

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

The world's economic sectors are changing rapidly. Economic sector play vital role for developing the nations. Nepal is one of the least developed countries in the world. Nepal is practicing the development program by lunching various capital formation activities in different sectors. Nepal lunched planned economic policy more than 54 years ago. Now it is actively trying to achieve the rapid pace of economic development through liberalization. To attain the rapid pace of economic development of the country, there should be good environment for potential investors in investing activities for the establishment of corporations in the different sectors of the economy.

Economy growth of any nation is highly influenced and characterized by development and expansion of capital market. The growth of economy of U.S.A. has been due to in large part of the strength and efficiency of its capital market. Further, east Asian economic boom and crises are largely effect of capital market fluctuations. The capital market has more significant role in developing economics like Nepal. The stock market plays vital role for encouraging and canalizing the saving to provide the entrepreneurs for investment in profitable projects in the Nepalese economy.

“Capital market as a financial relationship created by a number of institutions and arrangement that allows supplies and demanders of long term funds to make transactions. Thus, the main objective of the capital market is to create opportunity for the maximum number of people to get benefit from the return obtained by directing the economy towards the productive sector by mobilizing the long term capital.”

Capital markets are the institutions, which are engaged in mobilization of ideal saving in productive opportunity.

“Development and expansion of capital market is essential for the rapid economic growth of country. A capital market helps economic development by mobilizing long-term capital needed for productive sector. The main objectives of the capital market are to create opportunities 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”.

“Thus the stock market is a price where shares of listed companies are traded or transfer from one hand to another at a fair price through the organized brokerage system. Principally stock market refers to the secondary markets for securities whereas; primary market refers to the market for new issue, in the secondary market, to make transaction. Therefore, they are the backbone of stock market growth and its smooth functioning (operation). The major function of the stock market is to provide ready and continuous market for purchase and sales of securities at competitive price. Thereby, imparting future market abilities and liquidity to them. Thus it is a medium through which areas that ultimately helped to economic development and industrialization of the nation.”

In the respect, capital market plays a crucial role in mobilization a constant flow of saving and changing these financial resources for expanding productive capacity in the countries. 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 market. Similarly, stock market provides the best opportunities to the investor.

“Furthermore many profitable projects require a long term venture capital to finance. Most investor tempts to provide risk and are reluctant to tie their saving into the long term commitment. Liquid stock market makes the investment less risky and more attractive. It encourages savers to invest in the long term projects because they can sell securities quickly and easily, if they want get back their saving before the project matures. At the same time, companies receive easy access to capital through new issuance of shares.”

“A corporation is an artificial being, invisible, intangible and existing only in the contemplation of the law. Being a mere creature of the law it possesses only those properties which the charter of its creation confers upon it either expressly or as incidental to its very existence.”

There are mainly two sources of financing in the profitable ventures,

- a) Internal financing ,and
- b) External financing.

a) Internal financing; the internal financing has the limited scope because of its limited scope and the risk associated with it. So, internal financing becomes more important and popular for fostering the productive activities in the economy.

b) External financing ; the external financing is mainly be segregated into three categories

- I. Equity financing
- II. Preference stock financing, and
- III. Debt financing

Among which the equity/ common stock financing is the most important and important financing source of the corporations.

The concept of the stock market in Nepal is very new. Though concept of stock market was began with the flotation of shares by Nepal bank limited (NBL) and Biratnagar jute mills in the year 1976 under the company act 1936, it is still in infancy stage. The institutional development of securities market in Nepal started from the year 1976 when securities exchange center (SEC) was established under the company act with the joint capital contribution of Nepal Rastra bank (NRB) and Nepal industrial development corporation (NIDC) , the main objectives of the establishment of the centre was to mobilize saving and public and encourage the people to participate in the ownership of industries and business Enterprises.

Every corporation acquires their needed long-term fund by selling the securities in the capital market. Capital market typically involves financial assets that have life spans of greater than one year. Capital market can be decomposed into securities market and non securities market.

“The term security will be used to refer to a legal representation of the right to receive prospective future benefits under conditions”

Capital market is broadly divided into two types;

- Primary markets, and
- Secondary markets

Primary markets: the primary market is that financial market whereby the corporations acquire the needed capital by initial public offering (IPO) and through right issue.

Secondary markets: the secondary market is that financial market where the securities once issued by the corporations in the primary market are treated. So, secondary market plays vital role in liquidating the shares.

Stock market provides the best investment opportunities to the investors. It also provides liquidity to the securities. The liquidity affects the economic activities and thereby affecting the development of the country.

1.2 Historical Development of Capital Market and Brokerage Services

To proceed ahead it is better to look into the historical development of capital market. In 12th century France the curators de change were concerned with managing and regulating the debts of agriculture communities on behalf of the banks. Because these men also traded with debts, they could be called the first Brokers. A common miss belief is that in late 13th century Bruges commodity traders gathered inside the house of a man called Van Der Beurze, and in 1309 they became the Bruges Beurse, institutionalizing what had been, until then an informal meeting, but actually, the family Van Der Beurze had a building in Antwerp where those gathering occurred, the Van Der Beurze had Antwerp, as most of the merchants of that period, as their

primary place for trading. The idea quickly spread around Flanders and Neighboring countries and Beurzen soon opened in Ghent and Amsterdam.

In the middle of the 13th century, Venetian bankers began to trade in government securities. In 1351 the Venetian government outlawed spreading rumors intended to lower the price of the government funds. The Dutch later started joint stock companies, which let shareholders invest in business venture and get a share of their profit –or losses. In 1602, the Dutch east India Company issued the first share on the Amsterdam stock exchange. It was the first company to issue stocks and bonds.

The Amsterdam stock exchange [or Amsterdam Beurs is also said to have been the first stock exchange to introduce continuous trade in the early 17th century. The Dutch pioneered short selling , option trading , debt equity swaps , merchants, banking , unit trusts and other speculative instruments , much as we know now, there are now stock markets in virtually every developed and most developing economy, with the world's biggest markets being in the United states, United Kingdom , Japan, India, and Nepal , as so on.

Securities market in Nepal began with the flotation of the shares by Biratnagar Jute Mills Ltd. And Nepal Bank Ltd. In 1937. Introduction of the company act in 1964, the first issuance of government bond in 1964 and establishment of the securities markets centre Ltd. In 1976 were other significant development relating to stock market. Securities exchange centre was established with an objectives of facilitating and promoting of growth of capital market. The then securities market centre was renamed securities exchange centre in 1984. Before conversion into stock exchange it was the only stock market institution undertaking the jobs of Brokering, underwriting, managing the public issue, market making for government Bonds, and other financial services. Nepal Government, under a Program initiated to reform stock markets converted securities exchange centre into Nepal stock Exchange Ltd.[NEPSE] in 1993. Government of Nepal is the major shareholders of the NEPSE.

Exchange also acts as the clearinghouse for each transaction, meaning that they collect and deliver the shares, and guarantee payment to the sellers of a security. This

eliminates the risk of an individual buyers or seller that the counterparty could default on the transaction.

1.3 Statement of the Problem

The problem of this study is directed on **“Effectiveness of Brokerage services in Nepalese stock market”** brokering services in Nepal stock market play vital role for determining the price of the shares , motivating the potential investors in investing activities and

Developing the securities market of the nations brokering services are major issues for the development and improvement of the trading shares in NEPSE.

It is known that investors are the major source of the capital and the backbone of the securities market. Unless, investors began analyzing the good or bad financial details of corporate institutions before making investment decision, the market can not develop smoothly. The provisional behaviors of the investors also play vital role for setting the price of the stock in the market.

“Investment in the past was done on whim. Even officials at the stock exchange and the securities board refuting investor’s allegation of market manipulation and insiders trading last February, discreetly claim that the Nepal stock market is in a nascent stage. And that, investment are made more on an impulse, rather than thorough market study and credit rating”

Usually the brokers trade the securities on market price. The price of common stock in primary market is a par value but in the secondary market may be price i.e. more than par value or less than par value and equal to par value. Stock price in the secondary market is the main issue of the brokering service. What could be the reasonable price paid for a stock in secondary market? What is the impact of price trend and volume of stock traded? Do investors consider the price trend volume of stock traded? Do the investors see the reputation or goodwill of the company and others views while making investment decision? These are burning issues of general

investors regarding investment in securities in NEPSE. The primary market is positively and highly elastic with the stock price and liquidity in the security market.

It is frequently heard that the majority of the investors are not satisfied with the services presently provided by the brokers. Investors frequently complain about the inadequacy of required information about the trading of shares from Brokers. Investors could not identify the good or bad stock in lack of proper information. The limited numbers of brokers are doing the business only as part time basis. Some brokers have not enough stock market education, adequate knowledge and expertise in brokering service. The Brokering in Nepal stock exchange was not able to provide various services related to the trading of the stock as compared to brokers of the stock market in other countries.

The theories and principles related to the stock market and shares price/ value calculation are also based on some assumption. This may not be able to represent the practical situation in a reliable way. Brokers are also supposed to assist in the maintenance of a fair and orderly market but they may not be able to do this job in their capacity successfully because of the various obstacles presented in the economy environment. so, the necessity to analyze the practical situation of brokering services in Nepalese stock market is a most in present situation.

The price of the common stock also affects in brokering services. The price of the stock is fixed by the presented few brokers who represent the investors in the Nepal stock exchange. They play the vital role for brokering services. So , the market is loyal these few investors.

Besides this, there were some serious problems that play vital role for brokering services in Nepal stock market,

- On the major problem of brokers is only help the to big investor not the small investors.
- There is lack of professional brokers and they do not provide service in full time in NEPSE. Most of the brokers are brokering as a part time. So the

investors unable to investment in proper time due to the lack of proper information of trading system.

- The market is totally captured by amateur investors who buy very little numbers of shares .these investors hold the share in view of making profit. This is a also affect in brokering services.
- The actual clearing and settlement process takes long period than that mentions in the regulation .this also affects price
- Determination and image of the brokers in regard to their services in the stock exchange.
- There were various complaints from the investors about the services of the brokers. Such as
 - The maintenance of verbal contracts with some investors by disobeying the rules and regulation.
 - Absence from the stock market for a long period without the pre-notice to the Nepal stock market.
- Besides, some complaints about the performance and maintenance of some dummy transaction made by some brokers and investors in some specific time period, the stock exchange is said to be responsible for when the price of the shares change tremendously in some situations.
- The brokers in Nepal stock exchange were not able to provide various services related to the trading of the stocks as compared to the brokers of the stock market in other countries.

Due to the always –fluctuating trend of stock price , the researchers is interested to find out what actually is the situation in the stock market in respect to brokering services in Nepal stock exchange.

1.4 Research Hypothesis

The following hypothesis was set about the different aspect related to the effectiveness of brokering services in Nepalese securities market. These hypotheses were tested by analyzing the data primarily received from two sectors investors and

brokers. These data were collected by using the questionnaire and will be tested by using chi-square test.

The null hypothesis was set as under:

- There is no significant difference between the opinions of investors and brokers so far as adequacy and reliability of information provided by the brokers are concerned
- There are significant difference between opinion of brokers and investors so far as mutual trading as a stock market disorder is concerned.
- There are no significant difference between opinions of brokers and investors so far as the role of brokers in different types of stock market disorder such as wash sale, cornering ,insider trading, churning , pool and mutual trading are concerned

The alternative hypothesis was set as under:

- There is significant difference between opinion of brokers and investors so far as adequacy and reliability of information provided by brokers are concerned.
- There is significant difference between opinion of brokers and investors so far as mutual as a stock market disorder are concerned.
- There is significant difference between opinion of brokers and investors so far as the role of brokers in different types of stock market disorder such as wash sell , cornering, insider trading, churning, pool and mutual trading are concerned.

1.5 Objectives of the Study

There is lack of the professional brokers and they do not provide effective services and reliable information to the investors. So the investors unable to investment in proper time due to lack of proper information of trading system. The brokers in Nepal stocks exchange were not able to provide various services related to the trading of the stocks as compared to the brokers of the stock market in other countries. So, to meet or solve the above problem, this study was conducted to meet the following objectives.

- To study and analyze the Effectiveness of Brokerage Services in Nepalese Stock Market.
- To analyze the brokering service and the role of the brokers in price formation in Nepal Stock Market.
- To evaluate the problems of the small investors and assess what should be the role of broker?
- To recommend concerned organizations on the basis of findings of the study.

1.6 Significance of the Study

Investors invest their money with the hope of getting good return in their ingestible funds. But due to many reasons they loss their hard earning, while investment made without required information about trading of shares. Many times investors blindly invest their funds by just reading the prospectus availed by the issuing companies and many times they purchase shares without any required information about trading of shares but with the hope getting good return only.

