

CHAPTER -I

INTRODUCTION

1.1 Background of the study

A market is the means by which products and services are bought and sold, directly or through an agent. A market need not be a physical location. There is no requirement of ownership by those who establish and administer and market. They need only provide a smooth transfer of goods or services for a diverse clientele.

A market should provide accurate information on the price and volume of past transactions, and current supply and demand. Clearly, there should be rapid dissemination of this information. Adequate liquidity is desirable so that participants may buy and sells their goods and services rapidly, at a price reflecting the supply and demand. The costs of transferring to ownership and middleman commissions should be low. Finally, the prevailing price should reflect all available information.

A security market (or financial market) can be defined as a mechanism bringing together buyers and sellers of financial assets in order to facilitate trading. Alternatively, security market is a place or places where securities are bought and sold, the facilities and people engaged in such transactions, the demand for and availability of securities to be traded, and the willingness of buyers and sellers to reach agreement on sales. Over the counter market, New York stock exchange, Nepal stock exchange, is the example of security market

Stock market is an institution, area and process where stock and other securities are bought and sold continuously. The major function of stock market is to provide steady and continuous market for purchase and sales of securities at a competitive price by importing marketability and liquidity. It is also a medium through which scattered saving and scarce resources are transferred into productive areas that ultimately help to the economic development and industrialization of the country. Stock market may affect the economic activities through creation of liquidity. Stock market can play a vital role, giving a big boost to economic development for the developing country like Nepal.

Many profitable investments require a long run commitment of capital; savers do not like to relinquish control of their savings for long periods. Liquid equity market makes investment less risky and more attractive. Stock market provides the best investment opportunities to the investors. It also provides liquidity to the securities. Liquidity affects the economic activity and there by affects the development of the country. The level of liquidity is influenced by the price formation of the stocks in the stock market. So, in order to maintain the liquidity in the stock market has to be efficient in all aspects.

The development of economy requires the productive activity, which in turn, is the result of the investment ventured in productive enterprises. The establishment of these enterprises needs a huge amount of fund. There are mainly two sources of financing in the productive enterprises – internal source and external source. The internal source of financing has limited scope because of the limited resources and risks associated with the investment, through financial market, has

become the most important and popular source of financing for fostering the productive activities in the economy. Nowadays, all economic units including the household and government have to rely on external finance. The introduction and development of the financial asset is the most important attribute of the external financing. Thus, stock market (market for financial assets) is a must for the development of an economy.

This research specifically focuses on the development, current position performance, problems and prospects of Nepalese stock market at present scenario. Moreover, it tries to locate the major problems and find the best solution.

Nepal Stock Exchange (NEPSE)

Nepal Stock Exchange, in short NEPSE, is an organization, operating under Securities Exchange Act, 1983. The basic objective of NEPSE is to impart free marketability and liquidity to the government and corporate securities by facilitating transactions in its trading floor through member, market intermediaries, such as broker, market makers etc. NEPSE opened its trading floor on 13th January 1994. Government of Nepal, Nepal Rastra Bank, Nepal Industrial Development Corporation and members are the shareholders of NEPSE.

History of NEPSE

The history of securities market began with the floatation of 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 the establishment of Securities Exchange Center Ltd. in 1976 were other significant development relating to capital markets. Securities Exchange Center was established with an objective of facilitating and promoting the growth of capital markets. Before conversion into stock exchange it was the only capital markets institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services. Nepal Government, under a program initiated to reform capital markets converted Securities Exchange Center into Nepal Stock Exchange in 1993.

Board of Directors

The board of directors of NEPSE consist Nine directors accordance with securities exchange act 1983. Six directors are nominated by government Nepal and different institutional investor. Two from the licensed member and the general manager of the NEPSE is the Ex-office director of the board. Members of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present, there are 23 member brokers and 2 market makers, who operate on the trading floor as per the Securities Exchange Act, 1983, rules and bye-laws. Besides this, NEPSE has also granted membership to issue and sales manager securities trader (Dealer). Issue and sales manager works as manager to the issue and underwriter for public issue

of securities whereas securities trader (Dealer) works as individual portfolio manager. At present there are 11 sales and issue manager and 2 dealers (Secondary market). The tenure of the membership is one year. The license should be renewed within 3 months after the closure of the fiscal year. If not, it can be done within another three months by paying 25% penalty.

Listing of Securities

Listing is one of the regular and continuous functions of the NEPSE. According to securities exchange act, 1983 listing of security of a public limited company is mandatory. The transactions of the securities cannot be made without listing. So if the entrepreneurs have to arrange liquidity they have to enlist the securities with stock exchange. So it is the process of registration of securities to make them eligible for trading.

Trading

In the beginning of the 2007/08 fiscal year, NEPSE replaced the old open-out-cry system of securities trading, which was in place since the beginning of secondary trading in 1994, with the automated trading system (ATS). The ATS has not only mechanized securities trading, but also reduced the manipulation of prices and human errors. NEPSE has also reformed its organizational structure, right-sized its human resources outsourced its cleaning and security services, started online trading through WAN, disseminated real-time information and extended the trading hours to make stock exchanges efficient. Trading through WAN has formally started from 13 October 2007. Now stock brokers do not have to come

to the NEPSE's office to sell or buy shares; they can do that sitting in their own offices. In the first phase, NEPSE granted permission to Malla and Mall Stock Broking Limited, Nepal Stock House, Nepal Investment and Securities Trading Private Limited, Shreekrishna Securities Limited and Premiere Securities Company Limited to trade through WAN. Presently, 18 brokers transact from their office via WAN. All the brokers with the following infrastructures can get access to WAN: a price board, separate rooms with computers to post clients' orders or settle shares and provide up to date information to clients.

In spite of the above discussed developments Nepalese stock market hasn't yet become success to cover sufficient portion of investment. People are investing their savings on unproductive assets such as land, gold, silver and other valuables and on the other side corporations are experiencing lack of funds for expansions and growth. Yet entrepreneurs show less interest and confidence on raising capital funds through issuance of securities in stock market. That's why even today the market lists very few numbers of corporate securities as compared to their presence.

The stock market of Nepal is highly concentrated. More than sixty percent of the market supply is obtained by the top ten companies. Surprisingly among these ten companies nine are the commercial banks. Similarly it is highly concentrated from demand side too. Some of the major investors hold most of the market demand. It lacks coverage over the general savings of the nationals. This makes the market susceptible of price stipulations from the investors. Such sequence makes the confidence of the small and general investors low on the stock market and its instruments and puts the market on the hands of some bog investors

making the market unable for expansion and growth. People in such circumstances prefer investment on land, gold and other valuables rather than stock market instruments.

1.2 Statement of Problems

Nepalese capital market is very small in comparison with other developed stock market. There are a few numbers of brokers, limited number of listed companies, very few transactions and most importantly investors are unknown about the pros and cons of stock market. The price and earning information were not made available timely to the investor. Investors could not identify the good and bad stocks. Government has made much policy to grow the stock market for the achievement of economic growth and development, but hasn't become sustainable because of lack of implementation of the policy. The development of stock market in Nepal is both challenging and difficult. Though the viewpoint of number of share transactions, public interest towards stock markets, the trend of the price movement, information system etc indicates the low performance of stock market. The major problems of the stock market, addressed through this research are:

1. The price and earning information were not made available timely to the investor
2. Lack of value judgment to determine the stock price.
3. Unfavorable macroeconomics condition, political instability, low confidence of investors, weak tax system.
4. Especially the market has failed to cover most part of the general saving and capitals.

5. Many times the stock market price show unreasonable fluctuation.
6. The market shows comparatively small increment in volume of trade in response of high proportionate price change in stock.
7. The market seems to be susceptible of the price manipulation.
8. The growth in demand side of the market is growing much faster than the supply side, bringing in the chances of demand side inflation

1.3 Objectives of the Study

The main objective of study is to identify the existing condition, to address the problem and the prospects of Nepal stock market. It specially focuses on development and performance of the market. The following are the prime objectives of the research:

1. To evaluate the development trend and current position of stock market in Nepal.
2. To examine the performance of stock market.
3. To analysis the problems and prospects of Nepal Stock Market.
4. To suggest and recommend on the basis of the major finding.

1.4 Scope and Significance

Stock market recognizes the situation of country's economy. When stock market is booming the economy is good and when stock market is declining the economy is bad. It also represents the country's policy towards industry. Success of the business organization ensures the prosperity of the country.

The effort of this research is significant because it tries to address the felt problems of the Nepalese stock market to overcome the political and security shocked depression. It is obvious that stock market could be the best alternative to reform and rehabilitate the economy. The study provides literature to further researchers in this area. This research will be useful to the university students who are curious to know the current status of Nepalese stock market, major problems faced by the stock market and its prospects for the development. The significance of this research could be expressed more concisely through the following points.

1. The true problems of stock market are located,
2. Identifies the technical hurdles and obstacles for the development and growth.
3. Assesses the performance.
4. Suggests suitable strategies for the solution of the problems and betterment of the sector.

1.5 Limitations of the Study

This research will be base on both the descriptive as well as empirical statistical and mathematical approach of analysis. Every study will not free form some obstacles. So the research study has also obtained some limitations, which are given below.

1. The research is based upon the secondary data provided by Nepal Stock Exchange, economy survey published by ministry of finance and different publications of NRB, thus the data are not verified.

2. The study is limited only to the stock market and its performance, problem and prospects.
3. The study was completed within the short span of time and covers 7 year (2000 to 2007) data to study.
4. The truth of the research result is based upon the available data from the NEPSE and others
5. The study has not covered the recent changes due to time constraint.

1.6 Plan to the Work

An entire research has been divided into five chapters. The first chapters includes the intrudutory chapters. It will include the introductory framework of the study that contains general background, statement of the problem, objectives, significance of the study and limitations of the study.

The second chapter includes the Review of literature chapter. It will include the review of previous research on the same field, books journal and unpublished thesis.

The third chapter includes the research methodology chapter. It will include the research design, population and sample, sources of data, data collection procedure, tools for analysis, methods of analysis and presentation.

The fourth chapter includes the data presentation and analysis chapter.

This chapter will concern with the application of defined research method on the collected data and information. The generated results after the application of research method on data will be analyzed and interpreted in this chapter.

Finally the fifth chapter includes Summary, Conclusion and Recommendation. This chapter will summarize the finding of all the analyses and present the concluding remarks with a suggestive package as recommendation.

CHAPTER- II

REVIEW OF LITERATURE

In this chapter, an attempt is made to review of literature concerning the stock market in Nepal. The chapter deals with the review relating to the topic “An overview analysis of stock market” reference with position, performance, problem and prospects of stock market, In detail various books, journals, articles, and some previous research work to this topic have been reviewed. The relevant literature and articles were reviewed from international and national publication as well as non published report available from different libraries and institutions. Since, the research topics were comparatively new and the research paper and the article direct related to this topic were not easily reviewed in the context of Nepalese stock market as well as international stock market.

2.1 Conceptual Review

2.1.1 Financial Market

The financial system is an important element of modern economy. The resources are exchange through financial system. A country financial system may be bank dominated or market oriented. Each of this system has different mechanisms for handling stake holder’s interest and addressing corporate control issues and agency problems. Financial system helps in the payment goods, services, and productive inputs. Similarly, it helps to manage fund efficiently and use them. Financial system consists of financial institutions, financial markets and financial instatement. Financial intermediaries are organization that issue financial claims

against themselves and use the proceeds from this issuance to purchase primary and financial assets of other. Financial claims simply represent the right hand side of balance sheet for any organization so the key distinction between financial intermediaries and other types of organization involves what is on the left hand side of the balance sheet. Financial intermediaries provide an indirect method for corporation to acquire funds. Financial institutions are said to be the bridge between the savers and users. They also collect scattered deposits and give loans to maximize their wealth. Financial institutions actively participate in the money market and the capital market, as both suppliers and demanders of funds. Financial intermediaries include, saving and loan associations, saving banks, credit unions, life insurance companies, mutual funds, pension fund etc.

Financial market denotes the place or mechanisms where financial instruments are traded. Financial instruments denote also paper evidence, showing the exchange of instruments between concerned parties. A financial market is a place where firms and individuals enter into contracts to sell or buy specific products, such as stocks bond on features contracts. This market provides a meeting place for buyers and sellers where price is determine. In a broad sense, financial institutions include all the institutions engaged in the business of financial intermediation between depositors and borrowers.

Financial market can be defined as a mechanism for bringing together buyers and sellers of financial assets. In order to facilitate trading one of its main function in discovery that is, to cause security prices to reflect currently available information, the more quickly and accurately price discovery is achieved, the more information, the more quickly and accurately price discovery is achieved,

the more efficiently financial markets will direct capital to its most productive opportunities, thereby lending to greater improvement in public welfare. Secondary security markets involve the trading of financial assets that were issued at some previous point of time. Financial markets are mechanisms created to facilitate the exchange of financial assets. They are of two types- money and capital market, the former deals on short term and the later on long-term. The major participants of financial markets are savers (investors) and borrowers (users) of funds. They are involved in the purchase and sale of securities and are supported by mediators and facilitators. Individuals, corporate bodies, non profit organization and government are the participants in these transactions of buy and sale of financial assets. The mismatch between the saving and investment of these participants is the central reason for the existence of financial market itself. The importance of security market are to be mobilize saving, to attract foreign capital, to promote long term investment and to increases quality of investment.

2.1.1.1 Securities

Simply stated a security is a legal document that shows an ownership interest. In other words, security is a piece of paper evidencing the investors' right to the asset. It is the legal representation of the right to receive prospective future benefits under stated condition and to acquire or sell ownership interest. Share, bond, preferred stock, Treasury bill, commercial paper etc are the examples of securities.

