

**NEPSE INDEX MOVEMENT
(A Technical View)**

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Summary

Stock exchange is a regulated market place, in which listed securities are bought and sold through the intervention of members (brokers) of stock exchange, by following an open system of two ways quotation, the settlement of trades is done according to the bye-laws of the stock exchange. In other word it is a trading platform for the buyer and seller of securities. The stock exchange acts as a “barometer” of the health of the economy or considered a mirror f economy. If the market as a whole expects economic prospects to improve, share price will rise, and vice versa.

The history of securities market began in Nepal with the flotation of shares by Biratnagar Jute Mills Ltd. and Nepal Bank Ltd. in 1937 A.D. Introduction of the company Act in 1964 A.D. and the establishment of Securities Exchange Center Ltd. in 1976 was other significant developments relating to capital markets in Nepal. At present there is only one stock exchange in Nepal, which is also called secondary market i.e. Nepal Stock Exchange (NEPSE). Nowadays, Nepal’s stock market has become major area of investments. People in general and investor’s inclination towards the capital market as they are attracted to multiply their money in a shorter time span. Currently seen events of Nepal’s capital market like oversubscription in all of the public issues, increment in transactions amount day by day, about eight hundred thousand investors, etc confirmed the attraction of stock market in Nepal. In order to beat the market one has to analyze the securities properly and effectively. Basically there are two approaches of analyzing the securities: fundamental analysis and technical analysis. The person who analyzes securities using fundamental approach called fundamental analyst and technical approach called technical analyst. Both types of analysts try to predict share price movements as a whole. The fundamental analyst compares the share price with indicators of such as the level of interest rates, inflation, and the index of employment. They also delve into the company’s balance sheet and looks at the industry itself. From this the fundamental analyst claims to be able to say whether to buy or sell a particular share from the point of a medium-to long term investor. Technical analysts on the other hand disagree with the fundamental analyst’s view because they claim that reliance on past performance is a hindrance in judging future prospects. Technical analysts consider that the share price is fixed by supply and demand and past performance as evidenced by the company’s accounts is no guide whatsoever. They also believe that every price

sensitive factors automatically reflect in the share price, only analysis of price movement is required.

Beside these, there is another technique for analyzing the share price behavior that is called efficient market hypothesis. It is based on the fundamentals that markets are efficient and price makes an independent movement in these markets. Each price of an individual share is independent of the previous price, the implication of this is that price of a moment does not affect the price of another moment, this type of movement of prices is called random walk of prices, therefore, this hypothesis is also called random walk hypothesis. According to this hypothesis prices get affected by the demand and supply position. Prices reflect equilibrium position of the demand and supply; these show a wide fluctuation, only on account of disequilibrium in the demand and supply position. This theory believes this happens due to the large number of investors in the market, free flow of information to all the investors, every investor is capable to interpret the information, every kind of price sensitive information is discounted in the prices immediately, no one in a position to influence the market unduly.

In the first chapter of this study, researcher stated the various problems of stock market relating to the technical analysis and efficient market. Thus, main objectives of this study were to analyze and identify the market trends shown by the sample major sectors index based on technical tools 3-monthly moving average analysis, seasonal index, bar diagram and graphs analysis.

In the second chapter of this study, researcher tried to provide detail literature regarding the subject matter of the study. So, researchers reviewed various literatures including books, journals, term papers, newspaper, bulletins, magazines and thesis.

Most of the study conducted using the fundamental approach and efficient market hypothesis but only limited study concerned on technical approach. Limited researchers concerned on technical analysis so, researcher tried to provide new findings to the Nepal's stock market by fulfilling the gaps of the previous study.

To meet the objectives stated above, the source of data, data analysis techniques, etc were discussed in third chapter. For this, researcher relied on secondary source of data. For this, daily index for 280 days were downloaded from the website of Nepal stock exchange.

In fourth chapter, secondary data were analyzed using one of the most popular technical tools presenting in the Line graphs, Seasonal indexes and Bar diagrams based on the calculated value. Based on such analysis, the findings were evaluated in real terms and on the basic of such findings appropriate conclusions are drawn.

Data analysis showed most of the time moving average analysis and line graph analysis gave the true result and all the samples showed the bearish or decreasing trend. But share price of development banks index showed more bearish than other sectors share price.

Objective of the Study

The prime objective of this study is to analyze the movements in NEPSE using technical tools. Within the periphery of above stated problems, the objective of the study is to analyze 'technically' the movement in NEPSE. Furthermore, this study is proposed to meet the following objective:

-) To predict the trends and patterns of NEPSE movement.
-) To explore the potentiality of technical analysis in Nepalese stock market.
-) To examine the efficiency of Nepal's stock market through qualitative test.
-) To study the relationship of NEPSE index with sub-indexes.

Limitations of the Study

Research is the dynamic process of searching something to find out the solution of a problem. The findings might not be equally applicable to all the problems, every research has some limitations. A single research cannot be perfect in itself. The present research too cannot be an exception. This study may face the following limitations during the course of research.

-) This research mainly based secondary data which have been collected from books, journals, financial statements, report of Securities Board Nepal (SEBON)

and Nepal Stock Exchange (NEPSE), annual reports of companies, web sites and other publications.

-) The study heavily focus on the technical analysis of Nepalese stock market
-) Studies and reference were also extremely limited in the prospective of Nepalese stock market.
-) The market price of shares also get affected by happening on the political and economic factors or fundamentals of the company, i.e. changes in an intrinsic value of share, hence all the deviations cannot represent the market sentiments.