The role of intermediaries (i.e. brokers and market makers) in stock market is essential in providing reliable and adequacy of the information to the investors about trading of shares in NEPSE. But the majority of the investors are unsatisfied with the presently available services from brokers in NEPSE.

While investing in shares the investors should receive the benefit from his investment more than the opportunity income that s/he could receive investing elsewhere. But the lack of adequate knowledge, inability in using modern technologies and insufficient use of communication technology to spread the information about the price earning relationship of the company enforced people to invest the amount by analyzing the trend of the market. It indicates that there is extreme necessity to establish clear conception about the price-value relationship to secure the invested amount.

The activities and doings of brokers are also blamed to influence the tendency of investors in share trading activities in Nepal. Brokers in Nepal are mainly found to be devoted to focus in trading activity only. So , the possibilities of other services should

also be studies and initiated in Nepal to increase to participant in the share trading activities.

Hence, this study targets to explore and increase stock investment by imparting the knowledge about the different aspects related to the brokering services in Nepal stock market. This study will also be helpful for other researchers in the similar field as it provides suggestions on the related field to some extent.

1.7 Limitations of the Study

This is the partial fulfillment of the requirement of the degree of master of business studies. This study has some limitations;

- This study will focused only on the services of brokers in NEPSE.
- This study will be based on the source on of secondary information / data and primary data. The primary data will be acquired by using the questionnaire and personal interview.
- This study is limited by financial and time constraints.

1.8 Organization of the Study

This study has been presented on the following five chapters:

Chapter 1: Introduction

Chapter 2: Review of literature

Chapter 3: Research Methodology

Chapter 4: Presentation and analysis of data

Chapter 5: Summary, Conclusion and Recommendation

The first chapter ‘ introduction’ mainly contains the background of the development of the securities market in Nepal , the statement of the problem , research hypothesis , objectives of the study, significant of the study and the limitations of the study.

The second chapter will be the ‘review of literature’ presents the analysis of related studied which include: different books, articles, periodical, previous thesis report, and various published and unpublished document of the related organization... This

chapter will mainly be related to the theoretical analysis and brief review of related and available.

The third chapter deals with the 'research methodology' it deals with the nature of the data and method of analysis. In this chapter different statistical and financial tools to be used tabulated and analyze the data received from different primary and secondary source will be reviewed.

The fourth chapter will contain presentation and analysis of data to indicate quantitative fact and actual state in the market about the brokering services. Finally, the fifth chapter will state the "summary, conclusion and recommendation" of the study. This chapter will also offer several avenues for future research in this field. The exhibits and bibliography will be incorporated at the end of the study.

CHAPTER II

LITERATURE REVIEW

2.1 Concept

This chapter deals with the review relating to the “A **Study on Effectiveness of Brokerage Services in Nepalese Stock Market.**” The main purpose of the review of literature is to find out what research studies have been conducted in one’s chosen field of study and what remain to be done. Every study is very much based on past knowledge. The past knowledge provides foundation to the present study. This chapter helps to take adequate feedback to broaden the information and inputs to this study. In more detail and descriptive manner for this study various books, journals, articles and some previous thesis reports related with this topic had been reviewed

2.2 Financial Market

It is the type of the market which is meant for a short term and for highly liquid debt securities. A money market typically involves financial assets that have a life span of one year or less. Money market instruments include short term marketable, liquid, and low risk securities. Money market instruments, sometimes, are also called cash equivalent or just cash. The treasury bills are example of money market.

- A money market brings together the suppliers and demander of short term liquid fund.
- A money market is created by means of a financial relationship between the suppliers and demander of short term funds.

The two key financial markets are money market and capital market. Money market is a short term financial market where the debt instrument or marketable securities are traded for a short term.(Shrestha, M.K.: 64)

2.3 Capital Market

Capital market constituent’s important parts of the financial market. It is the market for those financial instruments that are bought and sold with maturities greater than one year. Thus, capital market is for long term debt instruments and stocks. Capital market securities include such marketable debt securities with maturities of a one year

or more and equity securities. Most of the associated markets come under the scope of capital market.

In fact, capital deals with longer term and relatively riskier securities. Treasury bonds are an example of capital market.

Which relationship created by a number of institution and arrangement that allow the suppliers and demand of long –term funds to make transaction. Capital market can be divided into securities market and non securities market. The different types of securities are traded in the securities market. The term securities include long term transaction “i.e. More than one year” financial tools, which are used by the companies to gather the needed long term fund. For example, the shares issued by of NCC banks are in the capital market

Capital market includes:

- Activities relating to the organization, distribution and trading of securities.
- Organization, which facilitates this activities
- Individuals and institutions, which buy and sell securities.
- Rules and regulations. Customs and practices that control the organization and conduct of business in the market.

On the whole, capital market is providing very significant to enhance the countries financial sector development. This is in coincidence to the governments financial sectors reform policy supported by world bank, Asian development bank and donors in addition to the vital role played by regulating authorities like Nepal stock exchange , securities exchange board, company registrar office, Nepal Rostra blanket. at present, capital market is providing to be strong aspect of financial market in the country in view of continued revival of the public confidence for bringing significant rise in share price. (Shrestha, M.K.:96)

2.4 Regulation of Securities Market

Securities markets are the mechanism for the trading of securities and it should be strictly regulated to stop the malpractices and to develop efficiently. Securities board of Nepal (SEBON) is the supreme body to regulate the Nepalese securities markets. It

was established on 26 may, 1993 under the provision of the securities exchange ordinance, 2005. The objectives of the SEBON is to promote and the protect the interest of the investors by regulating the securities markets. Not only have these, to regulate, monitored, direct. Control and coordinate the entire capital market is also the objective of the SEBO. SEBO works under the ministry of finance.

SEBO regulates both primary and secondary markets. To regulate primary markets different acts and the law have been passed. The public issue activities through the primary market are regulated by the securities exchange ordinance, 2005, the regulation and guidelines are made under the acts as well as the company ordinance, 2005. The related regulations and guidelines are securities exchange regulation 1993, securities registration and issue approval guidelines, 2002 and securities allotment guidelines 1997. Similarly, to regulate the public issue it has made it mandatory to take services of an issue manager by the issuing companies.

To regulate secondary markets as well as members , different acts like member of stock exchange and transaction byelaws 1998, and securities listing byelaws 1996 have been passed .SEBO also monitors whether the activities carried out by the NEPSE are in accordance with the above the laws or not.

Similarly, SEBO regulates all the members of the secondary as well as primary markets like issue manager, stock brokers, dealers, market makers, and corporations.

2.5 Nepal Stock Exchange “NEPSE”

2.5.1 Background NEPSE

The history of securities market began with the flotation of shares by Biratnagar Jute Mills Ltd. And Nepal bank ltd. In 1937, Introduction of the company act in 1964, the issue of government bond in 1964 and the establishment of securities exchange centre ltd. In 1967 was other significant development resulting to capital markets.

Securities exchange centre was established with objectives of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was only the capital market institution undertaking the job of brokering, underwriting,

managing public issue, market making for government bonds and other financial services.

His majesty's government, under a program initiated to reform capital market, converted securities exchange centre into Nepal stock exchange in 1993.

Nepal stock exchange, in short NEPSE, is a non profit organization, operating under securities exchange act 1983.

The basic objectives of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries, such as broker, market makers etc.

NEPSE opened its trading floor on 13th January 1994 through licensed members.

His majesty's government, Nepal Rastra Bank, Nepal industrial development corporation and licensed members are shareholders of the NEPSE.

The development of the stock market is directly linked with the development of the corporate firms and industries in the economy. Nepal industrial history is not so long in comparison to other countries. So, the essential thing for the rapid growth of the capital market is to encourage business firm to convert into public limited companies.

“Industrialization is the foundation of the economy. In this respect, the securities market is an important constituent and core of the capital market”

NEPSE perform several types of regulatory services including market surveillance and the on going supervision of brokerage firms. Some of the function of NEPSE is;

- Trading
- Listing
- Clearing and settlement
- Market surveillance

2.5.2 The Board of Directors of NEPSE

The board of directors of NEPSE consists 9 “nine” directors in accordance with securities exchange act. 1983. Six directors are nominated by HMG/N and different institution investors. Two from the licensed members and the general manager of the NEPSE is the Ex-officio director of the board.

Table 2.1
Board of directors of NEPSE

S.N.	Name of Organization	No. of Directors	Designation
1	Ministry of finance	1	chairman
2	Securities board	2	director
3	Nepal Rastra bank	2	director
4	Nepal industrial dev. bank	1	director
5	Licensed members	2	director
6	General manager of NEPSE	1	director

Source: NEPSE

2.5.3 Right of Stockholders

Ownership in a corporation is represented by its stock and a corporation may issue more than one type of stock. Whenever a corporation issues more than one type of stock, usually called classes of stock, they must clearly define the right and privileges that belong to each class. If only one class of stock is issued it is referred to as common stock if two classes of stock are issued they are usually referred to as common stock and preferred stock , each enjoying specific right and privilege and, perhaps each having certain restrictive provision attached to them.

“Individual who buy the stock become the owners of a corporation and as a stockholder, they acquire the right the corporate charter and the state grant to holders of their class of share of stock usually gives the stockholders the following right,

- The right to share in the corporate earning. The owner of a share of stock has the right to share proportionately in the corporate earning that beings distributed as a divided to all holders of this class of stock.

- The right to vote. specially the right to elect, by vote the members of the board of directors who in turn will represent the share holds in determining broad level corporate management policy.
- The right to transfer to ownership. Stockholders have to right to sell or dispose of their shares of stock in any manner that they wanted.
- The right to purchase any additional shares of stock, in the event that the corporation issues more stock of the same class. This right generally referred to as a preemptive right, entitles each share holders to have the first opportunity to purchase, in proportion to his existing holdings, any additional shares that the corporation intends to issue, before they are offered for sale.”

2.5.4 Brokering Services in NEPSE

“Brokers have to get license from SEBON and membership certificate from NEPSE before starting their services. Under the provision of securities legislation, brokers have to review their license before the expiry of each fiscal year.”

The role of the broker in Nepalese securities market is limited to advising their clients as to whether particular stock will be worth –investing or not. They should advice their clients by analyzing the company report and other information regarding the company, witch can affect the market and the company concerned.

Brokers are not obliged to offer advice to their clients, and even if they do, they can not be held responsible for the quality of the information they offer. But, the quality of the information work as a main source of their goodwill and uplift the moral responsibility towards their clients.

It is mandatory for brokers to submit their annual report along with their financial statement and trading report to SEBON within three months after the expiry of the fiscal year. “By the end of fiscal year 2008/09, 23 stock brokering companies submitted their financial report of fiscal year 2008/09.” SEBON monitor the brokers regarding securities transaction and reporting. Table 2.2 presents the submission of financial reports of FY 2008/09 by listed companies.

Table 2.2

Submission of Financial Reports of FY 2008/09 by Listed Companies

S.N.	Description	No of companies submitted/not submitted financial reports of fiscal year 2008/09
01	Submitted	141
02	Not submitted	18
	Total	159

Source: SEBON Annual Report

Brokers are supposed to behave more legally and morally towards the fulfillment of the satisfaction of their clients. However, it is not the case in all in and every situation. They were often intended to increase the trade volume and blamed for the stock price crash and thereby making profit by ignoring the clients' losses .the amount of commission is directly related to the amount of turnover "i.e. trading" in an investors account. This provides some temptation to recommend frequent changes in investor's holding. Such behavior may be advantageous for them in the short run.

There were some conditions and circumstances seen in the stock market when brokers had done some activities, which create the market disorders. These activities were performed to protect their sole interest and mutual interest connected with ample number of clients. For instances, there had been immediate reactions seen in the stock market against the political and legal changes.

"The number of stock brokers who have been charged with or found guilty of security exchange commissions violations is frighteningly large.. I believe the reason for brokerage abuse is simple. The commission sales system, which pays brokers for what they sell rather than for what they earn for their clients, is the roots of the evil the brokerage investment industry is highly regulated ,yet broker abuse continue to escalate, why? Although the regulation is more than adequate, they are seldom enforced. Couple of this with the fact that brokers is constantly pressured by their house to sell, sell, sell, and it is easy to see why many forget that they are first legally and morally charged with the financial well being of their clients. The reality of the industry is that sales come first."

The first thing a prospective buyer or sellers has to do is to locate a broker. In choosing a broker it is always preferable to select one who is recommended by someone who has dealt with him for some time and is satisfied with his integrity and honesty. But almost all the brokers' office is not placed in the convenient locality in Nepal.

“Because of the lack of confidence in their own business, brokers are not maintaining the office to make it possible for the customers to come and contact. Brokers are undermining their business because of lack of their clear vision to perceive the relationship between the brokerage and business and their needed dedication and contribution of time, effort and full energy to honor their market matching profession through the rational art, science and techniques of institutionalization.”