2.1.1.2 Security Market

Securities market is a place where people buy and sell financial instruments. It provides a market place for buying and selling listed securities. In Nepalese context, it is mandatory to register the portion of securities issued to the public with the security board of Nepal (SEBON). Then the firms are eligible to issue the registered the portion of securities through recognized bodies. The recognized bodies mean those who have received certificate from SEBON to act as issuing house and security promoter to get membership from security exchange market. Security market exists in order to bring together buyer and sellers of securities, meaning that they are mechanisms created to facilitate the exchange assets. There are various ways of categorization of security market. One way, primary market and secondary market on the basis of economy function. The market through which the funds are transferred from savers to investors is called primary market. The transaction of securities issued for the first time takes place in the primary market. The market where the existing and pre developed securities are bought and sold is called secondary market. Secondary market provides liquidity to the purchases of the securities.

Another way money market and capital market on the basis of life span of financial assets. Money market refers to that financial market in which securities with a short term (one year or less) and highly liquid debt securities are traded. Capital market refers to the financial market in which long term (more than one year) securities are traded.

Securities market provides an effective way of raising money for commercial enterprises and at the same time provides an investment opportunity for individuals and institutions. Securities markets have both theoretical and practical perspectives. Securities markets provide value and significances to the financial assets. Practically, the activities of buying and selling securities on the security markets are extremely important for the allocation of capital within economics the securities market serves as a reliable guide to the performance of companies and thereby promoting efficiency.

2.1.1.3 Capital Market

Capital markets, which deal with securities such as stocks and bonds, are associated with financial resource mobilization on a long term basis. By raising capital directly from the public, they lower the cost of capital. Capital markets also allow for wider ownership among the public, thereby distributing risks and wealth amongst smaller investors. For investors, they provide an effective vehicle for making investment choices which suit their own preferences of risk and returns based on available information. As such, capital markets help the economy to generate more savings and productive investments. A basic feature of an efficient capital market is constant liquidity, i.e., an easy mechanism for entry and exit by investors. This requires sufficient volume and size of transactions in the market.

On the basis of economic function capital market is classified as follows.

2.1.1.4 Primary Market

The market through which the funds are transferred from savers to investors is called primary market. Hence the transaction of securities issued for the first time takes place in the primary market. They are the media through the demanders and suppliers of today's funds, the creators and acceptors of financial claims meet. It is a market for direct issuances of government securities. The primary market of country is dominated by the government securities due to the existence of insignificant new issues market for industrial securities.

The market consists of investor or buyer, dealer and broker and doesn't reflect a physical location. The participants are regulated by formal rules for originating financial securities. Primary market in which public issues of securities are made through prospects is a retail market and is reached through direct mailing in the primary market, new issues of equity and debt are arranged in the forms of new floatation, either publicly or privately or in the forms of a right offer of existing shareholders. Companies raise new cash in exchange for financial claims. The financial claims may take the forms of share and debentures. The transaction in capital market results in capital formation.

2.1.1.5 Secondary Market

Secondary market is a place where the securities once sold are purchased and repurchased to provide liquidity to the government securities. In Nepal, the secondary market is very thin because of limited distributors of the securities. NEPSE is established in order to promote the market used to support the market

even involving itself buying and selling activities if necessary. So secondary market are the where many outstanding assets are traded from old to new owners.

Secondary market allows outstanding securities to be traded form old to new owner. The advantage of secondary market is to provide cash and investment opportunities to investor and to make certain assets more attractive to buyers and sellers. Secondary market comprises the stock exchange, the over the counter market. In conclusion, secondary market is a place where once securities purchased and sold to provide liquidity to the government securities and the market is operated by the securities exchange center. The trading of government securities is very thin because of limited distributors of the securities.

Primary market versus secondary market

Basis	Primary Market	Secondary market
Nature of securities	The new securities are traded in the primary market	The second hand securities are traded In the secondary market
Objectives	The main function of the primary market is to make the financial capital available to make new investment in building equipment, and stock of necessary goods.	The main function of secondary market is to provide liquidity to the purchase of securities
Risk	Buying security in primary market is risk	Buying securities in secondary market is less risky
Transactions	The transactions are	The transactions are more

	less in primary market	in secondary market
Role	The investment bankers perform the role of an expert in issuing new securities	The bankers perform the role for the trading securities in the secondary market
Fund transfer	Fund transfer from savers to demanders (issuers)	Fund transfer from seller to buyer of the securities
Importance to financial manager	Primary market is less important to financial manager	Secondary market is more important to financial manager

2.1.1.5.1 Types of Secondary Market

The secondary market are divided in four types, they are:

i) Organized securities Exchanges

Organized securities exchange are the physical locations where trading of securities is done under a set of rules and regulations. Company has to register the share in this place. Without Registration Company share cannot be buy or sell. Company has to pay certain fee and renew share each year following certain rules and regulation. Investors usually purchase securities in the secondary market by calling securities brokers. In the secondary market investors buy and sell securities themselves, the issuer never gets any cash flow from the trades. Nepal stock exchange (NEPSE) is an example of organized stock exchange and this is the only stock exchange in Nepal. Similarly, the New York stock Exchange (NYSE), Bombay stock Exchange (BSE) is the examples of organized

stock exchange. After an account has been opened, the broker relays the investor's order to a dealer that handles that security.

Securities exchange Buy Law, 2053 has categorized the listing of securities in two types. They are temporary listing and permanent listing. If the securities are issued for certain periods and issuers have promised to refund the amount invested in securities after the period is over, such securities will be listed for such periods. This type of listing is called temporary listing. The securities of perpetual nature are listed under permanently type of listing. The securities like common stocks, preferred stocks and debentures, closed end funds will be listed permanently.

The organized securities exchange are tangible physical entities. Each of the larger ones once occupied its own building, has specifically designated members, and has an elected governing body- its board of governors. Members are said to have "seats" on the exchange, although everybody stands up. These seats, which are bought and sold, give the holder the right to trade on the exchange (Weston & Brigham, 1997:78)

ii) Over the Counter Market (OTC)

The over the counter (OTC) exchange is not an organization but an intangible market for the purchasers and sellers of securities not listed by the organized exchanges. It is not a formal exchange like organized stock exchange stock exchange. It neither requires membership for trading of securities nor listing of

securities for trading, meaning that formal listing of securities are not necessary in the OTC market. The broker- dealers who engage in OTC common stock trades are linked by a network of telephones and computer terminals through which they deal directly with one another and with customers. The prices at which securities are traded “over the counter” are determined by competitive bids and negotiation. The OTC, in addition to creating a resale market for outstanding securities, is a primary market in which new public issues are sold. Therefore, the OTC market competes with investment bankers and the organized exchanges because OTC dealers can operate in both the primary and secondary markets.

Securities with the following characteristics tend to be traded in the Over the counter market. Securities of companies with a small capitalization, securities of companies which owned by a few holders, securities of government and their subdivision, and securities which are purchased in large books (such as government securities) by banks, life insurance companies, and other large investors, securities listed in an organized exchange etc. OTC market is starting from 4 June 2008 in Nepal.

iii) Third Market

The third market refers to the trading of any securities that are listed on organized stock exchange in over the counter market. It is notable that trading hours in the third market is not fixed like organized stock exchange. The third market is made up of securities dealers making markets in anywhere one two a few hundred

securities. Thus, third market broker are market makers who are in direct competition with the specialist that make markets on the organized exchanges.

iv) Fourth Market

The fourth market refers to those institutional investors and wealthy investors who buy and sell securities directly from each other. Thus, fourth market participants completely bypass normal dealer services. Forth market is essentially a communication network among institutional investors that trade large blocks without the aid of a brokerage house. The fourth market maker is usually one individual or a few persons who communicate the buy- and sell desires of their client to block traders and thus facilitate directly negotiates sales. The fourth market organizer may collect a small commission or a flat annual fee for helping to arrange these large transactions.

2.1.2 Regulation of Securities Market in Nepal

Securities market in Nepal, till the recent past, had all the characteristics of an underdeveloped economy. It was characterized by the absences of profession promoters, underwriting agencies, market intermediaries, organized market, regulation bodies and rules and regulations. How ever, after the restoration of democracy in 1990, a trend toward an organized stock market can be marked with numerous developments in Nepalese securities market, removing its earlier deficiencies.

Securities board (SEBO) of Nepal is the supreme body to regulate the Nepalese securities markets. It was established on 26 may, 1993 under the provision of the securities Exchange Act, 1993. It has been regulating the market under the Securities Exchange Act, 2006. the objective of the board is to promote and protect the interest of investors by regulating the securities markets, not only these, to regulate, monitor, direct and coordinate the entire capital market is also the objective of the SEBON. SEBON works under the ministry of finance (MOF). SEBON regulates both primary and secondary markets. To regulate primary markets different acts and laws have been passed. The public issues activities through the primary market are regulate by the securities Exchange Act, 1983, the regulation and guidelines are made under the act as well as the company Act, 1997. 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 if mandatory to take services of an issue manager by the issuing companies. To regulate secondary markets as well as the members, different Acts like Member of Stock Exchange and Transaction Byelaws 1998, and securities Listing Byelaws 1996 have been passed, SEBON also monitors whether the activities carried out by the NEPSE are in accordance with the above laws or not. Similarly, SEBON regulates all the members of the secondary as well as primary markets like issue managers, stock brokers, dealers, market makers and corporations.

Securities Exchange Act 2040 is the main law to regulate the securities market in Nepal. But till now this act have been amended 3 times within the 13 year of its history. The third amendment took place recently. Under this act, securities

Exchange Regulation 2050 and membership of stock exchange and transaction by- laws, 2050 have been formulated and enforced. Recently both regulations as well as by- laws have been amended to suit the changing environment of the securities market.

Companies Act, 2021 have been replaced by new companies act, 2053 with a view to make simple transparency information, operation and administration of the companies. Various formats related with articles and Memorandum of Association, prospectus, application form for purchase of shares, balance sheet and profit and loss account have been prescribed. Securities investment Trust Act, 2053 have been formulated and enforced for the operation of trust funds as mutual fund and unit funds. Recently the Government of Nepal has issued three new Regulations, namely Securities Businessperson (Stock Broker, Dealer and Market Maker) Regulation-2007, Securities Board Regulation-2007 and Stock Exchange Licensing Regulation-2007. These Regulations which came into effect from 4 November 2007, among other things, paved the way for opening a new stock exchange, increase the number of stock brokers and reduce the brokerage commission.

2.1.3 Major Regulating Agencies

Three government agencies, Securities Board, Company Registrar's Office and Nepal Rastra Bank are involved in approving and registration of public issues. Though securities Board is the only regulatory body in securities market to supervise and regulate the overall functioning of the market, the functions

performed by other two agencies seems to be of duplication of works. Here, how all three bodies work in approving and registering the public issue are elaborated.

i) Securities Board

Securities Board is empowered by Securities Exchange Act 2040 for the development of capital market, protection of investor's interest, approval of stock exchange, regulation of market intermediaries, secondary and primary markets, mutual funds and conducting investment awareness programs for various interest groups.

When prospectus is submitted for the registration propose, the securities board betting and if disclosures in the prospectus are found then Board registers the securities to be issued in the public and grants permission on it.

ii) Nepal Rastra Bank

Nepal Rastra Bank, the central bank, approves prospectus when banks and finance companies propose public issue. It also gives permission to issue debentures in the public along with the approval on interest rate on debentures and bonds. Under NRB directive bank and finance companies are required to issue shares equivalent at least 30 and 40 percent in both situations if they have foreign joint venture stake.

iii) Company Register's Office

The company Registrar's office is the only agency where companies are registered. It monitors the operations of the companies and makes arrangements for winding up of the companies when required. Approval on the prospectus is granted by the company Registrar's office only. Before granting an approval it obtains the advices from the securities board and for banking and finance companies opinions/ advices on the prospectus in taken from Nepal Rastra Bank too.

iv) Nepal Stock Exchange

While issuing securities to the general public consent should be obtained from the NEPSE. For this the issuing companies and issue managers are required to submit the prospectus.

v) Insurance Board

When a public issue is made by an insurance company, the insurance board also performs the vetting of prospectus as it is done by Nepal Rastra Bank.

vi) Concerned Ministers of NG

The companies which are incorporated by special acts are required to get their prospectus approved from concerned ministers. For example, companies such as Nepal investment trust, Rastriya Beema Sansthan, Nepal industrial development

corporation are under the purview of the Ministry of industry and ministry of finance. Thus the prospectuses of these companies are required to be approved by the ministry of industry and ministry of finance instead of the company registrar's office.

2.1.4 Role of Stock Exchange

Stock Exchange is the market where second hand securities are bought and sold for investment or speculative purposes. It provides facilities for trading in listed securities. In recent year the role of stock exchange is being increasingly recognized by the authorities. The stock exchange as the market for securities gives everybody access to a number of different opportunities for as many buyers and sellers of securities as possible. From a general economic point of view, the stock exchange constitutes the core of the capital market. It has put its finger on the pulse of the economy and gives it diagnoses to the public in the form of quotation. Investment is the lifeblood of economic development. It is evident that stock exchange will continue to fulfill their vital function in the national economy. So long as the private enterprises exist, we know that the stock exchange is the place where stock and share are bought and sold.

The substantial competition in innumerable buyer and sellers determine the prices with a measure of accuracy that cannot be obtained in other unorganized market at such as the property market where activity is of a spasmodic nature.

