$$

$$\Sigma XY = a\Sigma X + b\Sigma X^2 \dots\dots\dots (ii)$$

Where,

X = value of independent variable

Y = value of dependent variable

a = Y-intercept

b = slope of the trend line/ coefficient of regression

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

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

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

As stated earlier in the methodology section, this study consists of both primary as well as secondary data. Secondary data have been collected particularly from monthly and annual trading report of Nepal Stock Exchange. Similarly, data collected from primary sources (interview and questionnaire method) have been analyzed under the heading of opinions survey that helps to garner information on investment behaviors of investors. However primary data collection does not fully satisfy the need of research work on this topic. As a consequence, the study has utterly relied on the secondary source of data. Data collected from the secondary sources are also tested with sophisticated statistical tools. Data presentation and analysis reveals performance of securities during the year 2007/08 to 2008/09.

The main purpose of this chapter is to examine the price trend of different joint stock company with the help of NEPSE index. The study also aims to analyze the number of stock traded during eight years of period of different joint stock companies. In the same way the study try to check the impact of signaling

effect on fluctuation of stock price with the help of different major events during the year 2006/07 to 2007/08. Similarly the study also focuses on the study that the listing rate of different corporate bodies in Nepal Stock Exchange (NEPSE). The study also wants to explore investors attitude by taking primary data with field survey filled by different parties interested with stock market is considered.

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

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

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

4.2 Presentation and Analysis of Secondary Data

This section provides interpretation and analysis of secondary data. Thus this section is exclusively devoted for the analysis of common stocks of different companies through price trends, signaling factors impact on NEPSE index with the help of NEPSE index provided by Nepal Stock Exchange Center, volume of stock traded, Rate of Listing of New Companies in Secondary Market and maintenance of them in NEPSE is considered. For doing such presentation

statistical tools such as regression analysis, bar diagram, pie chart, t-statistics are used.

4.2.1 Number of Companies De-listed from the Stock Exchange

According to Securities Exchange Act, 1983 there is provision of delisting the companies which are not able to disclose the documents regarding annual general meeting, audit report, and unable to pay the annual fees of listing in NEPSE up to two years can be deleted from NEPSE. Due to these very provisions NEPSE has de-listed 25 companies from its list in the fiscal year 2001/02 that's why the number of listed companies in 2001/02 was only 96 from 115 in the fiscal year 2000/2001. NEPSE has started such type of activities for the first time in its history. In fiscal year 2003/04 NEPSE has de-listed 1 company i.e. Nepal Bank Limited. In the fiscal year 2006/07, the stock exchange de-listed 12 companies for non compliance of legal provisions. In the fiscal year 2007/08 the stock exchange de-listed 5 companies. The names of companies that are de-listed from NEPSE are given in ANNEX-II.

4.2.2 Statistical Analysis

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

4.2.3 NEPSE Index

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

The index is taken as a measuring tool whether the performance of stock market is good or not. This clearly focuses on the price of stocks that is increasing or decreasing in the market. Because the prices of stocks go up and down in a particular period compared to the previous period as disclosed by index. The highest index suggests the increase in market price of the stocks and

implies the better performance of companies and vice-versa. Thus the NEPSE index shows the behavior of stock prices in the capital market.

The computation formula for price index is as follows:

$$\text{Each Day's Index} = \frac{\text{Each Day's Total Market Value}}{\text{Base Day's Total Market Value}} \times 100$$

$$P_{01} = \frac{\sum P_1 \times Q_1}{\sum P_0 \times Q_0} \times 100$$

Where,

P_{01} = NEPSE Price Index

P_1 = Today's Stock Price

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

Q_0 = Base Listed Shares.

Table 4.1
NEPSE Index

Fiscal Year	Nepse Index '000'	Percentage
1999/00	360.70	66.28
2000/01	348.43	-3.40
2001/02	227.54	-34.70
2002/03	204.86	-9.97
2003/04	222.04	8.39
2004/05	286.67	29.11
2005/06	386.83	34.94
2006/07	683.95	76.81
2007/08	963.36	40.85
2008/09	769.10	-22.24

Source: Trading Report NEPSE, 2008/09

Figure 4.1
NEPSE INDEX

The NEPSE index was highest in the year 2007/08/ with 963.36 and it was lowest in the year 2002/03 by 204.86 points. The NEPSE index for this fiscal year 2008/09 is 749.10 which is somewhat low than 963.36 of the previous year 2007/08.

4.2.4 Monthly Trend Analysis

One of the suitable techniques for analyzing price trend is monthly trend analysis. For this purpose NEPSE Index of two years are taken during the different months of year 2006 and 2007. Tabular as well as Graphical measures are considered for presenting and analyzing the data in table-4.2 as follows:

Table 4.2

NEPSE Index (Closing) of Different Months of the Year 2063/64 (2006/07)

Months	NEPSE Index	Months	NEPSE Index	Months	NEPSE Index	Months	NEPSE Index
Shrawan	390.86	Kartik	447.43	Magh	523.94	Baisakh	513.45
Bhadra	382.56	Marg	508.58	Falgun	494.06	Jestha	575.04
Aswin	398.44	Poush	537.09	Chaitra	494.59	Asadh	683.95

Source: Trading Report NEPSE 2006/07

Figure 4.2

NEPSE Index

The figure 4.2 shows the NEPSE index from Shrawan to Asadha 063/64. taking base month as Shrawan, NEPSE index shows the increasing trend till Asadh except Bhadra 2063. From the investment point of view, increasing trend is better than decreasing trend. In lump sum, NEPSE index represent the increasing trend all over the fiscal year 2063/064.

Table 4.3

NEPSE Index (Closing) of Different Months of the Year 2064/65 (2007/08)

Months	NEPSE Index	Months	NEPSE Index	Months	NEPSE Index	Months	NEPSE Index
Shrawan	679.0	Kartik	878.9	Magh	803.7	Baisakh	736.5
Bhadra	739.5	Marg	897.3	Falgun	756.8	Jestha	833.2
Aswin	885.5	Poush	984.5	Chaitra	709.4	Asadh	937.5

Source: Trading Report NEPSE 2007/08

Figure 4.3

NEPSE INDEX

The figure 4.3 shows that the NEPSE index from Shrawan to Asadh 064/065. Taking base month as Shrawan, NEPSE index shows the increasing and decreasing trend 2064/065. From the investment point of view, increasing trend is better than decreasing trend. In lump sum, NEPSE index represent the increasing trend all over the fiscal year 2064/065.

4.2.5 Annual Trend Analysis

One of the suitable techniques for analyzing price trend is annual trend analysis. For this purpose NEPSE Index of ten years are taken during the different years from 1999/2000 to 2008/09. Tabular as well as Graphical measures are considered for presenting and analyzing the data in table-4.4 as follows:

Table 4.4

Annual Trend Analysis from fiscal year 1999/2000 to 2008/09

Year	NEPSE Index
1999/2000	360.70
2000/01	348.43
2001/02	227.54
2002/03	204.86
2003/04	222.04
2004/05	286.67
2005/06	386.83
2006/07	683.95
2007/08	963.36
2008/09	749.10

Source: NEPSE Trading Report

Figure 4.4

NEPSE Index

The figure 4.4 shows that price trend during the different fiscal years are not constant. Taking base year as 1999/2000, it showed that the price trend from the fiscal year 1999/2000 to 2002/03 is in decreasing trend and thereafter it is in increasing trend again. The table and graph shows that there are downs and ups in NEPSE index or in price trend in different years from the fiscal year 1999/2000 to 2008/09.