Brokers are supposed to give the potential investors the adequate and the real information about the different stocks market. But in reality they have also been criticized for the use of imaginary words to persuade them to buy and sell the security as immediately as possible.

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 operate on the trading floors as per securities exchange Act 1983, rules by law of the exchange.

There are many intermediaries are involving in the Nepal stock exchange for stock trading, brokers are one of them. Brokers play an intermediary role on behalf of their client and receive certain commission for their service.

Table 2.3
Licensed broker members of NEPSE

S.N.	Name of brokers	Code no.	Address	Phone no.
1	Kumari securities p ltd.	1	mahaboudha kathmandu,Nepal	4244886
2	Arum securities p ltd.	3	Putlisadak,kathmandu Nepal	4411314
3	Opel securities p ltd.	4	Putlisadak,kathmandu Nepal	4423509
4	Market securities exchange co. p. ltd.	5	Dharmapath, kathmandu	4248973
5	Agrawal securities p. ltd.	6	Kamaladi,kathmandu nepal	4420065
6	Shree J.F.securities p. ltd.	7	P.O.B .6478	
7	Ashutosh brokerage and securities p. ltd.	8	Khichapokhari,ktm nepal	4220276
8	Pragyan securities p. ltd.	10	Gaushala,ktm nepal	4471807
9	Malla and malla stock brokering co. p.ltd.	11	Dillibazar,kathmandu Nepal	4414263
10	Annapurna securities services p. ltd	13	Putlisadak,kathmandu,nepal	4423692
11	Nepal stock house p. ltd.	14	Anamnagar,ktm Nepal	4245012
12	Primo scurities p. ltd.	16	PB no. 726, putalisadak ktm nepal	4230787
13	Sagarmatha, securities p. ltd.	18	Putalisadak,kathmandu nepal	4242548
14	Nepal investment and securities trading p.ltd.	19	Ga-1/207 maitidevi, kathmandu nepal	4413201
15	Sipla securities p. ltd.	20	New road,ktm,nepal	4255782
16	Midas stock brokering co. ltd.	21	Kalimati, ktm Nepal	4414263
17	Siprabi securities p.ltd.	22	Kathmandu nepal	4479749
18	ABC securities ltd.			
19	Sweta securities p. ltd.	25	Putalisadak.Ktm Nepal	4432333
20	Asian securities p.ltd.	26	New Road Kathmandu	4240609
21	Shree Krishna securities p. ltd.	28	Dharmapatha,Kathmandu	4224262
22	Trishul securities and investment p. ltd.		Kathmandu	
23	Premier securities co. ltd.	32	Putalisadak, Kathmandu	4231339

Source: NEPSE

NEPSE has also licensed to dealer primary market and dealer secondary market. Dealer “primary market” operates as a manager to the issue and underwriters, whereas dealer “secondary market” operates as a portfolio manager.

But Now, NEPSE licensed to Government securities market. No market dealer.

Brokers are the legal people who bring the perspective investors and the company together. Brokers have to get licensed from securities board of Nepal “SEBON” and member certificate from Nepal stock exchange “NEPSE”. Under the provision of securities legislation, broker have to review their license before expire of each fiscal years.

The role of broker in Nepalese securities market is limited to advising their clients as to whether particular stock will be worth investing or not. They should advice their clients by analyzing the company report and other information regarding the company, which can affect the market and companies concerned. Brokers have to submit their annual report along wit financial statement and trading report to SEBON within months after the expiration of the fiscal year.

NEPSE has adopted an “open out cry” system for the treading purpose. it means transaction of securities are conducted on the open action principle on the trading floor. The buying broker with the highest bid will post the price and his code number on the buying column, while the selling broker with the lowest offer will post the price and the code number on the selling column the quotation board. The market makers quote their bid and offer price and their own board before the floor starts. Once the bid and offer price matches, contact between the buying and selling brokers or between the brokers and markets makers are conducted on the floor.

Brokers are directly participating in the trading activities in the floor of NEPSE but the dealer can not take part in trading activities of the floor. The service of broker is defined under the securities law. Brokers charge agency commission for their services according to the transaction amount. The commission rate is given in table no.4

Table 2.4
Broker’s Service Charge

Value	% of the traded value
Up to 50000	1%
50001to 500000	0.9%
500001to1000000	0.8%
More than 1000000	0.7%

Source: NEPSE

Now, share trading transactions are computerized system through office.[WAN]

2.6 Securities Board of Nepal “SEBON”

The securities board of Nepal “SEBON” was established in 26th may 1993 under the provision of securities exchange act 1983 “first amendment 2004 BS.” the SEBON is responsible for the supervision of NEPSE. The board has comprised of seven board members representing several government and private bodies for the operating and management of the board.

“it was established with the objectives of promoting the interest of investors by regarding the securities market. It is also responsible for the development for securities market in the country.”

Since its establishment, SEBON has been continuously concentrating its efforts to improve the legal and statutory framework, which are the basis for healthy development of the stock market. SEBON has been concentrating its efforts to improve the legal and statutory framework for the healthy development of stock market and to enhance the degree of investor’s protection. After the second amendment of securities exchange act on Jan. 1993 , SEBON is acting as a apex regulatory body by bringing market intermediaries directly under it’s jurisdiction and made it mandatory for the corporate bodies to report annually as well as semi annually regarding their performance . it also established direct relationship with market intermediaries and listed companies. SEBON regulatory interventions were targeted to discipline the market and to consolidate its position as central securities market regulator.

Under the present act SEBON is responsible for the supervision of NEPSE, its member, disclosure requirement for listed companies, and the licensing of 1) Issue manager, 2) Underwriters, 3) portfolio manager, 4) market maker and 5) stock Sbrokers. Under the securities investment trust act 1997, it is also responsible for the registration and supervision of investment fund.

“The securities board was set up for the development of the securities market and to enhance the degree of investor’s protection. Securities board “SEBON” Realized that capital market reform needed to be looked into broader perspective vis-a –vis the growth of the private sector. “Under the provisions of securities exchange act, 1983 and securities exchange regulation, 1993 SEBO has been making attempt to develop an understanding with NEPSE on moving ahead in a coordinated way under which SEBO will act as an apex regulatory body and NEPSE as a frontline regulator”.

In order to develop the securities board as an effective regulatory body and forge ahead effectively, the board had put into implementation a medium term 4-year comprehensive managerial strategic plan. Which had been implemented during the ninth plan period?

The strategic plan strives to attain the major policy development issues on:

- “ Improvement in the statutory framework of the capital market
- development of market standard and information system
- development of widely participated capital market
- Improvement in the securities board institutional capacity”

The initial draft of the strategic plan was circulated among the policy makers, experts , government officials market operators, securities business person, business community investors and has been improved based on available comments. This plan was already been approved by national planning commission and being implemented in the year 1998-2002 during the ninth plan period.

SEBO has seven members including a chairman. NEPSE should not be member of SEBO and the other hand SEBO should not be represented on the board of directors of NEPSE. It is also highly desirable that the government regulatory over right function be kept separate from the operation and governance of stock exchange. This is essential to maintain public confidence. If the main government regulatory body is too closely identified with day to day functioning of the stock exchange, this could erode public confidence in the event of market failure.

At present SEBO have 42 staff in total including chairman, training expert, legal adviser, executive , officers, supervisory, management, regulatory, planning and development, law, corporations finance, financial information analysis and support staff department. This may not be an adequate number of staff to perform the different tasks assigned to SEBON such as: regulatory supervision, enforcement and market development. But the adequacy of funding for SEBO has important implication for the regulation and enforcement program as well as for training government regulators, self regulations and market practitioner. Incomes from registration of corporate securities and registration as well as renewal of market intermediaries are the main financial source of Income of SEBON. In order to be a self – dependent institution it had created revolving fund from which it generated income that helps to cover part of its expenses.

2.7 Major Difficulties Faced in the Trading Procedure in NEPSE

There are many trading difficulties in NEPSE. The main difficulty realized by brokers is the trading system employed in NEPSE that is open out cry method. The other problems are created because of the disobedience of the rules and regulation promulgated by the regulating bodies and the government. Besides, government and regulatory bodies there are also other parties involved in the trading procedure being responsible for the ineffective management of the trading of the shares.

After listing the shares of a company, the shares are traded on the secondary market. But some companies do not trade in the secondary market and have apparently become insolvent. In that case, NEPSE de listed the stock of that company which should approved by SEBON. Nearly all listed companies are majority owned by promoters. Thus corporate governance issues and the right of minority shareholders are of continuing concern.

One of the reasons for the enlistment of the companies in NEPSE is that many of the companies are listed not because they wish to be so, but because of statutory requirement of compulsory listing “the prohibition of shares transaction if not listed”. In NEPSE companies often list for legal or tax reasons rather than to obtain on going equity financing. there is also absence of prescribed One of the reasons for the enlistment of the companies in NEPSE is that many of the companies are listed not

because they wish to be so, but because of statutory requirement of compulsory listing “the prohibition of shares transaction if not listed”. In NEPSE companies often list for legal or tax reasons rather than to obtain on going equity financing. there is also absence of prescribed procedure for suspension cancellation and de- listing of listed shares.

Typical investor is likely either to rely solely on their brokers, a dangerous error, or to be entirely on their own. Those who rely on their self decision usually over invest, love to trade on the latest report or hot tip, and are unhappy when nothing is happening. Brokering houses are a source of both information and recommendations. The emphasis, however, is on recommendations because brokers earn commissions based on the amount of trading that investors do.

“Has your broker ever used buzzwords like,”going to double in price, ‘can’t miss, ‘have to get in row, well, both be rich, ‘a once in a lifetime opportunities? ...most investors make a mistake with their broker and allow him to become the dominant player in the relationship. You should never forget that he works for you. Because of that, you should demand results. If he doesn’t procedure, for him. It’s sadly ironic that we see so many aggressive because types who will not hesitate to fire an employee for one small mistake , and yet will allow their broker to make ten, twenty, thirty thousand dollars worth of bad judgments and never say a word. With totally dishonest brokers you have additional problem. They not only cost you funds with bad advice, but even when they are right their dishonest can penalize you. If your broker is dishonest he can use your stocks fore months on end, even though you may have wished to sell”.

The role of the broker in providing information plays significant role. Stock market, actually, is no place for amateurs but in spite of this knowledge potentials investors come to invest their saving without adequate counseling and analysis of the information and date. It is mainly by their ignorance that they often feel cheated by the brokers when the time becomes to late to turn back.

“Whether you like it or not, you are probably going to have to deal with a broker of some sort. That means you are vulnerable Stockbrokers are, contrary to what they

would have you believe, unregulated potential adversaries. Since the entire securities industry is based in some part on trust, one dishonest broker is too many”

2.8 Trading Procedure Followed by NEPSE

The trading of shares in the stock market affects the economic activities through the creation of liquidity. Investor's are often unwilling to surrender control of their saving for long period. Put succinctly, investors will come if they can come. and the level of the price of the stock eventually affects this two different period “i.e. buying price and sell price” So, it is very obvious to conduct that the price of the stocks of different companies affect the national economy as a whole. Although the growth of the stock market is high relative to the growth of the economy, the shares of corporate sectors in the national economy is still very low due to the negligible size of the corporate sector.

2.8.1 Trading System

Using manual open out cry system does trading system in NEPSE. This method was once used at the sir Lankan stock exchange some years ago. It means trading of securities is conducted on the computerized automated trading system.

The brokers representing the buyer of the securities code the highest buying price and his code number on the buying column and the broker representing the seller of the securities code the lowest selling price and his code number on the selling column. Once the bid and offer “ask” price is matched, the buying broker and selling broker perform the contract on the floor.

The first trading price of the shares of a company should not be more or less than 10% of the previous days closing price. Once the transaction is done hen the price can be changed within a limited of 5% in each consecutive transaction. if the share price increases by 3% then there will be trading halt for 15 minutes. Again increases by 4% in two hours then there will be trading halt for 30 minutes. Again share price increases by 5% in third hours then there will be trading halt for one hour as so on. At present, the trading methods are going to cope well gradually as compared to developed countries. So, the computerization of trading and trading support systems is not going to scientifically and systematically.

2.8.2 Trading Procedure

Step 1. Order flow and transaction

The buyers or seller can not do the transactions themselves without contracting brokers of the listed securities. The broker may be selected by taking into consideration a number of things. When a buyer /seller of security make decision to give the order to the broker, he appears in the office of the broker and fill up an standard form called buy/sell order form.

The buyer of the securities must deposit certain percentage of the total value of the shares that he wants to buy the shares. This advance deposit may be as set by the negotiation between the buyer and the broker. If the broker trusts the buyer then he may also do it without taking the advance. The buyer of the security is then given a slip from the brokering office as an evidence of his deposit of the money. Likewise, the seller also had

To fill up the buy/sell form mentioning all the details of the transaction he wants to be done.

