

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In general, only a piece of paper represents the investor's rights to certain prospects or property and the certain conditions under which he or she may exercise those rights. This piece of paper, serving as evidence of property rights is called a security. It may be transferred to another investor, and with it will go all its rights and conditions. Thus, every thing from a pawn ticket to a share of GM common stock is a security. (Sharpe, Alexander and Bailey, 2003).

Security markets are mechanisms created to facilitate the exchange of financial assets. Therefore, the market exists in order to bring together the buyers and sellers of security (Bhattarai, 2004).

The security market can be primary and secondary. Primary markets are markets, in which corporation raise a new capital. Basically, primary markets are concerned with the accumulation of funds. On the other hand, secondary markets are the markets, in which the existing, already outstanding, securities are traded among investors. Nepal Stock Exchange NEPSE is an example of a Nepalese secondary market, which is the only one organized stock exchange of Nepal till date.

Stock exchanges are the organized market for buying and selling financial instruments known as securities, which include stocks, bonds/debentures, convertibles, warrants, options, rights etc. Most stock exchanges have specific locations where the trades are completed. For the stock of a company to be listed the company must satisfy certain requirements of the stock exchange.

Stock exchange transactions involve the activities of brokers and dealers. These individuals facilitates the buying and selling of financial assets. Brokers execute trades on behalf of clients and receive commissions and fees in exchange for matching buyers

and sellers. On the other hand, dealers buy and sell from their own portfolios (inventories of securities). Dealers earn income by selling a financial instrument at a price that is greater than the price the dealer paid for the instrument. Some exchange participants perform both roles. These dealers' brokers sometimes act purely as a client's agent and at other times buy and sell from their own inventory of financial assets.

It is obvious that, corporations issue new securities, is known as the primary market, usually with the help of investment bankers. The investment bank acquires the initial issue of the new securities from the corporation at a negotiated price and then makes the securities available for its clients and other investors in an initial public offering (IPO). In this primary market, corporations receive the proceeds of security sales. After this initial offering the securities are bought and sold in the secondary market. The corporation is not usually involved in the trading of its stock in the secondary market. Stock exchanges essentially function as secondary markets. By providing investors the opportunities to trade financial instruments, the stock exchanges support the performance of the primary markets. This arrangement makes it easier for corporations to raise the funds that they need to build and expand their businesses.

New York Stock Exchange (NYSE), Tokyo Stock Exchange (TSE), American Stock Exchange (AMEX), and Bombay Stock Exchange (BSE) etc. are the examples of organized stock exchanges. Nepal Stock Exchange (NEPSE) is an example of organized stock exchange and this is the only one stock exchange of Nepal (Bhattarai, 2004).

It is very much essential to have sound knowledge about the 'sector-wise stock price behavior in NEPSE' to an investor to invest in any security of the company. Investors are required to analyze different factors and follow certain procedures before making any investment decision. Lack of the adequate and proper knowledge of present condition of trading system at NEPSE, many investors are in dilemma whether investment is fruitful or not in the viewpoint of money and time. This study will help the current and potential investors to make the right investment decisions in a right manner and time.

Introduction to Nepal Stock Exchange Limited (NEPSE)

Nepal stock exchange (NEPSE) is a non-profit organization, operating under Securities Exchange Act, 2006. It is located at Singha Durbar Plaza, Kathmandu, Nepal. The former Securities Exchange Center (SEC) was converted into NEPSE under the program initiated to reform the capital market. 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. (SEC) in 1976 were other significant development relating to capital markets (www.nepalstock.com).

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. Nepal Stock Exchange, in short NEPSE, is a non-profit organization, operating under Securities Exchange Act 2006.

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.

The shareholders of the NEPSE are Nepal Rastra Bank (NRB), Government of Nepal (GON), Nepal Industrial Development Corporation (NIDC) and licensed members.

NEPSE has its own board of directors (BOD), which will govern, direct, control and monitor NEPSE, it constitutes of members representing different sectors as per securities Act 2006. At present, the BOD constitutes two members including a chairman from Nepal Government, two members from Nepal Rastra Bank, one from NIDC.

Moreover, BOD will nominate one member as an expert in capital market. General Manager of NEPSE will serve as a director on the BOD. (www.nepalstock.com).

The capital structure of NEPSE is 58.65% of shareholder Government of Nepal, 34.60% of Nepal Rasta Bank, 6.12% of NIDC Capital market and 0.62% of share holder is license members (brokers). Members of NEPSE are permitted to act as intermediaries 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 2006, 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 under-writer for public issue of securities whereas securities trade (dealer) works as individual portfolio manager.

Presently, there are 11 sales and issue manager and 1 dealer (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 with in another three months by paying 25% penalty (www.nepalstock.com). NEPSE facilitates trading of share, debenture, government bond, and mutual funds.

1.2 Focus of the Study

Capital market helps to mobilize the financial resources and efficiency channel to productive investment, Capital market consists of securities market and non securities market. Securities market implies mobilization of the funds through insurance of the securities like share, bonds and debentures. The securities available in the market can be in the form ownership securities that common stock and debt securities issued by corporate body and government as well as hybrid security that is preferred stock and derivative securities (option, warrant, right, future etc.). These securities traded in the market. Non-securities market refers to the mobilization of the financial resources by the financial intuitions in the form of deposits and loans.

Stock market acts as a part of the capital market and can provide major source for the investments in the economic development. Stock market is an institution of paramount importance in the economic life of any country. In fact private ownership of business and industry would be inconceivable in the absence of a facility which enables such share ownership right to be bought, transferred and converted into cash. It is the stock Exchange that provides liquidity to private investment in corporate enterprises. Stock market is a secondary market a trading market where the securities are traded. The stock price efficiency occupies an importations in the stock markets, wise investor attempts to utilize them to achieve a better return. This perfection has no rational significance in a word where share are efficiently priced. In efficient market share price should adjust randomly cannot be tested directly. However, by postulating some security price behavior, one can have some idea about market efficiency. History indicates that much time and efforts have been devoted in the field of financial research to investigate the movement of share price. Thus, this study is focused on the sector wise share price behavior of Nepal Stock Exchange Index.

1.3 Statement of the Problems

Nepalese economy is at underdeveloped stage. There is a lack of investment opportunities, so the investors cannot find suitable sector to invest their funds. As a result, they are bound to put most of their savings into bank.

On the other side, investment in securities can be one of the best options for the Nepalese people. If effectively managed investment in securities market becomes the best investment decisions for general public. But it is found that, Nepalese public are less interested to invest in the securities and there is the lack of awareness regarding the investment in securities market. Therefore, we can say that securities market is poorly understood among Nepalese investors, due to which, it cannot attract the interest of potential investors. As a result, Nepalese public seeks investment opportunities in the fields other than securities. Due to this reality, large amount of fund is poured into non-productive sectors. Thus, development of securities market is necessary to divert the

funds towards productive sectors. In Nepal, the securities market is facing with many difficulties, due to which it is not developing as expected.

Low trading volume, absence of professional brokers, early stage of growth, limited movement of share prices, limited information to investors, price instability in the secondary market, lack of proper investment decisions of the investors etc. are the burning issues in Nepalese securities market. Since the capital market in Nepal is still in the infancy stage, the securities trading systems of the securities market still has different deficiencies. This leaves scope for anyone to take unfair benefit from the market. In such a situation we cannot expect perfect and fair behavior from all the market participants. The major problems seen in the system are, duality and ambiguities in the regulations, inadequate legal provisions, inadequate market infrastructure, lack of clear demarcation of the regulators, poor corporate cultures, lack of professionalism of the market participants, lack of margin trading system etc.

A developed securities market is the medium through which only those firms having good performance can raise capital through primary market. Liquid markets reduce the incentives to investing in long-duration projects because investors can easily sell their stake in the project if they need their savings before the project matures. Moreover, securities markets play a key role in allocation capital to the corporate sector, which has a real effect on the economy in aggregate.

It is obvious that securities markets should be well functioning for the sustainable economic development. The need for securities market development in Nepal has been an accepted reality and efforts are being made to strengthen it. To date, the stock markets in Nepal haven't attained satisfactory level of maturity in terms of its infrastructure, governance, investor's confidence, and pricing of stock and stability'.

Having those various problems as stated above in the NEPSE, this study is, therefore, devoted to examine the present condition of sector wise price behavior in NEPSE. Specifically, the main issues of the study are as follows:

- (i) What is the sector-wise share price behavior of listed companies?

- (ii) What is the sector-wise trend in market capitalization?
- (iii) What is the trend of sector wise annual turnover?
- (iv) What is the NEPSE index during the five fiscal year?

1.4 Objectives of the Study

The main objective of the research is to portray the existing scenario of the Nepal Stock Exchange (NEPSE) and sector wise share price behavior of listed companies in Nepal stock Exchange.

However, the specific objectives of the study are follows:

-) To analyze the trend of sector-wise share price behavior of listed companies.
-) To analyze the sector-wise trend of market capitalization.
-) To analyze the trend of sector-wise annual turnover.
-) To analysis the NEPSE index trend during the five fiscal year.

1.5 Signification of the Study

Although Nepal has gained the experience of securities market for more than three decades, it is still in infancy stage. Till the date, Nepalese securities market is not practicing margin trading and appropriate derivatives market. Due to the slow growth of corporate sector in the country, securities market of Nepal is not developing as expected. Development of various and dynamic securities market is the pre-requisite for the development of economic condition of the country. Therefore, the development of efficient securities market is very necessary to assist in the development of whole country.

Securities transaction system is the main function performed by a securities exchange. A sound trading system should be followed or implemented by a security exchange for

the effective and efficient trading of the securities. Since this study mainly focuses on the transaction procedures of securities at Nepal Stock Exchange (NEPSE), it may be useful in assisting the development of securities market in Nepal.

People expect better, quicker, easier and special facilities in securities market at the same time they expect honesty and soundness. The trading system determines the reliability of performance that the securities markets provide. Thus, this study is significant to the general people at one hand, and in other hand, this study can be significant to the regulatory authority of securities market, the securities board of Nepal (SEBON), in order to make the transparent practice, and important financial information, and make them to disclose the actual and appropriate financial situation. This study is significant to the different participants of securities markets too. It will help them to improve the better practice.

Until now there are not many books and publications or research conducted, that tells the present condition of securities trading system of Nepalese securities markets. Thus, this study is significant to management, shareholder, general public, policy maker and academicians. This study will explore for possibility of better practice and will represent the current status. So, it will be fruitful for not only current and potential investors but also for policy maker, manager, researcher and leaders.

More concisely, it will provide literature to the researcher who wants to carry out further research in this field.

1.6 Limitations of the Study

This study is simply for partial fulfillment of the requirements of the Degree of Master in Business Studies. Nepal Stock Exchange consists of nine sectors and this study is based only on these nine sectors. There are so many limitation of the study which is as follows:

- (i) In Nepalese market, there is only one stock market. So, the studies and references will be extremely limited.

- (ii) The whole study is based on secondary data only so the validity of the study depends on the reliability of the data.
- (iii) The study covers five fiscal year from F/Y 2005/06 to 2009/10.
- (iv) The limitations of this study are time constraints, limited budget, lack of experience, up to date information etc.

1.7 Organization of the Study

The report of this study has been organized in five different chapters. The organization of this report is as follows:

Chapter One consists of background of the study, statement of the problem, objective of the study, rationale of the study, limitation of the study and organization of the study.

Chapter Two deals with review of literature which consists of conceptual/theoretical framework, review of the books, journals and review from empirical/past researches studies. This will advance the knowledge about subject matter as well as general method of doing research in transaction procedures of securities.

Chapter Three explains the methodology used in the research to find the result for meeting the objective of the study. It deals with research methodology, which includes nature of research, nature and sources of data, data gathering procedures, tools for analysis.

Chapter Four deals with the analysis of primary and secondary data collected during the study. This section attempts to analyze and evaluate the data with the help of analytical tools and interpret the result so obtained.

Chapter Five covers the summary, conclusions and recommendations of the study.

Bibliography and appendix are presented at the end.

CHAPTER TWO

REVIEW OF LITEARTURE

This chapter deals with review of literature which consists of conceptual framework, review of the books, journals and review from past research studies. This will advance the knowledge about subject matter as well as general method of doing research in Sector wise share price behavior of listed companies in Nepal Stock Exchange Limited. The first part of this chapter deals with conceptual review of the study and second part is concern with the review of article journals and dissertation.

2.1 Conceptual Framework

Conceptual framework gives the basic concept on the relevant topic in the research where as reviews of the related studies gives knowledge about what have been done previously on the topic, what were the findings, what can be done future etc. review of related studies are done through articles, reports, magazines, different internet web sites and previous dissertation papers that have been conducted by various authors, scholars, researchers and teachers. This section mainly focus on investment, Financial market security, security market, security market in Nepal, security board of Nepal, Nepal Stock Exchange, security analysis and its types and efficient market theory.

2.1.1 Investment

"Investment in its broadest sense means the sacrifices of current dollars for future dollars two different attributes are generally involved: time and risk. The sacrifice takes place in present and is certain. The reward comes later, if at all and the magnitude is generally uncertain." (Sharpe et al., 2005).

"An investment is a commitment of funds made in expectation of some positive rate of return. If the investment is properly undertaken, return will be commensurate with the return with the risk the investor assumes". (Fisher and Jordan, 2000).

"We shall define an investment as the commitment of current fund in animation of receiving a larger future flow of funds. The investment hopes to be compensated for forgoing immediate co-option for the effects of inflation and taking a risk." (Hirt and Block, 2003).

Investment in its simple form means employing money to generate more money in future. It is the sacrifice of current rupees for future rupees. Return is the primary motive of investment, but it always entails some degree of risk, buying common stock, bond of a company, depositing money into bank account, buying a piece of land, gold or silver are examples of investment. These entire examples involve sacrifice of current rupees in expectation of future return. Hence, they are investments. (Shrestha et al., 2003).

2.1.2 Forms of Investment

There are two categories of assets: financial assets and real assets, accordingly there are two forms of investment (Thapa et al, 2006).

Investment in financial assets like common stock; bonds etc are called financial investments. Financial assets represent a financial claim. It is an asset that usually document by some forms of legal representation although financial assets are typically represented by tangible certificates of ownership; the financial assets itself is intangible. They are also called securities. Financial assets itself does not directly process productive capacity. Financial assets can be viewed as claim to the income generated by real assets. So, values of financial assets are derived from value of underlying assets. Financial assets are also called "paper assets".

A real asset represents actual tangible assets that may be seen; felt held or collected eg real estate gold etc. Investment in such tangible assets is call real investment real assets have productive capacity. The capital formation is the direct outcome of this productive investment.

2.1.3 Security Market

Security

In general, only a piece of paper represents the investors rights to certain prospects or property and the conditions under which he or she may exercise those rights. This piece of paper, serving as evidence of property rights, is called a security. It may be transferred to another investor, and with it go all its rights and conditions. Thus, everything from a pawn ticket to a share of GM common stock is a security. Hereafter the term security will be used to a legal representation of the right to receive prospective future benefits under stated conditions.

Security Markets

Security markets exist in order to bring together buyers and sellers of securities, meaning that they are mechanisms created to facilitate the exchange financial assets. There are many ways in which security market can be distinguished. One way primary and secondary markets, here the key distinction is whether the securities are being offered for sale by the issuer. Interestingly, the primary market itself can be subdivided into seasoned and unseasoned new issues. A seasoned new issue refers to the offering of an additional amount of already existing securities; whereas an unseasoned new issue involves the initial offering of a security to the public. Unseasoned new equity issues are often referred to as public offerings or IPO's.

Another way of distinguishing between security markets considers the life span of financial assets.

Money Market typically involves financial assets that expire in one year or less, whereas Capital Markets typically involve financial assets with life spans of greater than one year. Thus, treasury bills are traded in a money market, and treasury bonds are traded in a capital market (Sharpe, Alexander and Bailey, 2003: 9-10).

Therefore, securities market is an important constituent of capital market. It has a wide term embracing the buyers and sellers of securities and all the agencies and institutions that assist the sale and resale of corporate securities.

Securities are traded in a market called securities markets. Although, securities markets are concentrated in few locations, they refer more to mechanism rather than to place designed to facilitate the exchange of securities by bringing buyers and sellers of securities together. In other words, people and organizations wanting to borrow money are brought together with those having surplus funds in the securities markets.

Securities such as equities, short and long term debt instruments, etc. are the products that are traded in the markets. Institutions such as investment bankers and security firms, securities issuing institutions such as government and corporate bodies are the participants of the securities markets. Securities markets' major function is to provide a link between saving and investment there by facilitating the creation of new wealth. The development of a sound securities market with its constituent financial institution is one of the mechanisms which enable the efficient transformation of savings from the hands of surplus spending units to those of deficit spending ones who can use them to move productivity and/or have loss/risk aversion (Rugh, 1966: 56).

The existence of markets for securities is of advantage to both issuers and investors. As to their benefit to issuers, securities market assists business and government in raising funds. In a society with private ownership of the means of production and distribution of goods and services, savings must be directed towards investment in industries where capital is most productive. Government must also be able to borrow for public improvements. Market mechanism makes possible the transfer of funds from surplus to deficit sectors efficiently and at low cost (Fisher and Jordan, 2000: 17).

The securities market can be classified into primary market and secondary market.

Primary Market

The primary market for securities is the one in which new issues of bonds, preferred stock, and common stocks are sold by various economic units to acquire new capital (Reilly, 1986: 74).

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

The primary securities market includes all transactions that result in the accumulation of financial capital by firms, governments or individuals to be used in consumption or real capital investment. The participants in this process are many and varied, but an important segment, includes the money brokers who act as a middlemen in the process of exchanging securities or fund. These brokers provide invaluable services. Their principal role is to assist in the pooling of funds by the certain security firms that will appeal to the ultimate investors (Jacob and Pettit, 1984: 147).

Primary market is financial market in which securities are initially issued, the only market in which the issuer is directly involved in the transaction (Gitman, 1988: 30).

Secondary Market

Secondary markets are markets for existing assets, which are currently traded between investors. These are the markets that create the price and allow for liquidity. If secondary markets did not exist, investors would have no place to sell their assets, without liquidity, many investors would not invest at all.

If investors would not resell securities readily, they would be hesitant to acquire them, and such reluctance would reduce the total quantity of funds available to finance industry and government. Those who own securities must be assured of a

fact, fair orderly and open system of purchase and sell at known prices (Fisher and Jordan, 2000: 18).

In secondary markets there is trading in outstanding issues. In this case, an issue has already been sold to the public, and it is traded between current and potential owners. Again, there are secondary markets for bonds, preferred stock and common stock. The proceeds from a sale in the secondary market go, not to the company, but to the current owner of the security.

The secondary market involves trading securities initially sold in the primary market. Therefore, the secondary market provides liquidity to individuals who acquire securities in the primary markets. The primary market would be seriously hampered in its function of helping firms acquire new capital without the liquidity provided by the secondary market.

Secondary markets are also important to corporations because the prevailing market price of any security the firm issues is determined by action in the secondary market.

Therefore, any seasoned new issue (additional shares of an outstanding issue) sold in the primary market will necessarily be priced in line with the firm's capital costs, which are determined in the secondary market (Reilly, 1986: 76-77).

Secondary securities markets allow outstanding securities to be traded from old to new owners. The advantage of secondary market is to provide liquidity or cash and investment opportunities to investor and to make certain assets more attractive to buyers and sellers. Secondary market comprises the stock exchange and the over-the-counter (OTC) market.

There are four different kinds of secondary markets, they are:

1. Organized Securities Exchanges,
2. Over-The-Counter (OTC) market,
3. Third market, and

4. Fourth market.

Figure-2.1**Different Kinds of Secondary Markets**

The Organized Securities Exchanges are the physical locations where listed securities are traded under a set of rules and regulations. Investors usually purchase Securities in the secondary market by calling securities brokers. In secondary market investors buy and sell securities themselves, the issuer never gets any cash flow from the trades. Likewise, Nepal Stock Exchange (NEPSE) of Nepal, the New York Stock Exchange (NYSE), Tokyo Stock Exchange, American Stock Exchange (AMEX), and Bombay Stock Exchange (BSE) are the examples of organized stock exchanges.

Organized security exchanges are tangible physical entities. Each of the larger ones occupies its own building, has a limited number of members and has an elected governing body – its board of governors. Members are said to have “seats” on the exchange, although everybody stands up. These seats, which are bought and sold, give the holder the right to trade on the exchange (Brigham et al., 1999: 123).

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 exchanges. 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. A sophisticated telecommunication network links active traders in this market. 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.

The over-the-counter (OTC) exchange is not an organization but an intangible market for the purchasers and sellers of securities not listed by the organized exchanges. Active traders in this market are linked by a sophisticated telecommunications network. The prices at which securities are traded “over-the-counter” are determined by competitive bids and negotiation. The OTC, in addition to creating a resale market for outstanding securities, is a primary market in which new public issues are sold (Gitman, 1988: 37).

National Association of Securities Dealers Automated Quotation system (NASDAQ) is an example of an OTC market. This is the computer-linked network for the trading of OTC securities. It was initiated in 1971. It provides immediate information on a computer-linked system of bid/asked prices for stocks offered by various dealers. The bid price is that at which a dealer is willing to purchase a security and asked price is that at which the dealer is willing to sell a security.

Securities exchanges – both organized and over-the-counter – act as the backbone of the capital market by providing a forum in which debt and equity transactions can be made (Gitman, 1988: 37).

The Third Market is an OTC market where the securities listed in the organized stock exchange are also traded.

The term third market is used to describe over-the-counter trading of shares listed on an exchange. When a stock is listed on an exchange, members of that exchange are generally required to execute all buy and sell orders through the exchange (Reilly, 1986: 88).

More generally, the term 'Third Market' now refers to the trading of any exchange-listed security in the over the counter markets. The trading hours are not fixed to the third market like organized stock exchange.

In the third market dealers provide only execution and record keeping services for their clients.

The Fourth Market also exists in the over-the-market and here trades occur directly among investors. In other words, in this type of market the buyer and seller deal directly with each other. This deal occurs in the exchange listed securities. Fourth market participants completely bypass normal dealers' services.