4.2.6 The Numbers of Listed Companies in Stock Exchange

The table 8 shows the number of listed companies in Nepal Stock Exchange (NEPSE) Ltd. from the fiscal year 1999/2000 to 2008/09. The table clearly shows that the no. of listed company is increasing in every fiscal year except 2001/2002 because of the non-disclosure of necessary information correctly and timely. The listed companies in NEPSE are 159 in fiscal year 2008/09.

Table 4.5

Number of Listed Companies in NEPSE

Fiscal Year	No. of Listed Companies	Percentage(%) increasing/decreasing
1999/2000	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
2006/07	135	-
2007/08	142	5.19
2008/09	159	11.97

Source: NEPSE Annual Report 1999/2000- 2008/09

Figure 4.5
Number of Listed Companies

4.2.7 Number of Transacted Companies and Volume of Stock Traded

Even though the number of listed new companies is in increasing trend, the no. of transacting companies is also increasing trend. But Table 4.6 shows that the volume of stock traded are not satisfactory in increasing trend. The volume of stock traded is downs and ups trend.

Table 4.6

Number of Transacted Companies and Volume of Stock Traded

Fiscal Year	No. of Transacting Companies	Volume of Stock Traded '000'
1999/2000	69	7674
2000/01	67	4989
2001/02	69	6005
2002/03	81	2428
2003/04	92	6468
2004/05	102	4508
2005/06	110	3451
2006/07	116	8360
2007/08	136	22873
2008/09	124	21681

Source: NEPSE Annual Report of Different Fiscal Year

Figure 4.6
No. of Transacted Co. & Volume of Stock Traded

4.2.8 Paid up Value and Market Capitalization

Paid-up Value of Listed Companies

Table 4.7

Paid up value of Listed Companies (2008/09)

S.N.	Sector	Paid-up (Rs. in million)	Percentage
1.	Commercial Banks	26033.41	42.58
2.	Development Banks	4573.27	7.48
3.	Finance Companies	8694.19	14.22
4.	Insurance Companies	3607.26	5.90
5.	Hotels	4353.17	7.12
6.	Manufacturing and Processing	7300.12	11.94
7.	Trading	177.31	0.29
8.	Others	6401.36	10.47
Total		61140	100.00

Source: NEPSE, Annual Report 2008/09

Figure 4.7
Paid-up Value of Listed Companies

The table and figure 4.7 clearly showed that the paid-up value of listed securities in the end of this fiscal year was Rs.61140 million as compared to the paid-up value of Rs.29465 million in the previous year 2007/08. The commercial banks have highest paid up value and whereas trading companies have the lowest paid-up value. It showed that the performance of commercial banks were better than others.

Market Capitalization of Listed Companies

Table 4.8

Market Capitalization of Listed Companies (2008/09)

S.N.	Sector	Market Capitalization (Rs. in million)	Percentage
1.	Commercial Banks	302223.7	58.92
2.	Development Banks	27134.48	5.29
3.	Finance Companies	42984.29	8.38
4.	Insurance Companies	10515.25	2.05
5.	Hotels	4872.92	0.95
6.	Manufacturing and Processing	7694.09	1.50
7.	Trading	1692.7	0.33
8.	Others	115770.35	22.57
Total		512939.07	100

Source: Trading Report NEPSE 2008/09

Figure 4.8

Marker Capitalization of Listed Companies

The market capitalization value of listed securities in the end of this fiscal year is Rs.512939.07 million. The market capitalization value was Rs.366247.56 million in the last year. The contribution of market capitalization to gross domestic production is nearly 21.79 percentages. The maximum level of market capitalization in this fiscal year is Rs.512939.07 million on 2008/09.

4.2.9 Closing Market Prices of Selected Companies

i) Closing Market Prices of Selected Commercial Banks

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

Table 4.9
Closing Market Prices of Selected Banks

Fiscal Year	HBL in (Rs.)	NIBL in (Rs.)
1999/2000	1700	1401
2000/01	1500	1150
2001/02	690	825
2002/03	859	800
2003/04	840	940
2004/05	920	800
2005/06	1100	1260
2006/07	1760	1729
2007/08	1980	2450
2008/09	1760	1388
Total	13109	12743

Source: NEPSE, Annual Reports

Figure 4.9
Market Price of Selected Bank

The figure 4.9 can concluded that the market price of HBL bank was in decreasing order from the fiscal year 1999/2000 to 2001/02 thereafter the market price was increasing trend. In the fiscal year 2008/09 the market price was again decrease. The market price of NIBL bank was also in decreasing order from the fiscal year 1999/2000 to 2002/03 thereafter the market price was increasing trend. In the fiscal year 2008/09 the market was again decrease. The market price of the Himalayan Bank Limited was poorly decreased in the fiscal year 2001/02 it means the lowest market price of HBL was in the year 2001/02. And the lowest price of NIBL was in the fiscal year 2002/03.

ii) Closing Market Price of Selected Finance Companies

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

Table 4.10
Closing Market Price of Selected Finance Companies

Fiscal Year	NFCL in (Rs.)	KFCL in (Rs.)
1999/2000	470	295
2000/01	560	321
2001/02	530	300
2002/03	455	235
2003/04	360	205
2004/05	295	138
2005/06	263	140
2006/07	460	203
2007/08	1050	285
2008/09	1050	203
Total	5493	2448

Source: NEPSE, Annual Reports

Figure 4.10
Market Price Selected Finance Companies

From the figure 4.10, it can be concluded that the market prices of both finance companies were increase in 2000/01 thereafter the market price was decreasing order but the market price of NFCL was increase in 2006/07, 2007/08 and KFCL was increase trend in 2005/06 thereafter.

iii) Closing Market Price of Selected Insurance Companies

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

Table 4.11

Closing Market Price of Selected Insurance Companies

Fiscal Year	EICL in (Rs.)	SICL in (Rs.)
1999/2000	455	-
2000/01	440	236
2001/02	400	162
2002/03	610	150
2003/04	350	131
2004/05	325	138
2005/06	295	210
2006/07	290	227
2007/08	291	306
2008/09	285	252
Total	3741	1812

Source: NEPSE, Annual Reports

Figure 4.11

Market Price of Selected Insurance Companies

From the figure 4.11, it can be concluded that the market price of Everest Insurance Company was in decreasing trend except 2002/03. Increasing & decreasing thereafter. But the market price of Sagarmatha Insurance Company was in decreasing order from the fiscal year 2001/02 to 2003/04 thereafter the market price was increasing trend till the FY 2007/08. In the fiscal year 2008/09 its market price was decreased.