While filling the buy/sell order from the buyer/seller should mention the time period within which they want the transaction to be performed. if the broker fails to do the transaction within that given period for the client then the contract to reactivate it.

In Nepalese context, if the buyer/seller does not specify the period then the broker will treat an order as 15 days order and the order expire at the end of the 15 day period from the order made provided that they have not been filled by then.

Step 2. Settlement and ownership transfer

The second step of transaction of securities is to settle the transaction between buying broker and selling broker. The settlement takes place after the third day of the transaction i.e. . T+3 to settle the transaction,

- The buying investor pay the amount to his broker and the broker carries fund to clearing and settlement department of NEPSE.

- The selling brokers give the shares certificate to his broker and the brokers carries the certificate to clearing and settlement {C n s} department of NEPSE.
- It is the department of the NEPSE which facilitate the exchange of certificate and money between selling broker and buying broker. The exchange always takes place within T+3.
- After the exchange of share certificate and money, the selling broker receives money and forwards it to his clients calling investors.
- After the exchange of shares certificate and money, the buying brokers receives certificate and the broker forward it to the company for ownership transfer.
- The company transfers the ownership as recommended by NEPSE and send it back to the NEPSE.
- Receiving certificate from the company, NEPSE forwards these certificates to the respective brokers or the investors also can receive their certificates. If certificates are received by the broker, then these are forwarded to the buying investor.

2.8.3 Types of Transactions

When trading shares, the investors place an order involving a round lot or an odd lot or both. Generally, round lot means that the order is for 100 shares or multiple of 100 shares. odd lot orders are generally for 1 to 99 shares. But in Nepal, NEPSE has fixed the round lot of of 10 shares if the face value is Rs.100 shares if the face value is Rs.10.

The transaction should be done of at least one round lot on regular trading. The trading of less than 10 shares of Rs. 100 face value is permitted only on odd- lot trading hours. Besides this , for large block trades over 5% of the nominal value of a company's shares, the trade may be agreed off floor and details are to be reported to NEPSE.

2.8.4 Trading Session

NEPSE has fixed stock trading days and hours during which the numbers are allowed to enter the floor to make the transaction as tabulated below;

Table 2.5
Stock trading days and hours

Types of trading	days	Trading hours
Regular trading	Sunday to Thursday	12:00PM to 3:00 PM
Odd trading	Friday to Saturday	12:00 PM to 1:00 PM
For government securities	Sunday to Thursday	10:30 AM to 11:30 AM

Source: NEPSE

There are 159 listed securities companies on NEPSE on fiscal year 2008/09 “2065/66 B.S”. There are 21 commercial banks, 29 development bank, 61 finance companies, 17 insurance companies, 4 hotel, 18 production and processing company, 4 business companies, 5 other companies among the total listed companies.

2.8.5 Trading Procedure in NEPSE

The broker, their representative and the NEPSE staff present at the transaction time. The buyer broker or the seller brokers both begin to code the price of the shares in which they want to make transaction. There are separate buy/sell column in the board for the securities of every companies.

As soon as the buyer or the seller broker code their order it is placed in the buy or sell placed within the range of 10% of the last days closing price, which will follow ,by the 5% range in the subsequent transaction.

The buy and sell order of the same price can be placed of up to two brokers but not more than that. the buy order can be placed by another broker with little more price than the coded buy price to wipe out the previous buy order of another broker .likewise, if a broker code little less price than the presently coded sell price then the previous sell order is replaced by the new one.

If the buy and sell price once matched then the brokers themselves talk about the number of shares they want to buy and sell to each other. When they both agree on the number of the shares then the quality is informed to the NEPSE staff who will then record the price, quantity, transaction number and traded amount in the computer.

Once the price meet into agreement, the buyer broker or seller broker can not reject to do the transaction and they should keep their word by trading at least 10 shares at that price. if the buyer broker do not get required no of share from the seller broker , he will purchase the available shares from the seller broker and for the other required shares he continue to code the price at buy column . When his code price is matched with the sell code of another broker then the other transaction is performed. The buyer broker may also code little high price if he feel unable to find another seller broker at that price level.

Likewise, if the buyer broker do not buy all the number of shares which the seller broker wanted to sell then he will sell the shares which the buyer broker agree to buy and keep himself continuously in the selling column unless he met other buyer broker to buy the number of shares which he wanted to sell.

The broker has to code their price before 12:50 p.m., if they want to continue in the buy or sell order. After 12:50, the brokers who do not code their price can not participate in the transaction after 12:50 p.m., the buyer broker and seller brokers negotiate to match their buy/sell price themselves. When they meet into agreement, they inform to the NEPSE staff to code the new matched price to the board. Likewise, the quantity of the shares to be traded is also agreed and informed to the NEPSE staff to code the new matched price to the board.

Likewise, the quantity of the share to be traded is also agreed and informed to the NEPSE staff who will then record the quantity, price, transaction number and the amount of transaction in the computer.

When the trade is done, the brokers inform his buyer/seller client about the transaction details. Then the buyer of the security should provide the amount of security to the

broker within five days, which is then transferred to the seller broker's account by the buyer broker. In case of declining market trend the buyer may refuse to pay the remaining amount by disobeying the written promise.

In that case, the buyer brokers sell the security as soon as possible by informing the NEPSE about the details. The buyer broker then calculates the total loss which he bears from the two transactions including his brokering charges by subtracting the total proceeds from the amount he had paid. This loss is then claimed to the 'Appeal court'.

2.8.6 Clearing and Settlement Procedures in NEPSE

When a trade has been agreed the selling brokers complete and sign a standard dealing slip "trading slip" and obtain the signature of the buying broker. The three copies of the dealing slips will be kept by the buying broker, NEPSE floor staff and the selling broker himself. Then the NEPSE staff enters the details of the trading slip in a computer. At the same time another NEPSE staff writes down the details from the white board on a control Sheet. The details from the dealing slips and the control sheets are compared and corrected before closing off the day's trading activities. Queries are referred back to the brokers in case of confusion.

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

Once the transaction is made in NEPSE, the broker of the buying investors deposits the amount of the shares bought from the seller plus the fee of the NEPSE which is 25% of the broker's service charge in the NEPSE's current account no. 1558 at Nepal bank limited, Dilli Bazaar branch and submit the voucher with necessary documents in NEPSE within five working days of the transaction made. Then NEPSE will handover the cheque to the seller broker after subtracting the face of NEPSE, which is also same as taken from the buying broker.

2.8.7 after Trade Procedures of Shares

There are two types of procedures adopted by NEPSE in case of blank transfer or name transfer and ownership transfer, which are as follows:

2.8.7.1 Blank Transfer or Name Transfer

Once the trading is performed, the buyer broker submits the bank deposits voucher and the seller broker submit the certificate to the NEPSE for the further processing. if the buyer investors wants to buy the shares as a blank transfer , then it is register in the NEPSE floor but the further processing is stopped. It is done mostly in the view of selling the shares in the very near future for the capital profit. But the shares must be registered to the news's buyer s name within the sufficient time before the annual general meeting if the buyer wants to get the dividend and the bonus declared by the company in the annual general meeting.

2.8.7.2 Ownership Transfer

Despite the amendments to the company act to reduce the allowable period for making transfer of ownership in the register of shareholders, from 30 days to 15 days, it is time Consuming and takes weeks or even months in actual practice. The overall register updates are slow and manageable.

To by-pass this problems a large portion of settlements are done by blank transfer at present. This signature verification process is also slow. It begins from the buying / selling broker sending a messenger with the share certificate to the company's premises in Katmandu office to obtain the company's verification from their records. This long period has its greater influence and adverse effects in the price formation of the stocks in Nepalese stock market.

The whole procedures for clearing and settlement are paper intensive. the highly manual based procedure often results in delay , inefficiencies and potential risks for all participants.

2.9 Mutual Trading Procedure in NEPSE

Mutual trading is performed in NEPSE when the broker get buy and sell order of a particular shares at particular price from two different clients. The mutual trading is coded with green ink maker in the board of NEPSE. If the set of brokers announce the mutual trading with little lower price of the same security, then the previous mutual trading will be replaced with the new one.

The price of the mutual trading is generally coded at the last time period, i.e. 12:50 p.m. in the floor where the market shows the trend of the particular share at the particular day. The price of the mutual trade should be placed within the range of 5%.“The criteria of mutual trading plays vital role because the price is determined independently by only two brokers. So, it is sometimes said that the criteria or the facility to perform mutual trade should be banned. The present practice of shares trading by mutual consent is a kind of wash sales that should be discouraged as it creates distortion in the price determined by the market forces. Such action help

In avoiding fictitious names created by several different shares brokers in share transaction and also to check on the creating an illusion of rising price” With the objectives of making securities transactions more transparent, SEBO has made attempts to establish a system of time stamping of the orders from clients. Likewise attempts have been made to make the mutual trading more transparent.

2.10 The Level of Capital Market Disorders

There are many unfair acts being performed by different parties in the stock market which eventually force the market to be inefficient

“Their unfair share market practices cover wash sales, cornering of the share market, churning, formation of pools and cartels, misuse of insider information and so on.”

Wash sale:

“A wash sale is essentially no sale at all. If a person who owns some securities sells those securities to him, this is a wash sale. The purpose of wash sales is to create a record of a sale. This may be done to deceive someone in believing that a market price has changed”.

“In wash sells, there is simply record of a sale but there is no sale of shares at all . if a man sells securities to his wife , this is a wash sales . The market makers have taken shares in the name of their family, relatives and other employees who were under their control. But, as they raise prices artificially to the peak, which is called forcefully created market boom by their own dishonest acts, they sold and later on put innocent investors to be the victims as they are made to buy at higher prices. At present, the practice of conducting shares transaction at a price agreed by mutual

consent of buyer and seller is allowed in share market. This is kind of Wash sale since no money needs to be involved only the commission is to be paid to the broker”

Cornering the market:

Cornering in some security occurs when an investor buy all of a particular security that is for sale. This person then owns the only source of supply and can raise the price. The person who obtains a corner on the market of some assets may then liquidate it at a high price for a capital gain. Cornering may be defined as large acquisition of shares by individuals to create a scarcity for delivery against the existing contracts.

“ Market makers are also found to conduct unhealthy practice of cornering of share market in some selective scripts available for sale ...being price manipulators , they obtain a corner on the shares market of some selective scripts and then liquidate them at a higher price for a capital gain.”

Churning:

Churning can occur when a client gives the broker an authority to trade the clients account without seeking the clients approval of every trade. So, it is very safe way for securities broker to steal funds from their client’s accounts while escaping detection by all but the most watchful clients. When the clients buy or sell the commission is generated for brokers without regard to whether or not the clients gains from the transaction. This practice is called churning because it involves ‘turning over’ the clients account.

“Another way how the market makers and shares brokers deceive the investors is the growing practice of churning under which they steal funds from clients while escaping detection by all It is a practice of turning over clients funds for the personal benefit of brokers by frequent transaction. However, it is difficult for an investor who has been deceived by broker to prove that churning has occurred.”

Pool:

“A pool is a formal or informal association of two or more person with the objectives of manipulating price and profiting there from. When this objectives is attained the

poll is dissolved ... some of the members may provide capital, some may provide inside information, some may operate the pool's operation or all members may participate in all these functions.”

Insiders trading:

Insider is one who is restricted from trading in a company's shares because he has access to price sensitive information. Insiders include officers, directors, auditors, and large shareholders. It is the sale or purchase of securities by person who possesses price sensitive information about the company on account of their fiduciary capacity. Insider transactions including also those who receive confidential price sensitive information from insider who have access to it. Trading on the basis of insider information is prohibited because the information is not available to all market participants.

“ Insider activities are growing in both volume and speed among company promoters, directors, officers another executive and technicians to influence the price of share in the market... there has been frequent release of price sensitive information by insider to earn speculative profits by trading on the shares of such companies. Having no access to such price sensitive information, investors in general are put into disadvantage.”

2.11 Review of Previous Thesis

Mr. Bharat Prasad Bhatt “2008” has conducted researches on the topic ‘Dynamic of stock market in Nepal’. He objectified to find out the following objectives;

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

The conclusion of his study was;

- 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, cad 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 development the entrepreneurship and encourage the entrepreneurship to attar the productive venture as soon as possible. Management capability of the entrepreneur airs a likely better performance of the firm. Government should lunch programs enhance management capability of the entrepreneur. Which may contribute to raise the return from the investment?
- Development of manufacturing sector is the backbone of an economy, which in turn assists to foster banking, finance and insurance sectors. Unfortunately, the manufacturing sector doesn't have a good performer in Nepalese economy. Almost all firms in these sectors 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 except that of banking and some finance and insurance sectors.