The term fourth market is used to describe the direct trading of securities between two parties with no broker intermediary (Reilly, 1986: 88).

The factors which affect are the activities on the capital market.

Accordingly to Kuchhal following are the affecting factor

- Government's fiscal and industrial policies
- General economic conditions with special reference to industrial production and profitability.
- Thrust in the money and capital market with particular referent to price and saving situation

Nepal Stock Exchange Limited (NEPSE) is the only one organized stock market of Nepal. Stock markets are the type of secondary markets where the securities are traded

which are already been issued in the primary market. It means that, securities once purchased through primary market are traded in secondary market. Both the primary and secondary markets are complementary to each other. In the absence of one market, other market cannot flourish.

Securities market facilitates the exchange of financial assets by bringing together buyers and sellers of securities. Securities market provides an effective way of raising money for commercial enterprises and at the same time provide an investment opportunity for individual and institutions. Securities market has both theoretical and practical perspectives. Securities market provides value and significance to the financial assets. Practically, the activities of buying and selling securities of the securities market are extremely important for the allocation of capital within economics. The securities market serves as a reliable guide to the performance of companies and there by promoting efficiency.

2.1.4 Security Analysis

"Security analysis is the step of investment process. It involves the examining of several individual securities within the broad categories of financial assets. One purpose for conducting such examination is to identify those securities that currently appear to be mispriced. There are many approaches to security analysis. However most of these approaches fall into one of two classifications. Analysts who use technical analysis are known as technicians or, technical analysis. The second classification is known as

Fundamental analysis and analysts are fundamentalist or fundamentals analysis. (Sharpe et al., 2005).

Fundamental Analysis Theory

Fundamental analysis theory claim that at any point of time an individual stock has an intrinsic value of the future cash flows from the security discounted at

appropriated risk adjusted discounted rate. Fundamentalists attempt to reach the best estimate of the intrinsic value of a share by studying a company's sales, profit, dividends, management competency and numerous other economic and industrial factors which determine its future income and prospects of business opportunities. Fundamental analysis delves into a company's earnings, its management and other factors.

Fundamental analysis begins with the assertion that the true or intrinsic value of any financial asset equals the present value of all cash flows that the owner of the asset expects to receive. Accordingly, the fundamental stock analysis attempts to forecast the timing and size of those cash flows and then converts them to their equivalent present value by using an appropriate discount rate. More specifically, the analysis must attempt not only to estimate the discount rate but also to forecast the stream of dividends that a particular stock of a particular firm has been determined. It is compared with the current market price that has a true value less than their current market price as overvalued or overpriced, whereas those that have a true value greater than their current market price are known as underpriced or undervalued stocks. The magnitude of difference between the true value and the current market price is also important information because the strength of an analyst's conviction that the given stock is mispriced depends, in part, on it. Fundamental analysts believe that any notable cases of mispricing will be corrected by the market in the near future, meaning prices of undervalued stocks will show unusual appreciation and the price of overvalued stocks will show unusual depreciation.

The objectives of the fundamental security analysis are to appraise the intrinsic value of a security. The intrinsic value is the true economic worth of financial assets. Fundamentalists maintain that at any point in time every stock has an intrinsic value which should in principle be equal to the present value of the future stream of income from that stock discounted at an appropriate risk-related rate of interest. Therefore, the actual price sets off an anticipation of price changes as an anticipation change which in turn changes, as a result of new information. In other

word a new piece of news is released, securities market prices will adjust towards the new value.

The value of common stock is simply the present value of all future income which the owner of the share will receive"(Francis 1986). The actual price of should be reflect intrinsic value of the stock, i.e. good animation of cash flow and capitalization rate corresponding to the future tine period. But in practice first, it is not known in advance what the appropriate discount rate should before a particular stock. Therefore fundamental list estimates their intrinsic value by studying details all matters that are relevant to company the study would involve examinant's sales earning profit margin dividends management proficiency and industry and business outlook. Labor competence any factor that would have a bearing on its performance in the future

1. Government's fiscal and industrial policies
2. General economic conditions with special reference to industrial production and profitability.
3. Thrust in the money and capital market with particular reference to price and savings situation
4. Demand for capital from the public and private sector for developmental expenditure
5. Investors' preference for liquidity and return as reflected in the movement of price in the secondary market.

Technical Analysis Theory.

A Technical analysis or Technician is a security analysis who believes it is not productive to work through all the fundamental facts about the issuing corporation the companies earning, its products, forthcoming legislation that might affect the firm.

Instead, technical analysis believes that these innumerable fundamental facts are summarized and represented by the market prices of a security. Technical analysis

focuses most of their attention on charts of security market prices and on observed of security market prices and on required summary statues about security transaction. Technical analysis prepared and study of chart s of various financial variables in order to make forecast about but an increasing number use quantities rather than graphical tools.

Technical analysis is the study of the internal stock exchange information as such. The word 'Technical' implies the study of the market itself and not of those external factors, which are reflected in the market. Technical analysis is based on the widely accepted premise that security prices are determined by the supply of and the demand for securities. The tools of technical analysis are therefore designed to measure certain aspects of supply and demand. Typically, Technical analysis record historical financial data on charts, study these charts in search of patterns that they find meaningful and endeavor to use the patterns to predict future prices. Some charts are used to predict the movement of a single security. Others are used to predict the movement of a market index, and still others are used to predict the action of both individual assets and the market.

Efficient Market Theory

Efficient market is concerned with the pricing mechanism of security market. It has two dimension of price adjustment: one is to the type pf information reaching to and another is the speed and quality of adjustment of security to the information. As any random infusion of information instantaneously and correctly adjusts in `prices, there will be no subsequent lags that are profitable, pricing not only should be instantaneous but should discount accuracy of information so that the prices fluctuate closely around its intrinsic value.

Market efficiency may be defined in the context of number of areas for intense organizational efficiency investment efficiency, allocation efficiency, and informational efficiency and so on. The word 'efficiency' as applied to securities market has unfortunately been used to represent a verity of logically distinct

concept. In particular it may exchange efficiency, production efficiency and information.

"A market is efficient with respect to a particular set of information if it is impossible to make abnormal profits (other than by chance) by using this set of information to formulate buying and selling decisions" (Sharpe et al, 2005).

"In an efficient market all the relevant Efficient market theory contents that in free and perfect competitive market Stock price always reflects all the available information and adjust instantaneously very influx of new information.

"A market is efficient with respect to a particular set of information if it is impossible to make abnormal profit (other than by chance) by using set of information to formulation buying and selling decision." (Sharpe et al., 2005).

"In an efficient market all the relevant information is reflected and all prices are correctly stated in the current stock. So that there are no "bargains" in the stock market. James H. Lone explained what is mean by efficient security market in these words." (Bhalla, 1999).

Most financial economists agree that capital should be channeled to the place where it will do the most good; one goal of government policy is to encourage the establishment of allocation all efficient markets in which the firms with the most promising investment opportunity have access to the needed funds. However in order for markets to be allocation efficient, they need to be both internally and externally efficient. In externally efficient market, information is quickly and widely disseminated, which allows each security's price to adjust rapidly in an unbiased manner to new information so that it reflects investment value. An internally efficient market is one in which brokers and dealers complete fairly, making the cost of transacting low and the speed of transaction is high {Sharpe et al., 2003}."An efficient financial market exists when security prices reflect all available public information about the economy, financial market, and the specific company involved. The implication is that market exists when security prices of individual

securities adjust very rapidly to new information. As a result, security prices are said to fluctuate random about their "intrinsic" values.

2.1.5 Security Market in Nepal

History of security market begins 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., the first issuance of Government Bond in 1964 A.D. and the establishment of Securities Exchange Center Ltd. in 1976 A.D. was other significant development relating to capital markets.

The process of stock market development in Nepal actually started in when the government established Security Exchange Centre (SEC) with an objective of facilitating and promoting the growth of capital market. 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 SEC into Nepal Stock Exchange (NEPSE) in 1993 A.D. NEPSE started its operation with 25 brokers and 5 market makers. Later 6 brokers and 1 market maker are added and operated with 31 brokers and 6 market makers. Till 2066 B.S. NEPSE is operating with 23 brokers but there is no any market maker.

However, visible impact on the development of financial sectors was observed only when the government changed its restrictive policy and opened financial sector to private sector and foreign participation in the establishment of banks.

Securities Board of Nepal (SEBON) is and apex regulators of securities markets in Nepal and Nepal Exchange Ltd. (NEPSE) is only one securities market in Nepal.

2.1.5.1 Stock Exchange and Its Role and Functions

Stock exchange is the most highly centralized and visible institution where already issued securities are bought and sold for investment and speculative purpose. It provides facilities of trading of listed financial securities.

Securities exchange don't directly buy or sell securities, rather they provide trading floors on which a continuous auction market is conducted. To transact business on the trading floor of an exchange and individual must be member, that is, a seat on the exchange must be purchased. Individual or institutional investors who place orders to buy or sell the securities listed on an exchange may not be present when their orders are executed. Rather, they must be transmitted their orders to an exchange member-usually a commission broker- who sees that they are carried out (Jacob and Pettit, 1984: 155).

In the recent years, the authorities are increasing the role of the stock exchange (Sur, 1998: 40). Stock exchange is not and has at no time been the private concern of a few individuals. Nor have their activities been limited to the cyclical booms and slumps, which attracted so much popular attention. The stock exchange as the market for securities gives every body access to number of different opportunities for capital investment. The function of stock exchange is to provide equal opportunities for many buyers and sellers of securities as possible. From general economic point of view the stock exchange constitute the core of capital market. It has put its finger on the pulse of the economy and gives the diagnoses to the public in the form of quotation (Franfurture, 1972: 15).

The functions of securities exchange

Capital markets permit the segments of the economy that need capital for plant and equipment to obtain funds from the savers in the economy. Thus, they enable the stock of capital goods in the economy to grow. Just as stock of capital goods in the economy to grow. Just as financial institutions collect savings from numerous parties and lend them to acceptable borrowers, so the capital markets permit the conversion of savings

into investment, through loans or through the sale of ownership interests. The securities exchanges that make up the capital markets perform a number of important functions.

(i) Creating a Continuous Market

The key function of securities exchange is to create a continuous market for securities at a price that is not very different from the price at which they were previously sold. The continuity of securities markets provides the liquidity necessary to attract investors' funds. Without exchanges, investors might have to hold debt securities to maturity and equity securities indefinitely. It is doubtful that many people would be willing to invest under such conditions. A continuous market also reduces the volatility of security prices, further enhancing their liquidity.

(ii) Allocation Scarce Capital

The securities exchanges help allocate scarce funds to the best uses. That is, by disclosing the price behavior of securities and requiring the disclosure of certain corporate financial data, they allow investors to assess the securities' risk and return and to more their funds into the most promising investments. An efficient market is one that allocates funds to the most productive uses. The idea behind an efficient market is that the market price of securities always fully reflects available information and therefore is equal to the securities' value. This is especially true for securities that are actively traded on major exchanges. Since the competition among profit-seeking investors tends to hold prices close to their correct level.

(iii) Determining and Publicizing Security Prices

Securities exchanges both determine and publicize security prices. The price of an individual security is determined by what is bought and sold, or the demand and supply for the security.

A capital market brings together buyers and sellers from all geographic areas while affording them some anonymity. This trading forum helps to ensure an efficient market in which the price reflects the true value of the security. Changing evaluations of a firm,

of course, cause changes in the demand for and supply of its securities and ultimately result in a new price for the securities.

(iv) Aiding in New Financing

Securities exchanges also provide firms with a method of obtaining new financing. Since the markets are continuous, there by ensuring investor liquidity, new capital can be raised through new security issues. Of course, not all firms have access to those markets to raise new capital, but the presence of securities exchanges does give certain firms direct access to the savings of individuals, other firms, and financial institutions. Without the exchanges, new capital could be obtained only through direct negotiations with holders of large amounts of money. This effort obviously would be quite tedious (Gitman, 1988: 32-36).

This institution plays a notable part in the economic life of the country acting as a free market for securities, where prices are determined by demand and supply. The function of a stock exchange is not only providing a market for securities but also assist in the raising of funds for government and industries. Thus, free and active markets in stock and share have become a prerequisite for the mobilization and distribution of a nation's saving as to support modern business (Sur, 1998: 40-49).

The valuation of securities is very complicated procedures. Different statistical analysis like fundamental and technical analysis has been devised. But the trading procedure of the secondary market helps to value the securities more accurately considering the investors perception.

In secondary market, the buyers always use to quote low price to buy securities and sellers use to quote high price to sell. The buying price will be substituted if any other security person intend to pay more and the selling price will be changed if some any other brokers show his willingness to sell at lower price. This sort of negotiation goes on in continuous process till the price matches. Once the price matches then the transactions will be made according to the rules and regulations. So the pricing in securities is based on the principle of perfect market-hypothesis and helps to determine the worth of securities (Bhattraï, 2004: 111).

2.1.5.2 Nepal Stock Exchange Limited (NEPSE)

In 1993 AD security Exchange Center was converted into Nepal Stock Exchange (NEPSE) with the objectives to provide secondary market for securities transaction. The basic objective of NEPSE is to impute free marketability and liquidity to the Government and corporate securities by facilitating transaction in its trading floor through member market intimidates such as brokers, market maker etc. It opened its trading floor on 12th February 1994 AD. NEPSE is only one secondary market for securities in Nepal.

NEPSE was a non profit organization operating under Securities Exchange Act 1983 The AGM on 5 June 2009 decided to distribute 20% cash dividend from the profit of fiscal year 2007/08. This is the first time NEPSE has announced cash dividend. The decision of 26th AGM covered NEPSE into a profit making organization from non profit making organization

The stock exchange provides an organized market for the investors to pay and sell securities freely. The market for these securities is an almost perfectly competitive one because a large number of sellers and buyers participate. The shares listed, however are not really homogeneous like a commodity in a perfectly competitive market.

- a. Shareholder of NEPSE is Government of Nepal, Nepal Rasta Bank and Nepal Industrial development Corporation and members (broker).
- b. Member of NEPSE

Member of NEPSE are permitted to act as intermediaries in buying and selling of government bonds and listed corporate securities. At present there are 23 Member broker 2 Market maker 11 sales and issue manager and 2 Dealers (secondary market)

- c. Function of NEPSE

In the stock exchange, there is an active bidding and a two-way auction trading takes place. The bargains that are struck the fairest price determined by the basic

law of demand and supply. The stock exchange provides an auction market in which members of stock exchange participate to ensure continuity of the price and liquidity to investors.

NEPSE is the sole organization for the operation of the secondary market for listed securities. NEPSE is working under SEBON. It has its own board of directors to direct and to formulate the policy matter to run the securities transactions business in the country. In order to execute day to day activities a general manager will be appointed by government and it has several departments under which several division and sections are incorporated to run the day to day activities.

2.1.5.3 Participants in Nepal Stock Exchange Limited

(a) Member Broker

Member broker are the license holders who are empowered to accept the buy and sell orders from their individual clients and make transactions in trading floors. Such security persons execute the orders on behalf of their clients and charge the commission on the basis of traded amount. The basic services such as holding securities for safe keeping, providing information and advice relating to investment alternatives, extending margin loans and facilitating short sales.

The brokers require to be registered with the security board to perform securities dealing. A broker seeking registration with the board has to specify in the securities act, 2006. Any individual, a firm or company desiring to engage in the business of buying and selling securities and in other related activities in the capacity of only and intermediary for clients without purchasing directly in its own name is granted membership as a broker. If a broker wishes to purchase securities for himself or in his own name, he can do through other brokers by giving advance notice to the stock exchange.

At present, there are 23 member brokers who operate on the trading floor as per the securities exchange act 2006, rules and bye-laws.

(b) Security Dealer

Dealer trade solely for themselves and are prohibited from handling orders. Since dealers have access to the floor and can own securities on their own name. They benefit from buying at low and selling at high price. The benefit of the dealers to the market is that their buy and sell action added up liquidity of the securities.

(i) Security Dealer (Primary Market):

The security dealers (Primary market) are the dealers who provide pre-issue and post issue services for the sales management of securities which are being newly issued by a corporate body through a public issue or the circular method underwrite the purchase of unsold issue shares, or perform other related functions.

(ii) Security Dealer (Secondary Market):

The security dealers (Secondary Market) are the dealers who deal in securities through brokers in the name of the investor or in his own name with the objective of managing investments in securities presented at the stock exchange for transactions in his own name or by concluding investment management contracts according to the current law 13.

The security dealer specializes in buying and selling securities that is securities issued by government and public bodies like NIDC, citizenship fund and credit development banks etc. The market is an OTC market and each purchase and sale has to be separately negotiated. The market, therefore, tends to be restricted.

NEPSE has granted membership to issue and sales manager securities trader (Dealer). Issue and sales manager works as manager to the issue and under-writer for public issue of securities whereas securities trade (Dealer) works as individual portfolio manager.

Presently, there are 11 sales and issue manager and 1 dealer (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.

(c) Market Maker:

Market makers are the institutional members. They are also known as specialists; facilitate the trading of securities by maintaining inventory in particular securities. They are similar to dealers in many ways except that they always stand ready to buy and sell securities at their bid and asked price for which they are market maker. They are well organized institutions and are considered to be an expert in the area of analyzing financial statements and controlling and regulating the market through the market mechanism. So, these organizations are allowed making buy and sell in and from their own account. So, in this process of market making, they are allowed quoting both the bid and ask price.

The spread between these two is their income. They are not allowed to deal with general investors. It is expected that they will buy when there is excess supply of securities in the market and they will sell the securities when there is excess demand. With this process they will control the probable artificial increase and decrease of market price. Market brokers are their clients.

At present, there are 2 market makers, who operate on the trading floor as per the securities exchange Act 2006, rules and bye-laws. (www.nepalstock.com).

2.1.6 Trading System of Nepal Stock Exchange (NEPSE)**2.1.6.1 Trading Procedures**

Previously, NEPSE had adopted an “Open-Out-Cry” system. It means transactions of securities are conducted on the open auction principle on the trading floor. The buying broker with highest bid will post the price and his code number on the buying column, while the selling broker with the lowest offer will post the price and code number on the selling column on the quotation board. The market makers quote their bid and offer price on their own board before the floor starts. Once the bid and offer match, contacts

between the buying and selling brokers or between the brokers and market makers are concluded on the floor.

But at present, NEPSE the only one stock exchange in Nepal introduced fully automated screen based trading since 20th August 2007.

The NEPSE trading system is called ‘NEPSE Automated Trading System ‘(NATS). It is a fully screen based automated trading system, which adopts the principle of an order driven market.

2.1.6.2 Trading Days and Hours

NEPSE has fixed the trading days and hours during which the members are allowed to make their transaction activities.

Table-2.1

Trading Days and Hours

Types of Trading	Days	Trading Time
Regular Trading	Sunday to Thursday	12.00 PM to 3.00 PM
Odd lot Trading	Friday	12.00 PM to 1.00 PM
Transaction of govt. bond	Sunday to Friday	10.30 AM to 11.30 AM

Source: www.nepalstock.com

Trading on equities takes place on all days of week (except Saturday and holidays declared by exchange in Advance). On Friday only odd lot trading is done.

2.1.6.3 Trading Location

The trading can be done either from NEPSE’s trading floor or from the broker’s office. NEPSE uses sophisticated technology through brokers can trade remotely from their office located inside the Kathmandu valley. This remote trading facility was started from 1 November 2007.

2.1.6.4 Circuit Breakers

NEPSE has implemented index-based circuit breakers with effect from 2064/6/4 (21 September 2007). In addition to the circuit breakers, price range is also applicable on individual securities.

2.1.6.5 Index-based Circuit Breakers

The index-based circuit breaker system applies at 3 stages of the NEPSE index movement of 3%, 4% and 5%. These circuit breakers when triggered bring about a trading halt in all equity. In case of 3% movement either way, there would be a market halt for 15 minutes if the movement takes place during first hour of trading i.e. 13:00 hours. In case this movement takes after 13:00 hours there will be no trading halt at this level and market shall continue trading. In case of 4% movement either way, there would be a market halt for half an hour if the movement takes place before 14:00 hours. In case this movement takes after 14:00 hours there will be no trading halt at this level and market shall continue trading. In case of 5% movement in either way, trading shall be halted for the remainder of the day.

2.1.6.6 Price Range for Transaction

Price Range is applicable on individual securities. The trading of the individual securities are not halted but allowed to trade within the price range. The price band is 10% of previous close on either way. During the ATO session the range is 5% on either way of Previous Close Price. After the band is 2% on either way of the Last traded price till it reaches to 10% of the previous close.

2.1.6.7 Settlement Procedures

NEPSE has adopted a T+3 settlement system. Settlement will be carried out on the basis of paper verses payment. The trading is done at "T" and at T+1; the buying brokers have to submit bank vouchers for settlement with covering letter. At T+2, the selling brokers must submit share certificate with covering letter. At T+3, NEPSE prepares billing for payment and this will be forwarded to the bank. Once the settlement is done the buying

brokers with the consultation of the clients must decide and present the purchased shares if they want to record it as blank transfer. This must be completed within T+5.

2.1.6.8 Blank Transfer (BT) Procedures

Under this mechanism an opportunities to derive the market benefit is provided. But presently, the buying brokers must complete the BT process within T+5. The transactions that are executed can be recorded in different way and NEPSE has considered all possible retention.

The followings are the major key points to be considered.

1. This is related only with buy of the securities.
2. The buyer may decide to have market benefit either to have capital gains or to minimize the loss.
3. In order to do this s/he may partly send for name transfer or may register it in blank transfer.
4. If s/he register total purchase in blank transfer and can put for sale and if only the part of the shares are subscribed then s/he can handover the part and the part can be forwarded for name transfer to the concerned company. In order to do this s/he has to cancel the blank transfer for that portion.