4.2.10 Correlation Coefficient Analysis

i) Correlation Coefficient Analysis Between EPS and DPS (Annex IV)

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

Table 4.12

Correlation Coefficient of Selected Companies (EPS and DPS)

S.N.	Name of the Company	Correlation Coefficient (r)	Probable Error (PE)	Test of Significant
1.	Himalayan Bank Ltd.	0.0545	0.2242	Insignificant
2.	Nepal Investment Bank Ltd.	0.5782	0.0948	Significant
3.	National Finance Co. Ltd.	0.8268	0.0711	Significant
4.	Kathmandu Finance Co. Ltd.	-0.6505	0.1297	Insignificant
5.	Everest Insurance Co. Ltd.	0.6485	0.1303	Insignificant
6.	Sagarmatha Insurance Co. Ltd.	0.9214	-0.0339	Significant

The table 4.12 showed that the correlation coefficient between EPS and DPS. The calculated correlation coefficient of NIBL, NFCL, & SICL companies showed that there is positive relationship between their EPS & DPS. When tested the correlation coefficient with P.E. the result of these companies are significant because the value of r is greater than 6 times P.E. where as HBL, KFCL, & EICL companies showed negative relationship between EPS & DPS. Because the value of r is not greater than 6 times P.E.

ii) Correlation Coefficient Analysis Between EPS and NWPS (Annex IV)

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

Table 4.13

Correlation Coefficient of Selected Companies (EPS and NWPS)

S.N	Name of the Company	Correlation Coefficient (r)	Probable Error (PE)	Test of Significant
1.	Himalayan Bank Ltd.	-0.1626	0.2188	Insignificant
2.	Nepal Investment Bank Ltd.	0.9300	-0.0304	Significant
3.	National Finance Co. Ltd.	0.6113	0.1408	Insignificant
4.	Kathmandu Finance Co. Ltd.	0.4287	0.1835	Insignificant
5.	Everest Insurance Co. Ltd.	0.5658	0.0976	Insignificant
6.	Sagarmatha Insurance Co. Ltd.	0.9835	0.0074	Highly Significant

The table 4.13 showed that the correlation coefficient between EPS and NWPS. The calculated correlation coefficient of NIBL & SICL companies showed that there is positive relation between their EPS and NWPS. Where as HBL, NFCL, KFCL & EICL are negative relation. When tested the correlation coefficient with probable error the result of HBL, NFCL, KFCL & EICL are insignificant because the value of r is not greater than 6 times P.E. whereas the result of NIBL and SICL are significant because the value of r is greater than 6 times P.E.

4.2.11 Regression Analysis to Forecast the Future Market Price

iv) Regression Analysis of EPS and Market Price

Suppose the base year 1999/2000 = 1, 2000/01 = 2, 2001/02 = 3, 2002/03 = 4, 2003/04 = 5, 2004/05 = 6, 2005/06 = 7, 2006/07 = 8, 2007/08 = 9, 2008/09 = 10 2009/10 = 11, 2010/11 = 12 and we have to forecast the stock market prices of the fiscal year 2008/09, 2009/10 and 2010/11 by using market price and EPS by using the regression equation:

$$Y = a + bX$$

Where,

$$\Sigma Y = na + b\Sigma X \dots\dots\dots(i)$$

$$\Sigma XY = a\Sigma X + b\Sigma X^2 \dots\dots\dots(ii)$$

By using above regression equation if the value of ‘b’ is positive the market price should increased in an average and if the value of ‘b’ is negative the market price should decreased in an average. The complete form of regression analysis is shown on Annex- V.

Regression Analysis of EPS and Market Price of Himalayan Bank Ltd (HBL)

**Table 4.14
Regression Analysis of HBL**

Fiscal Year	year	EPS (X)	Market Prices (Y)	XY	X²
1999/2000	1	83.07	1700	141219.00	6900.6249
2000/01	2	93.57	1500	140355.00	8755.3449
2001/02	3	60.27	690	41586.30	3632.4729
2002/03	4	49.54	859	42554.86	2454.2116
2003/04	5	49.05	840	41202.00	2405.9025
2004/05	6	47.91	920	44077.20	2295.3681
2005/06	7	59.24	1100	65164.00	3509.3776
2006/07	8	83.09	1760	146238	6903.95
2007/08	9	71.03	1980	140639.4	5045.26
2008/09	10	-	?(41.37)	-	-
2009/10	11	-	?(63.03)	-	-
2010/11	12	-	?(84.69)	-	-
Total		596.77	11349	803035.76	41902.50
Slope ‘b’ = 21.66					
Constant ‘a’ = -175.23					

By substituting the values of above table in above regression equation the calculated value of ‘b’ becomes 21.66 and constant ‘a’ becomes -175.23. Slope ‘b’ 21.66 means the market price will be increased in an average that is the

forecasted price of year 10 is Rs.41.37, year 11 is Rs.63.37 and year 12 is Rs.84.69 are increased in an average.

Regression Analysis of EPS and Market Price of Nepal Investment Bank Ltd (NIBL)

Table 4.15
Regression Analysis of NIBL

Fiscal Year	Year	EPS (X)	Market Prices (Y)	XY	X²
1999/2000	1	53.68	1401	75205.68	2881.5424
2000/01	2	33.17	1150	38145.50	1100.2489
2001/02	3	33.59	825	27711.75	1128.2881
2002/03	4	39.56	800	31648.00	1564.9936
2003/04	5	51.70	940	48598.00	2672.89
2004/05	6	39.31	800	31448.00	1545.276
2005/06	7	59.35	1260	74781.00	3522.4225
2006/07	8	62.23	1729	107595.67	3872.57
2007/08	9	87.01	2450	213174.5	7570.74
2008/09	10	-	?(76.11)	-	-
2009/10	11	-	?(104.76)	-	-
2010/11	12	-	?(133.41)	-	-
Total		459.6	11355	648308.1	25858.97
Slope 'b' = 28.65					
Constant 'a' = -201.39					

By substituting the values of the table 4.15 in above regression equation the calculated value of 'b' becomes 28.65 and constant 'a' becomes -201.39 Slope 'b' 28.65 means the market price will be increased in an average that is the forecasted price of year 10 is Rs.76.11, year 11 is Rs.104.76 and year 12 is Rs.133.41 are increased in an average.

Regression Analysis of EPS and Market Price of National Finance Co. Ltd (NFCL)

Table 4.16

Regression Analysis of NFCL

Fiscal Year	Year	EPS (X)	Market Prices (Y)	XY	X²
1999/2000	1	63.94	470	30051.80	4088.32
2000/01	2	67.20	560	37632.00	4515.84
2001/02	3	55.70	530	29521.00	3102.49
2002/03	4	35.73	455	16257.15	1276.63
2003/04	5	43.34	360	15602.40	1878.35
2004/05	6	69.12	295	20390.40	4777.57
2005/06	7	17.37	263	4568.31	301.71
2006/07	8	21.23	460	9765.8	450.71
2007/08	9	33.47	1050	35143.5	1120.24
2008/09	10	-	? (516.87)	-	-
2009/10	11	-	?(516.21)	-	-
2010/11	12	-	?(515.55)	-	-
Total		407.1	4443	198932.36	21511.88
Slope 'b' = -0.6584					
Constant 'a' = 523.45					

By substituting the value of the table 4.16 in above regression equation the calculated value of 'b' becomes -0.6584 and constant 'a' becomes 523.45. Slope 'b' -0.6584 means the market price will be decreased in an average that is the forecasted price of year 10 is Rs.516.87, year 11 is Rs.516.21, and year 12 is Rs.515.55 are decreased in an average.