Mr. Bhatt has analyzes the market price of the shrew of 10 companies four from manufacturing sector, one from hotel sector, two from trading sector, three from finance sector , and four from banking sector for his study. Mr. Bhatta tried to analyze the trend of the market, to diagnose and compare the sect oral finance status of the stocks in the Nepalese stock market. He also tried to analyze the market share price of the Nepalese stock market and to find out the impact of the secondary market on primary market and vice versa.

Mr. Bhatt has concluded that the liquidity in the Nepalese stock market is very poor and the trading of only about fifty percent of the listed stocks takes place in the stock exchange when the market is boom. The treading of the stocks takes in terms of number of transactions, numbers of shares traded and value of shares traded are very low.

Mr. Bhatt has primary based on secondary data in his study. He did not use any of the primary data for collecting tools. He tremendously used different ratios to calculate

the financial status of the companies under study. He missed about brokering services for stock market in Nepal.

Mr. Surya Chandra Shrestha “2006” has conducted research on the topic ‘stock price behavior in Nepal’. He tried to find out following specific objectives, which were as follows;

- To examine the serial correlation of the successive daily price change in 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 his study were;

The serial correlation coefficient of the daily price changes for 1 and 2 days, and run of the series of daily price changes lead to conclude that the successive price changes are not independent random variable for 30 sample stocks listed in the Nepal stock exchange ltd. 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 change 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 naïve buy-and-hold policy’i.e. average market

Return”. Therefore, opportunities are available to sophisticated “both institutional and individual” investor to earn higher return in the market. The existence and participation of sophisticated investors have not been realized from the findings of this study. It is realize that mostly the adolescent investors have dominated in the

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

Mr. Mukti Aryal “2007” has conducted a research on the topic “the general behavior of stock market price”. The objectified to find out the following prime objectives.

- To discuss theoretically the movement of the stock price as predicted by the random walk model.
- To develop the empirical probability distribution of successive prices changes of an individual common 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 were:

The general behavior of twenty one century price on Nepal stock exchange is remarkable for to that, mainly the assumption of independence as predicted by random walk model of security ‘speculative’ price behavior. Thus, the model of such kind has been refuted at lest for Nepal loon context as a first approximation even on a rough way for early days of stock market operation. here this rejection of hypothesis makes clear that this knowledge of past now becomes useful in predicting the future movement of stock market prices, than investors, on the floor of exchange for security can made higher expected profit in the future based solely on those historical price series under certain systematic trading scheme “i.e. market average return” of the general market for securities. Therefore, anomaly of weak from tests of efficient market hypothesis has an important implication bearing interpreting behavior of the security price variations in the past and in performing future research in this field . if broadly speaking the implication with respect to conclusions derived by the study are of two natures: statistical and economic.

Statistically, the characteristic feature of stock market movement with respect to distribution of price change implies that the general shape is platykurtic character has Been demonstrated previously, due to higher values of standard devil tins for individual price changes. Higher standard deviation are result frequent large price fluctuating. According to this device of measuring risk , individual stock and

aggregate market can be interpreted as highly risky opportunity for investment. The economic reason for higher values of standard deviation implies that the inherent instability of market changes in economic environment.

Government action companies developments that causes abrupt price changes, ultimately the value of standard deviation for individual price changes has been higher consequently platykurtic character of distribution observed i.e. too few relative frequencies are contained near to mean of the price changes in the central bell and the relative frequencies are concentrated within higher limits of standard deviations from the mean of the price changes.

Finally, with respect to distribution of price changes, from the investor point of view , the sole interest is in the shape of distribution , that is the only information needs to make meaningful investment decision.

B.R. Dahal, 2002 has conducted research on the topic “stock market behavior of listed joint stock companies in Nepal”. He objectified to find out following objectives.

- To study and analyze stock price trend and volume of stock traded on the secondary Market ,
- To study and analyze the rate of listing of new companies and maintenance of listed companies in Nepal stock exchange ltd.
- To study and analyze the investor 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

The major following of dahal’s study were:

- Most of the investors were asked for their performance 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 investment process

and its other factor 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 investor's motivation 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 stock market, majority of them replied that they were facing difficulties there. Therefore it implies that there are many 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.
- It was found that rumors are the most predominate factor to determine the market price of share.
- The efficiency of the stock market's 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 the help of months of the year 2000 was increasing trend , while that of year 2001 is in decreasing trends. So, from this trend analysis we can say there is no relationship of price trend between two successive years.
- While analyzing the rate of listing of new companies shows that increasing trend from the year 1997 to the year 2001.
- Volume of stock traded in stock exchange during his study period was found in increasing trend but in last year it was in decreasing tend.
- On analyzing pared t-test for signaling factors with reference to major seven events it was found that signaling effects had played major role in fluctuate of the stock price.

Mr. Dhahal's in his study said that the major portion of the potential investors is like to invest in banking sectors. He objectified that Nepalese stock market is still infancy stage and Nepalese investors are not well aware of investing process. He primarily based on secondary data. He also claimed that on his study the NEPSE index, price

trend and investment facilitators are not doing their work in systematic way. The investors were found interested to be elected in company's management.

Further more, he added, the majority of the investors are facing many difficulties in Nepal stock exchange, the efficiency of stock market's different parties, like, brokers, market makers, security exchange limited were not found efficiency by analyzing interviewers expression as they were not getting required support from these parties.

Dahal has said conclude that the investment decision is based on market price of shares. Volume of stock traded in stock exchange during his study period was found in increasing trend but in last year it was in decreasing trend. His study focused on the price of the stocks.

Mr. Bishop Ram Guragai "2008" has conducted research on the topic "price formation and brokering services in Nepal stock exchange". He objectified to find out following objectives;

- To study the price formation at the Nepal stock exchange.
- To analyze whether the price formation in Nepal stock exchange is effective or not.
- To analyze the trend of market price of the stock of the companies under study.
- To analyze the brokering services and the role of the brokers in price formation in Nepalese stock market.
- To provide recommendation on the basis of finding.

The major conclusions of Mr. Guragai's study were;

- The efficient price formation is one of the requirements for the development of the stock market. The involvement of different sectors especially the brokers with various services and facilitators in comparison to cost help to grow the involvement of the number of the investor and the number of shares traded.
The

Efficiency in pricing of shares in the stock market can also be reduced by increasing the involvement of the related sectors in shares trading activities. The creation of a fair market offers an easy mechanism to evaluate the condition of the securities market and future prospects of the securities and the movements in the price of the shares.

- The effective price formation helps to create liquidity of stocks, it provides a continuous market for securities where securities may be bought or sold at any time during business hours at a comparatively small variation from the last quoted price. If the price formation is inefficient in the stock exchange, prospective investors will find it hard to obtain securities at a reasonable price, which discourages a country's long-term investment, and ultimately savings will be affected in a negative direction.
- The stock should indicate the direction in which a community's savings should be invested. In the market where price formation is effective, the price differences between shares represent differences in their profitability and prospects as judged by the collective opinion of numerous competent operators. Thus the price system established on the stock exchange provides guidance to investors and helps them in directing the flow of funds into firms having a prosperous and bright future.
- In Nepal, the dynamism of the stock market has been greatly reduced by the domination of the long-term shareholders who invest in the share with the hope of increasing their wealth. Even though it was found from the responses given by the investors that they prefer bank transfers, it is their intention to prefer the share having higher liquidity to earn capital gains when their time comes but actually most of them hold shares for a long period. This was realized during the direct observation during the observation period at NEPSE floor and the brokerage offices.
- This can be justified by a very low number of shares that were traded on the stock market. Even though it reduces the dynamism of the stock market, the investors have very few investment alternatives rather than investing in the shares.
- The rationality of the Nepalese investors was found to be at a low level. They have very little knowledge of the trading procedure and the price formation mechanism at NEPSE.

- People in Nepal, simply invest in shares because they have very little alternatives of investment available. they are not well aware of the fact that investing in shares involves risk . So, the concerned bodies should feel reasonable to provide sufficient and reliable information about investment in shares. So that, the rationality could be upgraded and the price formation may become more effective.

Mr. Guragai’s study based on 20 companies out of 67 companies which are;

S.NO.	SECTORS	NO OF COMPANIES TRADED	NO OF SAMPLE COMPANIES
1	Banking	10	3
2	Financing	27	8
3	Insurance	10	3
4	Manufacturing	10	3
5	Hotels	3	1
6	Trading	4	1
7	Other	3	1
	Total	67	20 “30%”

Mr. Guragai’s, in his study focused on the price formation of the stocks rather than brokering services of shares in NEPSE . his study primarily based on secondary data.

Mr. Guragai tried to find out the various aspects of price formation and brokering services in NEPSE. The selection of sample size has not been properly taken for the study and the analysis of data has been based on intuition. He had taken only 20 companies “ from the different sectors” for the research study. For the adequate result of the study, this 30% “20 companies” of sample was quit low.

Furthermore, he added that the efficient price formation was one of the major requirements for the development of the stock market. The effective price formation helps to create of liquidity of stocks. If the price formation is inefficient in the stock

exchange, prospective investors will find it hard to obtain securities at reasonable price.

Mr. Guragain, in his study said that the stock price should indicate the direction in which community's saving should be invested. He further added. The price system established on the stock exchange provides guidance to investors and helps them in directing the flow of fund into firms having prosperous and bright future. People in Nepal, simply invest in shares because they have very little alternatives of investment available. They are not well aware of the fact that investing in shares involves risk. He tremendously used different ratios to calculate the financial status of the companies under study.

The researcher found the fact that different research performed on different headings, which were directly or indirectly related to the efficiency and effectiveness of the price of the share in the security market and the price is directly related to the trading of shares and it affects the brokering services in NEPSE. The research took to interest to perform a detail study on this field. There was not even a single master's thesis found which deal with only brokering services in NEPSE.

2.12 Research Gap

In this study, the major areas are to analysis the effectiveness of the brokerage services, role of the brokers, problems of the small investors, and to provide reliable and adequacy of information by brokers to investors. This study shows the guideline for investors. Previous research are only concern in the analysis of brokerage service and trend analysis but this research is about comparative analysis of different sectors in the field of the brokerage company, market coverage, listed companies, trading session , licensed brokers members of NEPSE. And brokers services charges. So, this study can help the people who wanted to invest in shares market. There are all sectors which are listed in NEPSE are taken for research purpose. So, this topic is not absolutely a new but provide new and information for investors.

CHAPTER - III

RESEARCH METHODOLOGY

Introduction

In the last two chapters, general background of Effectiveness of brokerage services has been highlighted and review of literature with possible review of relevant books, articles, thesis, and research findings has also been discussed. This has equipped me with the inputs necessary for my study and helped me to make choice of research methodology to support my study in realistic term with sound empirical analysis.

Research methodology is the way to solve the research problem systematically, which includes many tools and techniques, which is necessary for every study. “Research methodology refers to the thesis studying a problem with a certain objectives in view. In other words, Research methodology describes the methods and process applied in the entire subject of the study.”[Kothari: 1989, P.3]

The concise oxford dictionary defines Research as “A systematic investigation into and study of materials source etc. in order to establish facts and reach new conclusion”.

. It includes research design, population and sample, nature of data, data gathering procedure and data processing procedures. This chapter guides for descriptive or empirical analysis of “Effectiveness of Brokerage services in Nepalese Stock Market”

3.1 Research Design

“A Research design is the arrangement of conditions for the collection and analysis of the data in a manner that aims to combine relevance to the research purpose with economy in procedures”. [Kothari: 1989]

Research design basically involves the followings.

- clarified data collection methods
- defines the measurement approach
- defines the objectives to be measured
- clearly define the way in which the data are to be analyzed

In this way, research design is the plan, structure and stage of investigations conceived to control variance. It is arrangement of conditions for collection and analysis of data. It is also an outline of the scheme to be used to gather and analyze the data. To achieve the objectives of this study, descriptive and analytical research design has been used.

Several financial and statistical tools have been applied to examine facts and descriptive techniques have been adopted to evaluate Effectiveness of Brokerage service.

This study is particularly based on the primary data. It is analytically as well as descriptively based.

3.2 Population and Sample

There are total 23 Broker limited company in the Securities board of Nepal. 23 Brokers company have been selected for research and their data related to Brokerage service are comparatively studied. The total population of the brokers has been taken as sample for the purpose of this study.

3.3 Data Collection Procedure

This study fully depends upon the primary sources of data. The secondary only used for supporting to primary data. Secondary data had been collected from published materials of different organization such as: SEBON, NEPSE, central bureau of statistics, Nepal Rastra bank etc. some of the data were taken from trading reports of NEPSE under study. Distributing the questionnaires to the individual's investors and brokers and also to collect the different views had collected the primary data. The informal discussion and interviews were also performed to collect the views from different sources.

3.4 Data Processing Procedure

There is no any secondary data for using financial tools. Data collected from primary sources were analyzed by using statistical tools.