2.1.6.9 Brokerage Commission

Table-2.2

Brokerage Commission for Equity

S.No.	Trading Amount	Brokerage Fee %
A	Up to 50,000	1
B	> 50,000 & < 5,00,000	0.9
C	> 5,00,000 & < 10,00,000	0.8
D	> 10,00,000	0.7

Source: www.nepalstock.com

Table-2.3
Brokerage Commission for Government Bond

S.No.	Trading Amount	Brokerage Fee %
A	Up to 5,00,000	0.20
B	> 5,00,000 & < 50,00,000	0.10
C	> 50,00,000	0.05

Source: www.nepalstock.com

Table-2.4
Brokerage Commission for All Other Stocks

S.No.	Trading Amount	Brokerage Fee %
A	Up to 50,000	0.75
B	> 50,000 & < 50,00,000	0.60
C	> 50,00,000	0.40

Source: www.nepalstock.com

2.2 Review of Government Policies and Programs

Nepal Stock Exchange Ltd. (NEPSE) is the only securities market of Nepal. There are different policies and programs initiated by the government for the regulation and control of the securities market. The major provisions set up by the government in relation to securities market of Nepal are explained below:

2.2.1 Securities Board of Nepal (SEBON)

Securities Board of Nepal (SEBON) was established by the Government of Nepal on June 7, 1993 as an apex regulator of Securities Markets in Nepal. It has been

regulating the market under the Securities Exchange Act, 2006. The functions, duties and powers of SEBON as per the Act are as follows.

-) To offer advice to Government on matters connected with the development of the capital market.
-) To register the securities of corporate bodies established with the authority to make a public issue of its securities.
-) To regulate and systematize the issue, transfer, sale and exchange of registered securities.
-) To give permission to operate a stock exchange to any corporate body desirous of doing so, subject to this Act or the rules and bye-rules framed under this Act.
-) To supervise and monitor the functions and activities of stock exchange.
-) To inspect whether or not any stock exchange is executing its functions and activities in accordance with this Act or the rules and bye-rules framed under this Act, and to suspend or cancel the license of any stock exchange which is not found to be doing so.
-) To issue licenses to conduct the business of dealing in securities, subject to this Act, or the rules and the bye-rules framed under this Act, to companies or institutions desirous of conducting the business of dealing in securities.
-) To supervise and monitor the functions and activities of securities-dealers.
-) To grant permission to operate collective investment schemes and investment fund programs, and to supervise and monitor them.
-) To approve the bye-rules concerning transactions in securities framed by stock exchanges and institutions engaged in the business of dealing in securities, and, for the purpose of making necessary provisions concerning the development of the capital market and protecting the interests of investors investing in securities, issue orders to have necessary alterations made in such bye-rules of stock exchange and institutions engaged in the business of dealing in securities.
-) To systematize the task of clearing accounts related to transactions in securities.
-) To supervise whether or not security dealers are behaving in the manner prescribed in this Act, or the rules and the bye-rules framed under this Act,

while conducting business of dealing in securities, and suspend the license to conduct the business of dealing in securities in case any securities dealer is not found to be behaving accordingly.

- J To make or ensure necessary arrangements to regulate the volume of securities transacted and the procedure of conducting such transactions in order to ensure the promotion, development and clean operation of stock exchanges.
- J To make necessary arrangements to prevent insider trading or any other offenses relating to transactions in securities in order to protect the interest of investors in securities.
- J To review or make arrangement for reviewing the financial statements submitted by the corporate bodies issuing securities and security dealers, and issue directives deemed necessary in that connection to the concerned corporate body.
- J To systematize and make transparent the act of acquiring the ownership of a company or gaining control over its management by purchasing its shares in a single lot or in different lots.
- J To establish coordination and exchange cooperation with the appropriate agencies in order to supervise and regulate matters concerning securities or companies.
- J To discharge or make arrangements for discharging such other functions as are necessary for the development of securities and the capital market.

The Governing Board of SEBON is composed of seven members including one full time chairman appointed by the Government for tenure of four years. Other members of the Board include joint secretary of Ministry of Finance, joint secretary of Ministry of Law, Justice and Parliamentary Affairs, representative from Nepal Rastra Bank, representative from Institute of Chartered Accountants of Nepal, representative from Federation of Nepalese Chambers of Commerce and Industries, and one member appointed by the Government from amongst the experts pertaining to management of securities market, development of capital market, financial or economic sector.

There are seven departments and sixteen sections in the organization of SEBON. Under the Management Department, there are two divisions namely Human Resources Section and Finance Section. There are also four sections under the Planning and Development Department namely Research Section, Training Section, Information Technology Section and International Affairs Section. There are also two sections under the Corporate Finance Department namely, Public Issue Section and Collective Investment Scheme Section. Likewise, Under the Regulation Department, there are two sections namely, Stock Exchange Regulation Section and Market Intermediaries Regulation Section. There are also four sections under the Surveillance Department namely, Stock Exchange Surveillance Section, Market Intermediaries Surveillance Section, Trading Surveillance Section and Corporate Surveillance Section. Finally, under Legal Department, there are two sections Research and Investigation Section and Enforcement Section.

The major financial sources of SEBON are the government grant, transaction fee from the stock exchange and registration fee of corporate securities. Other financing sources include registration and renewal of stock exchange and market intermediaries and the income from mobilization of its revolving fund (www.sebonp.com).

2.2.2 Feature of Security Issue Guideline 2009

-) Clear definition of various terminologies related to securities issue.
-) Incorporate clear provision for the process of preference share, right share and debenture issue.
-) Incorporated clear process for future public issue and securities issue on premium.
-) Incorporate clear provision about the allotment of share within minimum time span of 40 days to maximum 70 days on the basis of application number after to closure date of securities issue.
-) Provision to refund amount within 5 days after allotment

- J) Incorporated clear provision to allotment 2% to 5% share to its employees of the issuing depending upon the number of employees of the issuing companies out of total issue of share.

2.3 Research Review

2.3.1 Review of Journals, Articles and Dissertation

This sub section is concern with the previous research work done by the different scholars more specially, the chapter includes the review of journal articles and related previous dissertation. There are not sufficient dissertations concerning with this particular topic but the researchers more or less resulted with the topics are reviewed here.

Bhattarai (1984) has studied the impact of SEC on capital mobilization with special referring to the government securities and share market in Nepal. He has found that SEC has been established for the reason to provide the liquidity. Thus it helps to mobilize the long term capital to launch the development activities in the country.

Bhattarai (1990) has concluded that majority of the companies displayed lower price of the share are highly skewed. Further more, there is a mismatch between calculated and quoted price. Increasing number of financial institution plus individual investor raised the transaction volume. Speculation of share is also encouraged.

Aryal (1995) has conducted research topic on "The General Behavior of Stock Market Price" The objectives of the study was to find the laws of price fluctuation in the stock market to discuss theoretically the movements of stock market prices as predicted by random walk model and to examine whether the successive price change of stocks market are independent to each other or not.

In this study the general behavior of twenty-one security prices on Nepal Stock exchange is remarkable for that, mainly the assumption of independence as predicate by random walk model of security price behavior. The stock price changes are dependent

on each other. The random walk of security speculative price behavior has been refuted at least in the Nepalese context. Sample of securities they are incorrectly adjusted those past information to the present market prices. General stock market of Nepal for the initial period appeared to be inefficient in incorporating the possible appearance of information into the successive price changes. He concluded that the knowledge of past is useful in predicting the future movements of stock market prices. Therefore, investors on the floor of the exchanges of securities can make higher than expected profits in the future based solely on the historical prices series under the existing trading mechanisms than they would be under buy and hold strategy.

Shrestha (1995) has conducted research topic on "Stock Price Behavior in Nepal." This study aims to examine the efficiency of the stock market in Nepal. The study was conducted with the objectives to examine the serial correlation of the successive daily price changes of the individual stock to determine whether the sequence of price changes is consistent with changes of the series of random numbers expected under the independent Bernoulli process and to determine the efficiency of the stock market through the theoretical model of efficient market hypothesis in Nepalese stock market.

He has concluded that the random walk theory is not a suitable description for the stock price behavior in Nepal. Opportunities are available to sophisticated (both institutional and individual) investors to earn higher return in the market. The existence and participation of the sophisticated investors have not been realized. It is realized that mostly the naïve investors have dominated the market that can cause prices to diverge significantly from intrinsic value because the very existence of the sophisticated traders causes to erase the opportunities of persistence in price which establish independence of successive price change.

Dhal (2002) has conducted research on the topic "Stock market Behavior of Listed Joint Stock Companies in Nepal." His study was mainly based on the secondary data during the period of year 1997 to 2001. The study was conducted with the objective to analyze the rate of listing of new companies and maintains of listed companies in Nepal Stock Exchange Ltd, to analyze stock price trend and volume of stock traded on the secondary

market, and to examine the signaling factors impact on stock price was help of NEPSE index.

He has concluded that the study the NEPSE index price trend and investment facilitators are not doing their work in systematic way and the majority of the investors are facing many difficulties in Nepal Stock Exchange. The efficiency of stock market like market broker market makers, Security Exchange Limited were not found efficient by analyzing interviewers expression as they were not getting required support from these purpose investment decision is based on market price of share and volume of stock traded in stock exchange during his study period was found in increasing trend put last year was decreasing trend. Focused the study the price stock rather than the brokerage services.

Gurung (2004) has conducted study on the topic of "Growth and performance of security market in Nepal." This study is based on secondary data only and covered 10 year time spans FY 1993/94 to 2002/03 and included corporate securities only. His study was focused on securities board of Nepal and NEPSE.

Securities Board, Nepal an apex regulator and facilitator of capital market and stock Nepal Stock Exchange Ltd, only a single stock market are the main conditions of securities market in Nepal. This paper attempts the study the growth trend and analyzes the performance of Nepalese securities market. The variables such as number of listed and traded companies and their securities, number of transaction, trading turnover, paid up value, market capitalization and NEPSE index are analyzed for the secondary market.

Mr. Gurung concluded that securities market plays a pivotal role in mobilizing saving and channeling them in productive purpose and many more like providing liquidity securities so that one can minimize the risk and maximize the returns. The study on the securities market performance reveals that there is no synchronization among different an erratic trend during the observed period. This indicates they almost have depicted an erratic trend during the observed period. This indicates that unstable and poor performance of securities market. Relative the overall economy, the size of securities

market is very small and the liquidity of securities also is poor. These facts suggest that the Nepalese Capital market now is passing through a bearish situation. The growth and performance of Nepalese

Naupane (2004) conducted research on the Stock Price in Nepal Stock Exchange. "He has taken 2 commercial brokers, 2 manufacturing and processing company, 2 finance company and 1 development bank as the sample. His study was based on the secondary data. The study was conducted with the objectives to determine the effect of earning and book value of the stock price in NEPSE to identify qualitative as well as quantities factors affecting the stock price in NEPSE.

The study concludes that NEPSE, DPS, BPS and EPS individually do not have consistent relationship with the MPS among the listed companies. The pricing behavior varies from one company to another. But EPS BPS and DPS jointly have significant effect on MPS. Companies performance (earning, dividend, BPS, risk etc) information disclosure, timely AGM, political stability, national economy demand and supply situation strikes/demonstration case-fire and peace-talk are major factor affecting the share price, Listed companies do not provide sufficient information to their shareholders and performance of the companies are not transparent and moist problem is also affecting NEPSE.

Niraula (2004) has conducted research on the "stock prices movement of listed companies on securities market." His study was based the secondary data taken from 1994/94 to 2002/03. The study was conducted with the objectives to analyze stock price volume and the trend of the Nepal Stock Market, to analyze stock price volume and the trend and maintenance of already listed companies in NEPSE, to examine the relationship between NEPSE indexes.

He has concluded that the study Nepalese stock market is in developing stage but investors are not well aware about this and investment process NEPSE index price trend and investment factors are not in systematic way. Stock price trend is decreasing from many years as sec but from two years price of the stock is decreasing rapidly and new listed companies is increasing. Degree of relationship of NEPSE index with yield of

stock member of listed companies in positive and significant volume of stock traded in stock exchange during the study period was found increasing trend but last a year is decreasing. The leading companies are insurance companies, Development bank manufacturing companies and processing companies on the basis of higher price but commercial bank are dominates other on the basic volume traded.

Poudel (2005) has concluded research on the topic "Share price behavior of listed companies in Nepal" The same for the study companies of 21 companies representation from each sector listed in Nepal Stock Exchange The study was based the secondary data. Different statically tools like serial correlation and run tested were found. The objective of the study was tested the daily share price behavior of listed companies in Nepal.

He concluded that NEPSE index showed a steady increase in the later month of the study period, which also shows the better performance of NEPSE. Stock market performance is more or less in a stable position in the capital market overall in the study period. The stock market performance is steadily increasing with the increase in the number of listed companies. The badly affected were hotels, trading, manufacturing and processing sector due of different reasons. The NEPSE index showed a better performance during the study period. NEPSE index of commercial banks is in increasing trend as compared to the other sectors.

Poudel (2008) has concluded research on the topic "Stock market Growth in Nepal." His study was based on the primary and secondary data during the period of year 1993/94 to 2007/08. The objectives of the study was to examine pace of primary market and growth of listed companies in Nepal, and to analyze the trend of market capitalization, number of transaction number of securities traded and number of securities listed etc.

He has concluded that the study the market capitalization value of listed securities was fluctuating in the research year and growth rate negative in market capitalization. Daily turnover, total share traded and opening market NEPSE index was also increased. NEPSE and SEBONS do not period information accurately and timely. The further

added that information provided is not sufficient. Primary market is more attractive for majority of the respondents because of low risk. Majority of the respondents prefer to invest in banking and financial sector because of its marketability and profitability.

Dhamala (2009) has conducted research on “Determinants of share price in Nepalese Financial Market”. The basic objectives of the study are to examine whether MPS of listed companies, especially for selected companies under the study, really represent the financial indicators such as NWPS, EPS, DPS, ROE, etc. and to what extent the risk is involved in the investment of common stocks of those.

He concluded that no single financial indicator has a main role to determine MPS of all companies undertaken for the study. The same financial indicator that has a significant role in determining MPS for one company is not significant for another company. The degree of interrelationship of MPS with different financial indicators varies from one company to another. There is no uniformity in the relationship of MPS with various financial indicators of the sampled companies. If considered on the basis of the average data for the past 5 years, MPS of 6 financial institutions has a higher positive correlation with major financial indicators such as EPS, NWPS and DPS, and such a relationship is significant.

He also concluded that the Nepalese stock market is not efficient enough to determine MPS in accordance with the respective financial performance. The market price of a share in Nepal is not indicative of a company's financial performance in the stock market. The share market is imperfect and inefficient and is liable to manipulation. Basically, the value of share price is to be determined by the future financial indicators. Unfortunately, the stock market does not run based on proper information about the company.

2.4 Research Gap

The research on this topic has been essential as the financial market is a very important segment of the economy. This research is very useful for investors of the Nepalese share market. This research will be effective for the Nepal share market and related fields. Previous

research in related field has not enclosed of Sector wise price behavior of listed companies in Nepal stock Exchange .Nine Sector They are commercial Bank, Finance Companies, Development Banks, Insurance Companies, Hotel, Manufacturing and processing Companies, Trading Companies, Hydropower and Others. This Study is different to other previous study. Because of this research study deeply studies of sector wise (nine) share price behavior. In last five year which sectors share price high which share price low and how to flexible of share price. This study concluded that share price which will be investor invest share market. Different sector which sector position which level. The studies which level of NEPSE Index of share prices of listing company.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter describes the methodology used in the research to find the result for meeting the objective of the study. It deals with research methodology. This includes nature of research, nature and sources of data, data gathering procedures, tools for analysis. This chapter has been divided into six parts. These are research design, population and sample size, Nature and Source of Data, Data Collection processing and analysis tools and limitation of the methodology.

3.1 Research Design

This study is carried out to get the empirical result of the Behavior of Nepal Stock Exchange Index. Research Design serves as a frame for the study guiding the collection and analysis of the data. Analytical as well as descriptive research design is used to pursue the objectives of the study.

3.2 Population and Sample

There were altogether 176 companies listed in the NEPSE till fiscal 2009/10. Thus these 176 listed companies are the population of this study. This study covers all the population and thus sample has not been dawned. Nepal Stock Exchange has classified the companies into nine sectors. They are commercial bank sector, finance companies sector, development banks sector, insurance companies sector, hotel sector, manufacturing and processing companies sector, trading companies sector, hydropower sector and others sector. Whole sectors of NEPSE is taken for the study purpose hence, population is itself the sample. It means this study covers the whole population.

Table-3.1**Sector-wise listed number of companies**

S.N.	Types of listed company	Total population
1	Commercial Banks	23
2	Development Banks	40
3	Insurance company	62
4	Finance company	19
5	Manufacturing & Processing co	4
6	Hotel	18
7	Trading company	4
8	Other company	2
9	Hydro power	4
	Total	176

Sources: www.nepalstock.com.

3.3 Nature and Sources of Data

The required data for study were collected from the secondary sources. Nepal Stock Exchange Ltd. and Securities Board of Nepal were the main institution which provides most of the secondary data required for the study. The website of NEPSE and its trading reports, website of SEBON and its annual reports were the major sources of secondary data. Besides these, necessary data were collected from different books, newspapers, article and thesis. Following websites were basically used.

-) Nepal Rastra Bank (www.nrb.org)
-) Nepal Stock Exchange (www.nepalstock.com.np)
-) Securities Board of Nepal (www.sebonp.com)
-) Research studies, articles, journals, books etc.

3.4 Data Collection Procedure

The data is mainly based on secondary data obtained from earlier stated sources. For the purpose of the collection of data required for this study. First of all necessary study of data and the relevant documents were identified. Then visited Nepal Stock Exchange limited, to collect the required data. The reports and data were also collected from the website of NEPSE and other website different books, library, published magazines and other published, articles etc.

On the completion of data collection, data were processed and using the micro soft Excel application software.

3.5 Data Processing and Analysis Tool

Simple statistical tools have been used to this study. The statistical tools have been used to this study. The statistical tools used in this study are percentage, line carts, bar diagram, multiple bar diagram, sub divided bar diagram and standard deviation. They are used to analyze the proportion of traded companies, listed companies, listed companies, market opening day etc. Percentage has and group wise trading market capitalization etc. Bar diagram the sub divided used to analyze the behavior of NEPSE Index. Standard deviation, coefficient of variation weighted average mean has been used to analyze the volatility of the behavior of NEPSE Index.

3.5.1 Statistical Tools

To draw the conclusion by analyzing the collected data simple statistical tool like weighted average mean standard deviation, coefficient of variation, simple bar diagram, multiple bar diagram, sub divided bar diagram and line charts, percentage coefficient of variation etc. are used and tabulation are made to implicit the comparative results.

3.5.2 Arithmetic Mean

The central value that represents the characteristics of whole distribution or, the value around which all items of the distribution tend to concentrate are called average. Arithmetic mean is one of the important statistical measures of average. The arithmetic mean of a given of observation is their sub divided by the number of observation (Bajracharya.2058).

Symbolically

$$\text{Arithmetic Mean } (\bar{X}) = \frac{X}{N}$$

Where,

\bar{X} = Arithmetic mean.

X = Sum of observations

N = Total number of observations

3.5.3 Percentage

Percentage is one of the most useful tools for the comparison of two quantities or, variables, simply the word percentage mean per hundred. In other words, the fraction with 100 as its denominator is known as a percentage and the number of the faction is known as rate of percent.

3.5.4 Standard deviations

It is a statistical measure of the variability of distribution of return around its mean. It is square root of the variance and measure the total risk on stick investment.

$$\dagger X \sqrt{\frac{\sum (X - \bar{X})^2}{n}}$$

Where,

$\dagger X$ Standard Deviation

\bar{X} = Arithmetic mean

n = Number of observation

$\sum X$ Sum of all values

x = Observation

3.5.5 Coefficient of variation (C.V)

It is applicable to calculate the risk per unit of the expected return. It is the ratio of standard deviation of return to mean of that distribution. It is the major relative risk. Coefficient of variation is the unitary risk measure. It gives the result regarding the unit of risk to bear for earning one unit of return.

$$C.V. = \frac{\dagger X}{\bar{X}} \times 100$$

$\dagger X$ Risk

\bar{X} = Return.

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

- (a) Graphic and free hand curve method
- (b) Semi-average method

(c) Moving average method

(d) Least square method

Out of them, least square method has been used in this study. This is mathematical method of obtaining trend that uses the concept of least square method, simply the technique of fitting regression equation. For straight line trend between the time series values (y) and the time (x) is given by,

$$y_c = a + bx \dots\dots(i)$$

Where,

y_c = Estimated value of y for any given value of independent variable of x

a = Y- intercept or value of y when x = 0

b = slope of the trend line or amount of change in y per unit change in x.

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

$$y = na + b \ x \dots\dots(ii)$$

$$xy = a \ x + b \ x^2 \dots\dots(iii)$$

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

3.6 Limitation of the Methodology

The analysis of the study is fully based on secondary data. So the secondary data play a vital role on the study and the reliability of collected data affect the result of the study. The financial statement of the company is not readily available Nepal Stock Exchange Ltd publishes financial statement of listed companies and information of some listed companies is not available.

Nepal Stock Exchange Ltd publishes financial statement and other information of some listed companies it is still unsuccessful to keep data of listed companies on its websites.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

This chapter deals with the main body of the study, the presentation and analysis of the collected data. This chapter deals with the study of sector wise listed companies, annual turnover, market capitalization, number of share traded (traded share quantity) and market opening days in a year in NEPSE. The rest part deals with the trend of NEPSE Index and the major findings of the study.

4.1 Trend of Sector-wise Share Price Behavior of Listed Companies.

Securities Exchange Centre (SEC), established in 1976 A D. was converted into Nepal Stock Exchange (NEPSE) in 1993 A.D., which opened its trading floor on 13th January, 1994. From that time, NEPSE is involved in the securities trading of different listed companies. Here, attempts have been made to study the status of NEPSE by analyzing its yearly trends of different factors from its beginning year to the last fiscal year

4.1.1 NEPSE Sub-Index of Commercial Bank Sector

Commercial Banks is the most important and largest sector listed in NEPSE. In the study period (F/Y 2005/06 to 2009/10) daily sector-wise index was collected and than it converted them into monthly index. Collected data are presented in tables and graphs and then have been analyzed.