Regression Analysis of EPS and Market Price of Kathmandu Finance Co. Ltd (KFCL)

Table 4.17

Regression Analysis of K FCL

Fiscal Year	Year	EPS (X)	Market Prices (Y)	XY	X²
1999/2000	1	31.25	295	9218.75	976.56
2000/01	2	37.55	321	12053.55	1410.00
2001/02	3	37.05	300	11115	1372.70
2002/03	4	33.85	235	7954.75	1145.82
2003/04	5	2.77	205	567.85	7.629
2004/05	6	17.97	138	2479.86	322.9209
2005/06	7	26.30	140	3682	691.69
2006/07	8	29.72	203	6033.16	833.28
2007/08	9	27.48	285	7831.8	755.15
2008/09	10	-	? (174.37)	-	-
2009/10	11	-	?(177.96)	-	-
2010/11	12	-	?(181.55)	-	-
Total		243.94	2122	60936.72	7565.79
Slope 'b' = 3.59					
Constant 'a' = 138.47					

By substituting the values of the table 4.17 in above regression equation the calculated value of 'b' becomes 3.59 and constant 'a' becomes 138.47 Slope 'b' 3.59 means the market price will be increased in an average that is the forecasted price of year 10 is Rs.174.37, year 11 is Rs.177.96, and year 12 is Rs.181.55 are increased in an average.

Regression Analysis of EPS and Market Price of Everest Insurance Co. Ltd (EICL)

Table 4.18

Regression Analysis of EICL

Fiscal Year	Year	EPS (X)	Market Prices (Y)	XY	X²
1999/2000	1	42.89	455	19514.95	1839.552
2000/01	2	60.77	440	26738.88	3692.993
2001/02	3	-	400	400	-
2002/03	4	92.60	610	56486	8574.76
2003/04	5	57.23	350	20030.5	3275.2729
2004/05	6	16.87	325	5482.75	284.5969
2005/06	7	13.94	295	4112.3	194.3236
2006/07	8	14.27	290	4138.3	203.63
2007/08	9	16.39	291	4769.49	268.63
2008/09	10	-	? (313.26)	-	-
2009/10	11	-	?(316.09)	-	-
2010/11	12	-	?(318.92)	-	-
Total		314.96	3456	141673.17	18343.76
Slope 'b' = 2.83					
Constant 'a' = 284.96					

By substituting the values of the table 4.18 in above regression equation the calculated value of 'b' becomes 2.83 and constant 'a' becomes 284.96 Slope 'b' 2.83 means the market price will be increased in an average that is the forecasted price of year 10 is Rs.313.26, year 11 is Rs.316.09, and year 12 is Rs.318.92 are increased in an average.

Regression Analysis of EPS and Market Price of Sagarmatha Insurance Co. Ltd (SICL):

Table 4.19

Regression Analysis of SICL

Fiscal Year	Year	EPS (X)	Market Prices (Y)	XY	X²
1999/2000	1	11.40	-	11.40	129.96
2000/01	2	14.27	236	3367.72	203.63
2001/02	3	17.14	162	2776.68	293.7796
2002/03	4	20.39	150	3058.50	415.75
2003/04	5	28.15	131	3687.65	792.4225
2004/05	6	30.21	158	4773.18	912.6441
2005/06	7	30.13	210	6327.30	907.8169
2006/07	8	32.23	277	7316.21	1038.77
2007/08	9	33.72	306	10318.32	1137.04
2008/09	10	-	? (90.04)	-	-
2009/10	11	-	?(96.07)	-	-
2010/11	12	-	?(102.1)	-	-
Total		217.64	1580	41636.96	5831.81
Slope 'b' =6.03					
Constant 'a' = 29.74					

By substituting the values of the table 4.19 in above regression equation the calculated value of 'b' becomes 6.03 and constant 'a' becomes 29.74 Slope 'b' 6.03 means the market price will be increased in an average that is the forecasted price of year 10 is Rs.90.04, year 11 is Rs.96.07, and year 12 is Rs.102.1 are increased in an average.

4.2.12 Signaling Effect

Nepalese stock market is not perfect and matured one. Lack of the knowledge in investors, lack of the proper government policy, manipulated activities of brokers and in unstable politics has directly affected the stock market. Sometimes, national and international signaling effects may be the price determining factor of Nepalese securities market.

For seeing the signaling effect, we can use the pure statistical tools, i.e. paired t-test. Impact of signaling effect on the NEPSE index can be analyzed with the help of the NEPSE index and t-test formula. NEPSE index can be seen in the Annex III.

$$t = \frac{\bar{d}}{s/\sqrt{n}}$$

Where,

t = paired t-test

s = standard error

n = number of observations

\bar{d} = difference between two data

Where standard error (s) can be calculated by using following formula:

$$s = \frac{1}{n-1} \left(\sum d^2 - \frac{(\sum d)^2}{n} \right)$$

The result obtained by using t-test is presented as follows in table 4.20.

Table 4.20
Result from t-test

Events	Tabulated value at 9 d.f. at 5%	Calculated value at 9 d.f. at 5%	Remarks
			Null Hypothesis
Maoist problem solved	2.26	1.51	Accepted
Closure of Multinational Companies	2.26	0.73	Accepted
Interim Government	2.26	0.05	Accepted

From table 4.20 it is clear that paired t-test tabulated value at 9 degree of freedom at 5% level of significance level is 2.26, while calculated value are less than tabulated value. So null hypothesis is accepted and alternative practice is rejected. So it is clear that signaling factors unaffected the price of stock.

The paired t-test showed that at 5% level of significance and at 9 degree of freedom the null hypothesis is accepted. That means there is no significant change in after the Maoist problem solved on NEPSE index.

As the various activities closure of multinational companies also brought no confusion to the investors. When the behavior of NEPSE index was tested by paired t-test, it showed that there is no significant change in after the closure of Multinational Companies on NEPSE index.

Similarly another major event was interim Government. Interim Government brought unaffected on NEPSE. Paired t-test also showed that there is no significant change in after Interim Government on NEPSE index.

4.3 Presentation and Analysis of Primary Data

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

4.3.1 Interview with Experts

While taking interview with senior officials of NEPSE, within the periphery of investors awareness about investment decision, it was learnt that the reason behind frequently swing in the market price of shares is due to lack of institutional investors who can properly analyze and study the market trends before making their investment decisions. According to the officials, Nepalese stock market is dominated by retailing investors come forward to act in bullish trend. They emphasized that stability cannot be fully achieved unless rational and institutional investors come forward to participate in the secondary market. However, they agreed the fact that lately the investors have become more sensitive and professional at least in comparison to investors in 1993 and 1994, when market was at the nascent stage. At the time of interview, the question

has been asked about which method of analysis you adopt. Most of the exports replied that they used technical as well as fundamental analysis method of stock price behavior.