The stock exchange is intricately interwoven in the fabric of the nation's economic life. The task of mobilizing and distribution of savings could be attempted in the old days by a much less specialized institution than the stock exchange. But as business and industry expanded and the economy assumed a more complex nature the needed for a permanent finance arouse. Investors wanted liquidity, the facility to convert their investment in to cash at any given time. The answer was a market for investments and thus was how the stock exchange cares into being this institution plays a notable role in the economic life of the country acting a free market for securities, where price are determined by the forces of supply and demand. The function of a stock exchange is not only to provide a market for securities but also in the raising of fund for government and industry. Thus, a free and active market in stock and share has become a prerequisite for the mobilization and distribution of nation's saving as to support modern business.(Mahat, 1981)

In this way, we can say that stock exchange have a vital role to play in helping industries to raise necessary finance. They have a supremacy function to perform in developing a stock capital and to enable government to raise loans. Their services are indispensable in the operation by the authority for the regulation of the countries credit play. It is generally thought that a stock exchange severs only those who have money to invest and securities to sell. This is an understatement for a stock exchange which benefits the whole community in many ways. By enabling producers to raise capacity it indirectly gives employment to millions of people and helps consumers to get goods needed by them.

2.1.5 Stock Market Development and Long –Term Growth

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

Despite its history of more than 25 years with respect to the above – mentioned observation, the equity market in Nepal has barely entered the first stage of development. Due to current political and economic instability, absence of growth oriented policies and weak regulatory framework of stock market has failed to gain investor's confidence. Unavailability of timely information and weak supervision and monitoring has made the stock market highly risky for general investors. Investors have not yet accepted investment in stock as an alternative to bank deposits and government securities except in the case of stock of some commercial banks (K.C. and Snowden 1997, 1083).

By encouraging and dissemination of information, stock markets reduce cost of mobilizing savings and facilitate investments. Well developed stock markets enhance efficiency of market for corporate control by mitigating the agency problems between the stockowners and managers. In countries where stock discipline is effective, firms tend to be more productive, thereby creating more wealth per unit of money invested (Diamond and Verrecchia 1982; 275)

Stock markets help expansion of economic activity by providing liquidity to financial assets traded in them. Investments in real assets require long –term commitment of capital, however, investors are reluctant to commit their investment less risky because they allow savers to buy and sell financial assets they hold cheaply and quickly and restructure their portfolios any time according to their risk- return preferences. At the same time firms enjoy permanent access to long term capital through equity issues. By making assets less risky and providing easy access to permanent source of capital, liquid stock markets improve allocation of resources, boost investment and enhance long term

economic growth by encouraging investor myopia. It is argued that such stock market may weaken investor's commitment to exert control because they prefer to sell the stocks of the misgoverned companies rather than to monitor and force managers to improve their performance. However, empirical studies suggest that greater stock market liquidity boosts and in many cases precede economic growth.

2.2 Review of Previous Studies

The review of the previous studies have been divided into three segments as international context, nepalese context, and review of masters' thesis.

2.2.1 International Context

A number of research studies have been done internationally on the stock market. Some has pleaded that the development of world capital markets appears to be reaching the stage where they can make significantly greater contribution to world economic growth and trade. More importantly, the ground work has been laid for healthy development and future growth of international capital market barring the international of war or other major disturbances, world capital markets gave promise of being able to play an increasingly important, through no predominant role in the movement of capital internationally.¹

¹ Paul M.; "The Review of International Capital Markets", The American Economic Review, 1996, p. 282

In connection with the necessary of capital market, capital market in India has that capital is an extremely fascinating subject. An efficient capital market is an indispensable pre- requisite to economic development. In fact, even as regards the resources the public sector, the capital market has a rather important role to play.²

The securities have generally been viewed as the principal investment vehicle, and traditionally texts in investment have focused on securities to the exclusion of the other investment alternatives. Securities are still the central focuses in the investment activity. In the same book he has given suggestion of the problem by quoting the problem facing the individual investor involves selecting those investments that meet his or her needs and preferences. The starting point in this process is determining the characteristics of the various investments and the matching them with the individual need and preference. In this way, an appropriate and suitable investment made.

The indicator of stock market reflects the development of an economy important to predict the course of national economy because economic activity affects the corporate profits, investor attitudes and expectations and ultimately securities price. The key for the analysis is that overall economic activity manifests itself in the behavior of stock price or the stock market. This linkage between economic activity and the stock market is critical.

The investors must receive more return from return from return from holding a security the planning the same amount of money in a saving account. The total

² Simha S.L., "The Capital Market in India." Journal, 1960, p. I

returns in holding stock must include the risk premium and inflation premium and inflation premium because in seeking returns that exceeds those available in saving account. There is risk associated with a holding a security. There are two types of risk in holding a security systematic and unsystematic risk.

The 1980s were an easy decade for fund managers. Both stock markets a commercial property investment provides high return by historical criteria. Whether or fund managers added value, stock investors obtained high return. The easy market condition of the 1980s did not continue into 1990 and investments returns in real terms during the 1990s are unlikely to match those of the 1980s. Fund managers have some protection because of advantage for investors of investing through institutions rather than by direct investments in the companies. However, some aspects of the operation of stock market seen inefficient and called for comments. These inefficient may, in part be a hangover from the regime of fixed commission when brokers competed providing fund managers with data and company analysis information about the companies is that their primary motivation is to get clients to buy or sell shares, and this might introduce a bias towards dwelling on the strong or weak points in a company record.

Stock market and their subsets, emerging growth stock, are well-managed companies operating in industries where earning and dividend are expected maintain there excepted to grow faster than inflation and overall economy. They are expected maintain their exceptional growth momentum through economic retractions as well as during economic prosperity. Growth stocks are not located in the traditional smokestack industries but in new and upcoming fields, such as

computer, telecommunications, healthcare and biotechnology. Major characteristics of growth stock include higher price earning ratios than the market average, substantial potential for above average long- term price appreciation, price volatility and correlation of capital to fuel growth, therefore little or no dividend pay –out in the early years.

There are two important aspects of capital market namely, the raising of funds in the form of shares and debentures and trading in the securities already issued by the companies. While first aspect is obviously is much more important from the point of view of economic growth, the second aspect is also of considerable importance. In fact, if facilities for transfer of existing securities are abundant, the raising of new capital is considered assisted for the buyer of new issue of securities are confident that whenever he wants to get cash he can find a buyer with out much difficulty. This aspect is called the liquidity of the stock market. Thus the liquidity of the stock market affects the raising the new capital from the market.

A senior economist, in the finance and private sector department division of World Bank's Policy Research Department, has mentioned in his article that stock market may affect the economic activity through the creation liquidity. Many profitable investments require a long- term commitment of capital, but investors are often reluctant to relinquish control of their savings from long period. Liquid equity markets make investments less risky and more attractive because they allow savers to acquire asset equity and to sell it quickly and cheaply if they need access to their savings or want to alter their portfolios. At the same time, companies enjoy the permanent access to capital raised through

issues. By facilitating long term, more profitable investments liquid markets improve the allocation of capital and enhanced the prospects for the long – term economic growth. Further, by making investment less risky, more profitable stock market liquidity can also lead to more investment.

Ross Levine shows that with taking example of 38 countries with more liquid stock markets in 1976 grew faster than those did economic with less liquid stock market in 1976 between 1976 and 1993. Stock market liquidity helps to forecast economic growth. He has used three measures of stock market liquidity verses value- traded ratio, turnover and the value trade ratio divided by stock price volatility. The study has revealed that country that has more liquid stock market in 1976 enjoyed both faster rates of capital formation and greater productivity over the next 18 years, because liquid stock markets encourage more investment.

2.2.2 Nepalese Context

No specific research studies have been available regarding the growth of stock market, its problem and potentials and its impact on economic growth in Nepalese context. However, some articles, books, previous research work, which are related stock market, are consulted and reviewed. Equity market has shown impressing recovery from sharp falls in 1994 with the effect till 2007. At present, it has been performing more strongly than in the earlier year.

The improvement in the equity market has been attributed to various factors including good prospect of corporate earning and wider household participants in

the stock market. Investors not only rely on the statement of brokers, but they also have a concern over the financial information of the concerned company. Therefore, the share of the companies with better prospect of dividend capital increment and growth have normally highest price in stock market. At present, stock market in Nepal has witnessed its strength surprisingly, and this has raised hopes for sustained growth of corporate undertakings. Stock market in Nepal has been growing gradually both in terms of turnover as well as the capital investment.

Dr. R. S. Mahat's book is very valuable for the purpose of analyzing the capital market in Nepal. In his book, "capital markets, financial flows and industrial finance in Nepal" he has highlighted the problems of industrial finance in Nepal on the light of the development of capital market and institutional sources in the country. In his words, the problem facing in underdeveloped economy is quite different. The nature of the problem is both quantitative and qualitative. The risk associated with long investment becomes even greater due to changing political and economic policies in most of the underdeveloped economics and the reluctance of banks to provide loan for long term risky ventures. All these factors very well explain the reason behind the larger flow of savings in IDEs towards up productive channels. The availability of industrial securities is nearly absent. The development of financial institution that links the surplus spending units with the deficit spending ones is in the rudimentary stage. Commenting towards the demand and supply problems in the Nepalese securities market.³

³ Mahat R. S. Capital markets, financial flows and industrial Finance in Nepal, 1982,p.28

Prof. Dr. Manohar Krishna Shrestha conducted another study in the title of “Shareholder’s Democracy and Annual General Meeting Feedback, 1992”. This study critically analyzed the situation of common stock investors and the situation is not improved significantly until now.

The size of the shareholder population in Nepal has been growing constantly; the government seems to have not taken initiative in formulation a separate act regarding the protection of shareholders right is questioned. Company and other acts relating to financial and industrial sector have provisioned right of the shareholders as:

- 1) Voting right.
- 2) Participation in general meeting.
- 3) right of getting of information.
- 4) Electing as board of director.
- 5) Participation in the profit and loss of the company.
- 6) Transferring shares.
- 7) Proxy representation.

The collective rights of the shareholders are:

- 1) Amend the internal bylaws.
- 2) Authorized the sales of assets.
- 3) Enter into merger.
- 4) Change amount of authorized capital.

He added further that “Success of companies directly depends on the protection of their owners”. But now can this be accomplished is main question. Thus, it is necessary to develop guidance for enhancing the efficiencies for the public limited companies to contribute directly in growth of national economy on one hand and ensuring handsome return to the shareholders on the other hand to make their investment meaningful and worthwhile. The encouraging and growing confidence of shareholders over their investment seek an independent inquiry of disclosed contents of prospectus. This helps to satisfy a minimum standard of faith on investment in shares through relying on pros and cons of prospectus. It is, therefore important to disclose everything in prospectus which could reasonably influence the mind of the prudent investors. Various annual general meeting by different public limited companies reveal annual general meeting by different public limited companies reveal greater gap between disclosures made in the prospectus and the actual results. In this context the expression of discloser philosophies and investigation of funds in prospectus need to be reconciled to check the growing problem in the development of the market in Nepal.⁴

2.2.3 Review of Masters Thesis

Anjani Raj Bhattari (1990) has carried out on “Share market in Nepal”. In which, he emphasized the historical background and the analysis of various financial variables affecting the smooth operation of share market. This study was mainly based on secondary data obtained from various sources. He has applied both financial and statistical tools in the study. He found that out of 12 sample

⁴ Manohar Krishna Shrestha, Shareholders Democracy and annual General Meeting Feedback, Portfolio Analysis Nepal Publications, Kathmandu, 1992, p. 17

companies 2 companies were useful to cross over the average price- earning ratio, as a result, market price of shares were highly skewed. Moreover, there was mismatch between calculated and quoted price. However, he concluded that the involvement of more and more institutions as well as individual investors in capital market through broker's network raised the transaction volume. Rumors spread by brokers and create real speculation. Fair plays of bulls and bears make market equilibrium resulting price stabilization speculation on the trading of shares is encouraged. Thus, the market starts to walk randomly reflecting true value of shares. Investors are facilitated by providing alternatives to make diversified portfolio.

Bhatta Gopal Prasad (1996) in his thesis paper "Assessment of the performance of listed companies in Nepal" concludes that a highly significant positive correlation has been addresses between risk and return chapter of the company. Investors expect higher return form that stock, which associates higher risk. Nepalese capital market is not efficient one. Os the stock price does not contain all the information relating to market and company itself. Neither investors analyze the overall relevant information of the stocks nor does the member of stock exchange try to disseminate the information. So the market return and risk both may not show high priced stocks. In the addition, Bhatta further addressed that "investors of Nepal have not yet practiced to invest in portfolio of securities". An analysis of the two securities portfolio shows that the risk can be totally minimizes if the correlation is perfectly positive correlation ship between the returns of the two securities the risk is not diversified.

To some extent he focused in the analysis of risk and return in common stock investment. But due to many other aspects to analysis investor cannot easily assess the results. Indeed, study did not focus the viewpoint of investors rather it concentrated the companies and stock market. However, this study also explores some dimension for further research in his topic.

Mohan Khatiwada (1996) in his thesis paper “A study on securities investment in Nepal” concludes that, leaving some exceptional cases aside, almost all the companies experienced their market price going down by less than fifty percent in 1995. Even the banking group could not spare the share price going down more specifically, the year 1995, was a disheartening period for the stock price. It is because, almost all the companies share price during the year were down even in some cases below the face value. Through the study conducted by Khatiwada did not focus the analysis of individual security and the viewpoint of investors, it explores some dimension to further research in this aspect.