Table 4.1 Shows that the NEPSE sub-Index of commercial bank sector was fluctuating. In the months August 2005, it was 323.34 and it increased to 414.66 point in May 2006 and again increased to 554.52 point in July. In F/Y 2006/07 the sub-index of

commercial bank was 422.08 point in August and it increased to 586.28 point in January and decreased to 517.47 points in March and again increased in 593.46 point in June. The peak point was 1040.47 point in December of F/Y 2007/08 the NEPSE Index of commercial bank sector was 1117.97 point in August in F/Y 2008/09, which is the peak point of the study period. In September the sub-Index was in decreasing trend and slumped down to 619.70 point in January than it increased to 875.15 point in July of F/Y 2008/09. In F/Y 2009/10 731.55 point August it decreased up to 402.93 in April and the sub-Index was increased 603.74 point in July.

Table 4.1

NEPSE sub-Index of Commercial Bank Sector

Months	NEPSE Sub-Index of Commercial Bank				
Year	2005/06	2006/07	2007/08	2008/09	2009/10
August	323.34	422.08	799.3	1,117.97	731.55
September	449.77	432.21	928.24	1,030.59	636.58
October	324.8	451.64	958.1	978.14	589.23
November	327.83	511.08	930.73	739.3	539.5
December	327.9	574.08	1,040.47	704.55	514.42
January	329.92	586.28	903.04	619.7	501.91
February	333.78	567.45	748.03	645	467.02
March	375.97	517.47	710.93	662.35	450.78
April	376.89	531.46	720.85	657.64	402.93
May	414.66	567.33	795.95	649.57	472.07
June	355.72	593.46	942.46	700.37	452.33
July	554.52	572.3	870.09	875.15	603.74
S.D.	69.5	61.42	105.51	172.87	94.3
C.V.	18.56%	11.65%	12.64%	22.12%	17.79%

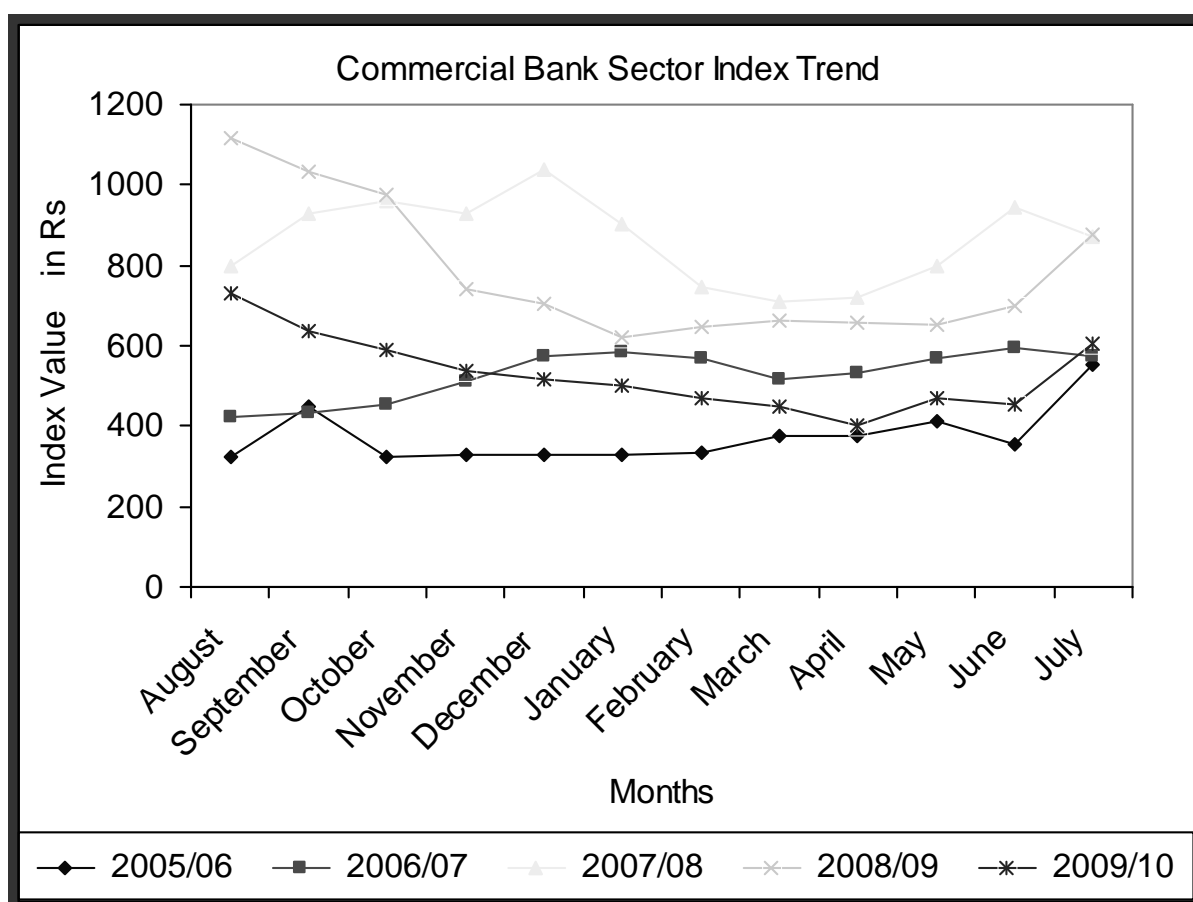
Sources: www.nepalstock.com

Risk of commercial bank sector sub-index is fluctuating. The standard deviations of commercial bank sector of the sub-index was 69.50 in F/Y 2005/06, 61.42 in F/Y 2006/07 105.51 in F/Y 2007/08, 172.87 in F/Y 2008/09 and 94.30 in F/Y 2009/10.

Coefficient of variation of sub-index in F/Y 2005/06 up to 2009/10 was 18.56%, 11.65%, 11.65%, 12.64%, 22.12% and 17.79% respectively. The risk of commercial bank sector was reducing trend.

Figure 4.1

Monthly Movement of Commercial Bank Sector sub-Index



The above tabulated data are presented in Figure 4.1. Commercial bank sector sub-index has been found increasing every year. Although fluctuation was index in observed in every year but in the end of every year it was found increasing. In figure Show that Monthly movement of commercial bank sector sub-index which is the high index in fiscal year 2007/08 and lowest index movement in fiscal year 2005/06.

4.1.2 NEPSE Sub-Index of Development Bank Sector

Development bank sector is also one of the most important sectors listed in NEPSE. The shares of development banks were listed in NEPSE in the year of 2001/02 in the month of January. Trading of this sector started with three companies. The price behavior of the development bank sector sub-index as well as their S.D and C.V are presented in table and figure as below

Table 4.2

NEPSE Sub-Index of Development Bank Sector

Month/Year	NEPSE Sub-Index of Development Bank				
	2005/06	2006/07	2007/08	2008/09	2009/10
August	231.4	284.8	541.79	1,478.85	721.74
September	222.73	331.15	687.13	1,454.54	668.62
October	218.96	320.34	914.73	1,410.81	656.11
November	224.26	382.7	1,181.31	1,174.71	623.51
December	216.29	487.34	1,895.14	1,110.67	589.47
January	233.22	530.69	1,598.10	1,004.37	583.06
February	247.55	530.74	1,139.41	967.67	528.67
March	277.37	487.05	1,045.12	922.63	502.52
April	273.59	451.44	969.46	845.52	451.58
May	284.03	447.74	1,045.03	760.05	502.17
June	264.49	495.46	1,159.08	728.49	489.83
July	268.62	410.34	841.41	1,051.88	614.21
S.D.	25.3	83.88	361.36	260	83.2
C.V.	9.29%	19.51%	33.37%	24.17%	14.40%

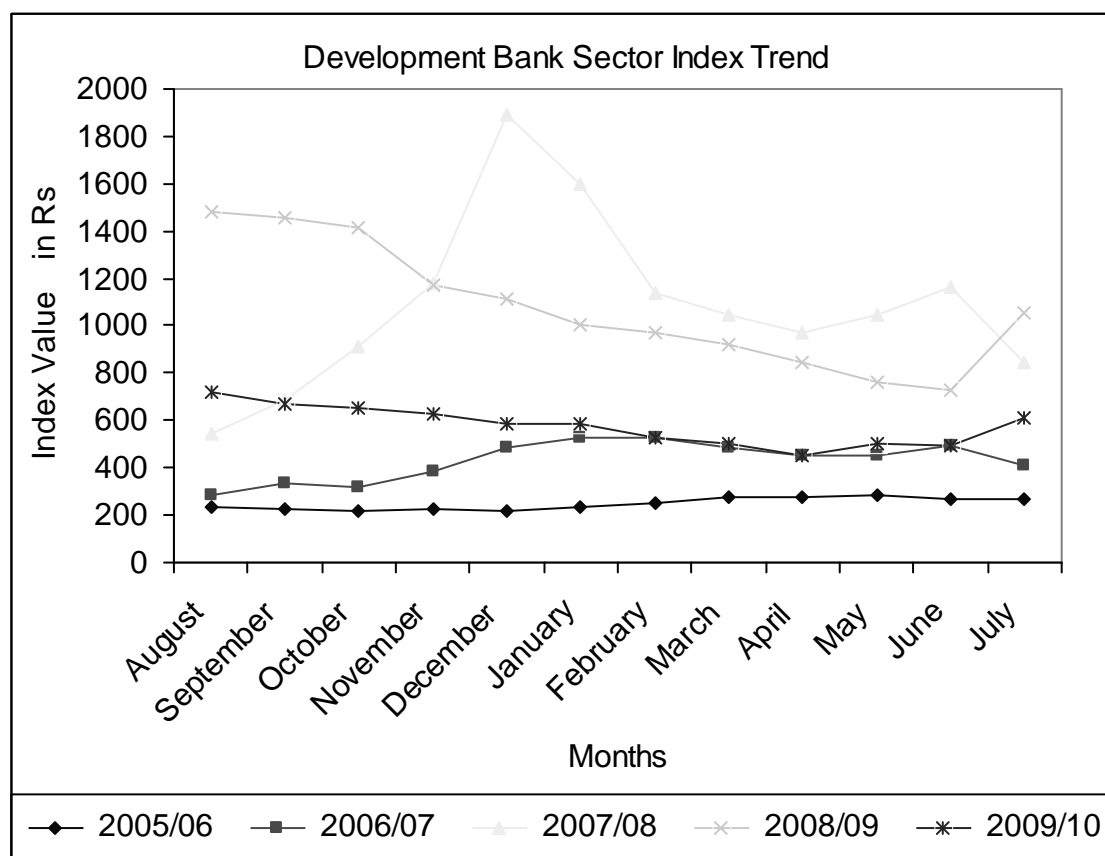
Sources: www.nepalstock.com

Table 4.2 shows index of development bank sector. The development bank sector Index was highly risky in F/Y 2007/08 because coefficient of variation of the index was high. Development bank sector-index was 231.40 point in August and it increased up to

247.55 in February but it decreased to 264.49 in June of F/Y 2005/06. In F/Y 2006/07 the sub-index was 284.08 point in August and it started increasing and went up to 530.74 point in February but it decreased to 410.34 point in July. The index was 541.79 point in August and increased up to 1895.10 point and December and decreased to 841.41 point in July 2007/08. The index was 1478.85 point in August and 728.49 point is June. At the end of year it improved and went up to 1051.88 point in July 2008/09.

Figure 4.2

Monthly Movement NEPSE Sub-Index of Development Bank



Standard deviations of the index of development bank sector from F/Y 2005/06 to F/Y 2009/10 were 25.30, 83.88, 361.36, 260.00, and 83.20 respectively. Coefficients of variation during this period were 9.29%, 19.51%, and 33.31%, 24.17% and 14.40% respectively. Risky year for this sector was in 2007/08 and less risky year was F/Y 2005/06 from the view point of C.V.

.Movement of development bank sector is presented in figure 4.2 Figure 4.2 shows the monthly movement of development bank sector index. It is found that development bank index was highly fluctuating in the study period except than in F/Y 2007/08. Although high fluctuation in index was observed but index was found generally increased in the end of year in F/Y 2008/09.

From the above analysis it can be conclude that fiscal 2007/08 index is comparatively better than other fiscal year.

4.1.3 NEPSE Sub-Index of Manufacturing and Processing Sector

Manufacturing and processing sector company is one of the important sectors in NEPSE. Monthly index of this sector is presented in table 4.3 and figure 4.3 below.

Table 4.3 shows the NEPSE index of manufacturing and processing sector. This sub-Index had the lowest point of 248.07 in February 2006. It slowly increased and went up to 296.88 point in June F/Y 2005/06. The sub-index in F/Y 2006/07 was found increasing. At the starting month of the year it was 311.24 points and 338.20 points in June. In F/Y 2007/08 the sub-index was found increasing in the initial months and reached to 347.94 in August. In F/Y 2008/09 the index was 441.92 in September; it decreased up to 405.02 point in February and slowly increased to 432.83 in April and decreased again in July to 428.99. For this sector F/Y 2009/10 remained as the best year because this index was highest in this year. The highest index was of 456.10 point in the month of May and lowest was of 426.43 point in June..

The standard deviation (S.D) of the index of manufacturing and processing sector was 15.17 in F/Y 2005/06, 10.37 in F/Y 2006/07, 31.10 in F/Y 2007/08 11.82 in F/Y 2008/09 6.97 in F/Y 2009/10. The highest S.D was 31.10 in F/Y 2007/08 and lowest was 6.97 in F/Y 2009/10. The coefficient of variation (C.V) of this sector was 5.34% in F/Y 2005/06, 3.20% in F/Y 2006/07, 8.20% in F/Y 2007/08, 2.77% in F/Y 2008/09 but it decreased to 1.60% in F/Y 2009/10. F/Y 2007/08 is observed as risky year in terms of C.V. of the index.

Table 4.3**NEPSE Sub-Index of Manufacturing and Processing Sector**

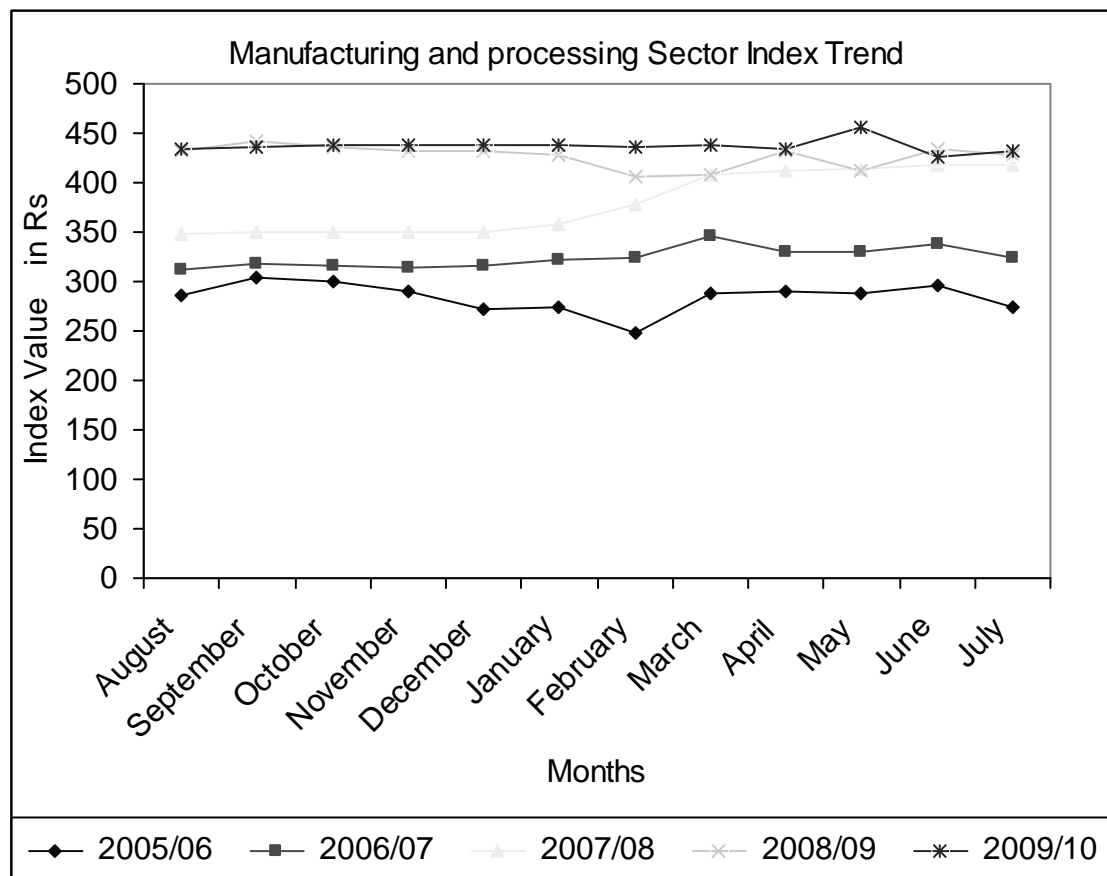
	NEPSE Sub-Index of Manufacturing and Processing Sector				
Month/Year	2005/06	2006/07	2007/08	2008/09	2009/10
August	286.62	311.24	347.94	431.04	434.66
September	303.38	317.8	349.34	441.92	436.7
October	299.9	315.96	350.19	435.94	438.79
November	290	314.45	350.19	432.79	438.82
December	272.34	316.5	350.19	432.78	438.82
January	274.62	321.96	357.68	427.79	438.42
February	248.07	323.38	377.49	405.03	436.81
March	287.43	346.11	407.45	408.46	437.47
April	289.95	330.37	412.4	432.83	434.34
May	288.85	329.77	414.12	412.18	456.1
June	296.88	338.2	418.82	434.32	426.43
July	273.21	324.45	417.78	428.99	431.11
S.D.	15.17	10.37	31.1	11.82	6.97
C.V.	5.34%	3.20%	8.20%	2.77%	1.60%

Sources: www.nepalstock.com

Figure 4.3 shows the trend of index movement of Manufacturing and processing sector. Except than F/Y 2005/06 in other years high fluctuation in index was observed In F/Y 2007/08 high increasing in index was observed towards the end of year. It was observed highest in F/Y 2009/10 and lowest index was observed in F/Y 2005/06. Figure 4.3 shows the trend of this index as below.

Figure 4.3

Monthly Movements of Manufacturing and Processing Sector Index



The above comparative table reveals that the NEPSE index of the sector increasing trend in every year. From the above trend analysis it is clear that the NEPSE Index of the sector in fiscal year 2009/10 is proportionately better than other fiscal years.

4.1.4 NEPSE Sub-Index of Finance Companies Sector

Finance company sector is one of the nine sectors listed in NEPSE. Number of listed company in Finance company is increasing than others sectors and it covered the highest portion in number. In the initial days of trading in NEPSE finance and Insurance

sector was combined but it separated in December F/Y 2001/02. NEPSE Index of finance sector of five years is shown in the table below.

.Table 4.4

NEPSE Sub-Index of Finance Companies Sector

	NEPSE Sub-Index of Finance Companies Sector.				
Month/Year	2005/06	2006/07	2007/08	2008/09	2009/10
August	319.62	263.26	505.9	1,127.25	672.27
September	229.49	267.63	526.97	1,211.32	641.72
October	231.72	273.58	630.56	1,201.60	627.94
November	235.38	267.35	752.31	1,015.71	595.43
December	241.94	306.25	926.33	917.37	558.38
January	247.16	372.24	1,020.03	902.71	527.75
February	253.73	439.23	946.61	810.58	492.28
March	249.65	439.46	982.3	785.47	471.23
April	245.88	426.3	938.57	756.65	430.91
May	251.27	447.34	1,019.00	755.99	466.93
June	256.94	459.54	1,067.39	727	421.94
July	244.59	365.12	984.99	919.43	548.18
S.D.	23.34	80.64	200.69	174.98	83.85
C.V.	9.33%	22.36%	23.38%	18.86%	16.02%

Sources: www.nepalstock.com

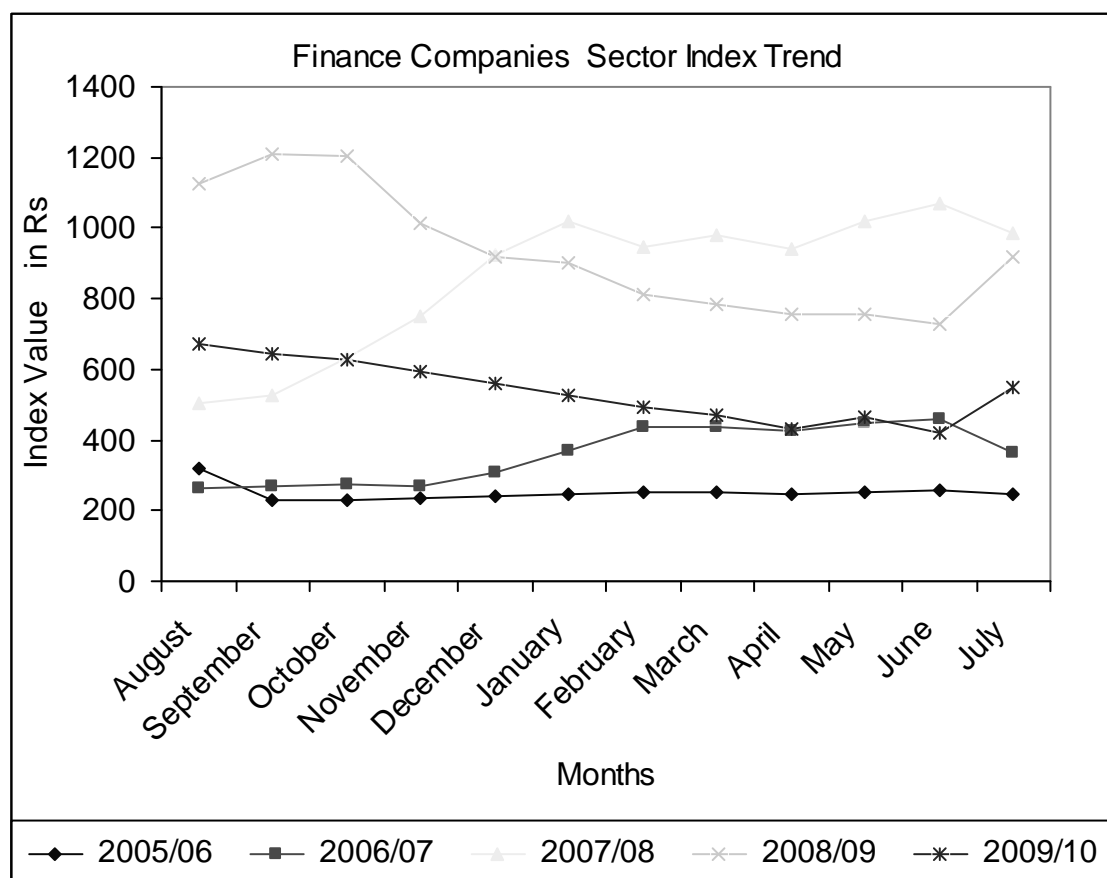
NEPSE Index of finance sectors has been found fluctuating but increasing trend in observed. In F/Y 2005/06 in August it was 319.62 point and it decreased to 229.49 point in September that was the lowest point in that year and it slowly increased up to 256.94 point in June but decreased 244.59 point in July. In F/Y 2006/07 the NEPSE Index of finance sector was 263.26 point in August and it increased up to 459.54 point in June but decreased to 365.12 point in July. In F/Y 2007/08 the NEPSE Index of finance company sector was 505.90 point in August and then increased up to 1020.03 point in January then after it started decreasing up to 938.57 point in April and increased up to

1067.39 point in June. In F/Y 2008/09 the NEPSE Index of finance sector was in increasing trend of stating there months that was 1127.25, 1211.32 and 1201.60 point respectively than it started decreasing. The lowest point was 727. In June and highest point was 1211.32 point in September. Overall the highest index of the finance sector was 1211.32 points in September of F/Y 2008/09 and lowest point was 229.49 points in September of F/Y 2005/06

The standard deviation and coefficient of variation of this sectors index are 23.34 and 9.33% in F/Y 2005/06, 80.64 and 22.36% in F/Y 2006/07, 200.59 and 23.38% in F/Y 2007/08, 174.98 and 18.86% in F/Y 2008/09, and 83.85 and 16.02% in F/Y 2009/10.