3.5 Analysis and Presentation of Data

The results got from the analysis were presented in tabular form and clear interpretations on it are given simultaneously. Detail calculations, which can not be

shown in the body part of the report, are presented in appendices at the end of this study.

3.6 Analytical Tools

On the basis of primary data collected from questionnaires and informal discussion with different investors, brokers and staff as well as officers of NEPSE and SEBON, statistical tools were used to perform the detail analysis as required by the study.

3.6.1 Statistical Tools

3.6.1.1 Percentage Analysis

The percentages analysis is done to compare the two or more data for general information. It is used as a method to divide the opinions of the related sectors into two or more sectors.

3.6.1.2 Range

Range is calculated to describe the distance of the data acquired from a source. The higher range describes that the response is scattered highly while the lower range describes that there is unity between the responses regarding that question.

3.6.1.3 Arithmetic Mean

Arithmetic mean is the sum of all the observations divided by the number of observations. The arithmetic mean is denoted by (\bar{X}) . It is computed as

$$\text{Arithmetic mean } (\bar{X}) = \frac{\sum fx}{n}$$

3.6.1.4 Median

Medians divide the whole observations into two halves. One half comprising the entire values greater and the second half comprising all the values smaller than median. Median is denoted by Md. The formula used for computing the median is as under.

$$\text{Md.} = \left[\frac{n + 1}{2} \right]^{th} \text{ items}$$

3.6.1.5 Chi-Square Test

Among many methods of testing hypothesis, chi square is popularly known as useful for non-parametric test. It is very helpful when it is not possible to make the dependable

assumption about the parent population from which the sample is drawn. chi square is denoted by " χ^2 ". This test does not require any assumption about the parameter. For testing chi-square, the total number of items must be as large as 50 and the expected frequency of any items or cell must not be less than 5. if it is less than 5, the frequencies of adjacent items or cells should be pooled together in order to make it 5 or more than 5. chi square test is broadly used as a test of goodness of fit and as a test of independence of attributes. In this study chi square is used to test the independence of the responses found from different sectors.

The procedures followed to perform the chi square test are described as under:

- a. The first stage is to set the null and alternative hypothesis. null hypothesis, which is denoted by H_0 . H_0 is set to suggest that there is no association between two attributes i.e. respondent sectors and the responses whereas alternative hypothesis which is denoted by H_1 , is set to suggest that there is association between the sector and responses.
- b. The second stage is to make the contingency table for testing the independence of the responses in regards to the sectors. The rows of the table occupy the responses, where the column will occupy the respondent sectors. Then the expected cell Frequencies under H_0 are calculated by using the relation as under.

Expected frequency of cell of i^{th} row and j^{th} column =
 row total x column total / total no of observations

- c. The third stage is to compute the test statistics under H_0 . This is computed as:

$$\chi^2 = \sum \frac{(O - E)^2}{E}$$

- d. The fourth stage is to write down the tabulated value of chi-square at a certain level of significance, which is assumed to be 5% in this calculation for " $r-1$ ". " $c-1$ " for degree of freedom.
- e. The fifth stage is to make the decision. If the computed value of chi-square is less than the tabulated value, H_0 is accepted at the level of significance 5%. if the computed value of chi-square is greater than its tabulated value, H_0 is rejected.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter the relevant data and information had taken from the distribution of questionnaire and personal interview from the related sectors under the study. Investors and brokers were taken as the source to gather the relevant information by distributing the questionnaires. Appropriate statistical tools had been used to perform the analysis, which is described in the research methodology chapter.

All total 135 questionnaires were distributed to investors and brokers. Among them 115 questionnaires were distributed to investors and 20 questionnaires were distributed to brokers. All of them 61 questionnaire were returned “i.e. 47 from investor and 14 from broker” and 74 questionnaire were not returned i.e. 68 from investor and 6 from broker”. “See appendix no. 2”

4.1 Effectiveness of brokerage services

Number of year involvement of investors in share investing activities:

The first question was asked specially to the investors to know the general information of how long he/she involved with the share investing activities in security market of Nepal. Forty seven investors responded this question. From the acquired data it was known that the investors involving year was different. The highest number of investors was eight and their involving year was six. The highest involvement of year was twenty and the number of investor was one. The average involvement year of per investors was 5.6 years. “see appendix no 3”

Purpose of investors to buy shares:

The second question was asked specially to the investors to know the general ideas of investor’s purpose to buy the shares. There were four options, which were, capital gain, dividend gain, social status and use of access money. Forty five investors responded the answer and two investors did not respond the answer. Among them eighteen “i.e. 40 percentage” investors choose for capital gain, twelve “i.e. 26.67 percentage” investors chose for dividend gain, five “i.e. 11.11 percentage” investors chose for social status and ten “i.e. 22.22 percentage” investors chose for use of

excess money. From the acquired data it was known that the highest percentage “i.e. 40.00 percentage” of investors purpose was to made capital gain and the lowest percentage “i.e. 11.11 percentage” of investor’s purpose was to made social status in society. “see appendix no.4”

Number of companies share per investor:

The third question was asked particularly to the investors to know the general information of how many company’s share per investor own in the security market in Nepal. Forty seven investors responded this question. From the acquired data it was known that one investor own approximately 5 company’s share in average in the Nepalese security market. The range of the companies was 14. “See appendix no 5”

To know the investing sectors of investors:

The fourth question was asked particularly to the investors to know the investing sectors of investors in Nepalese securities market. In this question, forty-five investors responded this question two investors did not respond the question. Among forty-five investors, twenty five choose banking sector, eleven chose trading sector, nine chose manufacturing and processing sector and none of them chose other sector. From the acquired data it was found that the highest percentage “i.e. 55.56 percentages” of investor were like to invest in banking sectors and lowest percentage “i.e. 20.00 percent” of investor was like to invest in manufacturing and processing sector. “ see appendix no. 6”

Types of services presently getting from brokers:

The fifth question was asked particularly to investors to know what types of service they were presently getting from the brokers. Forty five investors responded this question and two investors did not respond this question. Among them 29 “64.44 percent” responded that they were getting only trading services from brokers while 16 “35.56 percent” responded that they were getting both trading and information services. “See appendix no 7”

Satisfaction level with the performance of brokering services of NEPSE:

The sixth question was asked to both sectors “i.e. investors and brokers” to know the percentage of satisfaction level of performance of brokering service in NEPSE. Forty

five investors and thirteen brokers responded but two investors and one broker did not respond this question. Among the investors, 18 “i.e.40.00 percent” of investors were

Satisfied and 27 “60.00 percentage” investors were not satisfied with the performance of the brokering services of NEPSE.

The responded brokers “i.e. 13 brokers” of this question were satisfied with the performance of brokering services of NEPSE. “See appendix no 8”

Flowing of information from listed companies to the investors:

The seventh question was asked to know if the listed companies were providing the information related to their performance and future planning. Forty seven investors and thirteen brokers responded this question. Among the investors, fourteen “i.e. 29.78 percent” responded positively saying ‘yes’ while thirty three “i.e. 70.22 percent” responded “no”. Among the brokers, four “i.e. 30.78 percent” responded saying “yes”, while nine “i.e. 69.22 percent” responded “no”. “See appendix no.9”

Preference of share transfer methods by brokers and investors:

The eighth question was asked to both investors and brokers to know the attitude of the share transfer methods. Forty five investors and thirteen brokers responded but two investors and one broker did not respond the question. Among the investors, six “i.e. 13.33 percent” investors preferred blank transfer while only three “i.e.23.08 percent” brokers preferred ownership transfer.

Likewise, 39 “i.e. 86.67 percent” investors preferred ownership transfer while ten “i.e. 76.92 percent” brokers preferred blank transfer. “See appendix no.10”

Number of years of involvement in the share trading activities:

The ninth question was asked particularly to the investors to get the general information of the duration involved in share trading activities. In this question thirty four investors responded and thirteen brokers responded this question. from the acquired data it was found that in average the investors involvement in the share trading activities was 6.5 years. The range of the investors was 16 years. “See appendix no. 11”

Adequacy and reliability of information provided by brokers to the investors:

The tenth question was asked to measure the extent to which investors get reliable and adequate information provided by brokers regarding the transaction of the share in NEPSE. The medians were calculated independently of these different sectors to measure the level of responses.

Forty one investors and eleven brokers responded this question . the medians of investors were found very low and they were getting very low reliable and adequacy of the information from brokers in regarding the transaction of shares in NEPSE. While the brokers median found to be moderately and they claimed that they were providing moderately reliable and adequacy of information to investors in regarding the transaction of shares in NEPSE. “see appendix no 12”

Mutual trading as stock market disorder:

The eleventh question was asked to measure the extent to which different sectors think that the mutual trading was responsible in stock market disorder. The medians were calculated independently of these different sectors to measure the level of responses. Forty two investors and twelve brokers responded this question. The medians were found to be high and low in regarding to the mutual trading as stock market disorder, as responded by the two respondent sectors i.e. investors and brokers respectively . “See appendix no. 14”

Level of responsibilities of brokers in different stock market disorders:

The twelfth question was asked to measure the extent to which different sectors think brokers as a responsible for stock market disorders. Such as, wash sale, cornering the market, inside trading, churning, pool and mutual trading. The medians were calculated independently of these different sectors to measure the level of responses. This question was responded by forty seven investors and twelve brokers. The medians were found to be very high and moderate in regarding to the responsibility of brokers in different stock market disorders. as responded by the two respondent sectors i.e. investors and brokers respectively . “See appendix no. 16”

The last and the thirteenth questions were asked to the two sectors to share their suggestion and comments. Their suggestion and comments were considered for future improvement of brokering service of NEPSE. Five investors and three brokers responded this question. Their suggestion and comments were presented below on their own words.

4.2 Role of brokers in Price formation

The 13 question was asked to both sectors [i.e. investors and brokers] to know the Percentage of the role of brokers affects in the efficiency of price formation of shares in NEPSE. Fifty five Investors and Twenty brokers responded but three investors and one brokers did not responded this question. Among the investors, 35 [i.e.63.64%] responded positively saying ‘yes’ while 20 [i.e. 36.36%] responded ‘No’ and the responded brokers i.e. 20 brokers responded saying ‘Yes’. “See Appendix No. 18”

4.3 Satisfaction level of small investors with the performance of the brokers.

The fourteenth question was asked to both sectors [i.e. investors and brokers] to know the Percentage of satisfaction level of small investors with the performance of the brokering service in the NEPSE. 65 small investors and 20 brokers responded this question but 2 small investors and 1 broker did not respond this question. Among the small investors, 55 [i.e. 84.62%] were not satisfied and 10 [i.e. 15.38%] small investors were satisfied with the performance of the brokering services of NEPSE.

While responded brokers [i.e.20 brokers] of this question was satisfied with their performance to the small investors. “See Appendix No 19”

4.4 Testing of Hypothesis

The chi-square test was performed to test whether the attributes or characteristics “response in this case” manifest themselves independently or some related inner. For testing the independent of two attributes the contingency table of two rows and five columns had been formulated. The row frequency included the level of response while the column included the sectors. The responses of different sectors were put in the cell frequencies while the totals of the frequencies in each of the row and column were put in the marginal frequencies.

Adequacy and reliability of information provided by brokers to the investors:

From the chi-square test it was found that the calculated value of chi-square was less than the tabulated value of chi-square at five percent level of significance at four degree of freedom, so, Null hypothesis “Ho” was accepted .so , we may conclude that there was no significant different between the response given by two sectors as far as the adequacy and reliability of information provided by brokers to investors regarding the transactions of shares in NEPSE was concerned. “see appendix no 13”

Mutual trading as stock market disorder:

From the chi-square test it was found that the calculated value of chi-square was less than the tabulated value of chi-square at five percent level of significance at four degree of freedom, so, null hypothesis “Ho” was accepted. So, we may conclude that there was no significant difference between the responses given by two sectors as far as mutual trading as stock market disorder was concerned. “See appendix no 15”

Level of responsibilities of brokers in different stock market disorders:

From the chi-square test it was found that the calculated value of chi-square was less than the tabulated value of chi-square at five percent level of significance at four degree of freedom, so, null hypothesis “Ho” was accepted. So, we may conclude that there was no significant difference between the responses given by two sectors so far as the level of responsibilities of brokers in different stock market disorders was concerned. “See appendix no 17”

Suggestions and Comments from Investors

Investors said that the flow of financial information from the listed companies were especially at very poor level. Investors said the activities and services of brokers is not enough in NEPSE regarding the distribution of information of data. That was why mainly the lack of information was hampering the efficiency in the stock market.

The time span to complete a share trading was too long in actual situation. Transfer of shares takes too much of time and it increases the inefficiency to brokers as well as small investors do not satisfied with the performance of the brokers in the NEPSE. So the concerned sectors should take necessary action to correct this inefficiency of

brokers. So the concerned sectors should take necessary action to correct these inconveniences in share transaction.