Bharat Prasad Bhatta (1997) in his study on “Dynamic of stock market in Nepal”, with the main objective to analyze the trend of the Nepalese stock market. From the study, concluded that the main 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 investable resources to finance the long- term large projects in the economy. The stock market therefore can be regarded as 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. Management capability of the entrepreneur is a key for better performance of the firms. Government should

launch programs to enhance management capability of the entrepreneur, which may contribute to raise the return from the investment. Although it has late to take steps to overcome such problems of the Nepalese stock market in order to make it active and supportive, the stock market has good prospect for the resources mobilization to finance the productive enterprises in the Nepalese economy.

Rekha Pant(2000) has analyzed in her thesis “Current Status and Problems of Stock Market in Nepal” with an objective to analysis the problems and trends of present state of Nepal Stock Market and suggest measures for the improvement of stock market. The researcher mostly used secondary data collected from books, company Act, official records of the NEPSE, securities listings By-laws, Act, Government publication etc. she found in her study that the development of stock market primarily depends on the government policies and program and their proper implementation. So, government should develop an appropriate policy framework to increase the demand for supply of securities. She also found that there is a lack of investor’s confidence in the stock market since many listed companies do not trade on a regular basis or hold AGM and provide disclosure information to the investors on a timely basis. Beside this, there is a general lack of investor’s awareness about the listed companies.

Pranima Pandey (2000) in her thesis, “Risk and return analysis of common stock investment” concludes that among all the securities common stock is known to be the most risky security. Higher the risk, higher will be the return. Most of the investors are attracted to common stock security because of its higher expected return. As for the investor, it is important to analyze each investment, comparing

to potential returns with the risk. On average the potential returns from an investment should compensate for the level for risk undertaken. If proper allocation of assets is performed, it can reduce risk and can even be eliminated if will diversified. Through this study conducted by Pramina Pandey did not focus on the diversification of risk through the proper allocation.

2.3 Research Gap

Finally, no comprehensive research has been conducted in relation to the development of stock market in Nepal, major problems faced by Nepalese stock market and prospect of future growth. Thus, the stock market further requires timely research to explore details of the position, performance, problem and prospect of stock market in Nepal.

In previous study the researcher has used statistical tools like correlation, CAPM, standard deviation, to identify the Growth, problem and prospect of Nepalese stock market. But in this study diagram and graph hypothesis test used as statistical tools. The earlier studies are conducted when the organized stock market was at the initial stage without necessary information and the data are also up to year 2004/05. But this study is based on the current data of the year 2000/2001 to 2006/2007. The number of question and respondents are also large in comparison to the other study for each choice for stock broker, investors and experts. So, that more information is gained.

CHAPTER III

RESEARCH METHODOLOGY

Introduction

In this chapter we deal mainly the method, which are used in the period of research and it also considers the logics behind the method, which are used to in the context of our research study. Research design, sources of data, uses of statistical tools, data gathering procedure, population and samples, research variable and data collection technique and tools are basically explained in to this chapter.

Research means to search the problems again to find out something more about the problems. We study the social problem again and again to find out the something more about the phenomenon. The first look may no be adequate. It prone to error, we enter in to the subject matter again and again study the problems differently and thoroughly each time. This process is called research. Research is a systematic and organized effort to instigate a specific problem that needs a solution.

Methodology refers the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind it. Thus, research methodology is a way to systematically solve the research problem, what we are doing at present.⁵

⁵ Howard K. Wolf and PR Pant. Social Science Research and Thesis Writing. (2nd 1999) p.203

To draw inferences on the market position, performance of stock market and its problem and prospects, different measures have been used while collecting and interpreting relevant data, facts and figures with a view to systematic data collection and data interpretation. Sample statistical tools (not so sophisticated) have been used to finish this research work, which represent the explanatory and descriptive analysis of the relevant information and data. Both descriptive and analytical type of research is employed to fulfill the objective of research work. A descriptive analysis is used because the secondary data have been used to analyze the variables, which is related to “current status of Nepalese stock market and problems faced by it in the country. Primary sources of data as questionnaire, interviews to relate to higher officials are used to show the current status, growth trend of stock market, stock’s market contribution to the development of economy of the country and major problems and prospects of stock market in Nepal.

3.1 Research Design

Selltiz (1962) “A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economic in procedure”.

The research design is an organized approach and not a collection of loose unlead parts. It is an integrated system that guides the researcher in formulating, implementing and controlling the study. Useful research design can produce the answer to the proposed research questions. The research design is thus an integrated frame that guides the researchers in planning and executing

the research works. A research design is the arrangement of conditions for collections and analysis of data in a manner that aims to combine relevance to the research purpose with economic in procedure.

The historical and descriptive research design will be adopted in this study. As the title of the study comments the descriptive analysis of stock market, the study has no bearing on the exploratory, experimental survey or experimental approach to the research. It deals with the security market on the basis of available information.

3.2 Population and Sample

The total variable is simply called population. The process of selecting the sample out of the population is called sampling. Nepal has only one Stock Market (NEPSE), so NEPSE is use in population as well as sample size.

3.3 Nature and Sources of Data

The main data for the study will be collected from primary as well as secondary sources. Primary sources of data are mainly based on interviews and questionnaires and secondary data are mainly based on booklet, annual report of security board of Nepal, government publications, Nepal Rastra Bank and other related articles published through the office of the SEBON and website of it. Most of the data were taken from trading reports of NEPSE and these reports were collected in the floor of the SEBO/N office.

3.4 Data Collection Technique

The research contains of both primary as well as secondary data. Since the nature of these two data is different, the data collection procedure also varies. To collect the secondary data, published materials are viewed in various spots, books by different authors, unpublished thesis reports, journals, internet web sites, online library, AGM reports of listed companies, NEPSE, SEBON etc. To collect these secondary data, the researchers visited campus library of NCC, TU central library, SEBON library. As so far the primary data the questionnaire with financial and non financial expertise were done. Informal discussion and interview with stock broker, investors, finance teachers and experts to collect the view for different perspective.

3.5 Data Processing

Data so obtained have no meaning unless they are arranged and presented in a systematic way. Data processing technique is one of the most important parts of the research study. The researcher should adopt that data processing technique to process the information and data which is suitable and feasible according to nature and objects of the research study. The available information and data should be present in different way, which can easily be understood by the general public. In this study, the required available data and information are shown in figures. The computation has been done with the help of calculator and computer.

3.6 Analysis of Data

Analysis is the careful study of available facts so that one can understand and draw conclusion from them on the basis of established principles and sound logic. This study is mostly based on the analysis of secondary and primary data with the help of different statistical tools like tabulation, diagrammatic presentation and chi-square test which is best to applicable. The empirical result has been extracted in this study by using annual data of SEBON and NEPSE from 2000/2001 to 2006/07.

3.7 Tools of Data Analysis

This study is based on primary as well as secondary sources of data for showing position, performance, problems and prospect of security market in Nepal. The primary sources of data used are interviews and questionnaire but the secondary sources of data used are trading report publish by security exchange center, booklet publish by other related agencies like security exchange board of Nepal, ministry of finance. To draw the conclusion by analyzing the collected data simple statistical tool are used as follows:

3.7.1 Diagrams and Graphs

Diagrams and graphs are visual aids which give a bird's eye of a set of numerical data which show the information in a way that enables us to make comparison between two or more than sets of data.

3.7.2 Chi- Square Test Statistics

Chi- square test is a non- parametric test because it depends only on the set of observed not expected frequencies and degree of freedom. Since chi- square test does not make any assumption about population parameters, it is also called a distribution free test. Chi- square test is a test, which describes the magnitude of difference between observe frequencies and expected frequencies under certain assumptions. It is used only selected question which is best for apply.

3.8 Method of Analysis and Presentation

Method of analysis will be applied as simple as possible. Every resource will be given simultaneously. Detail calculations, which can't show in the body part of report, will be presented in appendix tables at the end of report. To make report simpler and easily understandable charts, diagrams and graphs will be used.

CHAPTER- IV

PRESENTATION AND ANALYSIS OF DATA

This chapter is the main body part of this study. The data, both primary and secondary, are collected in unprocessed form. Such collected data are presented in systematic formats and analyzed using different appropriate tools and techniques. In addition to that, the relationship of the variables is presented in graphs and figures. The analysis of data consists of organizing, tabulating and performing statistical analysis. In this chapter the secondary as well as primary data, collected from different sources, are presented in an understandable presentation and analyzed separately using both qualitative and quantitative measures whichever are appropriate.

4.1 Presentation and Analysis of Secondary Data

As the purpose of the study is to an overview analysis of Nepal stock market in terms of positions, performances, problems and future prospects, various information available from SEBON, Economic Survey, and different articles have been used as a source of secondary data.

4.1.1 Analysis of Development Trend and Current Position of NEPSE

In order to analyse the development trend and current position of NEPSE, the researcher has conducted the trend analysis of listed companies, traded companys

and share traded. The study has also conducted the sector wise turnover of listed companies, market capitalization.

4.1.1.1 Analysis of Listed Companies of Nepal Stock Market

Table 4.1
Listed Company

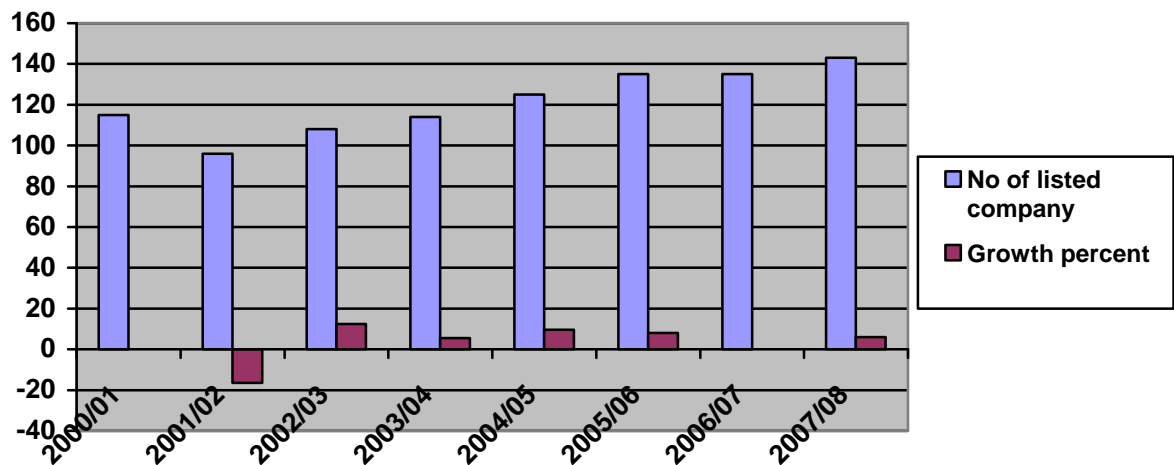
Fiscal Year	No of Listed Company	Growth Percent
2000/01	115	-
2001/02	96	-16.52
2002/03	108	12.5
2003/04	114	5.55
2004/05	125	9.65
2005/06	135	8
2006/07	135	0
2007/08	143	5.92

Source: Annual Report, SEBO 2006/07

Number of listed companies were 115 in base year 2000/01, 96 in year 2001/02, 108 in year 2002/03, 114 in year 2003/04, 125 in year 2004/05, 135 in year 2005/06 135 in year 2006/07 and 143 in the year 2007/08.

Growth rate of listed companies is positive in all these years except in 2001/02 because of NEPSE deleted some companies from its list because of non-disclosure of necessary information correctly and timely. The growth rate was the highest in 2002/03 i.e. 12.5% and lowest in 2001/02 i.e. -16.52% which shows there is well performance of the Nepalese stock market despite of political and trading disturbances.

Fig 4.1
Number of Listed Company in NEPSE



4.1.1.2 Analysis of Traded Companies

Table 4.2
Traded Company

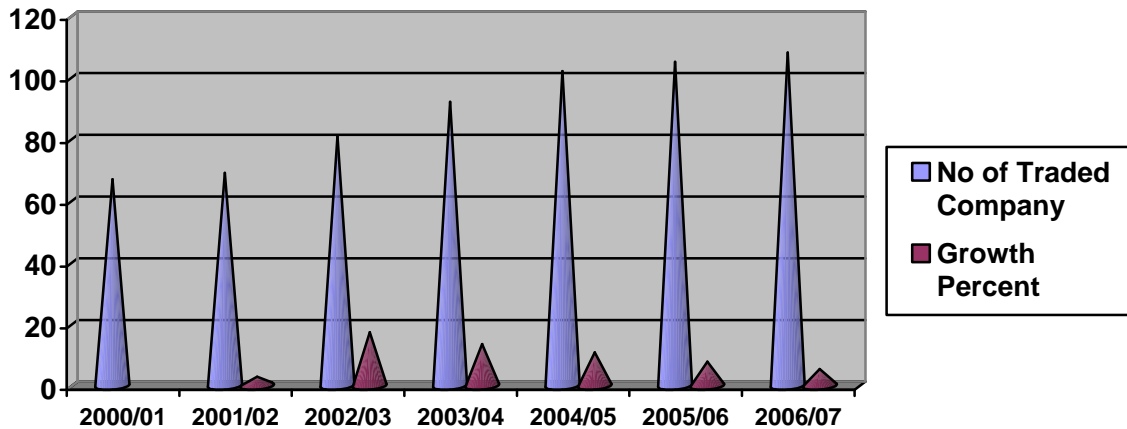
Fiscal Year	No of Traded Company	Growth Percent
2000/01	67	-
2001/02	69	2.985
2002/03	81	17.39
2003/04	92	13.58
2004/05	102	10.87
2005/06	110	7.84
2006/07	116	5.45

Source: Annual Report, SEBO 2006/07

Number of traded company was 67 in the base year 2000/01, 69 in year 2001/02, 81 in year 2002/03, 92 in year 2003/04, 102 in year 2004/05, 110 in year 2005/06 and 116 in year 2006/07.