Figure 4.4

Monthly Movement of Finance Sector Index



F/Y 2005/06 was the best year for finance companies sector because its standard deviation and coefficient of variation were 16.60 and 4.91% which were less than other years and F/Y 2006/07 was the risky year because it has highest S.D. and C.V. of 87.74 and 17.82% respectively.

Figure 4.4 shows the NEPSE sub-Index of the sector under the study period. In F/Y 2005/06 not so fluctuation in index was observed but in F/Y 2006/07 fluctuation was observed in index. High fluctuation in index was observed in the last two fiscal years. In F/Y 2007/08 the index was in increasing trend but in F/Y 2008/09 it was in decreasing trend. It shows F/Y 2007/08 was the best year for finance sector than other years of the study period.

From above trend analysis, it is clear that the Index of NEPSE in fiscal 2007/08 is comparatively better than that of other fiscal year.

4.1.5 NEPSE Sub-Index of Insurance Companies Sector

Insurance company is another sector in NEPSE. The NEPSE sub-index of Insurance companies sector was found increasing up to March of F/Y 2006/07 than it started decreasing. In F/Y 2007/08, F/Y 2008/09 index was also increasing in the initial months few months and then decreased and in 2009/10.

From Table 4.5 it is found that the NEPSE index of Insurance companies sector was 320.66 point in August of F/Y 2005/06 and it increased up to 349.63 point in May but in June it decreased. This sub-Index was 654.21 points in August 2007/2008 and increased up to 955.98 point in December that was the highest point of the study period and decreased to 730.04 point in July 2008 but it was recorded 839.75 points in June of F/Y 2007/08. In F/Y 2008/09 the highest point was 836.75 points in August and decrease up to point was 636.77 points in May than it started decreasing from September to May.

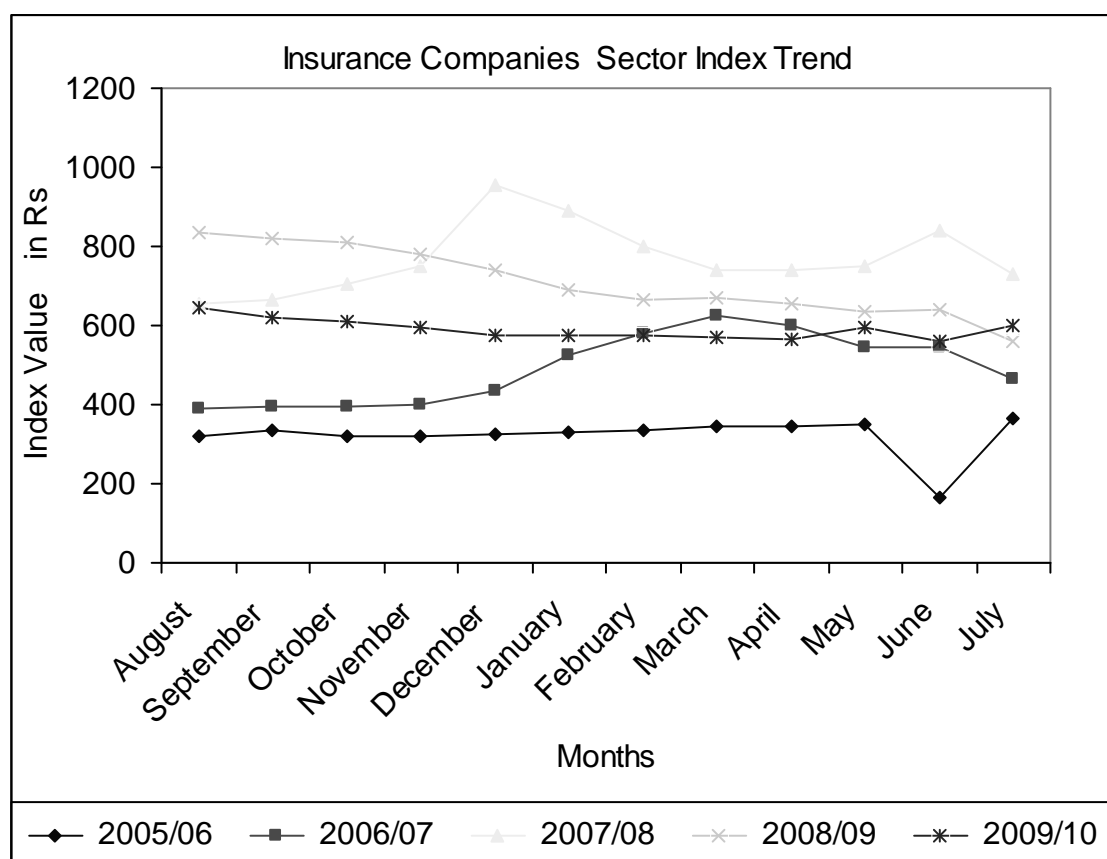
Table 4.5**NEPSE Sub-Index of Insurance Companies Sector**

	NEPSE Sub-Index of Insurance Companies Sector				
Month/Year	2005/06	2006/07	2007/08	2008/09	2009/10
August	320.66	391.69	654.21	836.75	644.22
September	336.42	396.44	664.45	821.98	622.39
October	322.05	395.09	707.27	811.54	608.36
November	318.51	401.17	752.15	782.45	597.24
December	323.45	433.44	955.98	738.87	574.03
January	330.92	526.27	890.81	691.44	574.1
February	336.63	580.75	799.62	666.42	574.64
March	342.85	624.12	738.91	671.05	571.97
April	345.66	598.52	740.7	655.26	566.65
May	349.63	546.17	750.74	636.77	593.65
June	166.59	547.46	839.35	642.22	561.57
July	366.24	467.19	730.04	561.14	600.42
S.D.	16.6	87.74	89.03	87.31	25.07
C.V.	5.00%	18.00%	12.00%	12.00%	4.00%

Sources: www.nepalstock.com

Figure 4.5 shows the trend of Index movement of insurance company sector high fluctuations in index were observed in last three years of the study period. F/Y 2005/06 was found less volatile year for insurance companies. In F/Y 2007/08 it was in decreasing trend but in F/Y 2008/09 highest fluctuation in index was observed, highest index is observed in December of F/Y 2008/09.

Figure 4.5
Monthly Movement of Insurance Company Sector Index



From the above analysis it can be conclude that fiscal 2007/08 index is comparatively better than other fiscal year.

4.1.6 NEPSE Sub-Index of Hotel Sector

Table 4.6 shows the NEPSE sub-index of hotel sector under the study period. The NEPSE sub-index of Hotel sector in F/Y 2005/06 NEPSE sub-Index of hotel sector was 179.74 points in August and not improving till January than after it started increasing. In F/Y 2006/07 the index was 180.16 points in August and it slowly increased up to 239.18 points in June but decreased to 212.70 point in July.

The NEPSE sub-index of hotel sector was at the peak point in the F/Y 2007/08 that was 4.6 points in January and the decreased down to 315.25 point in July. The sub-index ich

was increased up to 365.58 points in the month of January and then decreased to 350.81 points in March and again started increasing up to 367.85 points in June but it decreased to 355.44 points in July of F/Y 2008/09. The NEPSE index of hotel in the F/Y 2009/10 that was 364.41 points in August it was increased up to 369.97 in June and slowly decreased up to April and increased in June and decreased in July.

Table 4.6

NEPSE Sub-Index of Hotel Sector Index

Month/Year	NEPSE Sub-Index of Hotel Sector				
	2005/06	2006/07	2007/08	2008/09	2009/10
August	179.24	180.16	382.73	351.13	364.41
September	178.8	180.22	279.57	358.74	366.85
October	177.95	179.97	281.2	361.45	368.87
November	177.67	181.14	279.43	364.57	369.11
December	177.9	186.44	316.11	364.51	367.72
January	179.82	189.44	417.41	365.58	366.49
February	182.04	203.03	413.48	357.6	366.49
March	182.75	227.55	412.37	350.81	365.77
April	182.36	234.71	408.7	360.55	365.91
May	272.32	235.58	399.87	363.54	393.1
June	179.73	239.18	387.25	367.85	396.97
July	179.82	212.7	315.25	355.44	387.83
S.D.	26.76	24.43	58.12	5.56	6.44
C.V.	14%	12%	16%	2%	2%

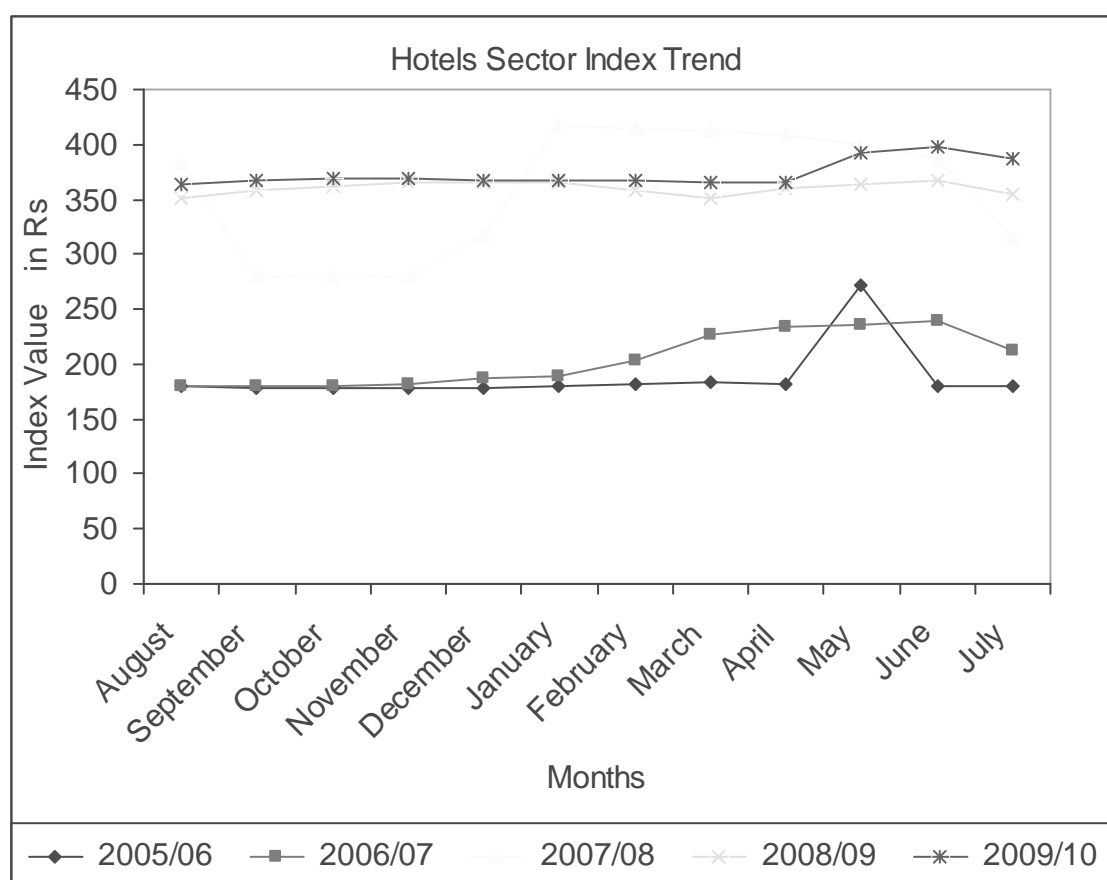
Sources: www.nepalstock.com

The standard deviation and coefficient of variation in the study period of hotel sector from F/Y 2005/06 up to F/Y 2009/10 are 26.76 and 14.27%, 24.23 and 11.96%, 58.12 and 16.24%, 5.56 and 1.54% and 6.44 and 1.74% respectively. More risky year for the hotel sector was F/Y 2007/08 and less risk year was F/Y 2008/09. Above tabulated data are shown in the figure below.

Figure 4.6 shows the trend of monthly index of hotel sector of NEPSE under the study period. Except in F/Y 2005/06 this index was observed fluctuating. In F/Y 2006/07 the index was observed highly fluctuated in the last six months only. High fluctuation was observed in F/Y 2007/08 but in F/Y 2008/09 and F/Y 2009/10 index observed less volatile. F/Y 2007/08 was found most volatile year for hotel sector index.

Figure 4.6

Monthly movement of Hotel Sector Index



From the above analysis it can be conclude that fiscal 2007/08 index is comparatively better than other fiscal year.

4.1.7 NEPSE Sub-Index of Trading Companies Sector

Trading company sector is also one of the sectors of NEPSE. NEPSE sub-index of trading sector in F/Y 2005/06 was recorded highest in June that was 148.11 point and lowest points were 118.13 in August. The NEPSE sub-index of trading sector was tabulated and analysis below.

Table 4.7

NEPSE Sub-Index of Trading Companies Sector

	NEPSE sub-Index of Trading Companies Sector				
Month/Year	2005/06	2006/07	2007/08	2008/09	2009/10
August	118.13	148.11	162.06	203.36	281.66
September	133.94	150.26	162.04	210.79	273.04
October	129.55	139.2	162.03	215.95	260.13
November	132.34	149.71	162.2	214.26	263.02
December	134.84	149.76	165.07	205.7	262.74
January	140.01	148.98	164.4	205.61	262.2
February	146.51	149.64	162.32	215.45	256.07
March	144.45	150.85	149.09	216.17	253.45
April	143.95	147.57	146.25	216.05	277.06
May	147.41	151.19	201.6	243.05	300.35
June	148.11	155.24	211.78	286.04	282.69
July	135.66	151.74	186.99	249.78	284.48
S.D.	8.92	3.76	20	24.39	14.11
C.V.	6.47%	2.53%	11.79%	10.91%	7.08%

Sources: www.nepalstock.com

The NEPSE sub-index of trading sector in F/Y 2006/07 was found fluctuating. In F/Y 2007/08 the index was 162.06 points in August and remained constant up to November and increased to 165.07 points in December the it started decreasing and went down to 146.25 points in the month of April and then slightly increased up to 211.78 points in

June and again it fell down to 186.99 points in July. The sub-index was the highest 286.04 points in the month of June and lowest was 205.61 Points in January of F/Y 2008/09.

In overall the most risky year was F/Y 2007/08 because C.V was 11.79% and lowest risky was 2.53% in F/Y 2006/07. The standard deviation and coefficient of variation in the study period of trading sector from F/Y 2005/06 up to F/Y 2009/10 are 8.92 and 6.67%, 3.76 and 2.53%, 20 and 11.79%, 24.39 and 10.91% and 14.11 and 7.08% respectively.

Figure 4.7

Monthly movement of Trading Sector Index

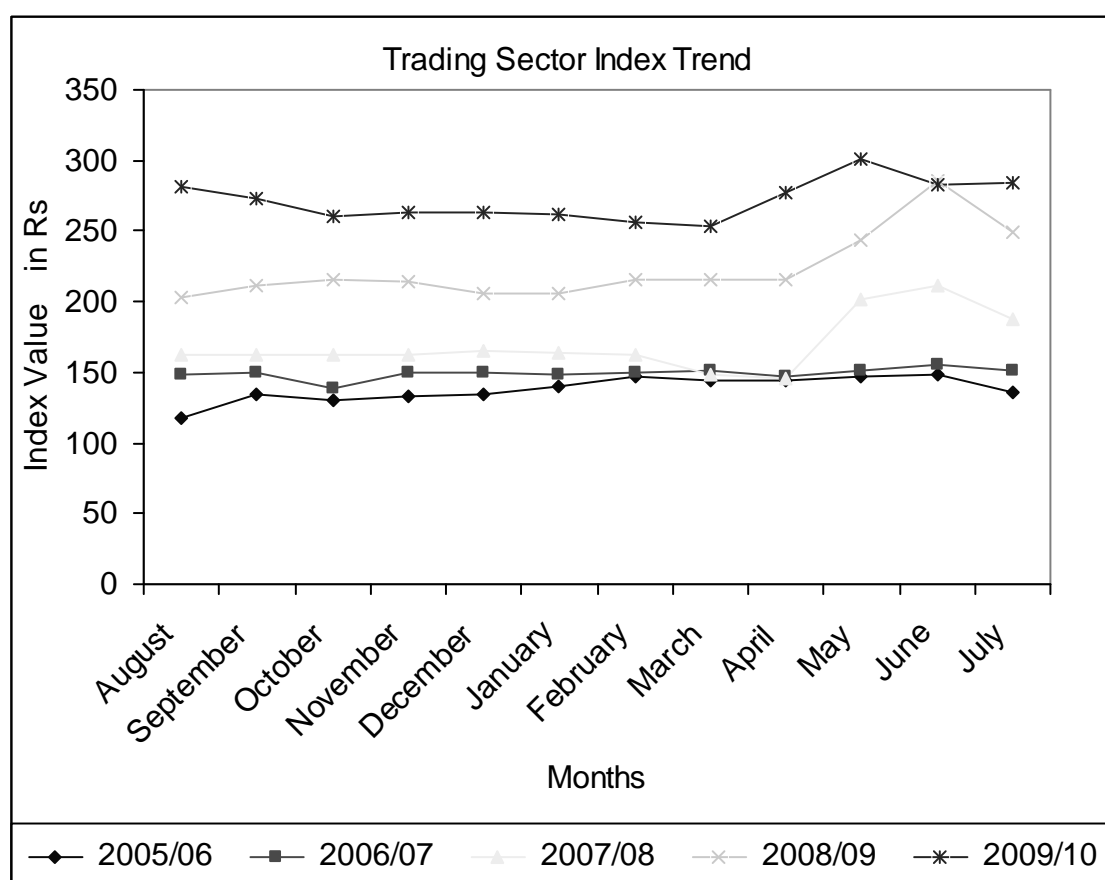


Figure 4.7 shows the trend of the NEPSE sub-index of trading sector under the study period. High fluctuation in index was observed only last two year of the study period. In

the first three year this index was not so volatile. The volatility in index of last two year was in last four months of three years. This index was observed highest in the months of May of F/Y 2009/10.

4.1.8 NEPSE Sub-Index of Other Sectors

Table 4.8 shows that the NEPSE sub-index of other sector was 331.50 points in August; it increased to 385.43 points in June, than fell down to 370.79 point in July in the F/Y 2005/2006. In this F/Y, the highest index was 385.43 points in June and lowest was 299.65 points in the months of November.