Research Methodology

Research methodology describes the methods and process applied in the entire aspect of the study. In other words research methodology is a systematize way to solve the research problem. Research methodology refers to the various sequential steps (along with a rational, of each step) to be adopted by a researcher in studying a problem with certain object in view (Kothari, 1994). A focus is given to research design, sample selection and size, data collection procedure, data processing, definition of variables, meaning and definition of statistical tools used. This chapter highlights the research methodology used for the study. In order to draw inference on security analysis especially through the technical analysis approach in Nepal Stock Exchange, the different measures have been adopted while collecting and interpreting the relevant data, facts and figures.

Population and Sample

There are altogether 206 listed companies from 9 different sectors at the end of the fiscal year 2010/2011-Commercial banks, Development banks, Finance companies, Manufacturing and Processing companies, Hotels, Trading, Insurances, Hydropower and Others. The research period is undertaken in this study is of 280 days daily sub index data. The share transaction of commercial banks usually controls over 70% of the total transaction at NEPSE, any fluctuation in its price easily reflects the behavior of market.

Major Findings of the Study

Based on the data analysis and its interpretation, the major findings of the study are as follows:

-) In the FY 2011/12, there are altogether 215 companies listed in NEPSE and number of the transacted companies are 196. The listing & transacting rate is in increasing trend. This indicates that the growing number of companies is attracted towards trading in the security.
-) The monthly trend analysis of NEPSE index, Banking index, Insurance companies index fluctuates over the period. In overall, the index follows decreasing trend. So, it is only suitable for confident and risk seeker investor. The instability of NEPSE, Banking and Finance Index might be due to in0
-) Crease the volume of shares, change in interest rate, inconsistent political environments, and decreasing rate of remittance, inconsistent policies, limited coverage, and unrest in country “Nepal Banda”.
-) At initial Finance company’s index and Development Bank’s index are high but in the late of research period it is low. In overall the index follow decreasing trend. Investor should sell their securities in the initial phase to maximize their profit. Since, the index follows decreasing trend. So, investment decision in this phase is not profitable.
-) The “Others” sub index is in decreasing trend at the initial phase of research period (i.e. from July to September) and suddenly increases in a minimal fashion. So, it is suitable for low confident or risk averter investor.
-) This might have directly influenced the investing decision of the investors. During the research period all sub index suffer from bearish trend except ‘Others’. The patterns of rising and falling in the share price are due to the pressure of demand and supply. When the demand is high, the price of share rises and when supply is high the price of share declines. The stock price of all sub sector’s are drastically decreasing trend due to the inconstant political environment and economic show down and unfavorable events or rumors, which erodes the confidence of investors.
-) The Moving average analysis and Seasonal index analysis are the simple technical tools to analyze the trend of NEPSE index. Moving average analysis is used to figure out the change in monthly index rate. On the other hand seasonal index

analysis acts as a benchmark for every monthly index and shows whether monthly index is higher or lower than the benchmark level i.e. monthly average index. So, investor can easily predict the future trend and make their investment decision profitable.

) Investors are losing their level of confidence in Nepalese stock market due to the fluctuating and decreasing trend of share market index. Lack of adequate knowledge, fraudulent share market activities, price manipulation, market disorders, political and economic instability are the major responsible factors for these changes.

Recommendations

Based on the analysis of secondary data following recommendations are presented to the concerned body.

Since, Trend analysis plays vital role in such studies, it is recommended to all the concerned body to identify the trend before banking investment decision. Technical tools like Moving Average analysis give the signal of future trend. So, investors and stock analysts are highly recommended to apply Moving Average for analyzing share price. Similarly, other technical tools like seasonal indices also give the future signal, so, investors and stock analysts are highly recommended to apply seasonal index analysis to determine share price trends along with the fundamental approach to the market. For the efficient market, political environments should be consistent and predictable, number of brokers and areas of market should be expand effectively and policies and guidelines must be consistent. Stock market in Nepal is not yet mature in terms of its infrastructure, governance, investors, and confidence, pricing of stock and stability and analyzing stock before investment decisions. Rather than investing haphazardly everyone should analyze stock to beat the market. So it is recommended to regulatory body, brokerage house and training institute to provide in-depth knowledge about the technical analysis to the general investors and potential investors.

On the basis of analysis carried out in this study, the results may not be sufficiently generalized for every situation. Therefore, to generalize the results, one should plan

for the similar type of study with sufficiently large number of data for long period of time. As in this study, the secondary data of only nine month were analyzed.

Suggestions for Further Research

There are various technical tools which can be applied to analyze the stock price movement. It will be better if further researcher will apply other tools of technical analysis using technical analysis software. Also it is recommended to test the effectiveness of technical tools to further researcher. To analyze the collected data many statistical and non-statistical tools can be used. Among the different tools in the field of technical analysis, some of the commonly used tools, chart diagrams, high & lows, confidence index, Breath of market, trading volume, and moving average are used. Since all of these tools are not very relevant to the Nepalese context due to lack of sophisticated computer software packages and complexity of applications. Although researcher is strongly suggested for applying the technical tools, one should not ignore the fundamental facts of the company. Primary data are core for any research study. Due to certain circumstances the primary data analysis becomes difficult in this research. So, it is highly suggested to any researcher to conduct primary data analysis to draw logical inference.