These figures show that number of traded company were increasing trend. In 2000/01, 67 companies were traded in the floor and it grows simultaneously. This is shown that all listed companies were not traded in the trading floor. Table 4.2 shows that the no of traded company was increasing trend. It indicates that the no of traded company is increasing in good pace of growth.

Fig 4.2
NO of Traded Companies in NEPSE



4.1.1.3 Analysis of Share Traded in NEPSE

Table 4.3
Share Traded in NEPSE

fiscal Year	No of share traded (000)	Growth Percent
2000/01	4989.00	-
2001/02	6005.00	20.36
2002/03	2428.00	-59.57
2003/04	6468.00	166.39

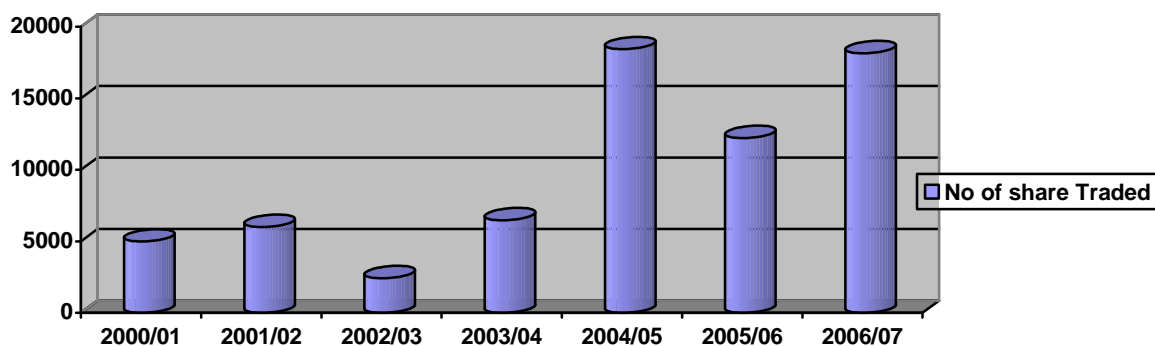
2004/05	18434.00	284.30
2005/06	12221.93	-33.69
2006/07	18147.25	48.48

Source: Annual Report, SEBO 2006/07

Number of shares traded in NEPSE was fluctuating. 4989 thousand share traded in NEPSE in the year 2000/01, 6005 thousand shares were traded in the year 2001/02, 2428 thousand shares were traded in the year 2002/03, 6468 thousand shares were traded in the year 2003/04, 18434 thousand were traded in the year 2004/05, 12221.93 thousand shares were traded in the year 2005/06 and 18147.25 thousand were shares were traded in the year 2006/07.

The growth rate of shares traded also seems varied only 4989 thousand share traded in the year 2000/01 where as 6005 thousand share were traded in the year 2001/02 i.e. 20.36 % increased in share traded. In the year 2002/03 the number of shares traded was declined by 59.57% due to market crash. In the year 2003/04, 2004/05 no of shares traded in increasing trend i.e. 166.39% and 284.30% simultaneously. In the year 2005/06 the no of share traded was declined by 33.69% due to market crash. In the last year the no of share traded ware again increase by 48.48%. This figure shows that the no share traded is fluctuating, increasing in high percentage and decreasing also high percentage. So it shows not good because of political instability and market sticks.

Fig 4.3
No of shares traded in NEPSE (000)



4.1.1.4 Sector Wise Annual Turnover

Annual turnover constitutes an important indicator for measuring the nation's economic activity. It also reflects the stock price market liquidity as higher the amount of trading of stock market size is the stock market liquidity.

Table 4.4
Sector Wise Annual Turnover (2006/07)

S.N.	Sector	Trading amount (Rs in million)	Percent
1.	Commercial Bank	5563.5	66.55
2.	Development Bank	577.5	6.91
3.	Finance Company	713.6	8.53
4.	Insurance Company	205.0	2.45
5.	Hotel	7.0	.0084
6.	Manufacturing & Processing Company	24.3	.29
7.	Trading Company	10.4	.12
8.	Other Company	1258.8	15.14
	Total	8360.1	100

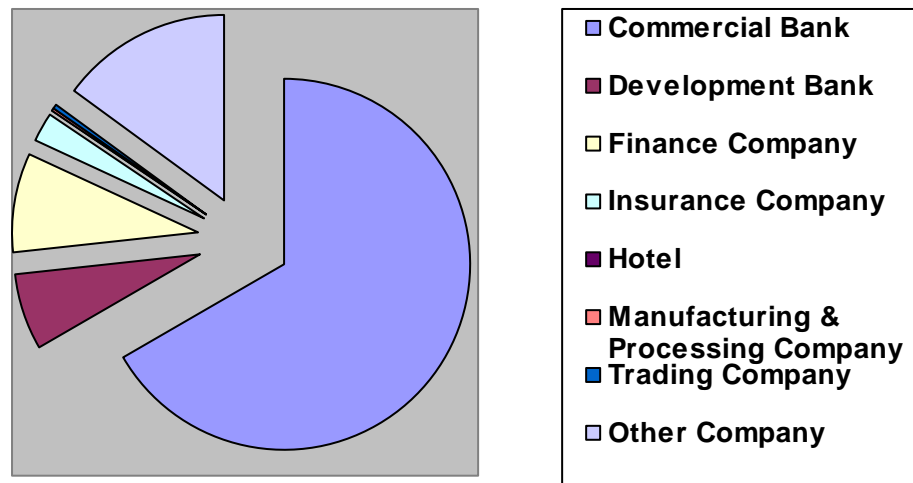
Source: Trading report of NEPSE

Table 4.4; show the sector wise annual turnover of NEPSE in the year 2006/07. It show that most of trading amount covered by commercial bank i.e. 66.55%.

Development bank cover only 6.91%, finance company covered 8.53%, insurance company covered 2.45%, hotel covered only least percent i.e. .0084%, manufacturing and processing company covered .29%, trading company covered .12% and other company covered 15.14%.

Commercial bank, in sector wise study, covered 66.55 percent of total trading amount. Share of commercial banks are found more liquid and satisfactory performance than other sectors. But the hotel sectors covered only .0084 percent of total trading amount with insignificant presence.

Fig 4.4
Annual Sector Wise Trading Amount



4.1.1.5 Analysis of Market Capitalization

Table 4.5
Market capitalization of NEPSE

Fiscal year	Market capitalization (In Rs million)	% increase in market	% of turnover to market
-------------	--	-------------------------	----------------------------

		capitalization	capitalization
2000/01	43123.3	-	2.68
2001/02	46349.4	7.48	5.06
2002/03	35240.4	-23.96	4.44
2003/04	41424.77	17.55	5.18
2004/05	61365.89	48.14	7.35
2005/06	96813.74	55.76	3.56
2006/07	186301.3	92.43	4.48

Source: Annual report of SEBON

The market capitalization is simply the number of share outstanding multiplied by the share price. From time to time, a “small stock effect” appears where small capitalization stocks provide a higher return than large capitalization stocks, holding other things constant. Presumably, small stocks provide less utility to the investor and require a higher return. Often the size variable is treated as the decline in which the company’s market capitalization faces relative to the market capitalization of the other companies.

Fig 4.5
Market capitalization (Rs in million)

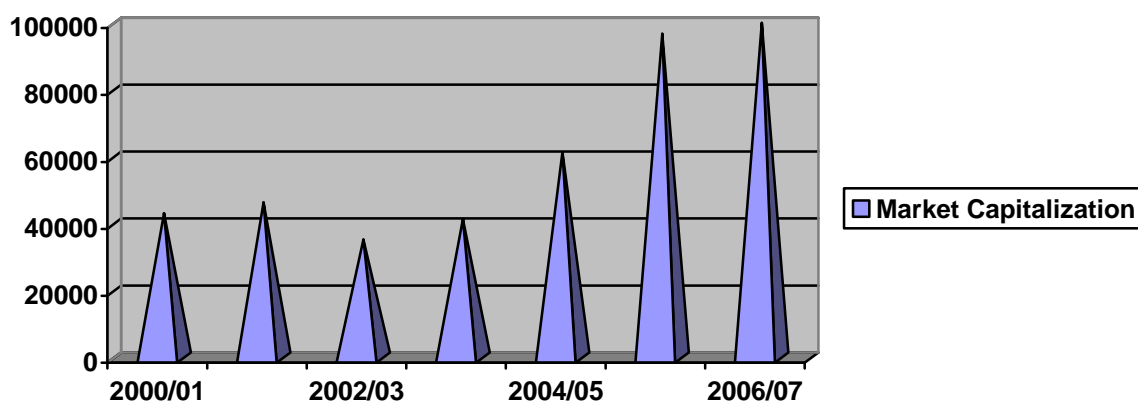
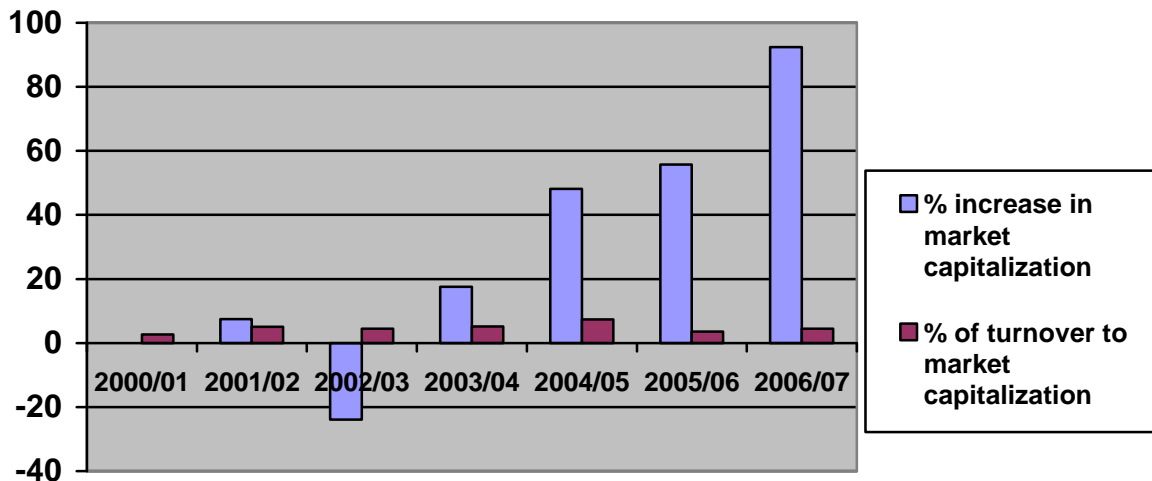


Figure 4.5 shows that the market capitalization is in increasing trend. During the fiscal year 2000/01, 2001/02 market capitalization is increasing gradually with Rs

43123.3 million, Rs 46349.4 million. Later in fiscal year 2002/03, there is decreasing in the amount of market capitalization which was recorded Rs 35240.4 million. It was due to the decrease in NEPSE index. The share of all companies dropped down drastically as a result of the market crash. Also, during the fiscal year 20001/02 NEPSE de-listed 25 companies. But in the fiscal year 2002/03 up to 2006/07 the market capitalization is increases. The market capitalization has now increasing gradually due to the listing of big companies. Percentage turn over on market capitalization in the year 2000/01 was 2.68 percent and 4.48 percent in the year 2006/07. lowest percent in the year was 2000/01 and highest percent in the year was 2006/07. All figures were shown in increase in positive trend.

Fig 4.6
% Increased in Market Capitalization & % of Turnover in Market Capitalization



4.1.2 Analysis of Performance of NEPSE

In order to analyse the performance of NEPSE, the researcher has conducted the trend analysis of NEPSE index, market capitalization vs. gross domestic product. The study has also conducted security market indicators and NEPSE index vs. gross domestic product.

4.1.2.1 Analysis of NEPSE Index

NEPSE index is the market worth value of all listed companies, which us the economic indicator that leads to the investor about the stock market trend so, the higher NEPSE index indicators the higher return in the stock market and lower NEPSE vice- versa. Stock exchange creates the investment opportunities in the primary as well as secondary market for the investors. In the secondary market, before investing the investors have to inform that the NEPSE index has its trend and fluctuation of market price of individual stock as will as in aggregate.

Table 4.6
The NEPSE Index

Fiscal Year	NEPSE Index	% change in NEPSE
2000/01	348.43	-
2001/02	227.54	-34.7
2002/03	204.86	-9.97
2003/04	222.04	8.39
2004/05	286.67	29.11
2005/06	386.83	34.94
2006/07	683.95	76.81

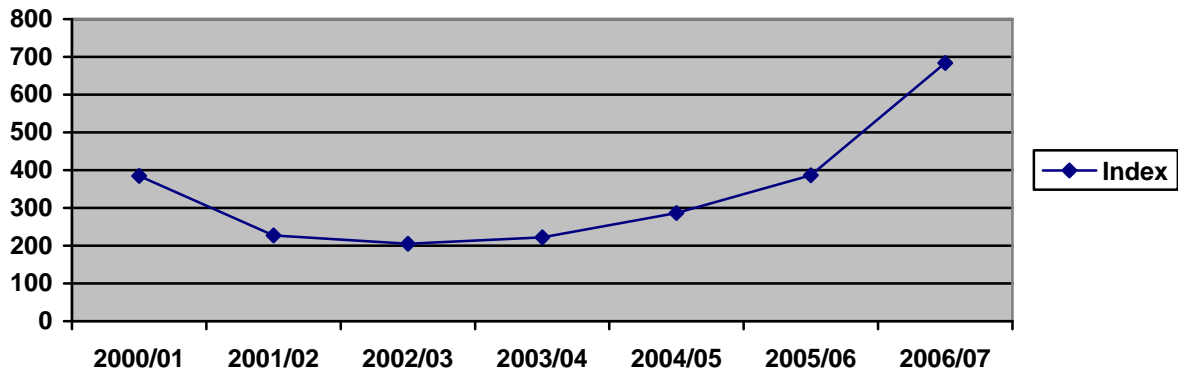
Source: Annual Report of NEPSE

From the figure 4.6, it is clear that NEPSE index base year i.e.2000/01 was 348.43 then after it was declined to 227.54 in 2001/02 and 204.86 in years 2002/03. The index shown in the year 2003/04 was 222.04, 286.67 in the year 2004/05, 386.83 in the year 2005/06 and 683.95 in the 2006/07.