4.5 Findings

Following are the major findings from broker service.

- I. The involvement of different sectors especially the brokers with various facilities in comparison to cost help to grow the involvement of the numbers of investors and the numbers of shares traded.
- II. The creation of fair market offer an easy mechanism to evaluate to condition of securities market and future prospects of the securities and the movements in the price in the shares.
- III. The effective brokering services help to increase the transaction and thereby help to create liquidity of stock. It would also help to create the efficiency in the price of the shares.
- IV. The dynamism of the stock market has been greatly reduced by the domination of the long-term shareholders who invest in the shares with the help of increasing their wealth. Even though it was found from the responses given the investors that they prefer ownership transfer, it is their intention to prefer the share having the higher liquidity to earn capital gain when the time comes but actually most of them hold the shares of long period. This was realized during the direct observation. During the observation period at NEPSE floor and the brokerage offices.
- V. It can be justified by very less number of shares that were traded on the stock market. Even though it reduces the dynamism of the stock market, the investors have very few investment alternatives rather than investing in the shares.
- VI. The rationality of the Nepalese investors was found to be at low level. They have very little knowledge of the trading procedure and the price setting mechanism at NEPSE.
- VII. People in Nepal, simply invest in shares because they have very little alternatives of investment available. They are not well aware of the fact that investing in shares involves risk. So, the concerned

bodies should be responsible to provide sufficient and reliable information about investment in shares. so, that the rationality could be upgraded and the price setting may become effective.

- VIII. Most of the investors were like to invest in banking sectors and less investor were like to invest in manufacturing and processing sectors.
- IX. Most of the investors were getting only trading services from brokers not information service.
- X. Most of the investors were not satisfied with the performance of the brokering services of NEPSE and responded brokers were satisfied with the performance of brokering services of NEPSE.
- XI. Most of the investors were not getting reliable and adequacy of the information from brokers in regarding the transaction of the shares in NEPSE.
- XII. Transfer of shares takes too much time and it increases the inefficiency to brokers.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This study was conducted to analyze the brokering services in NEPSE. Questionnaires were distributed to investors and brokers to acquire the information relevant to the study problem. The information was then analyzed by using different statistical tools as described in the research methodology. The major finding of the present study is briefly summarized as follows:

- It was found from the data acquired from the questionnaire that investor's involvement years of shares investing activities were found 5.6 years. It is regarded as short period.
- The purpose of investment of the investors in securities market were found 40.00 percent for capital gain, 26.67 percent for dividend gain, 11.11 percent for social status and 22.22 percent for use of excess money.
- It was found from the data acquired from the questionnaire that the number of companies per investor is 5 companies and the range of company is 14.

According to the result got from the answer of questionnaire, the investing sector of investors were found 55.56 percent to the banking sectors, 24.44 percent to the trading sector and 20 percent to the manufacturing and processing sector.

- In comparison to the wide array of services investors are getting from broker in many developing and developed countries, Nepalese investors are getting mostly trading services only “ 64.44 percent” while few “ 35.56 percent’ are getting both trading and information services.

- Forty percent of the total investors were satisfied and sixty percent of the total investors were unsatisfied with the performance of brokering services of NEPSE. While the entire broker were satisfied with the performance of brokering services of NEPSE.
- 29.78 percent of total investors responded that they are satisfied with the information they are presently receiving from the listed companies while 70.22 percent remains unsatisfied. While 30.78 percent of brokers were satisfied and 69.22 percent of brokers were unsatisfied with the performance of the brokering services of NEPSE.
- Investors were mostly found to prefer ownership transfer “ 86.67 percent of total investor” and blank transfer were found only 13.33 percent of total investors. So, it show that investor were mostly of speculative nature and they involved in trading of shares by capital appreciation motive rather than dividend appreciation motive in Nepalese securities market. But the trading of shares in NEPSE was very less and only 5to17 listed companies shares were traded in NEPSE during the observation period. It can be said that the investors are investing in the shares as long term investment rather than for short period.
- The involvement of investors in the securities trading and investment were found of 6.49 years. It is regarded as very short period. So, the market can not be regarded as matured.
- It was found from the data acquired from the questionnaire that the median value of investors is very low. Investors themselves said that they are getting very low level of reliable and adequate information from brokers regarding the transaction of shares in the securities market. So, brokers should think at this point to serve their clients by providing a wide array of services related to the shares trading activities. The chi-square test show that there was no any significance difference between the views of two sectors in regard to the level of responsibility of

Reliable and adequate information are getting providing from brokers regarding the transaction of shares in NEPSE.

- The mutual trading was found to be high and low responsible in stock market disorders in views of investors and brokers respectively .so, it should be restricted to create the highly competitive environment in the stock market. The chi-square test also showed that there was no any significant difference between the views of two sectors in regard to the level of responsibility of mutual trading in stock market disorders.
- Brokers were found to be very low and investors were found very high responsible for different types of stock market disorder. such as, wash sale, corning the market, inside the trading , churning, pool and mutual trading as responded by the two sectors. The chi-square test also showed that there was no any significant difference between the views of two sectors in regard to the level of responsibility of different types of stock market disorders. Such as: wash sale, corning the market, inside trading, churning, pool and mutual trading.

5.2 Conclusion

The effective price setting of the shares is one of the major requirements for the development of the stock market. The involvement of a different sectors especially the brokers with various and facilities in comparison to cost help to grow the involvement of of the numbers of investors and the number of the shares traded. The creation of fair market offers an essay mechanism to evaluate the condition of securities market and future prospects of the securities and the movements in the prices of the shares.

The effective brokering services help to increase the transaction and thereby help to create of liquidity of stocks. It would also help to create the efficiency in the price of the shares. If there is shortage in the brokering services, it will not help to create the effective price of the shares in the stock exchange and the prospective investors will find it hard to obtain

Securities at reasonable price, which discourage country's long-term investment, and ultimately savings will affected in negative direction.

In Nepal, the dynamism of stock market has been greatly reduced by the domination of the long-term shareholders who invest in the shares with the hope of increasing their wealth. Even though it was found from the responses given by the investors that they prefer ownership transfer, it is their intention to prefer the shares having the higher liquidity to earn capital gains when the time comes but actually most of them hold the shares for long period. This was realized during the direct observation during the observation period at NEPSE floor and the brokerage offices.

This can be justified by very less number of shares that were traded on the stock market. Even though it reduces the dynamism of the stock market, the investors have very few investment alternatives rather than investing in the shares.

The rationality of the Nepalese investors was found to be at low level. They have very little knowledge of the trading procedure and the price setting mechanism at NEPSE.

People, in Nepal, simply invest in shares because they have very little alternatives of investment available. They are not well aware of the fact that investing in shares involves risk. So, the concerned bodies should feel responsible to provide sufficient and reliable information about investment in shares. So that the rationality could be upgraded and the price setting may become effective.

5.3 Recommendations

The following recommendations are made to the different sectors related to brokering services in NEPSE on the basis of the findings and the conclusions.

The pace of economic development should be accelerated in order to have its positive impact on the stock market development.

- Besides, the investors who live out of the valley could not complain their grievance to the concerned authority because of the span of time and distance. It is believed that one third of shares investors live out of the valley. So, NEPSE should increase its information dissemination activities to meet the expectations of investors of different parts of the country so that the involvement of the investors out of the Katmandu valley could be increased.

- The listed companies should fulfill their liabilities of providing the financial status of the companies timely and comprehensively and they should hold the annual general meeting regularly.
- Brokers should help regulatory bodies perform their activities by providing the financial statement and other required information on time and regularly. they should strictly obey the rules and regulations made for them to help the regulatory bodies in creating the effective price formation in security market.
- Brokers should open their offices in the place easily accessible to the present in potential investors as it was seen during the observation period that almost of all of the brokerages offices are not opened in easily seen place. They should also focus in other activities apart from trading the shares in NEPSE. Such services include information dissemination about the listed companies to the investors, providing margin- trading facilities to the small investors etc.
- The stock market lacks the existence of sophisticated investors. So, it is recommended to the regulatory bodies to carry out programs using various media and spot program to inform the and attract the potential investors, both individual and institutional, in investing into shares.
- The development of the stock market is also dependent on political stability of the nation. So, government should try to maintain the political stability to help develop the security market.
- The size of stock market is pitifully small in Nepal because of small size of the corporate sector in the economy. The shares of the corporate sectors is also negligible compared to total investment in the economy as a whole because of the negligible size of corporate sector, so government should promulgate suitable policies to equip and enable brokers to perform their duties effectively and thereby foster the development of corporate sectors in the economy.
- The level of knowledge of the Nepalese investors was found very low. So, the concerned authorities should conduct various research studies and disseminate the information relating to the share trading activities to increase the understanding of the investors in using financial tools to estimate the intrinsic value of shares of a company before making investment decision.
- The brokers should also provide reliable and adequate information regarding the transaction and other aspects so that maximum number of investors could participate in investing into stocks.

- The broker should perform their activities within the limitation of the rules and regulations. They should provide right and authentic information about all the companies to help investors chose the share of particular company that best fit his personal risk and return category but should not try to influence the investor's decision for his personal benefit.
- The brokers should act as important and responsible sectors for the development of the securities market and should strictly avoid involving themselves into stock market disorders.
- The concerned authorities should take very strict action to those responsible for creation of stock market disorders.

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APPENDIX NO :1
QUESTIONNAIRE

I am Suresh Das, student of master of business studies (MBS) at Nepal Commerce Campus, Faculty of Management, Tribhuvan University. I am conducting a research on the topic “ **A study on effectiveness of Brokerage services in Nepalese Market**” For the partial fulfillment of the requirement of the degree of the masters of business studies (MBS) . SO, I would like to request you to answer the following questions related to my study topic to help me get the research objectives. I assure that your response will be kept strictly confidential.

1. How long have you been involved with the share investing activities? Please specify the numbers of years.
 - Since the last ~ years.

2. For which purpose do you buy the shares? Please tick in the box.
 - for capital gain
 - ~ for dividend gain
 - for social status
 - For use of excess money

3. How many company's share do you have presently own
 - Companies

4. In which of the following sectors do you want to invest in share?
 - banking sector
 - Trading sector
 - Manufacturing and processing sector
 - Other. Please the specify the sector.....

5. What types of service are you presently getting from the brokers?

- ~ Trading service only
- Information service only
- Trading and information service
- ~ Others. Please specify..

6. Are you satisfied with the performance of brokering services of NEPSE ?

~ Yes ~ No

7. Do you think that the listed companies are sufficient providing the information related to their performance and future planning?

~ Yes ~ No

8. Which transfer do you prefer while buying the share and why?

~ Blank transfer ~ Ownership transfer

9. How long have you been involved with the share trading activities?

Since the last ~ Years

10. To what extent do you think that the investors are getting / providing reliable and adequate information from brokers/to the investors regarding the transaction of shares in NEPSE?

5 very highly 4 highly 3 moderately 2 low 1 very low

1	2	3	4	5
□	□	□	□	□

11. To what extent do you think that mutual trading is responsible in stock market disorder?

5 very highly 4 highly moderately 2 low 1 very low

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

12. To what extent do you think that brokers are responsible for stock market disorder, such as : wash sale, cornering the market, insider's trading, churning, pool and mutual trading?

5 very highly 4 highly moderately 2 low 1 very low

1	2	3	4	5
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

13. Does the role of brokers affect the efficiency in the price formation of the Nepal stock market?

Yes No

14. Do you [small investors] have satisfied with the performance of the brokerage service in NEPSE?

Yes No

15. Do you have any comments/ suggestion about brokering services of Nepalese stock market?

.....
.....

For investors

Name.....
Occupation.....
Signature.....
Date.....

For Brokers

Name.....
Code no.....
Signature.....

Thank you!

APPENDIX NO: 2

LIST OF THE QUESTIONNAIRE DISTRIBUTED AND COLLECTED

Description	Investors	Brokers	Total
No.of Questionnaire distributed to	115	20	135
Questionnaire returned	47	14	61
Questionnaire not returned	68	6	74

Q.NO.	No. of Questions Answered by Investors	No of Questions Answered by Brokers	total
1.	45	5	50
2.	45	7	52
3.	47	3	50
4.	45	4	49
5.	45	3	48
6.	45	13	58
7.	47	13	60
8.	45	13	58
9.	47	14	61
10.	41	11	52
11.	42	12	54
12.	45	12	57
13.	5	3	8

APPENDIX NO: 3

Question No 1

How long have you been involved with the share investing activities?

No of years Involved (X)	No of Investors (F)	FX
1	2	2
2	3	6
3	5	15
4	6	24
5	7	35
6	8	48
7	6	42
8	2	16
9	2	18
10	1	10
11	2	22
14	1	14
Total	45	252
Average involvement in Years = $\sum FX/ N$ 5.6 Years		

The average involvement in years is 5.6 per investor.