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

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

4.3.2 Questionnaire Analysis

Another measure applied to garner information relevant to the topic is questionnaire method. A number of questions were put up by means of so copies of questionnaire. Categorically, the questions raised through this means were of three types namely, Yes/No Questions, Multiple Choice Questions and Open-End Questions. Eighty percent of the questionnaires were collected during study period. The questionnaire so collected is thus related to find out the opinion of investors on investment action for trading shares though secondary market. Their responses have been analyzed as follows:

i) Sector of Investment Analysis

Regarding the sector of investment the investors are asked whether the investors are interested in which sector they are interested to invest, 50% of the

investors are interested with banking sector, 20% of them are interested with manufacturing and processing, 16% wanted to invest in trading sector and remaining 14% wanted to invest in other area. From the table 10 it is clear that most of the investors i.e. 50% of them are attracting by banking/finance sectors. The data collected in this respect is tabulated in table 4.21:

Table 4.21
Sector-wise Preference for Investment

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

Source: Field Survey

ii) Investors' Awareness Analysis

When questioned to the investors whether they are aware or not in the Nepalese stock market most of them i.e. 64% said that they are not, only 16% replied that they are aware about this. Remaining 14% don't know about this and 6% shows no response at all. Regarding the awareness most of the investors said that they were not familiar with stock markets, brokers, trading mechanism. The following table 4.22 tells the fact:

Table 4.22
Investors' Awareness on the Stock Market

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

Source: Field Survey

iii) Factors Influencing Analysis

Regarding the major influencing factors for the stock price, different brokers, individual investors, institutional investors and NEPSE staffs gave different views on their own ideas. 16% of them gave their views as company's profits as the influencing factor, 20% gave their views as company's performance, 4% said as company's board of directors, 28% said as company's dividend, 22% said as signaling factors and rest 10% said as above all. Table 4.23 provides the clear picture on this subject as follows:

Table 4.23

Influencing Factors on the Stock Market Price

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

Source: Field Survey

iv) Decision Making Analysis

Regarding the decision to invest in shares in the secondary market, different respondents (brokers, individual investors, institutional investors, NEPSE staffs and others) replied as so nobody said that he/she takes the decision on the basis of family advice and rumors, 40% of the investors replied that their basis of decision making is own analysis, 56% investors replied that their basis of decision making is market price and only 4% of the investors replied that their basis of decision is family advice. This statement has been cleared from the following table.

Table 4.24

Basis of Decision Making on Secondary Market

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

Source: Field Survey

v) Investors' Satisfaction Analysis

Regarding the question whether the investors are satisfied or not with their investment, 60% of the respondents replied that they are not satisfied. Only 20% of the respondents replied that they are satisfied. 16% of the respondents replied that they are unknown about this fact and remaining 4% shows no response at all. The following table 4.25 gives the fact that the investors' satisfaction:

Table 4.25

Data Regarding Investors' Satisfaction

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

Source: Field Survey

vi) Investors' Difficulties Analysis

Regarding the difficulties such as for purchasing and selling shares by most of the investors in stock market majority of them i.e. 64% were replied that they were facing the problem, 24% of them replied they were not facing such type of problem and remaining 12% said that they don't know about that. The following table 4.26 shows the fact explained above as follows:

Table 4.26

Views of Difficulties Faced by Investors

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

Source: Field Survey

vii) Government Policy Analysis

Regarding the Nepal Government's policy, the policy of government is not clear and perfect in Nepalese stock market. Different respondents replied their answer through questionnaire, among them 80% of the respondents replied that government policy of stock market is not clear and perfect, 14% of the respondent replied that government policy of stock market is clear and perfect but 6% of the respondent replied that they are unknown the policy of government in the stock market. Following table 4.27 shows the clear picture about this;

Table 4.27

Government Policy Analysis on the Stock Market

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

viii) Participation in Company's Management Analysis

Investors were asked for their interest on investment motives if they were interested to be elected in company's management, 56% of them replied in positive way, 20% replied that they didn't want to be elected, 12% gave no idea and remaining 12% showed no response. The following table 4.28 tells the fact mentioned as follows:

Table 4.28**Participation on Company's Management**

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

Source: Field Survey

ix) Environmental Analysis

About the environmental factors that effect the Nepalese stock market or not, different individual investors, institutional investors, brokers, NEPSE staffs and others gave their own idea about this, among them, 16% respondents replied that the political environment effect the Nepalese stock market, 16% respondents replied that economic environment effect the Nepalese stock market, 8% replied that socio-cultural environment effect the Nepalese stock market, 10% replied that technological environment effect the Nepalese stock market, 14% replied that international environment effect the Nepalese stock market and 36% replied that all environmental factors effect the Nepalese stock market. Following table 4.29 shows the clear vision about this:

Table 4.29**Opinion of Environmental effects**

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

Source: Field Survey

x) Trend Analysis

Regarding the suitability trend of stock price movement, different investors, NEPSE staffs and brokers gave the different opinion about the trend on which 76% gave their opinion about bullish trend, 12% gave their opinion about optimum trend and 12% gave their opinion about none of the above trend. Following table 4.30 shows the clear picture about the mentioned subject matter:

Table 4.30

Suitable Trend of Stock Price Movement

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

Source: Field Survey

xi) Causes of Holding the Shares

Different parties were asked for their interest on investment motives if they were interested with dividend, social status and marketing and above all, 24% of the investors said as social status, 40% of the investors said as income, 20% of the investors said as marketing and 16% of the investors as above all. Following table represents the detailed information about this:

Table 4.31

Causes of Holding the Shares of Company

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

Source: Field Survey

xii) Investors' Open-End Analysis

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

So far as investors' experience on investment problem is concerned, it was found quite astonished. Some key experiences, which are considered to be worthy, are cited here. Some investors express their views that due to non-transparent operation and delay in and disseminating the information regarding company's financial status and shares they were in dilemma whether to purchase or sell the shares. Similarly, other blamed that brokers in the secondary market did not provide proper advices to the clients. As a result, they have to bear losses while trading the stocks. The brokers purchase the shares for their clients on an "execution – only basis" and do not take responsibility for their quality of advises they offer. Therefore, according to them, brokers perform the function in the capital market not for investors' sake but only for reaping their commissions form investors.

While some other stated that due to lack of computer aided technology for analyzing the security and very few numbers of security analyst or firms involved in forecasting market trends and future price of shares, they feel difficulty to take right investment decisions on right time. Likewise, it was acknowledged that some of the investors were reluctant to make further investment in the secondary market since they had bitter experience for making transfer of ownership of shares in the register of shareholder was time consuming. According to them, completion of transfer process almost took about three to four moths, so they felt their interest was not protected. That's why, all of the respondents who faced this type of problem laid emphasis to think twice whether or not to investment in shares through secondary markets.

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

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

Frequently fluctuation of stock market prices, lower quality of professional services and delay in procedures for making transfer of ownership of shares have caused a great loss to the confidence of investors. Similarly, the settlements of traded shares were not carried out within the given duration. Among other things, some suggested to enshrine special provisions in the act to protect the right of security holders.

So for the Acts, making the provision only from the side of company management has enacted i.e.; Company Act and Stock Exchange Act. Instead, the companies themselves are violating the provisions laid down in the Acts from time to time.

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

- The stock exchange should carry out periodic research and analysis and make public the findings, which they believed would help them to make better investment decision.