Higher NEPSE index indicators the higher return in the stock market and lower NEPSE vice- versa. It can be seen that NEPSE index retarded up till 2003/04 that is it was in a declining trend. Reason beyond this decline is however is associated

with political and social issue of the nation rather than economic. Than the index is increasing trend till 2006/07. So the increase in NEPSE is good but could not be taken satisfactorily for the financial market of the country.

Fig 4.7
NEPSE Index



4.1.2.2 Analysis of Market Capitalization vs. Gross Domestic Product

Table 4.7
Market Capitalization vs. GDP

Fiscal Year	Market capitalization (Rs in million)	GDP (Rs in million)	% of market capitalization on nominal GDP
2000/01	43123.3	392532	11.78
2001/02	46349.4	410493	8.56
2002/03	35240.4	437546	8.09
2003/04	41424.77	474919	8.77
2004/05	61365.89	548485	12.77
2005/06	96813.74	603673	16.03
2006/07	186301.3	670589	27.78

Source: Annual Report, SEBO, 2006/07, Economic Survey

While year wise comparison of market capitalization on Nominal GDP, it seems in average figures. In the year 2000/01 market capitalization on nominal GDP was 11.78 percent, in the year 2001/02 market capitalization on nominal GDP was 8.56 percent, in the year 2002/03 was 8.09 percent, in the year 2003/04 was 8.77 percent, in the year 2004/05 was 12.77 percent, in the year 2005/06 was 16.03 percent and in the year 2006/07 it was 27.78 percent i.e. now there is increasing trend in it.

Market capitalization to GDP is a good indicator of the performance of stock market. It measures the proportionate contribution of the stock market to the national income. A Higher ratio is preferable and indicates a large contribution of the stock market in national income.

4.1.2.3 Analysis of NEPSE Index Vs Gross Domestic Product

**Table 4.8
NEPSE Index Vs GDP**

Fiscal Year	NEPSE Index	% Growth in NEPSE	GDP (Rs in million)	% Growth in GDP
2000/01	348.43	-	392532	-
2001/02	227.54	-34.7	410493	4.30
2002/03	204.86	-9.97	437546	6.59
2003/04	222.04	8.39	474919	8.54
2004/05	286.67	29.11	548485	7.10
2005/06	386.67	34.94	603673	10.06
2006/07	683.95	76.81	670589	11.08

Source: Annual Report, SEBO, 2006/07 Economic Survey

Table 4.9 shows that NEPSE index and GDP. The growth rate of NEPSE index was in negative in the year 2001/02 and 2002/03. This is because of the problem faced by Nepalese stock market. All the listed companies cannot do well except some commercial banks. In the year 2003/04 to year 2006/07 the NEPSE index is increasing trend and shows satisfactory. But on the side of GDP, it was in positive. Although the problems of political instability and weak law and order situation, the growth rate of GDP was however satisfactory.

In comparison with growth rate of NEPSE and growth rate of national GDP, growth rate of national GDP was better than growth rate of NEPSE index in the beginning four year but the last three year the growth of NEPSE index was better than growth rate of national GDP. In last three year the growth rate of NEPSE index is increasing in high ratio. But national GDP is increasing in low ratio.

4.1.2.3 Summarize Form of Securities Market Indicators

Table 4.9

**Securities Market Indicators
(Fiscal Year 2000/01 - 2006/07)**

(Rs. in Million)

Security market indicators	Fiscal year						
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Total No of public issue	9	12	18	14	14	29	34
Amount of public issue	410.5	1441.4	556.5	1027.50	1626.82	2443.28	2295.5
Total no of listed com.	115	96	108	114	125	135	135
Paid up value of listed securities	8165.2	9685.0	12560.07	13404.90	16771.84	20008.55	21798.8
No of listed security(000)	124971	122685	159958	161141	194673	227040	243504
Annual Turnover(Rs)	2344.2	1540.6	575.8	2144.27	4507.68	3451.43	8360.1
Market day	231	246	238	243	236	228	322
No of traded company	67	69	81	92	102	110	116
No of share traded (000)	4989	6005	2428	6468	18434	12221.43	8360.1
No of transaction	46095	42028	69163	85533	106246	97374	120510
Market capitalization	46349.4	34703.9	35240.4	41424.77	61365.89	96813.74	186301.3
% of turnover on market capitalization	5.06	4.44	1.63	5.18	7.35	3.56	4.48
% of market capitalization on nominal GDP	11.78	8.56	8.09	8.77	12.06	17.35	27.78

Source: Economic Surveys of Government of Nepal, SEBON Annual Reports and NEPSE Trading Reports.

Table 4.8 Shows that all the indicator of NEPSE, like total of public issue, amount of public issue, total no of listed company, paid up value of listed securities, no of listed securities, annual turnover, market day in a year, no of traded company, no of share traded, no of transaction, market capitalization, percent turnover of market capitalization, percent on market capitalization on nominal GDP. This picture shows all the indicator of NEPSE, this is summarizing form of NEPSE activity.

4.2 Presentation and Analysis of Primary Data

This research deals with the study of the opinions of respondent's in an overview analysis of stock market in terms of position, performance, problem and future prospects. The study is based on the finding of questionnaire survey among 60 respondents. The primary information was collected from the only one stock market NEPSE.

4.2.1 Questionnaire Analysis

Another method to analysis the primary data related to the topic is questionnaire method. Sixty copies of questionnaires were distributed to senior officials of SEBO, NEPSE, general investors, shares brokers, and lectures to express their views about the stock market. Cent percent of the questionnaire was collected during the study period. The questionnaire is related to find out the position, performance, problem and prospects of stock market. Their responses have been analyzed as follows:

1. Analysis of the Problem Faced by Stock Market.

Table 4.10

S.N.	Problem	No of respondent	% of respondent
A	in sufficient knowledge of investors about the stock market	25	41.66
B	Lack of investors confidence	15	25
C	Shortcoming on existing securities rules and regulation	10	16.66
D	Lack of co-ordination between Security Board and Nepal Rastra Bank	5	8.33
E	Restriction to foreign investors	5	8.33
Total		60	100

Source: Field Survey

Concerning this question, almost 41.66% respondents agrees about the in sufficient knowledge of investors about the stock market. 25 percent respondents agree about the lack of investor's confident. Actually Nepalese investors as well as stock market intermediates do not have sufficient knowledge about stock market.

2. Analysis of Points that Provide Prospects of Stock Market

Table 4.11

S.N.	Variables	No of respondent	% of respondent
A	Stock market provides maximum return	10	16.66
B	Solved the political problem and crises	16	26.66
C	liquidity and marketability of securities	18	30
D	increasing interest of educated public towards stock market	10	16.66
E	increasing number of large companies listed on Nepal stock exchange	6	10
Total		60	

Source: Field Survey

Regarding to the question, the highest 30 percent agree to on liquidity and marketability of securities, while other 16 percent agree to solve the political problem and the crises .Other 16 percents, 10 percents and 6 percents are divided into maximum return, growing concern in this sector and large company listed in NEPSE.

3. Analysis of Growth Trend of Nepalese Stock Market

Table 4.12

S.N.	Variables	No of respondent	% of respondent
A	Good	15	25
B	Bad	35	58.33
C	Do not know	10	16.67
Total		60	100

Source: Field Survey

Concerning this question, 25 percent agree that the growth trend of Nepalese stock market is good, 58.33 percent feels it bad and other 16.67 percent are unknown about it.

4. Analysis of Interrelation between Stock Market and Economy

Table 4.13

S.N.	Variables	No of respondent	% of respondent
A	High	25	41.67
B	Moderate	20	33.33
C	Low	15	25
Total		60	100

Source: Field Survey

Regarding this question, 41.67 percent agree towards high relationship between stock market and economy, 33.33 percent say it moderate and 25 percent rank it lowly correlated. Without doubt, we can say that stock market and economy is positively correlated i. e highly related each other.

5. Analysis of Performance of Stock Market for the Development of the Economy

Table 4.14

S.N.	Variables	No of respondent	% of respondent
A	Yes	28	46.67
B	No	22	36.66
C	Do not know	10	16.67
Total		60	100

Source: Field Survey

In response to this question, 46.67 percent are satisfied with the performance of stock market for the development of the economy, 36.66 percent are not and other 16.67 percent do not know about it.

6. Analysis of Information Provided by NEPSE and SEBO Correctly and Timely

Table 4.15

S.N.	Variables	No of respondent	% of respondent
A	Yes	8	13.33
B	No	48	80
C	Do not know	4	6.67
Total		60	100

Source: Field Survey

Regarding this question, 80 percent of the respondents are of the view that the information provided by NEPSE and SEBO are not correctly and timely.

7. Analysis of Important Role to Increase the Investment in Stock Market

Table 4.16

S.N.	Variables	No of respondent	% of respondent
A	Government	20	33.33
B	Investor	10	16.67
C	SEBO	12	20
D	NEPSE	12	20
E	Stockbrokers	6	10
Total		60	100

Source: Field survey

Regarding this question, 33.33 percent of the respondents are of the view that government can play important role to increase the investment in the stock market, 20 percent respondents are say SEBO and NEPSE can important role, than other say investor and stockbroker can important role to increase the investment in the stock market.

8. Analysis of Disclosure Requirements

Table 4.17

S.N.	Variables	No of respondent	% of respondent
A	The office of the company register	25	41.67
B	Security Board Nepal	15	25
C	Nepal Stock Exchange	5	8.33
D	Investors/ Brokers	5	8.33
E	Particular company	10	16.67
Total		60	100

Source: Field Survey

Concerning this question, 41.67 percent of respondent are of the opinion that company registrar office is responsible for not presenting the financial statement of the particular company to SEBO and NEPSE. 25 percent blame it to SEBO, 8.33 percent NEPSE and investor/ brokers and other to the particular company.

9. Analysis of Share Purchase Decision

Table 4.18

S.N.	Variables	No of respondent	% of respondent
A	Consults a broker	3	5
B	Act on whim	10	16.67
C	Analyzes the company's management	15	25
D	Analyzes the past profit and loss of company	30	50
E	If other, please specify....	2	3.33
Total		60	100

Source: Field Survey

Answer this question, 50 percent purchase the share observing the past profit and loss of the particular company. Other 25 percent analyzes the company's management, 16.67 percent analyze the act whim, 5 percent analyze consults a broker and 3.33 percent analyze other.

10. Analysis of Time to Sell the Share

Regarding this question, 25 percent sell their share when company's profit decline and when cash needed, 20 percent sell their share when company fails to pay dividend, 26.67 percent respondent sell their share when high market prices and starts to decline and 3.33 percent respondent sell their share due to other.

Table 4.19

S.N.	Variables	No of respondent	% of respondent
A	When company's profit decline	15	25
B	When company fails to pay dividend	12	20
C	When cash is needed	15	25
D	When market prices of share starts to decline	16	26.67
E	If other, please specify....	2	3.33
Total		60	100

Source: Field Survey

11. Analysis of Motivating Factor for investment in the Nepalese Share Market

Table 4.20

S.N.	Variables	No of respondent	% of respondent
A	Social status	15	25
B	Marketability and profitably	35	58.33
C	friends and family	4	6.67
D	Share broker	4	6.67
E	If other, please specify....	2	3.33
Total		60	100

Source: Field Survey

Concerning this question, 58.33 percent of respondents invest in stock because of marketability and profitably, 25 percent of respondents invest in stock because of social status, 6.67 percent respondents are motivated with friends, family and share broker. Remaining is motivated with other factor.

12. Analysis of Risky Investment

Table 4.21

S.N.	Variables	No of respondent	% of respondent
A	Buying the share when first issued.	12	20
B	Buying the share in the secondary market	36	60
C	Both of them	12	20
D	None of them	-	
E	Do not know	-	
Total		60	100

Source: Field Survey

Regarding this question, 60 percent respondents feel investment through buying from secondary market is risky. 20 percent respondents feel investment in primary issue is more risky, other 20 percent feel both investment mentioned above A and B are risky.

13. Does Global Economic Depression Affect the Nepalese Stock Market?

Table 4.22

S.N.	Variables	No of respondent	% of respondent
A	Yes	40	66.67
B	No	15	25
C	Do not know	5	8.33
Total		60	100

Source: Field Survey

Regarding this question, 66.67 percent of the respondents are of the view that the

Global economic depression affects the Nepalese stock market also. 15 percent of the respondents are of the view that the global economic depressions do not affect the Nepalese stock market. 5 percent respondents do not know.

4.2.2 Testing Hypothesis

Are the problems of Nepalese stock market equally important?