Table 4.8

NEPSE Sub-Index of Other Sectors

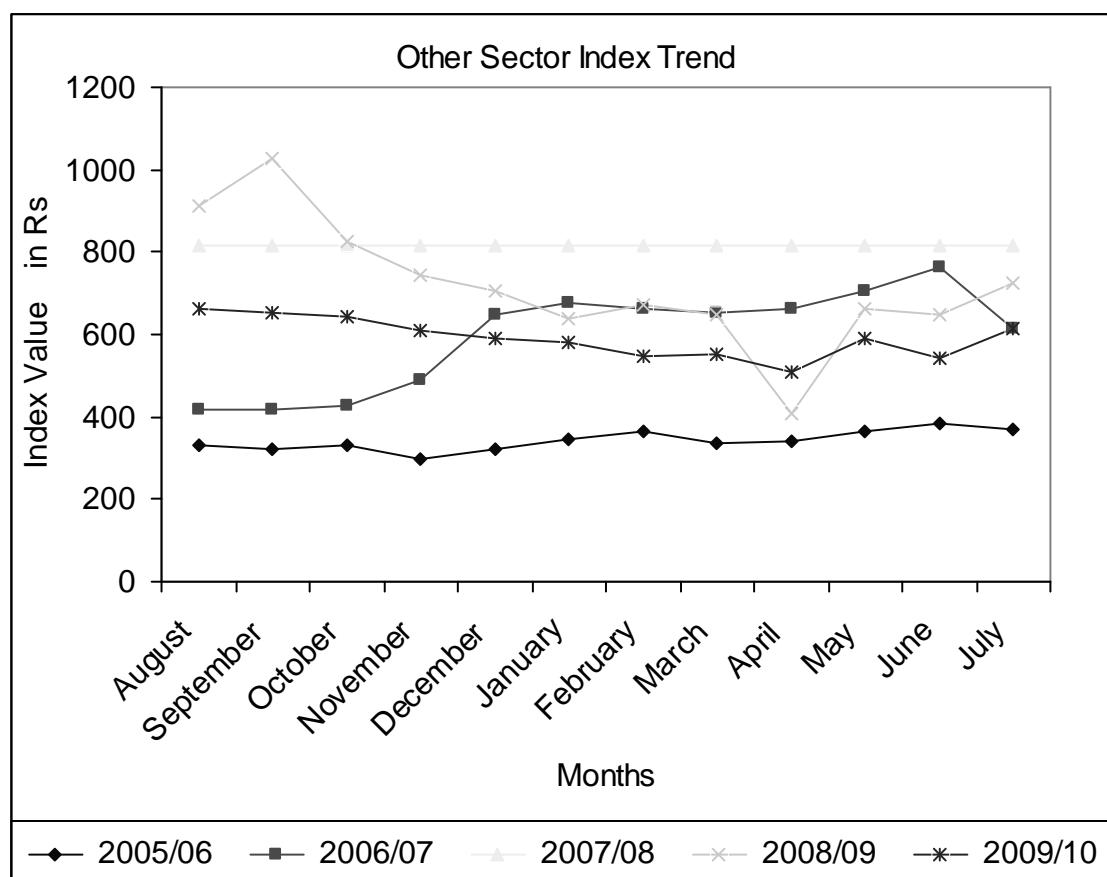
Month/Year	NEPSE Sub-Index of Other Sectors				
	2005/06	2006/07	2007/08	2008/09	2009/10
August	331.5	417.96	818.12	910.71	660.35
September	323.72	416.4	818.12	1,027.30	654.12
October	331.46	428.18	818.12	825.91	641.91
November	299.65	489.54	818.12	744.98	611.32
December	322.09	646.56	818.12	703.57	589.48
January	346.4	677.62	818.12	640.64	578.68
February	362.41	661.96	817.47	670.1	546.8
March	337.69	654.29	817.47	648.6	551.91
April	341.79	664.38	817.47	409.43	507.64
May	363.11	705.04	817.47	662.26	588.65
June	385.43	762	817.47	650.3	541.43
July	370.79	612.29	815.56	722.63	613.16
S.D.	24.02	122.39	0.73	125.98	47.99
C.V.	7.00%	20.58%	9.45%	17.14%	8.12%

Sources: www.nepalstock.com.

This sub-index in F/Y 2006/07 was higher than in the F/Y 2005/06. In the F/Y 2006/07, the index was 417.96 points in August than increased up to 677.62 points in January, again down to 661.96. In F/Y 2007/08, it was 818.12 point in August and it was remained constant up to January then it fell down to 817.47 points in March and again was constant up to June then decreased to 815.56 points in July of F/Y 2007/08. In this year the highest index of other sectors was 1027.30 points in September and lowest was 600.43 points in the months April. In F/Y 2009/10 the highest index was 660.35 points highest in August, it fell to 507.64 points in April and increased to 613.16 points in July.

Figure 4.8

Monthly movements of Other Sectors Index



The standard deviation and coefficient of variation of the sub-index during the study periods was 24.02 and 7% in F/Y 2005/06, 122.39 and 20.58% in F/Y 2006/07, 0.73 and 9.45 in F/Y 2007/08, 125.98 and 17.14% in F/Y 2008/09 and 47.99 and 8.12% in F/Y 2009/10. In overall years, F/Y 2005/06 was the less risky year and F/Y 2006/07 was the more risky year than others.

Figure 4.8 shows the trend of NEPSE sub-index of other sector. The index was less volatile in F/Y 2007/08. The F/Y of 2006/07 and F/Y 2008/09 were found more volatile years. Highest index was observed in September of F/Y 2008/09 but in this year index was found following decreasing trend and lowest index is observed in August 2005/06.

From the above analysis it can be conclude that fiscal 2007/08 index is comparatively better than other fiscal year.

4.1.9 NEPSE Sub-Index of Hydropower Sectors

In the beginning of the trading in NEPSE Hydropower and other sector was combined but it was separated on 3rd July 2007. So separately transaction took place in the NEPSE in July from 2006/07. NEPSE sub-index of hydropower sector separately traded in the NEPSE in the month of July 2007, at which time the index was 840.30. In F/Y 2007/08 this NEPSE sub-index was reached 1112.68 point in August then it increased to 1395.27 points in the month of September and decreased in November. Again it increased to 1568.01 points in December and then decreased to 1093.82 points in July of F/Y 2007/08. In F/Y 2008/09 the index was 1286.66 points in August then it decreased and fell down to 830.88 points in February. Drastic fell in index was observed in the months of April 216.05 point and increased again up to 1094.31 points in months of July.

Table 4.9
NEPSE Index of Hydropower Sector

Month/Year	NEPSE Sub-Index of Hydropower Sector				
	2005/06	2006/07	2007/08	2008/09	2009/10
August	-	-	1,112.68	1,286.66	904.23
September	-	-	1,395.27	1,202.89	841.36
October	-	-	1,367.57	1,123.58	824.24
November	-	-	1,362.37	985.98	814.28
December	-	-	1,568.01	923.69	800.54
January	-	-	1,370.38	895.46	796.71
February	-	-	1,188.36	830.88	797.21
March	-	-	1,053.40	866.33	751.86
April	-	-	1,024.88	216.05	684.12
May	-	-	1,117.21	856.55	742.15
June	-	-	1,238.98	882.59	718.29
July	-	840.3	1,093.82	1,094.31	880.27
S.D.	-	-	133.94	279.7	64.26
C.V.	-	-	10.79%	30.06%	8.07%

Sources: www.nepalstock.com.

In the fiscal year 2009/10, the highest point was 904.23 in August and lowest 684.12 points in April.

The S.D. and C.V. were found to be 242.57 and 346.38% in F/Y 2006/07, 133.94 and 10.79% in F/Y 2007/08, 279.70 and 30.06% in F/Y 2008/09 and 64.26 and 8.07 in F/Y 2009/10. In the overall F/Y 2007/08 was the most risky year and 2009/10 less risky year.

Figure 4.9

Monthly movement of Hydropower Sector Sub-Index

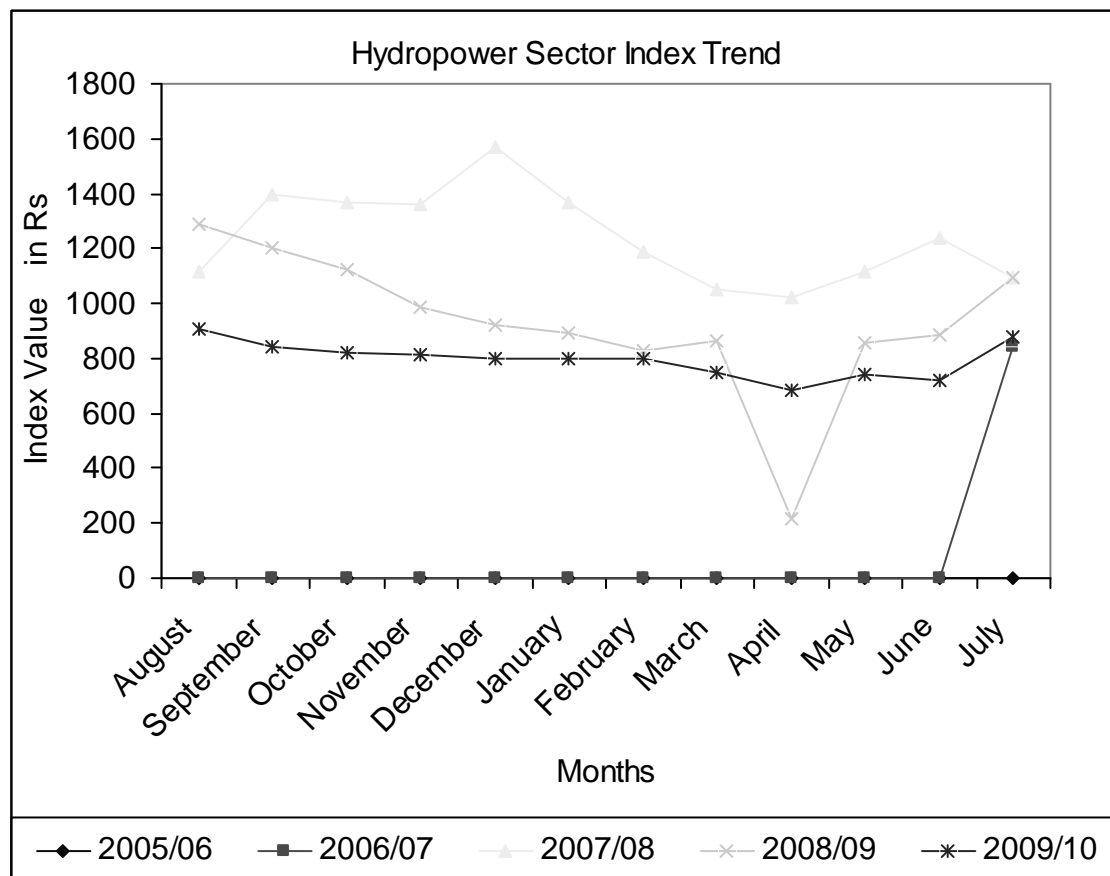


Figure 4.9 shows the trend of index movement of hydropower sector. High fluctuation in the index was observed for this sector. The highest index was observed in December of F/Y 2007/8 and lowest point observed in April of F/Y 2008/09.

From the above analysis it can be conclude that fiscal 2007/08 index is comparatively better than other fiscal year.

4.2 Sector-wise Market Capitalization

Market capitalization measures total worth of share floated in the economy, which is the sum of price per share multiplied by number of share of each company. It is considered as an important secondary market indicator as it is compared with the indicators of the economy. Market capitalization of the listed companies at the secondary market is in continuous rise. The increased market capitalization shows the good performance of the companies. Investors are highly interested to such companies.

Table 4.10 shows that the market capitalization of the listed securities in NEPSE. In F/Y 2008/09 it was highest (Rs.512939 million) and the lowest value was in F/Y 2005/06 (Rs.96813.14 million). During the study period the market capitalization value from F/Y 2005/06 to F/Y 2008/09 has been found in increasing trend except in F/Y 2009/10. It was Rs.96,813.74 million in F/Y 2005/06, Rs.1,86,301.30 million in F/Y 2006/07, Rs.3,66,247.50 million in F/Y 2007/08, Rs.5,12,939.07 million in F/Y 2008/09 and Rs.376871 million in F/Y 2009/10.

The percentage of market capitalization value of commercial bank sector has the highest share that was 70.96%, 72.78%, 70.98, 58.92% and 54.70% respectively in the F/Y 2005/06 to F/Y 2009/10 among eight sectors in term of market capitalization. The value of this sector was in increasing trend but percentage of market capitalization value was fluctuating. The highest percentage of this sector's value was 72.78% in F/Y 2006/07 and lowest was 58.92 % in F/Y 2008/09. In F/Y 2006/07, the value listed highest volume of new shares (bonus share, equity share and right shares) than the others sector and in F/Y sector 2008/09 its percentage was decreased because new listed shares of other sector (development bank sector, finance sector, insurance sector and other sector) were increased than the commercial bank sector. Therefore total value of commercial bank sector was decreased in F/Y 2008/09.

Table 4.10
Sector-wise Market Capitalization

Rs. in Million

Year →	2005/06		2006/07		2007/08		2008/09		2009/10	
Sector	Value	%	Value	%	Value	%	Value	%	Value	%
Comm. Bank	68694	70.96	135588	72.78	259955	70.98	302219	58.92	206283	54.7
Dev. Bank	1577.5	1.63	6010.6	3.23	17998	4.91	27138	5.29	27489	7.29
Finance	5000	5.17	9889.3	5.31	97674	10.29	43007	8.38	29870	7.93
Insurance com.	4952.1	5.12	8059.8	4.33	11241	3.07	10537	2.05	9756.6	2.59
Hotels	2344.2	2.42	3261.1	1.75	4809.6	1.31	4852	0.95	5285.6	1.4
Mfg.& Proc.	5472.1	5.65	6200	3.33	7516.9	2.05	7706.1	1.5	7592	2.01
Trading	764.44	0.78	796.4	0.43	1170.2	0.32	1696.4	0.33	1617.5	0.43
Others	8009	8.27	16496	8.85	25882	7.07	115783	22.57	88979	23.6
<i>Total</i>	<i>96814</i>	<i>100%</i>	<i>186301</i>	<i>100%</i>	<i>366248</i>	<i>100%</i>	<i>512939</i>	<i>100%</i>	<i>376871</i>	<i>100%</i>

Sources: www.nepalstock.com

Market capitalization value of development bank sector was in increasing trend, the value of this sector in F/Y 2005/06 was 1577.45 million and it increased up to Rs.27488.87 million in F/Y 2009/10. Percentage of total value of this sector was in increasing trend that was 1.63% in 2005/06 and it increased up to 7.29% in F/Y 2009/10 because new shares (equity, right and bonus share) were listed in F/Y 2009/10 thus the percentage of value of this sector was increased.

Financial companies sector is also better sector in terms of market capitalization. The value of finance sector was increasing except in F/Y 2008/09. In F/Y 2005/06 the value of this sector was Rs.5000.34 million and increased up to 2007/08 Rs97674.40 million. Percentage of the value of this sector was fluctuating in the study period. The highest

percentage was in F/Y 2007/08 and lowest in F/Y 2005/06 that was 10.29% and 5.17% respectively. In F/Y 2007/08 the market capitalization value and percentage were also highest in this year because high volume of equity shares bonus share and right shares were listed in finance sector comparing than the insurance trading and other sectors. The value of these sectors is shown in the Figure 4.10. Market capitalization value of insurance companies was increasing up to F/Y 2008/09 and decreasing F/Y 2009/10. Rs.4952.12 in F/Y 2005/06, Rs.8059.8 in F/Y 2006/07, Rs.11241.4 in F/Y2007/08, Rs.10537.49 in F/Y 2008/09 and 9756.61 in 2009/10. Decreasing trend up to 2008/09 then slowly increasing in 2009/10. In F/Y 2005/06 5.12% in 2005/06 decreasing up to 2008/09 2.05% and increasing in 2009/10 2.59%.

Market capitalization value of hotel sector is increasing. In the initial year of the study (F/Y 2005/06) market capitalization of hotel sector was Rs.2344.23 million and it was increasing up to next year Rs.5285.58 million (in F/Y 2009/10). Market capitalization value of this sector was in increasing trend but percentage of total value decreasing because no new listing of share except in F/Y 2008/09 only one hotel listed bonus shares.

Market capitalization value of manufacturing and processing sector is also in increasing trend but percentage of total market capitalization was decreasing in the study period. The highest market capitalization value of manufacturing and processing sector The initial period of the study F/Y 2005/06 Rs.5472.11 was Rs.7592.03 million 2009/10. Decreasing trend up to 2008/09 then slowly increasing in 2009/10. In F/Y 2005/06 5.65% in 2005/06 decreasing up to 2008/09 1.5% and increasing in 2009/10 2.01%. Increase new shares were not listing and five manufacturing and processing company's shares were de-listed in F/Y 2008/09 thus the percentage value of market capitalization was decreased.

Trading and other sector market capitalization value is in increasing the study period from F/Y 2005/06 up to F/Y 2009/10, In F/Y 2005/06, capitalization value of trading sector 764.44 million and it was increasing up to Rs.1696.36 million (in F/Y 2008/09) and slowly decrease in Rs.1617.51 (in 2009/10). Trading sector market capitalization value was in increasing but percentage of total market capitalization value was in

decreasing trend in the study period. Others sector market capitalization value is also increasing in F/Y 2005/06 Rs.8008.95 million and it increased up to Rs.115782.90 million in F/Y 2008/09 slightly decrease in market capitalization Rs.88978.67 but percentage of other sectors increasing from initial period up to F/Y 2009/10.

In the study period (from F/Y 2005/06 tot F/Y 2009/10) among the companies' commercial bank, financial companies, manufacturing and processing sectors and other sectors are attractive to invest.

Figure 4.10

Sector-wise Market Capitalization

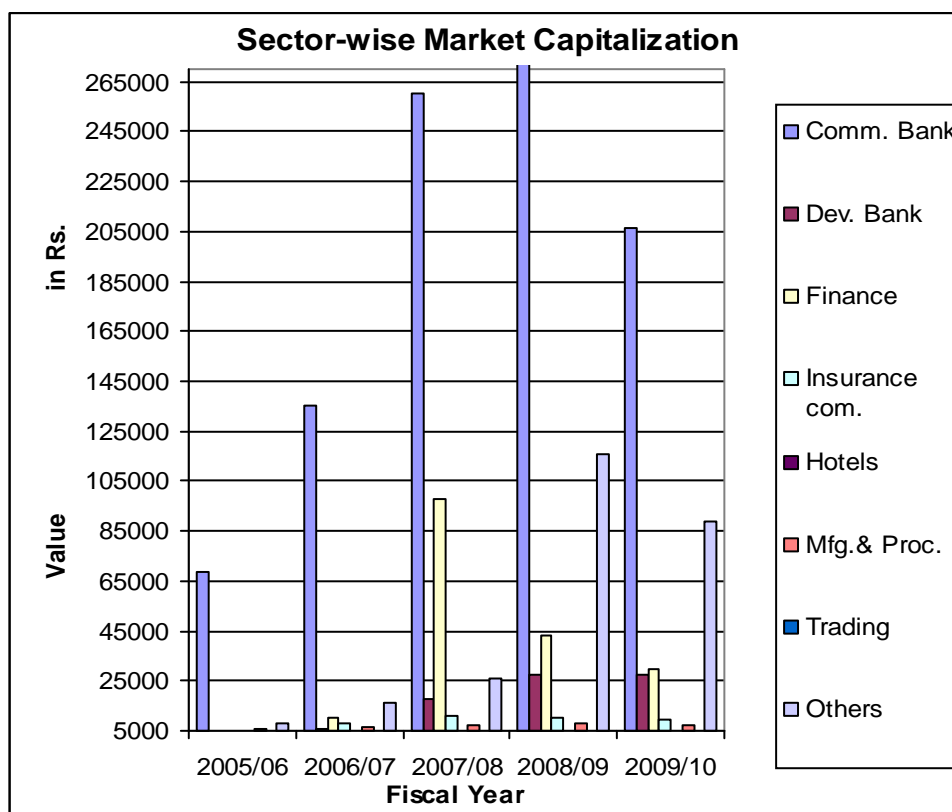


Figure 4.10 shown that the market capitalization value of commercial bank is domination the other sectors. Insurance and hotel sector are also shows the better performance than trading and development bank commercial bank is the most attractive sector than other remaining eight sectors.

4.3 Sector-wise Annual Turnover

Annual Turnover measure the total amount of listed securities traded in NEPSE which is calculated by multiplying market days per year and average daily turnover amount of each company. Table 4.11 Shows that most successful year for Nepal stock Exchange was F/Y 2007/08. In this year annual turnover of market was Rs.22, 820.80 million. In F/Y 2005/06 annual turnover was Rs.3, 451.40 million and then in other years was in increasing trend except in F/Y 2005/06 and 2008/09 that was Rs.3, 451.47 million and Rs.21, 681.14 million respectively.

Table 4.11

Sector-wise Annual Turnover

Rs. in Million

Year →	2005/06		2006/07		2007/08		2008/09		2009/10	
Sector	Value	%	Value	%	Value	%	Value	%	Value	%
Comm. Bank	2696	78.12	5564	66.55	13822	60.57	12407	57.22	7196	60.72
Dev. Bank	82.8	2.4	578	6.91	1981	8.68	2740	12.64	1324	11.17
Finance	306	8.86	714	8.54	2308	10.11	2615	12.06	1264	10.67
Insurance	130	3.76	205	2.45	264.9	1.16	212.8	0.98	183.5	1.55
Hotels	19.8	0.57	7	0.08	27.67	0.12	18.69	0.09	10.15	0.09
Mfg. & Processing.	17.2	0.5	24.3	0.29	343.4	1.5	26.08	0.12	37.74	0.32
Trading	15.8	0.46	10.4	0.12	14.97	0.07	33.49	0.15	35.43	0.3
Others	184	5.33	1259	15.06	4058	17.78	3673	16.94	1801	15.19
<i>Total</i>	<i>3451</i>	<i>100%</i>	<i>8360</i>	<i>100%</i>	<i>22820</i>	<i>100%</i>	<i>21681</i>	<i>100%</i>	<i>11851</i>	<i>100%</i>

Sources: www.nepalstock.com

Commercial bank has dominants over all other sector in Rs.13, 822.14.80 million of turnover amounts. Highest annual turnover in the study period was Rs.22, 820.80 million that was in F/Y 2007/08 and commercial bank covered 62.90% of the total annual turnover in that year. Annual turnover are shown on the table and analyze below.

Table 4.11 shows that the annual turnover volume is fluctuating. The total turnover of listed companies was in increasing trend except F/Y 2005/06 and F/Y 2008/09. It is highest in the overall study period but decreased in F/Y 2008/09 and F/Y 2009/10 which was Rs.21, 681.14 million and 11,851.11 million. Annual turnover of commercial bank sector was Rs.2, 696.28 million in F/Y 2005/06 and in next other years were in increasing trend except in F/Y 2006/07 and 2007/08. It was Rs.5, 563.50 million F/Y 2006/07 and Rs.13, 822.14 million in F/Y 2007/08. Decrease in F/Y 2008/09 Rs.12, 406.45 million and F/Y 2009/10 Rs.7, 196.24.million. Commercial bank covered the highest position in terms of annual turnovers.