- The Securities Board, an apex body for monitoring and regulating the Nepalese Stock Market Regulatory regimes up to international standards.
- Investors should be provided with investment guidelines.
- The role of market players in the stock market should be made effective in promoting the capital market on the country.

4.4 Major Findings of the Study

- Paid up value indicates the actual amount of the investment in assets whereas market capitalization indicates the present value of the investment.
- The market price of sample companies during the Fiscal Year 1999/2000 to 2008/09 has been presented which shows the fluctuation of the prices.
- The calculated value of correlation coefficient showed that there is positive & negative correlation coefficient between EPS and DPS & EPS and NWPS of all sampled companies.
- When analyzing the regression analysis between EPS and market price, all sample companies had positive regression coefficients except NFCL 'b' which indicates that the forecasted price will be increased in an average.
- On analyzing the primary data major portion of the investors would like to invest their money in banking sector.
- Investors have poor understanding and knowledge about stock market it was found when analyzing the primary data.
- Lacks of awareness in the investors are major problems in Nepalese Security Market.
- When analyzing the primary as well secondary data it was also found that the Nepalese Stock Market is in developing stage.
- It was also found that the government policy is not clear and perfect about Nepalese Stock Market when analyzing the primary data.
- It was also found that investors were not satisfied with their investment.
- Investors were interested to be elected in company's management.

- Most of the respondents were asked about the major influencing factors of stock price movement, they said that company's dividend affect the stock price.
- Founding to the respondents bullish trend of the stock price movement is suitable for Nepalese security market.
- According to the major portion of respondents, environmental factors direct moves the price of stock market.
- Taking the interview with the experts of Nepalese stock market, most of them follow the technical as well as fundamental analysis method of stock price movement.
- Studying the annual trend analysis of Nepalese stock market, it was found that stock price trend is increasing for many years as smoothly but from one year price of stock is increasing as rapidly. Taking the decision as long period, forecast of exports may be correct because of system wise increasing trend.
- Most of the investors' investment was income.
- It was found that the investors' motive for owning shares of company is to receive the dividends from the shares.
- When investors were asked whether they faced any difficulties in the stock market, majority of them replied that they were facing difficulties in Nepal stock market.
- It was found that investors in the stock market take the investment decision on the basis of market price of shares.
- On analyzing the price trend of two years NEPSE Index in different months with help of monthly trend showed that the price trend of different months of the fiscal year 2006/07 and 2007/08 were in smoothly increasing trends which was better for Nepalese stock market.
- While analyzing the rate of listing of new companies showed that increasing trend from the fiscal year 1999/2000. In the fiscal year 20001/02 the companies were decreased due to de-listed the 25 companies

from the NEPSE and thereafter it was in increasing trend. In fiscal year 2003/04, 2006/07, & 2007/08 NEPSE has de-listed 1, 12, & 5 company respectively.

- Volume of stock traded in stock exchange during the study period (1999/00-2008/09) was found in fluctuating trend.
- On analyzing paired t-test for signaling factors with reference to major three events it was found that signaling effects had not played major role in fluctuation of the stock price.
- Number of transacting companies was found in increasing trend except the year 2000/01.
- Studying the annual trend analysis of Nepalese stock market price, it was found that stock price trend was in fluctuating trend in the different years.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

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

5.1 Summary

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

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

regression analysis and analyze the closing market prices of sampled companies. These are the important factors for stocks market to analyses the behavior of stock market prices.

According to the nature and objective of the study, primary data as well as secondary data has been used to meet the objective. Secondary data were collected from annual report of NEPSE index, daily newspapers, library search, newspapers, magazine, bulletin and other journals. Questionnaires were distributed and interviews were made to gather information. Information was tabulated and presented as per the requirement of the study. From the analysis it was found that price trend is not in predictable trend during the study period of different months of 2006/07 and 2007/08.

Volume of stock traded was not in the same direction as the different years. Volumes of stock traded during the fiscal year 1999/2000 to 2008/09 were not in any order of increasing or decreasing. The trend of volume of stock traded was in fluctuating manner in these years. Similarly rate of listing of new companies were not in satisfactory condition as it was also in very few increase companies couldn't give the any type of result. The volumes of transacting companies are gradually increasing during the period 1999/00 to 2008/09. Annual stock price were in decreasing trend in fiscal year 2003/04 thereafter stock price were increasing trend.

The paid up value and market capitalization of listed companies in NEPSE were satisfactory. There were positive & Negative correlation coefficient of the sampled company when tested with EPS & DPS and EPS & NWPS.

The regression analysis between EPS and market price showed that all sample companies had positive regression coefficients 'b' which indicates that the price will be increased in an average. Except KFCL company.

From the hypothesis test; it was found that signaling factors plays major role in determining the NEPSE index. There was difference between NEPSE index before major signaling factors such as Maoist problem solved, closure of multinational companies and interim Government.

5.2 Conclusions

From the above research study we can conclude that the Nepalese stock market is in infancy stage or it is in developing stage.

The study concludes that there is a gap between the theory and practice of investment in Nepalese stock market due to the lack of proper analysis of stock market for the smooth operation of the secondary market.

Various measures of stock market development indicate that the stock market in Nepal is 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 preference. Similarly firms shun it because stock market is less reliable source of raising funds for them. Due to this financial system in Nepal has remained basically bank-dominated.

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

only to ordinary and preference shares. These are various major problems observed in the market now-a-days.

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

The study also concluded that signaling factors plays major role for fluctuating NEPSE index. The study was verified by taking major five events such as maoist problem was solved, closures of multinational companies and interim Government.

Finally, the study of stock market behavior is a very useful subject matter if properly analyses for the development if stock market.

5.3 Recommendations

- NEPSE index plays major role for creating investment prosperity. So for removing stock market difficulties such as transaction facilities should be managed in effective way by formulating investor's protection act.
- Approval process should be streamlined to make it easy and hassle free. If possible, one window policy should be adopted in providing approval.
- NEPSE has to ensure that all companies share all relevant information on a timely basis so that the stock price reflects their company's status more accurately.

- An independent analysis on the latest security offers in the capital market by professionals should be encouraged. This benefits the potential investors in making informed investment decisions. Economic Journalism is encouraged to come forward in this connection to fulfill their responsibility to the society.
- Increase awareness amongst the general public about the capital market, regarding nature of risk and return, through promotional campaigns, seminars, publications and programs in FM/TV etc.
- NEPSE can expand its services to the regional levels rather than just concentrating solely in the valley.
- Issuance of directives by regulatory authorities not to solicit unaccounted payments to the shareholders other than dividend.
- Discourage the possibilities of insider's trading through improved corporate governance and initiate strict corrective measures for compliance.
- Encourage active participation of other sectors of the economy besides banks, finance companies and insurance through the enforcement of good corporate governance.
- Independent rating agencies should be encouraged to establish here so that the potential investors will have a confident picture of the financial health and future prospects of organizations/instruments.
- On seeing the investment priority of investors majority of investors were found attached with banking/finance. So diversification of investment in other sector should be done by taking action towards the unproducing manufacturing, trading, insurance and others. The companies which are not performing their activities should be removed from the list of Nepal Security Exchange Ltd. so that the unproductive sectors give the productive results by running efficient way.
- The price fluctuation trend is not predictable by general investors to technician facilities should be realized by Nepal Stock Exchange Ltd., so that general investors should also get benefit from the Nepal Security

Exchange Center Ltd., so that general investors should also get benefit from the Nepal Security Exchange Ltd.