APPENDIX NO: 4

Question No 2

For which purpose do you buy the share?

- ~ For capital gain
- ~ For dividend gain
- ~ For social status
- ~ For use of excess money

Response	Answered by Investors	Percent
For capital gain	18	40.00
For dividend gain	12	26.67
For social status	5	11.11
For use of excess money	10	22.22
Total	45	100

APPENDIX NO: 5

Question No 3

How many company's share do you have presently own?

No of company's share owned by investors (X)	No of Investors (F)	FX
1	6	6
2	9	18
3	7	35
4	5	20
5	8	40
6	2	12
7	4	28
8	1	8
10	2	20
12	1	12
14	1	14
15	1	15
Total	47	228
Average no. of share per Investor	$\sum FX/ N$	4.85

Average number of companies shares per investors = 4.85 companies.

Range of shares = highest no of companies shares - Lowest no of companies.

$$= 15-1$$

$$= 14 \text{ companies.}$$

APPENDIX NO: 6

Question No 4.

In which of the following sectors do you want to invest in share?

- ~ Banking sector
- ~ Trading sector
- ~ Manufacturing and processing sector
- ~ Others. Please the specify the sector.....

Response	No. of Investors	Percentage(%)
Banking sector	25	55.56
Trading sector	11	24.44
Manufacturing and processing sector	9	20.00
other	0	0
Total	45	100

APPENDIX NO: 7

Question No. 5

What types of service are you presently getting from the brokers?

- ~ Trading service only ~ Information service only
~ Trading and information service ~ others. Please specify....

Response	No. of Investors	Percentage (%)
Trading service only	29	64.44
Information service only	-	-
Trading and service	16	35.56
Other	-	
Total	45	100

APPENDIX NO: 8

Question no. 6

Are you satisfied with the performance of brokering services of NEPSE?

~ Yes

~ No

Response	No of investors	Percentage (%)	No of Brokers	Percentage (%)
Yes	18	40.00	13	100
No	27	60.00	-	-
Total	45	100	13	100

APPENDIX NO: 9

Question No. 7

Do you think that the listed companies are sufficient providing the information related to their performance and future planning?

~ Yes

~ No.

Response	No of Investors	Percentage (%)	No. of Brokers	Percentage (%)
Yes	14	29.78	4	30.78
No	33	70.22	9	69.22
Total	47	100	13	100

APPENDIX NO: 10

Question No. 8

Which transfer do you prefer while buying the share and why?

~ Blank Transfer

~ Ownership transfer

Response	No of Investors	Percentage (%)	No of Brokers	Percentage (%)
Blank Transfer	6	13.33	10	76.92
Ownership Transfer	39	86.67	3	23.08
Total	45	100	13	100

APPENDIX NO: 11

Question NO. 9

How long have you been involved with the share trading activities?

Since the last $\tilde{}$ Years.

No of years of involvement (X)	No of Investors F(1)	FX
1	5	5
2	4	8
3	5	15
4	4	16
5	4	20
6	7	42
7	4	28
8	3	24
9	4	36
10	2	20
12	1	12
15	3	45
17	2	34
Total	47	305
Average involvement in years	$\frac{\sum FX}{N}$	6.49

Range of involvement in years= Highest no of years- Lowest no of years.

$$\begin{aligned} \text{Investors} &= 17-1 \\ &= 16 \text{ years} \end{aligned}$$

APPENDIX NO : 12

To what extent do you think that investors are getting / providing reliable and adequate information from brokers/ to the investors regarding the transaction of shares in NEPSE ?

5. very highly 4 highly 3 Moderately 2 low 1 very low

Investor

Broker

Original Table Amended table Original Table Amended Table

Response	No given	Response	No. Given	Responses	No. Given	Response	No Given
Very high	9	Low	14	Very high	5	Very high	5
high	6	Very high	9	high	4	high	4
Moderate	5	very low	7	moderate	2	moderate	2
Low	14	high	6	low	0	Very low	0
Very low	7	moderate	5	Very low	0	low	0
Total	41		41		11		11

n= no of observation, 5

Median= the value of $\left[\frac{n+1}{2} \right]^{\text{th}}$ item.

$(5+1)/2^{\text{th}}$ item

3rd item.

INVESTOR: Since median value of investor is very low, investors consider that they are getting very low information from broker regarding the transaction of shares in NEPSE.

BROKER: Since median value of broker is high , it is know that the broker consider that investors are moderately getting adequate and reliable information from broker regarding the transaction of shares in NEPSE.

APPENDIX NO: 13

Question No. 10

To what extent do you think that investors are getting / providing reliable and adequate Information from brokers / to the investors regarding the transaction of shares in NEPSE?

sector	Very high (5)	High (4)	Moderate(3)	Low (2)	Very low (1)	Row total
Investors	9	6	5	14	7	41
Brokers	5	4	2	0	0	11
Column total	14	10	7	14	7	52

Ho: There is no significant difference between option of investors and brokers

So far as adequacy and reliability of the information provided by brokers.

H1: There is significant difference between option of investors and brokers so

So far as adequacy and reliability of the information provided by brokers.

Computation of expected frequencies under Ho and chi-squire

R,C	(O)	E(RT X CT)/n	(O - E)	(O-E) ²	(O-E) ² /E
1,1	9	11.038462	-2.038462	4.155324	0.376441
1,2	6	7.884615	-1.884615	3.551775	0.450469
1,3	5	5.519231	-0.519231	0.269600	0.048847
1,4	14	11.038462	2.961538	8.770707	0.794559
1,5	7	5.519230	1.480769	2.192678	0.397279
2,1	5	2.961538	2.038462	4.155325	1.403097
2,2	4	2.115385	1.884615	3.551775	1.679021
2,3	2	1.480769	0.519231	0.269601	0.182068
2,4	0	2.961538	-2.961538	8.770710	2.961539
2,5	0	1.480769	-1.480769	2.192678	1.480770
Total	52				8.77409

$$\text{Therefore } (\chi^2) = \frac{\sum(O - E)^2}{E} = 8.77409$$

The degree of freedom. (d .f.) = (r-1) (c-1) = (2-1) (5-1) = 4

Tabulated value of chi-squire for 4 d.f. at 5% level of significant is 9.488

Since the computed value of chi-squire is less than it's tabulated value at 5% level of significant for 4 d.f. Ho is accepted i.e. we may conclude that the response given by two sectors are almost same.

APPENDIX NO: 14

Question No. 11

To what extent do you think that mutual trading is responsible in stock market disorder.

5 very high 4 high 3 Moderate 2 Low 1 very low

Investor

Broker

Original Table Amended table Original Table Amended Table

Response	No given	Response	No. Given	Responses	No. Given	Response	No Given
Very high	6	Low	13	Very high	5	Very high	5
high	7	Very high	11	high	1	high	3
Moderate	11	V ery low	7	moderate	3	moderate	2
Low	5	high	6	low	2	Very low	1
Very low	13	moderate	5	Very low	1	low	1
Total	42		42		12		12

n= no of observation, 5

Median= the value of $\left(\frac{n+1}{2}\right)^{th}$ items

$$\left(\frac{5+1}{2}\right)^{th} \text{ item}$$

3rd item

INVESTOR: Since median value of investor is high,, it is known that investors considered mutual trading as highly responsible in stock market disorder

BROKER: Since median value of broker is low, , it is know that the broker consider mutual trading as lower responsible in stock disorder.

APPENDIX NO: 15

Question No. 11

To what extent do you think that mutual trading is responsible in stock market disorder?

sector	Very high (5)	High (4)	Moderate(3)	Low (2)	Very low (1)	Row total
Investors	6	7	11	5	13	42
Brokers	5	1	3	2	1	12
Column total	11	8	14	7	14	54

Ho: There is no significant difference between option of investors and brokers So far as mutual trading as a stock market disorder

H1: There is significant difference between option of investors and brokers so ,So far as mutual trading as a stock market disorder.

Computation of expected frequencies under Ho and chi-square

R,C	(O)	E(RT X CT)/n	(O - E)	(O-E) ²	(O-E) ² /E
1,1	6	8.555556	-2.555556	6.530864	0.763348
1,2	7	6.222222	0.777778	0.604935	0.097222
1,3	11	10.888889	0.111111	0.012346	0.001134
1,4	5	5.444444	-0.444444	0.197531	0.036281
1,5	13	10.888889	2.111111	4.456790	0.409297
2,1	5	2.444444	2.555556	6.530864	2.671717
2,2	1	1.777778	-0.777778	0.604938	0.340278
2,3	3	3.111111	-0.111111	0.012346	0.003968
2,4	2	1.555556	0.444444	0.197531	0.126941
2,5	1	3.111111	-2.111111	4.456790	1.4325397
Total	54				5.8827688

Therefore $(\chi^2) = \frac{\sum(O - E)^2}{E} = 5.8827688$

The degree of freedom. (d .f.) = (r-1) (c-1) = (2-1) (5-1) = 4

Tabulated value of chi-squire for 4 d.f. at 5% level of significant 9.488

Since the computed value of chi-squire is less than it's tabulated value at 5% level of significant for 4 d.f. Ho is accepted i.e. we may conclude that the response given by two sectors are almost same.

APPENDIX NO: 16

Question No. 12

To what extent do you think that brokers are responsible for stock market disorder, such as: wash sale, cornering the market, insider's trading, churning, pool and mutual trading?

5 very high 4 high 3 Moderate 2 Low 1 very low

Investor

Broker

Original Table Amended table Original Table Amended Table

Response	No given	Response	No. Given	Responses	No. Given	Response	No Given
Very high	9	Very Low	13	Very high	0	Very low	6
high	11	high	11	high	0	low	4
Moderate	5	Very high	9	moderate	2	moderate	2
Low	7	low	7	low	4	high	0
Very low	13	moderate	5	Very low	6	Very high	0
Total	45		45		12		12

n= no of observation, 5

Median= the value of $\left(\frac{n+1}{2}\right)^{\text{th}}$ item.

$(5+1)/2$ th item

3rd item.

INVESTOR: Since median value of investor is high,, it is known that investors consider broker to be very highly responsible for different stock market disorders.

BROKER: Since median value of broker is moderate, it is known that the brokers consider themselves to be moderately responsible for different stock market disorders

APPENDIX NO: 17

Question No. 12

To what extent do you think that brokers are responsible for stock market disorder, such as: wash sale, cornering the market, insider's trading, churning, pool and mutual trading?

sector	Very high (5)	High (4)	Moderate(3)	Low (2)	Very low (1)	Row total
Investors	9	11	5	7	13	45
Brokers	0	0	2	4	6	12
Column total	9	11	7	11	19	57

Ho: There is no significant difference between option of investors and brokers So far as the role of brokers in different types of stock market disorders such as: wash sale, cornering, insider trading, churning, pool and mutual trading.

H1: The option given by two sectors are significantly different.

Computation of expected frequencies under Ho and chi-square

R,C	(O)	E(RT X CT)/n	(O - E)	(O-E) ²	(O-E) ² /E
1,1	9	7.105263	1.894737	3.590028	0.505263
1,2	11	8.674212	2.315789	5.362881	0.618256
1,3	5	5.526316	-0.526316	0.270083	0.050125
1,4	7	8.684212	-1.684212	2.836565	0.326635
1,5	13	15	-2	4	0.266667
2,1	0	1.894737	-1.894737	3.579002	1.894737
2,2	0	2.315789	-2.315789	3.362881	2.317899
2,3	2	1.473684	0.526316	0.277008	0.187970
2,4	4	2.315789	1.684212	2.836565	1.224880
2,5	6	4	2	4	1
Total	57				8.392432

$$\text{Therefore } (\chi^2) = \frac{\sum(O-E)^2}{E} = 8.392432$$

The degree of freedom. (d.f.) = (r-1) (c-1) = (2-1) (5-1) = 4

Tabulated value of chi-square for 4 d.f. at 5% level of significant 9.488

Since the computed value of chi-square is less than it's tabulated value at 5% level of significant for 4 d.f. Ho is accepted i.e. we may conclude that the response given by two sectors are almost same'

Appendix: 18

Q.No.13.

Does the role of the brokers affect the efficiency in price formation of the Nepalese stock market?

Yes

No.

Response	No of Investors	Percentage %	No of Brokers	Percentage %
Yes	35	63.64	20	100
No	20	36.36	-	-
Total	55	100	20	100

Appendix: 19

Q.No.14.

Do you [small investor] have satisfied with the performance of the brokerage services in NEPSE?

Yes

No.

Response	No of small Investors	Percentage %	No of Brokers	Percentage %
Yes	10	15.38	20	100
No	55	84.62	-	-
Total	65	100	20	100