Null hypothesis H_0 : there is no significant difference between observed frequency and expected frequency. In other words Nepalese stock market faced equally important problems.

Alternative hypothesis H_1 : there is significant difference between observed frequency and expected frequency. In other words Nepalese stock market is not faced equally important problems.

Test statistic: under H_0 (Null hypothesis), the test statistics is,

$$\text{Chi-square} = \frac{(O - E)^2}{E}$$

Where,

O = observed frequency

E = expected frequency

$$\text{Calculated chi square} = \frac{(O-E)^2}{E} = 23.33$$

$$\text{Degree of freedom (d.f.)} = n-1 = 5-1=4$$

The tabulated value of chi-square at 5% level of significance for 4 d.f. is 9.488

Since, calculate value of chi-square is greater than the tabulated value of chi-square. It is significant and H_0 is rejected and hence H_1 is accepted which means that all the problems faced by the Nepalese stock market are not equally important.

is growth trend of Nepalese stock market satisfied?

Null hypothesis H_0 : there is no significant difference between observed frequency and expected frequency. In other words growth of Nepalese stock market is satisfied.

Alternative hypothesis H_1 : there is significant difference between observed frequency and expected frequency. In other words growth of Nepalese stock market is not satisfied.

Test statistics under H_0 (Null hypothesis), the test statistics is,

$$\text{Chi-square} = \frac{(O - E)^2}{E}$$

Where,

O = observed frequency

E = expected frequency

$$\text{Calculated chi square} = \frac{(O-E)^2}{E} = 17.5$$

$$\text{Degree of freedom (d.f.)} = n-1 = 3-1=2$$

The tabulated value of chi-square at 5% level of significance for 2 d.f. is 5.991

Since the calculate value of chi-square is greater than the tabulated value of chi-square. It is significant and H_0 is rejected and hence h_1 is accepted which means that growth trend of stock market is not satisfied.

Is Nepalese stock market and national economy related each other?

Null hypothesis H_0 : there is no significant difference between observed frequency and expected frequency. In other words Nepalese stock market and national economy related each other.

Alternative hypothesis H_1 : there is significant difference between observed frequency and expected frequency. In other words Nepalese stock market and national economy did not relate each other.

Test statistics under H_0 (Null hypothesis), the test statistics is,

$$\text{Chi-square} = \frac{(O - E)^2}{E}$$

Where,

O = observed frequency

E = expected frequency

H_0 : Null hypothesis

H_1 : Alternative hypothesis

$$\text{Calculated chi square} = \frac{(O - E)^2}{E} = 2.5$$

$$\text{Degree of freedom (d.f.)} = n - 1 = 3 - 1 = 2$$

The tabulated value of chi-square at 5% level of significance for 2 d.f. is 5.991

Since the calculate value of chi-square is smaller than the tabulated value of chi-square. It is not significant and H_0 is accepted which means that Nepalese stock market and national economy are related each other.

Is performance of stock market is satisfied?

Null hypothesis H_0 : there is no significant difference between observed frequency and expected frequency. In other words performance of Nepalese stock market is satisfied.

Alternative hypothesis H_1 : there is significant difference between observed frequency and expected frequency. In other words performance of Nepalese stock market is not satisfied.

Test statistics under H_0 (Null hypothesis), the test statistics is,

$$\text{Chi-square} = (O - E)^2 / E$$

Where,

O = observed frequency

E = expected frequency

H_0 : Null hypothesis

H_1 : Alternative hypothesis

$$\text{Calculated chi square} = (O - E)^2 / E = 8.4$$

$$\text{Degree of freedom (d.f.)} = n - 1 = 3 - 1 = 2$$

The tabulated value of chi-square at 5% level of significance for 2 d.f. is 5.991

Since the calculate value of chi-square is greater than the tabulated value of chi-square. It is significant and H_1 is accepted which means that performance of Nepalese stock market is not satisfied.

4.3 Major Problem Faced by Nepalese Stock Market

1. Insufficient Knowledge of Investors about Security Market

Nepalese investors have not proper investment knowledge as they are making their investment without proper study about many factors such as future prospects of the company, business areas of company, management committee of company, economic situations, etc. Furthermore, many investors do not have knowledge of investment strategy about when and how to sell their shares. The investors are also unaware of the complaint procedure if the company fails to take care of the investor's interest. In other hand, there is lacking the regulatory authority role to educateing general investors on securities market.

2. Lack of Investor's Confidence

Many factors have made to loose the confidence of investors like price volatility, low return on investment, information lacking, etc. There is also a general feeling among the investors that the information disclosed through the public announcement and prospects do not truly reflect the picture of the future prospects of the company. This has been found to be very poor despite they showed very optimistic financial forecasts in the prospects.

3. Lack of Coordination between Securities Board and NRB

There is no effective co-ordination between SEBON and NRB to determine their respective supervisory responsibilities over commercial banks and finance companies, which are involved in securities business such as issue management, underwriting and brokering securities. Now, the banking and finance companies

activities are controlled and monitored by NRB only. However, securities board also should monitor and control their activities that are directly involved in securities business.

4. Rumor-Based Market

Nepalese securities market has the characteristic of rumor based market. In such a market, investor will make investment based on general hearsay, which results information of market price of shares differently than what it should be. On the basis of rumor, the market price of share may go up or down in abnormal way. There is no mechanism to correct such rumors and cheeks ups and downs.

5. Inefficiency of SEBON

SEBON/N is responsible for regulating and monitoring of the entire securities business in Nepal. By analyzing its present organizational structure, the number of staff and resource available from government, it is not possible for the board to perform its roles effectively. Actually there is no well- trained and qualified manpower in SEBON, which is proving a big problem for Nepalese stock market.

6. Lack of Well Trained and Qualified Manpower

Skilled manpower is required for the successful operations of stock market. Actually, stock market is more dynamic market than other markets. So, every staff should be equipped with appropriate training and development programmed for the adaptation with dynamic environment. Well- trained and qualified manpower help get international knowledge about foreign stock and exchange. But in Nepal, Nepal stock exchange has depended on government of Nepal providing international level training to its staff inside the country rather than any

other huge foreign stock exchange. Staffs have been participating for short period training programmed inside the country because of impossibilities for the operation of own sources. In fact, it has been a great problem to the stock market

7. Restriction to Foreign Investors

The Nepal stock exchange has opened the participation of foreign investors in the secondary market up to a certain percentage of the outstanding shares of a company. The demand of shares can increase by many folds by doing so. To a developing country, capital market is a best means to attracting foreign investment.

8. Centralized Stock Exchange

The Nepal stock market is only organized exchanged centre located at Katmandu valley. It has not any branches in the other region. The growing number of institutions in the country have demanding the exchange centre outside the Kathmandu valley.

9. Lacking in Investor's Protection

SEBO and NEPSE are not able to protect investor's interest effectively. Investors should be protected from misleading, manipulative or fraudulent practices including insider trading and the misuse of client's assets. Full disclosure of information material is most important means for ensuring investors protection. This makes investors more capable of assessing the potential risks and rewards of their investment and thus helping them to protect their own interests. Till now there is no provision made so far about to protect the interest of investors in Nepal.

4.4 Prospects of Nepalese Stock Market

Despite the many problems faced by Nepalese stock market, there are numerous future prospects as well. Some of the prospects of stock market are dealt as follows.

1. Increasing Number of Listed Company

Even though the country is suffering from many problems, the number of institutions are emerging in the nation helping to broaden the market. The number of listed companies is increasing rapidly due to industrialization and commercialization.

2. Increasing Turnover of Listed Companies

The turnover of companies listed on stock market is increasing yearly. Turnover rose from Rs 2340.2 million in year 2000/01 by Rs 8360.1 million in 2006/07 due to the commencement of NEPSE as a market promotion and easier access permitted a significantly greater number of market player to enter the market. Because of improvement in market operation turnover has been increased.

3. Computerize Automatic Trading System

In the beginning of the 2007/08 fiscal year, NEPSE replaced the old open-out-cry system of securities trading, which was in place since the beginning of secondary trading in 1994, with the automated trading system (ATS). The ATS has not only mechanized securities trading, but also reduced the manipulation of prices and human errors. NEPSE has also reformed its organizational structure, right-sized

its human resources outsourced its cleaning and security services, started online trading through WAN, disseminated real-time information and extended the trading hours to make stock exchanges efficient. Trading through WAN has formally started from 13 October 2007. Now stock brokers do not have to come to the NEPSE's office to sell or buy shares; they can do that sitting in their own offices.

4. Increasing Participation of the Investors

The provision made in securities Exchange Act, and company Act has provides reforms in securities market regulating practices. It can be taken as the very important legislations of the securities market. Securities Exchange Act, 1983 has been formulated to maintain the economic interest of the people. It has contributed to the economic development of the country, to protect the interest of the investors. This act set up a general framework for regulating securities market, which has facilitated and encouraged the development of securities market on Nepal.

5. Increasing Interest of Qualified People

Educated and qualified people are showing their interest towards stock market. In past, the qualified people are interested to the government office, bank and NGO only. But, now they are diverting to stock market because they are realizing its advantages and benefits. Now, the members of the stock exchange have reasonable background in corporate finance, capital market, economics and financial engineering, etc.

6. Emergence of Larger Company in NEPSE

The emergence of big company like NTC plays significant role to play in NEPSE. These large companies issue huge amount of share flooding in market. Many investors are interested to invest in large company's shares.

7. Providing Liquidity and Return

Though the share investment exist more risk also provide reasonable return if the market functions properly. The such return may be better than return obtained from other investment like deposit held at commercial banks. Investors get yearly bonus along with capital increment of their share investment. The market also provides the liquidity to its investors.

8. Increasing Trend of Market Indicators

In Nepalese stock market, every stock market indicators are increasing in yearly figure. NEPSE index was 348.43 in 2000/01 and it was 683.95 in 2006/07. No of listed company, market capitalization is also increasing in yearly.

9. Nation's Peace Keeping Process

In past, our country is passing through a turbulent phase resulting to the affect of the economy. Most part of our budget is being expended for administrative and security expenses. The heavy loss in public infrastructure, felling in the general public have damaged the overall economic situation. But the situation has been quite recovered which shows good prospect of the capital market as well as the economy due to the nation's contineous process to keeping peace.

4.5 Major Finding of the Study

Some major findings have been extracted from both secondary and primary analysis. The empirical finding of the secondary and primary data analysis have been described separately as below.

4.5.1 Empirical Findings from the Secondary Data Analysis

Through the analysis of secondary data in secondary market the following major finding have been drawn out as:

1. The study shows that the total number listed companies are increasing and reached to 143 in year 2007/08. The highest number of listed companies in the year 2007/08 and the lowest number of listed companies was in the year 2001/02 with 96 companies. Growth trend of listed companies are positive in all years except in 2001/02 due to some of the companies delisting from NEPSE as the company are not disclosing information properly and timely. No of traded company also increasing and reached to 116 in year 2006/07.
2. The growth trend of share traded was found fluctuating. The total of 4,989 thousand share traded in year 2000/01. Except in 2002/03 and 2005/06, share trading in NEPSE are in increasing trend. The decrease in trading of shares were due to reasons like share market crash, political instability and market strikes.

3. Commercial bank, in sector wise study, covered 66.55 percent of total trading amount. Share of commercial banks are found more liquid and satisfactory performance than other sectors. But the hotel sectors covered only .0084 percent of total trading amount with insignificant presence.
4. In the fiscal year 2002/03 the market capitalization was decrease to Rs 35240.4 million due to market crash and decrease in NEPSE index at that time. It was the highest decrease of market capitalization in 12 year's of NEPSE history. But after this period the market capitalization has started to increase. The market capitalization of listed securities in the fiscal year 2006/07 rose to Rs 186301.3 million. Percent of turnover to market capitalization was increase in all the years.
5. The NEPSE index under study periods was found fluctuating. In the fiscal year 2001/02 and 2002/03 the NEPSE index decline drastically with 227.54 points and 204.86 points and the same time the NEPSE had delisted 25 companies from its listing. Then afeter the index has found in contineous increased and reached to 683.95 points in the year 2006/07. This showed the good to indicate Nepalese share in terms of the NEPSE index.
6. Market capitalization on nominal GDP measures the proportionate contribution of stock market to national income. Market capitalization on nominal GDP is increase in decreasing trend in the year 2002/03 due to market crash. Afterwards it has observed in increasing trend and the year

2006/07 the market capitalization contribute 27.78 percent out of Rs 670589 million gross domestic products.

7. The growth rate of national GDP as compare to growth rate of NEPSE index was found better in the beginning four year but the last three year the case is opposite with the growth of NEPSE index finding better than growth rate of national GDP. The growth rate of NEPSE index is increasing in higher ratio than the national GDP for the last three years of study periods.

4.4.2 Empirical Findings from the Primary Data Analysis

The primary analysis was based on face to face interview to different personnel and developing questionnaire about primary market. The followings are major findings drawn out:

1. Primary analysis concluded that the stock market in Nepal is in developing stage. However, majorities of respondents are not satisfied with growth trend of market.
2. The primary analysis reflects that the stock market is not performing and growing due to the absence of transparency in information. Information is not information unless it is communicated. Majority of respondent agree that the company register office is more responsible for the not presenting the information. Shortcoming rule and regulation, lack of coordination between security board and Nepal rastra bank, restriction to foreign

investors in Nepal stock market are the problems of the stock market and minimizing the confident of investors. Respondent agree that the centralized stock market is located in Katmandu only; and Nepal stock market has the characteristic of rumor based market.