Annual turnovers values of this sector was increasing trend from F/Y 2005/06 up to F/Y 2008/09 but the percentage of total turnover of NEPSE value of this sector was in decreasing trend that was 78.12%, 66.55%, 60.57%, 57.22% and 60.72% respectively in the F/Y 2005/06, F/Y 2006/07 F/Y 2007/08, F/Y 2008/09 and F/Y 2009/10 respectively. Total turnover percentage of this sector was 78.12 % F/Y 2005/06 and decrease up to 57.22 % in F/Y 2008/09 because numbers of listed companies of other sectors (like finance sector, development bank sector) were in increasing trend than the commercial bank sector. The number of listed companies of commercial banks sector was 15 in F/Y 2005/06 and 2006/07 it increased up to 21 in F/Y 2007/08 and 23 in F/Y 2009/10 but finance companies sector and development bank sector dominated this sector in terms of number of listed companies. The highest annual turnover value of the sector was Rs.1, 3822.14 million in F/Y 2007/08 and lowest turnover was Rs.2, 696.28 million in F/Y 2005/06.

Annual turnover value of development bank sector was increasing. In the initial year of study period (F/Y 2005/06) the annual turnover value was Rs.82.76 million and Rs.577.50 million in F/Y 2006/07, Rs.1981.05 million in F/Y 2007/08, 2740.36 million in F/Y 2008/09 and 1323.53 million in F/Y 2009/10 respectively. The total annual turnover value percentage of this sector was 2.4 % in F/Y 2005/06, 6.91% in F/Y 2006/07, 9.90% in F/Y 2007/08 12.64% in F/Y 2008/09 and 11.17% in 2009/10 respectively. Annual turnover value and percentage of NEPSE is increasing because number of listed companies of all sector is increasing except the finance sector. The

listed companies of development bank were 8 in 2005/06 and it increased up to 40 in F/Y 2009/10.

The turnover of finance companies sector was also increasing; it was Rs.305.85 million in F/Y 2005/06, Rs.713.60 million in F/Y 2006/07, Rs.2, 578.50 million in F/Y 2007/08, Rs.2, 615.40 million in F/Y 2008/09 and Rs.1, 263.94 in F/Y 2009/10 respectively. Percentage of total turnover of this sector from F/Y 2005/06 to 2009/10 was 8.86%, 8.54%, and 10.11%, 12.07% and 10.67% respectively. Annual turnover and percentage of total turnover in NEPSE of this sector was in increasing trend because listed companies of this sector were highest than then the other remaining seven sector that was 50 in F/Y 2005/06 and it increased up to 62 in F/Y 2009/10. Finance company's covering the highest position in NEPSE in terms of listing companies. highest amount turnover of this sector was Rs.2, 615.40 million in F/Y 2008/09 and lowest turnover was Rs.305.85 million in F/Y 2005/06.

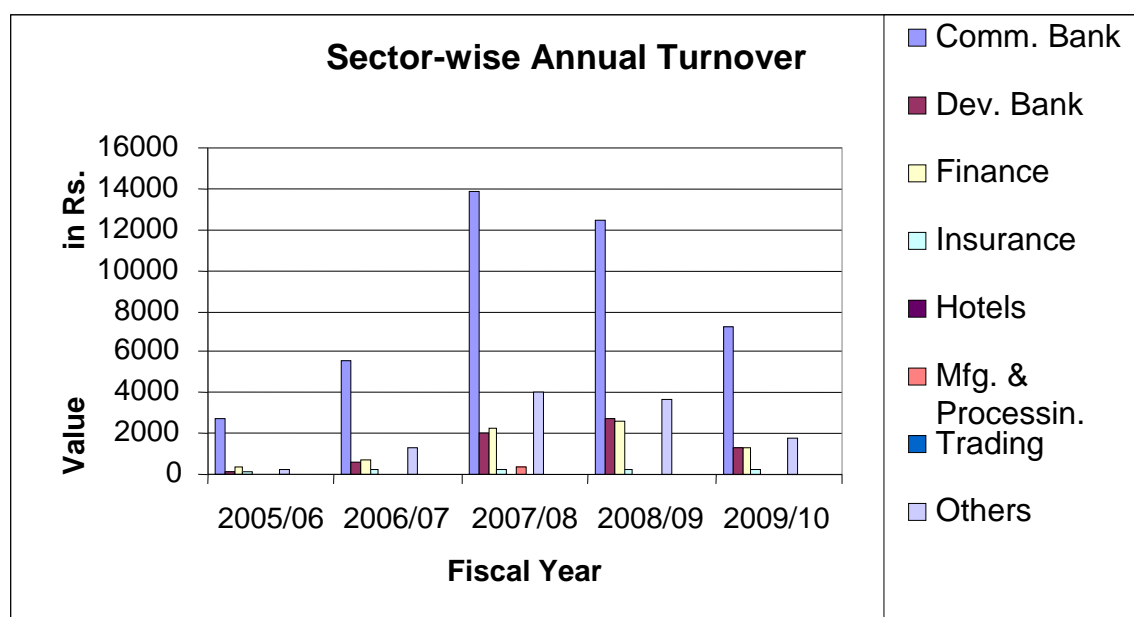
Annual turnover of insurance companies sector from F/Y 2005/06 to F/Y 2008/09 was in increasing trend that was 129.90, 205, 264.9, 212.80 and 183.47 respectively. The values of annual turnover of this sector was increasing but the percentage of total annual turnover in NEPSE of insurance companies sector was fluctuating that 3.76%, 2.45%, 1.16%, 0.98% and 1.55 from F/Y 2005/06 to F/Y 2009/10 respectively. The percentage of total annual turnover of this sector was 3.76% in F/Y 2005/06 and it decreased to 0.98% in F/Y 2008/09 and again increased to 1.55% in F/Y 2009/10. Such decrement in percentage is caused by increment in total annual turnover of NEPSE than insurance sector. Listed companies of insurance were lower than the commercial bank sector, finance companies sector and development bank sector.

Annual turnover values of hotel sector was fluctuating and its percentage of total turnover in NEPSE was 0.57%, 0.08%, 0.12%, 0.09% and 0.09% respectively from F/y 2005/06 up to F/Y 2009/10. Listed companies of hotel sector in the study period was remain constant but the percentage of turnover in NEPSE was lowest in F/Y 2006/07 and F/Y 2008/09 that was 0.08% because listed number of companies of hotel sector was lower than other sectors.

Annual turnover of manufacturing and processing sector was also fluctuating. It was Rs.17.19 million in F/Y 2005/06 it increased in next year that was Rs.24.30 million. In F/Y 2007/08 is highest turnover Rs.343.44 million and it decreased to Rs.26.08 million in F/Y 2008/09 and increased up to 37.74 in F/Y 2009/10. Percentage of total turnover value of NEPSE is fluctuating. From F/Y 2005/06 up to F/Y 2009/10 the percentage of annual turnover value was 0.50%, 0.29%, 1.50%, 0.12% and 0.32% respectively. Number of listed companies of commercial banks sector, development bank sector and finance companies sector were in increasing trend than the mfg. and percentage of this sector in total annual turnover of NEPSE was decreases. The annual turnovers are also presented in figures that are shown below.

Figure 4.11

Sector-wise Annual Turnover



Annual turnover of trading sector was fluctuating. Turnover value of trading sector was Rs.15.80 million in F/Y 2005/06 and a decreased in next year which was Rs.10.40

million and increased in next year which is Rs.14.97 million in F/Y 2007/08 increasing up to Rs.33.60 million in F/Y 2008/09, Rs.35.43 million in F/Y 2009/10. Annual turnover of trading companies' sector value was increasing from F/Y 2005/06 to 2006/07 and decreasing F/Y 2007/08 and again increasing up to F/Y 2009/10. Turnover percentage of trading companies was 0.46% in F/Y 2005/06 and decrease to 0.12% in F/Y 2006/07, 0.07 in F/Y 2007/08, 0.15% in F/Y 2008/09 and 0.30 in F/Y 2009/10.. Because number of listed companies of trading sector is decreasing than the other sectors. In F/Y 2008/09 the number of listed companies of trading sectors was only four and Hydropower is included in other sector. The annual turnover of other sector sectors is in increasing trend. It was Rs.183.88 million in F/Y 2005/06 and it increased in next years went up Rs.4,058.34 million in F/Y 2007/08. In the other sectors, annual turnover values were in increasing trend and its percentage of total turnover was also increasing because number of listing companies of other sector was higher than trading and hotel sectors.

Figure 4.11 shows the sector-wise annual turnover. Annual turnover of the commercial bank is the highest among eight sectors. It was Rs.13822.14 million in F/Y 2007/08 and lowest turnover was Rs.7 million in F/Y 2006/07 in hotel sector. Commercial bank, finance companies and development banks are dominating the other sector in terms of annual turnover.

4.4 Trend of NEPSE Index

NEPSE Index is the index that represents the whole security market of Nepal. NEPSE calculates so many indexes such as NEPSE, sensitive float and others sector wise indicators. These are so many method of calculating index such as value weight, prices weight and equal weight but NEPSE index uses value weight index system. NEPSE index is the oldest index in NEPSE that is calculating from the initial day of NEPSE and base index is the 100. Increase in the index shows increase in average price of the companies and vice versa. NEPSE index is calculated by considering all listed share including that of promoter share and employee share of all listed companies in NEPSE.

Index is used to determine the relationship and economic variables and to determine the systematic risk for individual securities and portfolios. Table 4.12 shows the yearly NEPSE index. Table 4.12, Figure 4.12 and Figure 4.13 show the annual NEPSE index. The NEPSE index in the FY 1993/94 was 226.03 which increased to 963.40 in the last FY 2007/08. During this period of time (i.e. From FY 1993/94 to FY 2007/08), the NEPSE index has been fluctuating yearly. From FY 1993/94 to FY 1997/98, the NEPSE index has been decreasing yearly which reached to Rs.163.35 points in the FY 1997/98.

Table 4.12

Yearly NEPSE Index

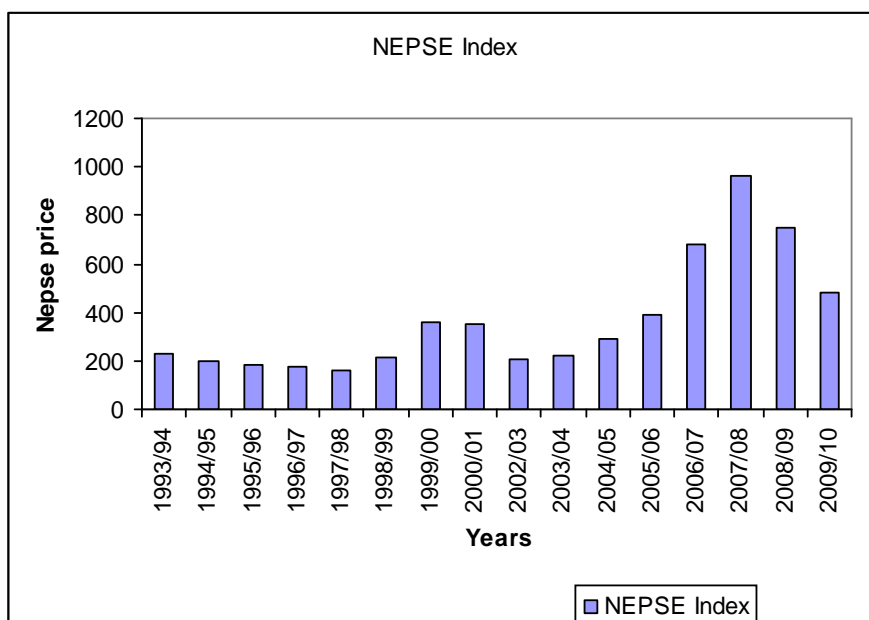
Fiscal Year	NEPSE Index	Increase/Decrease
1993/94	226.03	0
1994/95	195.48	-30.55
1995/96	185.61	-9.87
1996/97	176.31	-9.3
1997/98	163.35	-12.96
1998/99	216.92	53.57
1999/00	360.7	143.78
2000/01	348.43	-12.27
2002/03	204.86	-143.57
2003/04	222.04	17.18
2004/05	286.67	64.63
2005/06	386.8	100.13
2006/07	684	297.2
2007/08	963.36	279.36
2008/09	749.1	-214.26
2009/10	477.73	-271.37

Sources: www.nepalstock.com

Thereafter, it has been increasing from the FY 1997/98 to FY 1999/00 and reached to 204.86 points in FY 2002/03. From FY 2002/03 to the last FY 2007/08, the NEPSE index has been increased more than three times i.e. 963.40 in FY 2007/08. It is 279.36 points higher than that of the previous fiscal year. Thereafter, it has been decreasing from 2007/08 to 2009/10. Due to the fluctuating nature of NEPSE index, it is difficult to predict, because of the global economic crises, and the NEPSE index may adversely be affected and may decline in future years. Table 4.12 and figure 4.12 shows the NEPSE index from F/Y 2005/06 to F/Y 2009/10 that average index of each month not the index of the last day of the month. The NEPSE index was 300.05 point in August 2005 and it decreased to 293.35 point in September that was lowest point in that year. After September NEPSE index was improving. In April 2006 NEPSE index was decreased because share trading stopped due to curfew and political situation on 8th April to 13th April and 18th April to 24th April then after index was increasing next months it went up to 386.83 point in July. At that time, the price of share increased, total market capital value is also improved and Nepalese political situation was also better.

Figure 4.12

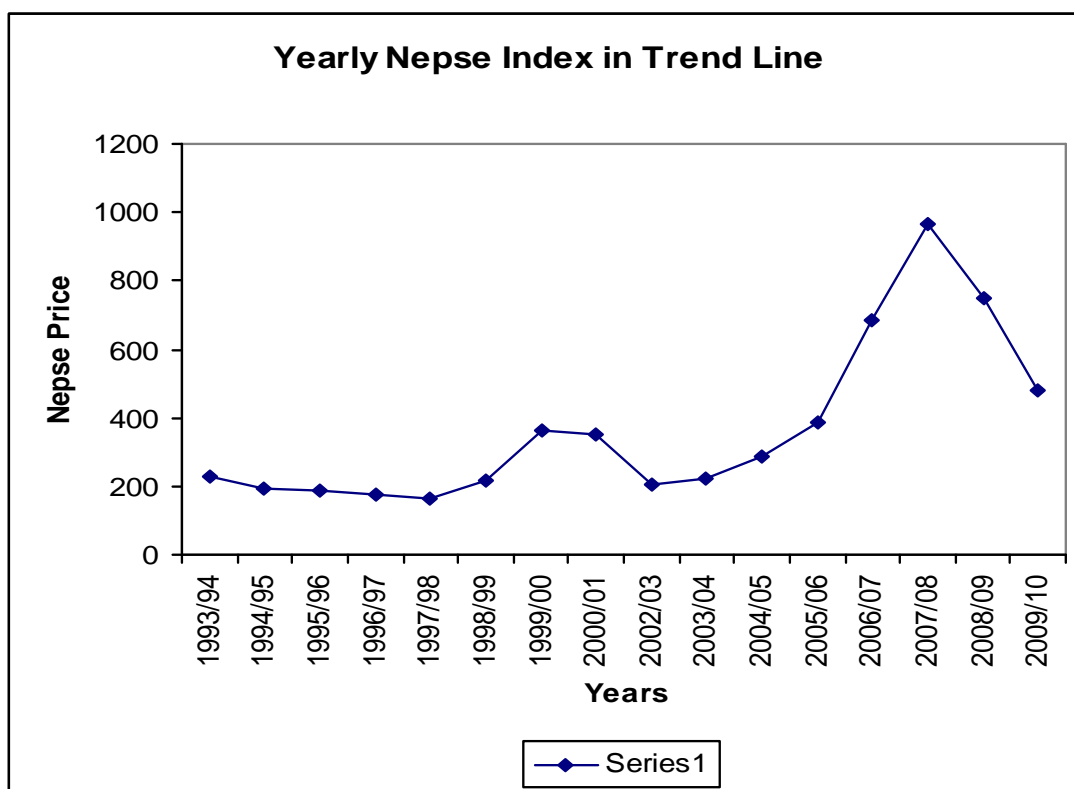
Yearly NEPSE Index in Bar Diagram



From above bar diagram shows that the highest NEPSE Index value in fiscal year 2007/08 and lowest Index value was found in fiscal year 1997/98.

Figure 4.13

Yearly Movement NEPSE Index in Trend Line



In F/Y 2006/07, NEPSE index was 390.86 point in August and it decreased to 382.56 point in September because political situation and curfew on 17 September thus shares trading was affected. After September political environment was improved and NEPSE index was slightly improving that was 683.95 point in July.

From above Trend line shows that the highest NEPSE Index value in fiscal year 2007/08 and lowest Index value was found in fiscal year 1997/98.

In F/Y 2007/08, at the beginning the NEPSE index was 705.96 point in August and it increased up to 1064.09 point in December but stamp down a 720.92 point in March and it was in increasing trend and it went up to 963.36 point in July.

In overall study period, the NEPSE index was at the pick in August 2008/09 that was 1084.76 point but it was stamp down to 660.96 point May and than it improved in July that was 749.10. The NEPSE index was in decreasing trend after August to May because Maoist problem and continues political situation direct affected the share price.

Table 4.13

Monthly NEPSE Index

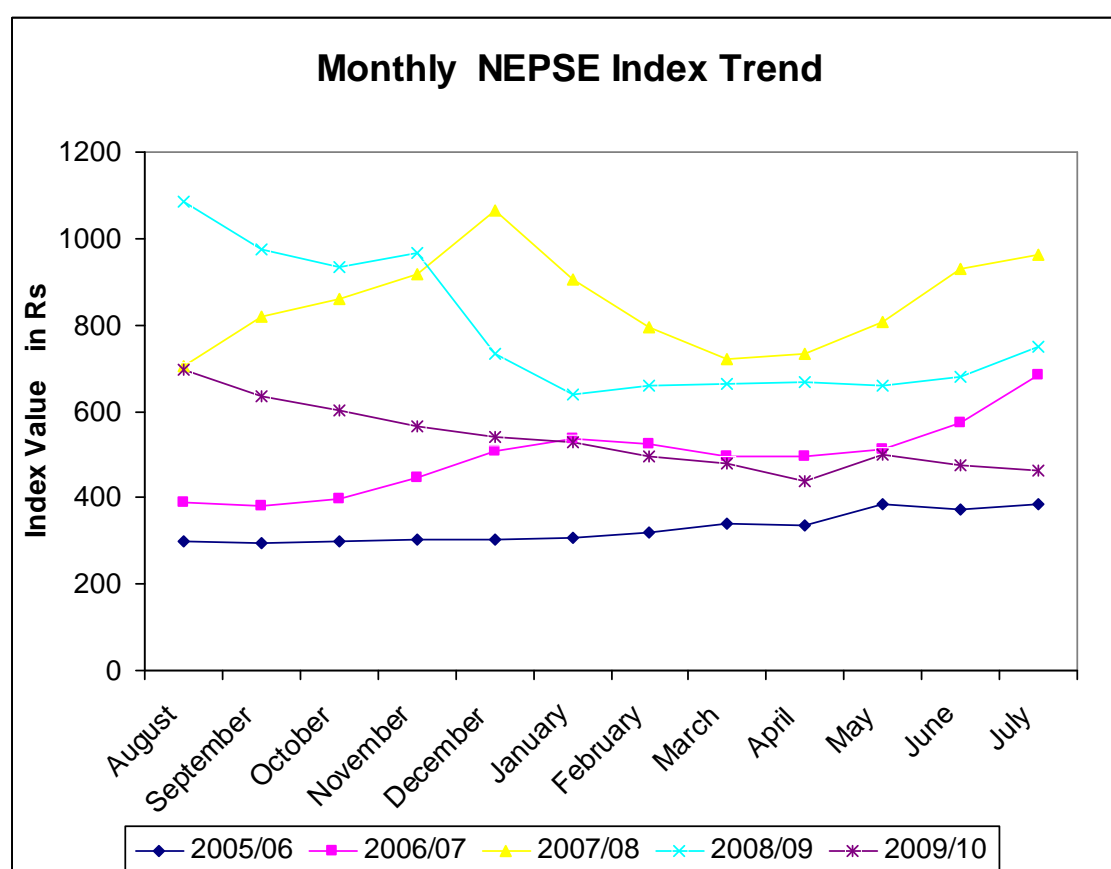
	Monthly NEPSE Index				
Month/Year	2005/06	2006/07	2007/08	2008/09	2009/10
August	300.05	390.86	705.96	1084.78	697.07
September	293.35	382.56	817.08	976.01	634.69
October	297.34	398.44	861.37	933.98	603.12
November	302.39	447.43	915.38	966.9	563.98
December	303.12	508.58	1064.09	734.85	539.39
January	305.5	537.09	905.38	639.81	526.65
February	317.79	523.94	795.89	659.81	494.52
March	339.79	494.06	720.92	663.52	480.92
April	334.77	494.59	734.83	667.2	436.85
May	385.89	513.45	806.26	660.96	499.96
June	372.01	575.04	930.65	678.74	473.94
July	386.83	683.95	963.36	749.1	464.8
S.D.	66.65	85.45	108.36	146.91	77.37
C.V.	17.43%	17.23%	12.72%	19.00%	14.00%

Sources: www.nepalstock.com

In study last F/Y 2009/10 at the beginning the NEPSE index was 697.07 point in August and decreasing up to 436.85 point in April and increasing 499.96 point May thereafter decreased up to 464.80 point July because political situation is unhealthy so direct affected the share price. Figure 4.14 shows the average monthly NEPSE index in the study period at presented below.