- Signaling factors should be analyzed so that future movements of price can be predicted from the side of analyst and from the side of investors.
- The study of stock market behavior should be done in periodic manner of that proper results can be drawn for betterment of stock market from the side of NEPSE.
- Government of the nation should formulate proper and perfect rules, regulation, articles of association and code of conduct to develop the capital market of the country. For this purpose national and international stock experts should hire to develop the system.
- Investors are the basic variable and backbone of the capital market after having awarded them, stock market development process is possible and meaningful.
- Foreign investors, individual as well as institutional investors, should encourage and promote to invest in the Nepalese stock market.
- Economic development of every largely country depends upon the industrial advancement of various types and classes industries. Small industries, middle industries and large industries and development of stock market, on the other hand depends upon the development of industries. Government therefore should encourage and consider the industrial development in the country.
- NEPSE index plays major role for creating investment prosperity. So for removing stock market difficulties such as transaction facilities, investor's interest and investment facilities should be managed in effective way by formulating investors' protection act.
- NEPSE should be introduced float index and sensitive float index which will be globally best practice to make the secondary market index more realistic .In free-float index reflects the market trend more rationally as it take into consideration only those share that are available for trading in the market .

- The listed companies' data their performance appraisal, their conduction of work, their productivity, their commitment to NEPSE should be updated and analyzed in time and again. If any company is found in doing works against NEPSE should immediately take action on it.
- The price fluctuation trend is not predictable by general investors, so technical facilities should be provided by Nepal Stock Exchange Ltd., so that general should also get benefit form the Nepal Security Exchange Center Ltd
- Investors should be provided with investment guidelines from news, media and internet.
- The role of market players in the stock market should made effective in promoting capital market on the country by giving proper training and adopting changed environment with modern tools and technique.
- NEPSE should give more attention to market price i.e. it should have to conduct research, seminar and training and make the awareness about how to increase the companies' market price and how to show their performance in listing of NEPSE by updating their reports periodically, informing actual financial position of the company.
- The stock market lacks the existence of sophisticated investors, it is recommended to regulatory bodies to carry out programs using various media and spot program to inform and attract the potential investors in investing its shares.

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

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ANNEXURE
ANNEX I
QUESTIONNAIRE

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

2. Do you think investors in the Nepalese stock market are aware?
 - a) Yes ()
 - b) No ()
 - c) Don't know ()

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

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

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

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

7. Do you want to get elected to the company management?
 - a) Yes ()
 - b) No ()
 - c) Don't Know ()

8. Does the environment affect the Nepalese stock market?
 a) Yes () b) No () c) Don't Know ()
9. In which of the following trend of stock price behavior is suitable for Nepalese security market?
 a) Bullish trend () b) Bearish Trend ()
 c) Optimum trend () d) None of Above ()
10. Do you think are there any difficulties in trading shares in Nepalese stock market?
 a) Yes () b) No () c) Don't Know ()
11. For what purpose do you want to own shares of a company?
 a) Dividend () b) Social Status ()
 c) Marketability () d) Above All ()
12. If yes how these difficulties can be solved?
 a)
 b)
 c)
 d)
13. In your opinion, what are the majors to be taken for developing Nepalese Secondary Market?
 a)
 b)
 c)
 d)

Name:

Address:

ANNEX II

Delisted Companies from NEPSE

Delisted Companies in the Fiscal Year 2001/2002

1. Kathmandu Pauroti Udhyog
2. Pokhara Pauroti Udhyog
3. Hetauda Chhala Udhyog
4. Indreni Soyabean Udhyog
5. Nepal Jugal Wool Public Ltd.
6. Everest Wool Ltd.
7. Balaju Yantrashala Sanitary E. Ltd.
8. The Juddha Math Factory, Birgunj
9. Balaju Yantrashala Electronic Ltd.
10. Kacho Chhala Sankalan Tatha Bitaran Sansthan
11. Agro Nepal Ltd.
12. Nepal Track Temp Ltd.
13. White Everest Byapar Co. Ltd.
14. Nepal Wool Import and Export Co. Ltd.
15. Nepal Everest Co. Ltd.
16. Intrade Byapar Ltd.
17. Greenhill Trading Co. Ltd.
18. Nepal Progressive Trading Co. Ltd.
19. Lumbini Trading Co. Ltd.
20. Kastmandap Trading Co. Ltd.
21. Himalayan Trading Co. Ltd.
22. Nepal Unique Trading Co. Ltd.
23. Ram Janaki Trading Co. Ltd.
24. Nepal Metal Co. Ltd.
25. Ganapati Trading Co. Ltd.

Delisted Companies in the Fiscal Year 2003/2004

1. Nepal Bank Limited

Delisted Companies in the Fiscal Year 2006/2007

1. Nepal Battery Co Ltd.
2. The Juddha Match Factory (Biratnagar) Ltd
3. Nepal Plywood & Bobbin Co. Ltd
4. Himal Cement Co. Ltd
5. Sayapatri Color Lab Co. Ltd
6. Nepal Med Ltd
7. Ace Laboratories (Nepal) Ltd
8. Letharage Bansbari Tannery & Shoe Factory Ltd
9. Necon Air Ltd
10. Plastic Trading Co. Ltd
11. Nepal United Co. Ltd
12. Nepal Byapar Bikash Co. Ltd

De-listed companies in fiscal year 2007/08

1. Nepal Byapar Bikash Co. (Koshi) ltd.
2. National Pro& Eco. Development center Ltd.
3. Moran Sugar Mills Ltd.
4. Biratnagar Jute Mills Ltd.
5. Hegira Textile Industry Ltd.

ANNEX III
NEPSE Index for t-Test

Maoist Problem Solved

Before	After	Difference (d)	d²
424.21	453.03	-28.82	830.5924
435.88	463.74	-27.86	776.1796
445.01	469.51	-24.50	600.2500
448.69	478.01	-29.32	859.6624
441.00	492.46	-51.46	2648.1316
445.03	486.19	-41.16	1694.1456
448.12	479.83	-31.71	1005.5241
447.43	476.93	-29.50	870.2500
447.79	475.01	-27.22	740.9284
445.58	473.31	-27.73	768.9529
	Total	-319.28	10794.6170

Multinational Companies

Before	After	Difference (d)	d²
575.04	593.65	-18.61	346.3321
569.45	598.52	-29.07	845.0649
563.49	602.87	-39.38	1550.7844
567.28	611.08	-43.80	1918.4400
578.81	613.47	-34.66	1201.3156
583.44	615.43	-31.99	1023.3601
584.01	620.61	-36.60	1339.5600
588.21	633.02	-44.81	2007.9361
590.29	643.15	-52.86	2794.1796
591.65	657.47	-65.82	4332.2724
	Total	-397.6	17359.2452