3. Majority of respondents agrees that investment in stock is more liquid and highly marketable, maximum return. Respondent are also agree that the large companies are starts to listing in NEPSE, increasing interest of educated people towards the stock market, solve the political problem and crises and NEPSE replaced the old open-out-cry system of securities trading with the computerize automatic trading system are also the prospect on Nepal stock market.
4. Majority of respondent agree that the relationship of stock market and national economy is highly correlated. And performance of stock market for development of economy is most important. The respondent are also agree that the role of government is most important to increase the investment in the stock market.
5. Majority of respondent agree that the investor are purchase the share after analyzing the profit and loss of the particular company and sell their shares when the market price and profit of particular company starts to decline. Due to marketability and profitability investors are motivated to invest in the shares.

6. 60 percent of respondent are agree that buying the share of secondary market is more risky. 66.67 percent of respondent are agree that the global depression is affecting the Nepalese stock market.

Chapter V

Summary, Conclusion and Recommendations

This chapter consists of three sections, first section provides the summary of the study, the second draws the conclusion of the study and the third section proposes recommendation to deal with the problems observed on the basis of finding.

5.1 Summary

The capital market is a part of financial market. It is the market where financial assets having a time to maturity of typically more than one year are traded. Capital market facilitates the exchange of assets by bringing together buyers and sellers of securities. Capital market provides an effective way of raising money for commercial enterprises and at the same time provides an investment opportunity for individuals and institutions. Stock market is the backbone of investment sector of the country. So, by promoting the stock market, government can also develop the economic sector. Capital market is a medium through which scattered saving and investable resources are converted in actual investment.

The study mainly aims to examine the position, performance, problem and future prospect of Nepalese stock market. The specific objectives of the study are to examine the development trend, current position and performance of Nepalese stock market, to identify the existing problems and challenges faced by Nepalese stock market and to evaluate future prospects of Nepalese stock market.

To meet the desired objectives, the necessary secondary data were collected for the period 2000/01 to 2006/07 from the annual reports, bulletin of NEPSE and its website, the annual report of SEBON and its website. And necessary primary data, there were 13 questions had been distributed to 60 respondents, which are directly related to stock market. The respondent person and intuitions was professional investor, all types of SEBON staff, NEPSE staff, finance teacher, stock brokers.

The study covers almost all sectors like banking, finance, development bank, insurance company, hotel, manufacturing and trading company and other company. To accomplish its objectives statistical tools like table, diagrams and chi-square test which is applicable were used. To trace out the picture of stock market, position, performance, problem and prospect, the necessary primary data has been collected from the research questionnaire and interview of the respondent.

From the secondary data analysis researcher was analysis the listed company, traded company, no of traded shares, sectors wise trading amount, market capitalization, etc are the determination for the development trend and position of Nepalese stock market. And analysis the NEPSE index, index vs. GDP and market capitalization vs. GDP etc are the determination for the performance of Nepalese stock market.

The no of listed new companies was not in satisfactory condition as it was in very few increases in numbers during this time period. According to the stock

exchange act 1983, there is provision of deleting the companies, which are not able to furnish the documents regarding annual general meeting audit report and unable to pay the annual fees at that time NEPSE deleting the 25 companies. This type of activities badly affects the growth of stock market and its size. No of traded companies were increasing trend. Number of share traded were fluctuating trend, in 2002/03 and 2005/06 number of share traded were decrease because of market crash. Commercial bank is main bodies out of listing companies; it has covered 66.55 percent of the trading amount. Amount of market capitalization were in increasing trend during the year. Percent of turnover to market capitalization increase in positive trend. There was a lot of fluctuation in NEPSE index in the year 2001/02 and 2002/03 due to the decline in the investor's confidence level and market crash on the capital market. But it has caught pace and started to climb up. Market capitalization on nominal GDP is satisfactory level.

From the primary data analysis, is found that the growth of stock market is not satisfactory. Political instability, unfavorable economic condition, absence of transparency in financial and non financial information and weak regulatory discipline hinders the growth of capital market. Lack of investor's confident; shortcoming existing rule and regulation, restriction of foreign investor, rumor base characteristics of stock market and lack of well trained and qualified manpower are main problem of stock market. The number of listed companies and it's turnover is in increasing trend, peace talks with Maoist is affection positively to the stock price, increasing participation of investors and educated public in stock market were most significantly agreed observation by all respondents. Stock market provide liquidity and marketability, increase in listing

of large company is positive affect the stock market. Respondents are agreeing that positive relationship between stock market and national economy, good performance of stock market can help the development of the economy, government can play important role to increase investment in the stock market. Respondent are agreeing that investor are purchase the share when the particular company's profit is increased and sell their share when the particular company's profit is decreased. Respondent are also agreed that the global economic depression affect the Nepal stock market also.

5.2 Conclusion

This thesis paper addressed overview analysis of Nepalese stock market reference with Position, Performance, Problem and Prospect of Nepalese stock market. The study is based on Nepalese stock market.

From the study, it can be concluded that the number of listed companies, number of traded company and number of share traded are increasing trend except the year 2001/02 and 2002/03. Out of listing company commercial bank play important role in NEPSE. Its trading amount is high and covered 66.55 percent of total trading amount. Invest in commercial bank's share is more liquidity and marketability. Amount of Market capitalization is increasing yearly and it have seen satisfactory level. Percent of turnover on market capitalization is also increasing level. NEPSE index is not in increasing in good pace of growth rate. NEPSE index is more volatile because of rumor base characteristics of Nepalese stock market. Now it seems to be increasing level but not satisfactory. Growth

rate of national GDP was better than growth rate of NEPSE index in the beginning four year but the last three year the growth of NEPSE index was better than growth rate of national GDP. In last three year the growth rate of NEPSE index is increasing in high ratio. But national GDP is increasing in low ratio.

Another conclusion drawn from the opinion based survey with respondent is that SEBON, NEPSE and office of company's registrar are insufficient in their responsibilities. They need to improve acts, regulation, laws and guidelines for effectiveness in their performance. The current status of information can not be taken as satisfactory. Investors are not aware about the financial position of the stock market. Investor's confidence in Nepalese stock market is relatively low because of stock market is volatility, inadequate information, lack of financial markets instruments and investors not knowing about the risk of the stock market investment. The size of the market in terms of market capitalization and number of issue is relatively small. Market for corporate debt instruments is underdeveloped. The retailers also dominate present stock market in the absence of foreign investors and local institutional investors. Only a small portion of shares is actively traded while others are traded either in small number or infrequently which lead to poor liquidity and small turnover in the market.

NEPSE should extend its branches to other region and foreign investors should also be allowed to participate in stock market. Transparency and openness of transaction, quality professional services, adequate corporate financial, disclosures and supervisory framework are the urgent needs of Nepalese stock market. The government has to play major role to encourage individual investor's participation and sustaining in stock market in order to develop the stock market.

Any effort for protecting investor's interest or boosting their confidence or developing the stock market is necessary that should be enabled to operate in an environment that leads to growth and expansion of Nepalese stock market.

The development of stock market in Nepal so far cannot be considered satisfactory. This is evident from facts and figure available in the stock market performance during last seven year. But there is enough long term liquidity in the market. Investors are in search for investment opportunities in the equity of the corporate bodies. The diverse sector is coming up that need capital. The only requirement to fulfill the objectives of both parties is to create a conducive atmosphere where investors can reward the required capital from the market at low cost. The stock market has a good prospect for the resource mobilization to finance the productive enterprises in the Nepalese economy. Now the investors are interested to invest their resource in the shares of corporate sector through the stock market in Nepalese economy.

5.3 Recommendations

The findings of this study provide important information for those who are directly or indirectly concerned with the stock market activities. Thus, major recommendations are as follows:

1. It is to be understood by all people that the political stability in the nation is one important component for the development of securities market as well as national economy.

2. Most of the respondents have agreed that investors are unaware about the financial position of the company. So it is recommended that the information should be provided to the investors with investment guidelines from news and media. The listed companies at least, should publish their current working results on quarterly basis.
3. The government is major responsible body that should bring the various public awareness programs to potential investors. This can be done through promotional campaigns, seminars, publications and programs in other electronic medias like radio and television. The information about Nepalese share market available in the website should be up to date. Investors should be educated on online trading and its benefits.
4. The government should allow foreign investors to invest in Nepalese capital market not only to attract the potential investors but also make the market more competitive and thus to develop Nepalese stock market.
5. The NEPSE market should not be confined only in Kathmandu valley but it should launch the market outside the valley in order to provide the services to investors living outside.
6. The laws and policies regarding capital market are not very clear creating confusion among investors. So, government should not only make clear and specific plans and policies to expand the capital market but also implement effectively.
7. The numbers and services of brokers need to be increased to broaden the financial market.
8. Investors should be aware in terms of their strengths, weaknesses, needs, desires, risk taking capabilities and to reacting behavior to different and ever-changing market condition. This is the game where self knowledge,

better ability, sound understanding on the information of stock market can only give a winning edge to investment.

9. The number of staff should be adequate and proper training in all aspects for securities market. It should bring new and emerging stock market regulatory regimes to match international standards.
10. The government should provide appropriate policies for improving the environment for private sectors development, the efficient mobilization of savings through the stock market. Investment in corporate sector should be encouraged.
11. Large and ineffective government corporation should be privatize in order to develop the Nepalese stock market through the wide spread distribution of share to public investors.

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Website

www.nepalstock.com

www.nrb.org.np

www.sebonp.com

Questionnaire

Dear Respondents

I have been conducting a research on “An overview analysis of NEPSE: position, performance, Problem and prospect”. This questionnaire has been developed and presented before you as part of this study. The issues raised in this questionnaire are the key problems identified by researchers related to topic during the course of study.

I humbly request you to fill it up at the best of your knowledge. Your cooperation in this regard will be of immense value for me.

I shall be highly obliged for your prompt response as far as possible.

Thanking you,

Researcher
Shyam Chandra Rupakheti

Respondents
Name:
Education:
Organization:
Position:
Date:

Instruction: please tick () and Rank in appropriate place

Questions:

No: 1 Rank the following problem of Nepalese Stock Market. (No 1 is most important)

- A. insufficient knowledge of investors about the stock market
- B. Lack of investors confidence
- C. Shortcoming on existing securities rules and regulation
- D. Lack of co-ordination between Security Board and Nepal Rastra Bank

E. Restriction to foreign investors

No: 2 Rank the following points that provide prospects to Nepalese Stock market. (No 1 is the most important)

A. Stock market provides maximum return

B. limited opportunities to invest investors long-term saving instead of share investment

C. liquidity and marketability of securities

D. increasing interest of educated public towards stock market

E. increasing number of large companies listed on Nepal stock exchange

No 3. What do you think about growth trend of Nepalese Stock market? (Please tick)

A. Good

B. Bad

C. Do not know

No 4. To what extent Nepalese Stock market and Nepalese Economy are related to each other? (Please rank)

A. High

B. Moderate

C. Low

No 5. Are you satisfied with the performance of stock market for the development of national economy? (Please tick { })

A. Yes

B. No

C. Do not know

No 6. Do you think Nepal stock exchange and security board Nepal provide necessary information correctly and timely? Please tick

A. Yes

B. No

C. Do not know

No 7. Who can play the important role to increase the investment in stock market? Please tick

- A. government
- B. investor
- C. SEBO
- D. NEPSE
- E. stockbrokers

No8. Listed company do not present financial statement with in time to NEPSE & SEBO, who is main responsible to this weakness? Please tick

- A. the office of the company register
- B. security Board Nepal
- C. Nepal Stock Exchange
- D. Investors/ Brokers
- E. particular company

No9. How would you make a decision to purchased share of particular company in stock market? Please tick

- A. consults a broker
- B. act on whim
- C. analyzes the company's management
- D. analyzes the past profit and loss of company
- E. if other, please specify....

No10. When you like to sell your share in secondary market? Please tick

- A. when company's profit decline
- B. when company fails to pay dividend
- C. when cash is needed
- D. when high market prices and starts to decline
- E. if other, please specify....

No11. What factors motivate you to make investment in stock market? Please tick

- A. Social status
- B. Marketability and profitably
- C. friends and family
- D. Share broker
- E. if other, please specify.....

No 12. Which investment is more risky in the stock market?

- Buying the share when first issued.
- Buying the share in the secondary market
- Both of them
- None of them
- Do not know

No.13 Does global economic depressions affect the stock market? Please tick

- A. Yes
- B. No
- C. Do not know

Calculation of Questionnaire by testing Chi square
(Question are shown in Appendix 1)

Qes.1

Number	Observed value(O)	Expected value(E)	O-E	(O-E) ²	(O-E) ² /E
A	25	12	13	169	14.083
B	15	12	3	9	.75
C	10	12	-2	4	0.333
D	5	12	-7	49	4.083
E	5	12	-7	49	4.083
$(O-E)^2/E =$					23.33

Qus.3

Number	Observed value(O)	Expected value(E)	O-E	(O-E) ²	(O-E) ² /E
A	15	20	-5	25	1.25
B	35	20	15	225	11.25
C	10	20	10	100	5
$(O-E)^2/E =$					17.5

Qus. 4

Number	Observed value (O)	Expected value(E)	O-E	(O-E) ²	(O-E) ² /E
A	25	20	5	25	1.25
B	20	20	0	0	0
C	15	20	-5	25	1.25
$(O-E)^2/E =$					2.5

Qus.5

Number	Observed value(O)	Expected value(E)	O-E	(O-E) ²	(O-E) ² /E
A	28	20	8	64	3.2
B	22	20	2	4	.2
C	10	20	10	100	5
$(O-E)^2/E =$					8.4