Interim Government

Before	After	Difference (d)	d²
496.64	507.46	-10.82	117.0724
500.72	501.67	-0.94	0.8836
500.12	491.61	8.51	72.4201
494.06	488.93	5.13	26.3169
493.88	488.22	5.66	32.0356
492.32	487.43	4.89	23.9121
491.47	487.01	4.46	19.8916
488.52	489.03	-0.51	0.2601
482.52	494.59	-12.07	145.6849
480.99	497.73	-16.74	280.2276
Total		-12.43	718.6249

Source: Malla Rupendra, 2008 "A study on the Behavior of Stock Market Price in Nepalese Securities Market"

ANNEX IV

EPS, DPS and NWPS of Sample Companies

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

FY	HBL			NIBL		
	EPS	DPS	NWPS	EPS	DPS	NWPS
1999/00	83.07	50	219.19	53.68	25	303.10
2000/01	93.57	27.50	240.20	33.17	0	275.96
2001/02	60.27	35	220.03	33.59	30	307.95
2002/03	49.54	25	247.82	39.56	20	216.23
2003/04	49.05	20	246.93	51.70	15	246.88
2004/05	47.91	20	239.59	39.31	12.58	199.83
2005/06	59.24	5	228.72	59.35	20	239.67
2006/07	83.09	17	219.89	62.23	20	351.27
2007/08	71.03	9	289.37	87.01	15	279.43

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

FY	NFCL			KFCL		
	EPS	DPS	NWPS	EPS	DPS	NWPS
1999/00	63.94	28	243.67	31.25	20	128.05
2000/01	67.20	30	277.43	37.55	23	142.55
2001/02	55.70	20	291.80	37.05	12	169.65
2002/03	35.73	20	307.47	33.85	50	154.90
2003/04	43.34	20	260.06	2.77	-	136.67
2004/05	69.12	10	271.94	17.97	10	138.93
2005/06	17.37	10	184.65	26.30	10	156.17
2006/07	21.23	15	217.29	29.72	10	147.67
2007/08	33.47	10	227.48	27.48	10	139.20

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

FY	EICL			SICL		
	EPS	DPS	NWPS	EPS	DPS	NWPS
1999/00	42.89	20	171.77	11.40	5	113.75
2000/01	60.77	20	212.83	14.27	7	118.25
2001/02	-	-	-	17.14	8	158.51
2002/03	92.60	100	200	20.39	10	174
2003/04	57.23	-	200	28.15	-	214.55
2004/05	16.87	50	150	30.21	-	238.94
2005/06	13.94	-	186.52	30.13	40	260.64
2006/07	14.27	10	179.61	32.23	20	279.27
2007/08	16.39	10	192.37	33.72	25	288.89

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

Year (n)	EPS (X)	DPS (Y)	X ²	Y ²	XY
1999/00	83.07	50	6900.62	2500	4153.5
2000/01	93.57	27.50	8755.34	756.25	2573.17
2001/02	60.27	35	3632.47	1225	2109.45
2002/03	49.54	25	2454.25	625	1238.50
2003/04	49.05	20	2405.90	400	981
2004/05	47.91	20	2295.36	400	958.2
2005/06	59.24	5	3509.37	25	296.2
2006/07	83.09	17	6903.95	289	1412.53
2007/08	71.03	9	5045.26	81	639.27
Total	596.77	208.5	14902.45	901.25	14361.82

We have,

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

$$= \frac{9 \times 14361.82 - 596.77 \times 208.5}{\sqrt{9 \times 14902.45 - (596.77)^2} \sqrt{9 \times 901.25 - (208.5)^2}} = 0.0545$$

and

$$\text{P.E. (r)} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(0.0545)^2}{\sqrt{9}} = 0.2242$$

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

Year (n)	EPS (X)	NWPS (Y)	X ²	Y ²	XY
1999/00	83.07	219.19	6900.62	48044.26	18208.11
2000/01	93.57	240.20	8755.34	57696.04	22475.51
2001/02	60.27	220.03	3632.47	48413.20	13261.21
2002/03	49.54	247.82	2454.25	61414.75	12277.00
2003/04	49.05	246.93	2405.90	60974.42	12111.92
2004/05	47.91	239.59	2295.36	57403.37	11478.75
2005/06	59.24	228.72	3509.37	52312.84	13549.37
Total	442.65	1642.48	29953.24	386258.88	103361.87

We have,

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

$$r = -0.1626$$

and

$$\text{P.E. (r)} = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.6745 \times \frac{1-(-0.1626)^2}{\sqrt{9}} = 0.2188$$

Note: for other companies same as above.

ANNEX V

Regression Analysis

Regression Analysis of Himalayan Bank Ltd. (HBL)

Suppose the base year 1999/00 = 1, 2000/01 = 2, 2001/02 = 3, 2002/03 = 4, 2003/04 = 5, 2004/05 = 6, 2005/06 = 7, 2006/07 = 8, 2007/08 = 9, 2008/09 = 10, 2009/10 = 11, 2010/11 = 12 and we have to forecast the stock market prices of the fiscal year 2008/09, 2009/10 and 2010/11 by using market price and EPS by using the regression equation:

$$Y = a + bX$$

Where,

$$\Sigma Y = na + b\Sigma X \dots\dots\dots(i)$$

$$\Sigma XY = a\Sigma X + b\Sigma X^2 \dots\dots\dots(ii)$$

Fiscal Year	Year	EPS (X)	Market Prices (Y)	XY	X²
1999/00	1	83.07	1700	141219.00	6900.6249
2000/01	2	93.57	1500	140355.00	8755.3449
2001/02	3	60.27	690	41586.30	3632.4729
2002/03	4	49.54	859	42554.86	2454.2116
2003/04	5	49.05	840	41202.00	2405.9025
2004/05	6	47.91	920	44077.2	2295.3681
2005/06	7	59.24	1100	65164	3509.3776
2006/07	8	83.09	1760	146238	6903.95
2007/08	9	71.03	1980	140639.4	5045.26
2008/09	10	-	?(41.37)	-	-
2009/10	11		?(63.03)	-	-
2010/11	12		?(84.69)	-	-
Total		596.77	11349	803035.76	41902.50

By substituting the values of above table in above regression equation we got:

$$9a + 596.77b = 11349 \dots\dots\dots (iii)$$

$$596.77a + 41902.50b = 803035.76 \dots\dots\dots (iv)$$

Multiply equation (iii) by 596.77 and equation (iv) by 9 we got

$$5370.93a + 356134.43b = 6772742.73$$

$$5370.93a + 377122.5b = 7227321.84$$

$$\begin{array}{r} - \qquad - \qquad - \\ - 20988.07b = - 454579.11 \end{array}$$

$$\therefore b = 21.66$$

Putting the value of 'b' in equation (iii) we got

$$9a + 596.77b = 11349$$

$$9a + 596.77 \times 21.66 = 11349$$

$$9a = 11349 - 596.77 \times 21.66$$

$$\therefore a = -175.23$$

For year 10:

$$Y = a + bX$$

$$= -175.23 + 21.66 \times 10$$

$$= 41.37$$

For year 11:

$$Y = a + bX$$

$$= -175.23 + 21.66 \times 11$$

$$= 63.03$$

For year 12:

$$Y = a + bX$$

$$= -175.23 + 21.66 \times 12$$

$$= 84.69$$

Note: for other companies same as above.