Figure 4.14

Monthly Movement of NEPSE Index



The NEPSE index reflects the aggregate volatility of the share prices of the companies. High volatility refers high risk. Standard deviation measures the total risk of the company. Low standard deviation refers low risk and vice versa. Coefficient of Variation (C. V.) measures the risk per unit of return. Standard deviation of NEPSE Index from 2005/06 up to F/Y 2009/10 was 66.65, 85.45, 108.36, 146.91 and 77.37 respectively. It is increasing trend and it implies that the risk is increasing up to 2008/09

and decreased 2009/10. The coefficient of variation of NEPSE index from F/Y 2005/06 up to 2009/10 was 17.43% 17.23% 12.72% 19% and 14% respectively. F/Y 2007/08 is less risky year because C. V. was lowest than other years and F/Y 2008/09 was high risky year. Figure 4.14 shows that the NEPSE Index from F/Y 2005/06 to F/Y 2009/10. In F/Y 2005/06 at starting months the NEPSE index was 300.05 in August and it fluctuated few months and it increased went up to 386.83 point in July. In F/Y 2006/07 NEPSE index was 390.86 point in August and it fluctuated. At the end of July index was 683.95 point. In F/Y 2007/08 the NEPSE was 705.96 point in August and it increased up to 1064.09 point December and decreasing. In F/Y 2008/09 NEPSE index was 1084.76 point in August it was the peak point during the study period then after it was in decreasing trend. In F/Y 2009/10 at starting month the NEPSE index was 697.07 and decreased went up to 436.85 in April and it fluctuated. At end of July index was increased up to 464.80 point.

From above Trend line shows that the highest NEPSE Index value in fiscal year 2007/08 and lowest Index value was found in fiscal year 2005/06.

4.5 Listed Companies in Nepal Stock Exchange Limited

Listing means the registration of issued securities with the stock exchanges to make them eligible for trading. Corporate sectors generally raise the required fund through the market either by issuing the common stocks or preferred stocks or debt instruments like bonds and debentures, if the features of marketability and liquidity are not added nobody will be interested to invest the hard earned savings in these instruments. This is simply because the investors are in need of funds and the invested securities are essential. Therefore, Nepal Stock Exchange Limited (NEPSE) is established with the objective of imparting free marketability and providing liquidity to the government and corporate securities by facilitating transactions in its trading floor through market intermediaries, such as brokers, market makers etc. and it is a non profit organization, operating under Securities Exchange Act, 2006. There are 176 listed companies in the last FY 2009/10 up to 15th July 2010 in NEPSE.

According to Table 4.14 and Figure 4.14 and 4.15, the number of listed companies is increasing each year except in the FY 2001/02 and FY 2006/07. However, the increment rate is fluctuating. In the last fiscal year,

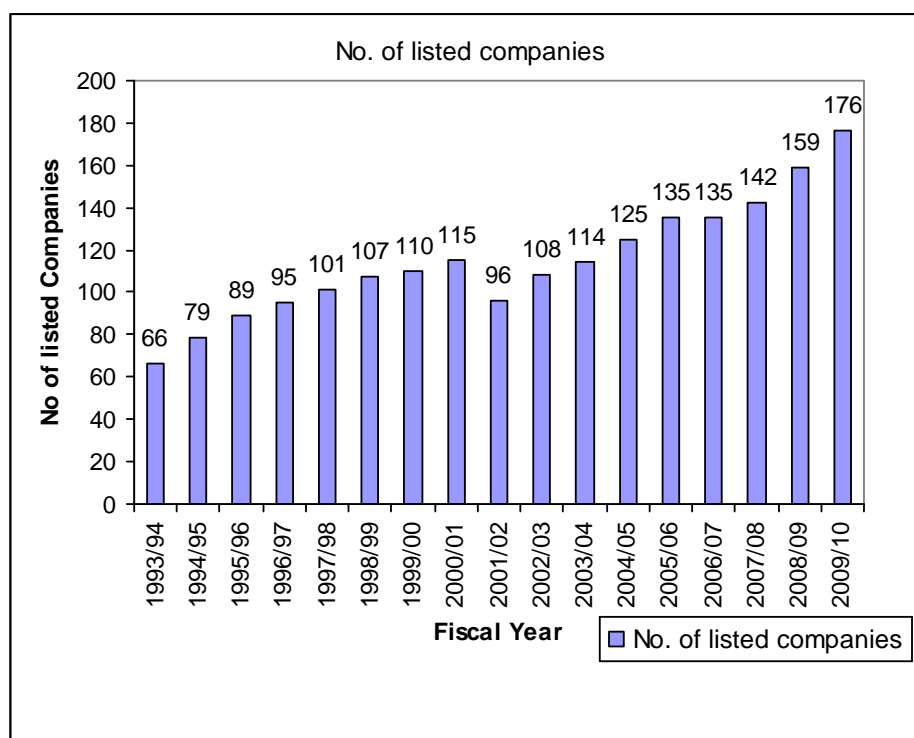
Table-4.14
Number of Listed Companies in NEPSE

Fiscal year	No. of listed companies	% increase/decrease
1993/94	66	-
1994/95	79	19.7
1995/96	89	12.66
1996/97	95	6.74
1997/98	101	6.32
1998/99	107	5.94
1999/00	110	2.8
2000/01	115	4.55
2001/02	96	-16.52
2002/03	108	12.5
2003/04	114	5.56
2004/05	125	9.65
2005/06	135	8
2006/07	135	-
2007/08	142	5.19
2008/09	159	11.97
2009/10	176	10.69

Sources: www.nepalstock.com

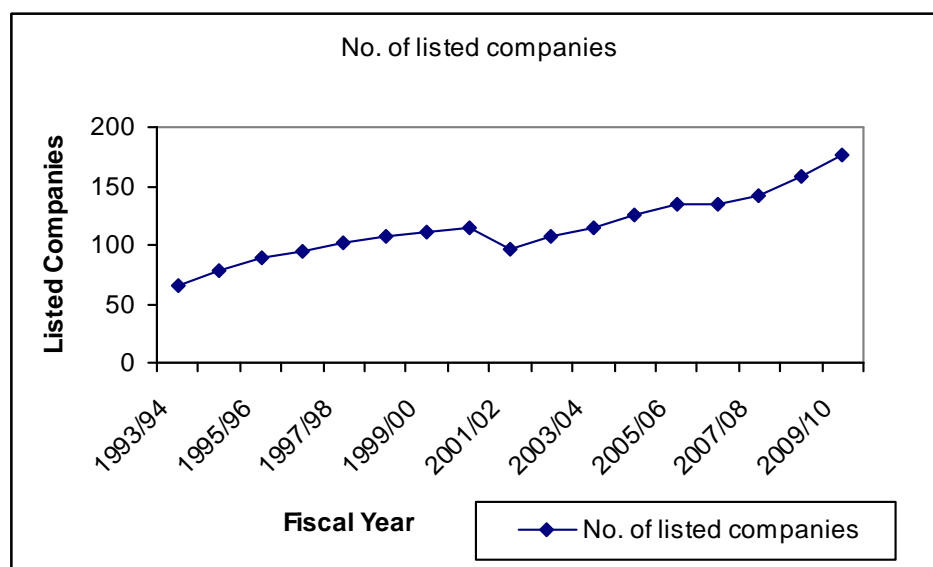
total listed companies in Nepal Stock Exchange Ltd. was 142, which increased to 176 with an increment rate of 10.67%. In the FY 2001/02, the number of listed companies decreased to 96 from 115 of previous F/Y. This happened due to the delisting of the companies by the NEPSE.

Figure 4.15
Yearly Listed Companies in NEPSE



According to the Stock Exchange Act, 1983, there is the provision of delisting the companies which are not able to disclose the documents regarding annual general meeting, audit report and unable to pay the annual listing fees in NEPSE up to two years.

The table listed above shows fluctuating trend in listed companies in NEPSE. During the study period the highest listed companies in fiscal year 2009/10 and less companies listed in fiscal year 1993/94.

Figure 4.16**Movement of Yearly NEPSE Index**

From the above tabulation, listing trend in NEPSE in every year increasing.

4.5.1 Sector-wise Listed Companies in NEPSE

Trading on the floor of the NEPSE is limited to listed companies securities and government bonds. In the beginning, the listed companies established under companies Act 1964 A. D. but at new company Act. 2063 B. S. (2006 A. D.) is formulated and running now. Security Exchange center was established in 1976 A. D. and it was converted into Nepal Stock Exchange (NEPSE) in 1993 A. D. Nepalese companies must be listed under the listing Act 2053 B.S. (1996 A. D.). Number of listed companies was 62 in the initial month of trading on NEPSE. Then the number of listed company increased. The increasing number of listed companies in finance sector is providing opportunities to the Investor to invest their fund in it as well as to manage investment portfolio.

The numbers of sector wise listed companies are shown in the table and figure below. Hydropower sector is included in the other sectors.

Table 4.16 and figure 4.17 Shows that the total number of listed companies is in increasing trend in the study period that F/Y 2005/06 to F/Y 2009/10. The total numbers of listed companies NEPSE were 135 in initial year of study period (F/Y 2005/06). In FY 2006/07 listing companies NEPSE remained constant. Then it is increasing every year which was 142 companies in F/Y 2007/08, 159 Companies in 2008/09 and 176 companies in 2009/10.

Table 4.15

Sector wise number of listed companies

Numbers of Listed Companies					
Sectors	2005/06	2006/07	2007/08	2008/09	2009/010
Commercial Bank	15	15	17	21	23
Development Bank	8	18	23	29	40
Financial Companies	50	53	58	61	62
Insurance Companies	15	16	17	17	19
Hotels	4	4	4	4	4
Mfg. and Processing	29	21	18	18	18
Trading	8	5	4	4	4
Others	6	5	4	5	6
Total	135	135	142	159	176

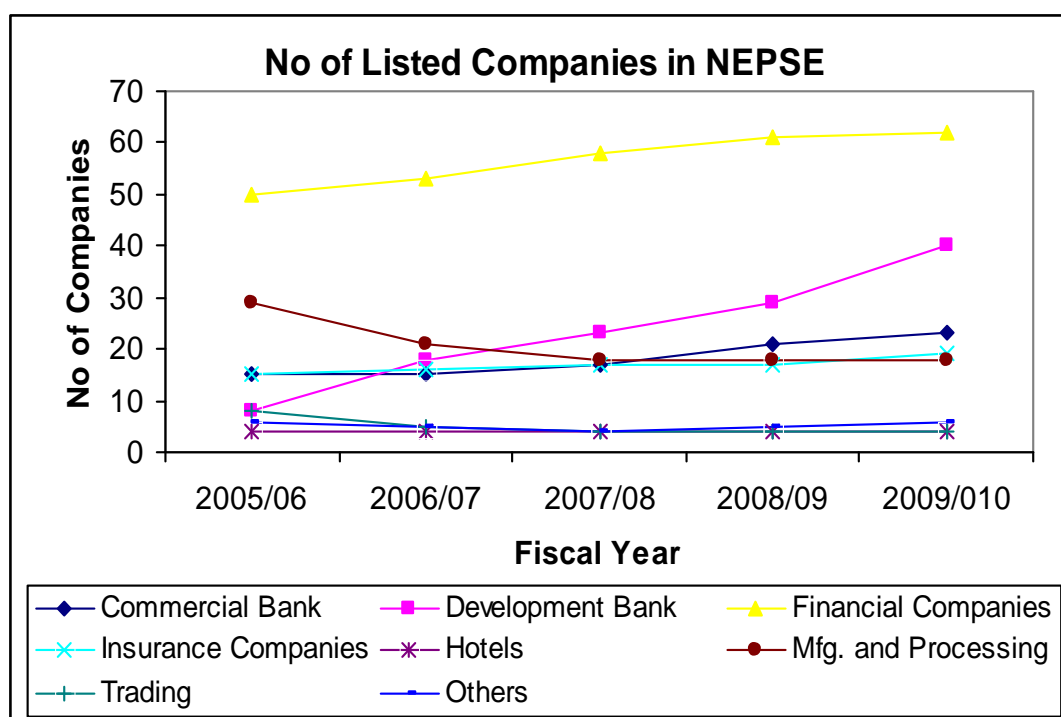
Sources: www.nepalstock.com

The sector-wise listed companies in finance, development bank, commercial bank, manufacturing and processing sectors is increasing at higher than that of insurance companies, hotels, trading and other sectors. The number of sector-wise listed

companies is in increasing trend but hotel remained constant and trading companies sector is in decreasing trend from F/Y 2005/06 up to F/Y 2009/10.

Figure 4.17

Movement of Sector-wise number of listed companies



Finance sector was dominating other sector in terms of number of listed companies. At the end of the study period (F/Y 2009/10) the listed companies of finance sector were 62 but hotel, trading companies and other sector are not improving. In general overall total number of listed companies is in increasing trend, which indicated the expansion of capital market in Nepal.

4.6 Market Opening Days in NEPSE

NEPSE is the only one secondary market in Nepal for trading of securities. NEPSE has its fixed period in market opening days but it did not work because of on the country adverse situation, environment, political instability situation and NEPSE employee's conflicts. So, little fluctuation in NEPSE opening days in the study period.

Table 4.16

Market Opening days

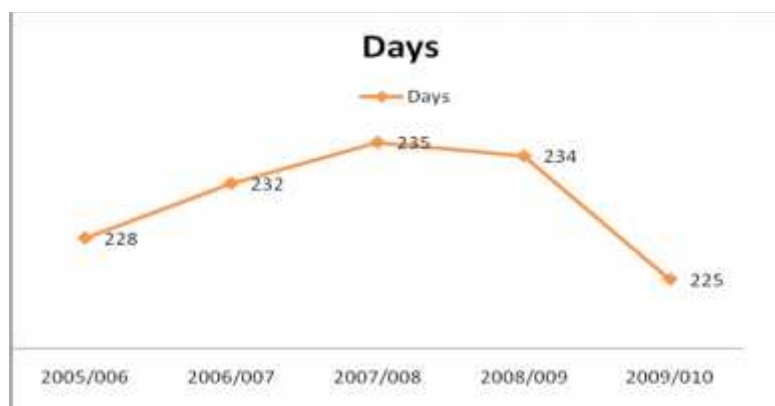
	Market Opening days				
Year	2005/006	2006/007	2007/008	2008/009	2009/010
Days	228	232	235	234	225

Sources: www.nepalstock.com

Table 4.16 shows the market opening days in NEPSE. Market opening days in NEPES from F/Y 2005/06 to 2009/10 was 228, 232, 235, 234 and 225 days respectively. In the study period, not so difference in the market opening days in NEPSE observed. A highest opening market day was 2007/08 that was 235 days and lowest was 225 days in F/Y 2009/10. Figure 4.18 shows the market opening days in NEPSE as below.

Figure 4.18

Yearly movement of Market Opening



4.7 Major Finding of the Study

The major findings derived from the analysis of data are as follows:

- 4.7.1 The NEPSE sub-index of commercial bank sector was found fluctuating. According to this five year study, the peak point was 1117.97 in August 2008 and the lowest point was 324.08 in October 2005.
- 4.7.2 The NEPSE sub-index of development bank sector was also found highly fluctuating. Increasing trend up to January 2007 and decreasing up to June 2010. From the analysis part the highest point was found 1598.10 in January 2008 and lowest point was 218.96 in October 2005.
- 4.7.3 The NEPSE Index of manufacturing and processing companies sector was in increasing trend in every year. According to study period, the peak point was 441.92 in September 2008 and lowest point was 272.34 in December 2005.
- 4.7.4 The NEPSE Index of finance companies sector was found increasing trend in observed. The lowest point was 229.49 in September 2005 and the peak point was 1067.39 in June 2008.
- 4.7.5 The NEPSE Index of insurance companies sector was high fluctuating in last three year. From the study period we found the peak point was 955.98 in December 2007 and lowest point in 318.51 in November 2005.
- 4.7.6 The NEPSE Index of hotel sector was increasing trend in observed. The peak point was 417.41 in January 2008 and lowest point was 177.67 in November 2005.
- 4.7.7 The NEPSE Index of trading sector was increasing trend in observed. The peak point was 300.35 in May 2010 and lowest point was 118.13 in August 2005.
- 4.7.8 The NEPSE Index of other sector was increasing trend. The highest point was found in 1027.30 in September 2008 and lowest point was found 299.65 in November 2005.

- 4.7.9 The NEPSE Index of hydropower sector was also in increasing trend. From the study the index found peak point was 1568.01 in December 2007 and lowest point found 216.05 in April 2009.
- 4.7.10 Market capitalization value was found in increasing trend. The highest value was found in finance sector and lowest point was found in trading sector. The point Rs.3, 02,219 million in fiscal year 2008/09 and Rs 764.44 million in fiscal year 2005/06 respectively. Market capitalization of commercial bank was found the highest and lowest is trading sector was found among nine sectors. Commercial bank commands a lion's share in the NEPSE trading floor. Market capitalization is different in different sector. Commercial banks sectors cover highest market capitalization and other company sector covers least market capitalization of the total.
- 4.7.11 The annual turnover was found fluctuating. It was found from the above study. Commercial banks sectors cover highest annual turnover and other sectors covers least annual turnover of the total. From the analysis part commercial bank sector was cover above sixty percentage annual turnover the trading sector was cover less than one percentage in NEPSE.
- 4.7.12 The Listed Companies were increasing trend in 2005/06 only 135 companies were listed and 176 companies were listed till F/Y 2010. There are altogether 176 companies listed in Nepal Stock Exchange Ltd till fiscal year 2009/10. Out of these, there are 23 commercial bank, 40 development banks, 62 Finance companies, 19 Insurance companies, 04 Hotel Companies, 18 Manufacturing and processing companies, 04 Trading companies, 6 other companies listed in Nepal Stock Exchange. The NEPSE licensed to 11 dealers (primary) and 2 dealers (Secondary) market.
- 4.7.13 The NEPSE market opening days is fluctuating. In the initial year (F/Y 2005/06) the market is opened 228 days and it is in decreasing trend. Market opening days was 232 days in F/Y 2006/07, 235 days in F/Y 2007/08, 234 days in F/Y 2008/09 and 225 days in F/Y 2009/10.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter presents summary conclusions and recommendations of the study. According to the nature of the study, only the secondary sources were used for the collection of data. For this, the different data collected from Nepal Stock Exchange and securities Board of Nepal were specially considered. The collected data were presented in different tables, figures and graphs with detail interpretation

5.1 Summary

Nepal launched planned economic development more than five decades ago. Recently it has adopted the path of economic development through liberalization. The capital market institutions are engaged in mobilizations of saving into the productive investment activities, so, to develop the economy of the country. At present, the institutional growth, primary and secondary market growth and number of listed companies are increased in Nepalese capital market, Nepal stock exchange in the only one secondary market is Nepal and playing a vital role in Nepalese capital market. The basic objectives of this study are concerned on capital market without performance and price behavior of share of the selected companies of NEPSE Index.

The second chapter presents the conceptual framework of the study and research review. Conceptual framework deals with securities of investment, securities market, and secondary market in Nepal Securities Board of Nepal, Nepal Stock Exchange, Securities analysis and efficient market theory. There are two of investment alternatives financial investment and real investment. Primary, secondary, Money and capital market are security market in Nepal. There are two types of security analysis theory. These are Technical Analysis and Fundamental Analysis. Technical analysis involve the study of past volume price fluctuations where as fundamental analysis theory, the

security analysis, the factor economic influence, industry factors and pertinent company information such as product and management in order to calculate an intrinsic value of the firms security. In an efficient market there, there are the forms a) weak b) semi-strong c) strong.

Research methodology and presentation of data deals with the methods of analysis, Third chapter presents the research design, population and sample size, nature and source of data, data collection procedure, data processing and analysis. Nepal stock Exchange listed in 179 companies till F/Y 2009/10 and categories nine sectors these are 1) Commercial Bank sector, 2) Development Bank sector, 3) Finance Companies sector, 4) Insurance Companies sector, 5) Manufacturing and Processing Companies sector, 6) Hotels sector, 7) Trading Companies sector, 8) Hydropower sector and 9) Others sector. In this study major sources of data are NEPSE and SEBON. For analysis of data simple statistical tools were used which are, percentage, standard deviation and coefficient of variation. It measures the volatility of behavior of NEPSE index. There is positive relation between risk and return. So, from the view point of the investors, the attitude towards risk varies from investors to investors. Risk aversion approach where the investor doesn't want to bear additional risk and wants secured and safe return but risk seeker wants to take high risk and to gain high level of returns.

The number of total listed companies is increasing and sector-wise listed companies are also increasing but hotel sector is remain constant during the study period. Manufacturing and processing and trading sectors are decreasing trend and others sectors are increasing trend. The annual turnovers are increasing trend. Commercial banks recorded the highest position among nine sectors then trading sectors is not improving, Investors are encouraged to invest in commercial bank, Finance companies and Development bank than other sectors.

The NEPSE trading floor market opening day is fluctuating, the NEPSE index reflects the aggregate volatility of the share prices of the listed companies. View point of coefficient of variation, FY 2005/06 is the less risky year and FY 2009/10 is most risky year for the NEPSE index.

5.2 Conclusions

The following conclusion has been derived from the major findings of the study.

-) The NEPSE's nine sub-indexes were found fluctuating. Among different sub-indexes of NEPSE, development bank sector was found to be the highest and trading sector to be the lowest. The share price of nine sectors was found in increasing trend. We conclude that the market was very risky. NEPSE index reflects the aggregate volatility of the share price of the companies listed in NEPSE. From the study it has been found that investor were attracted towards commercial bank sector, finance company sector and development sectors to make their investment. In fiscal year 2007/08 every sector's share price was found highest than other fiscal years.

-) Market capitalization value is in increasing trend: market capitalization in the year 2005/06 was Rs. 96814 million and went up to Rs. 376871 million in F/Y 2009/10. Market capitalization of commercial bank is the highest and lowest is trading sector among nine sectors. Commercial bank commands a lion's share in the NEPSE trading floor. Commercial banks sectors cover highest market capitalization and "other company sector" covers least market capitalization of the total.

-) The annual turnover of NEPSE is fluctuating. The annual turnover of commercial bank was the highest among nine sectors; its cover above sixty percentages in every year. The annual turnover of trading sector was the lowest in nine sectors; its proportion is less then one percentage every year. The figures shows that investors like commercial sector to invest.

-) The overall NEPSE Index was found fluctuating. During the study period the highest point of NEPSE was found 1598.10 in January 2008 in and the lowest point was 118.13 in August 2005.

-) The number of listed companies are increasing trend. In fiscal year 2005/06 only 135 companies were listed and 176 companies were listed till F/Y 2010. There were altogether 176 companies listed in Nepal Stock Exchange Ltd till fiscal year 2009/10. The NEPSE licensed to 11 dealers (primary) and 2 dealers (Secondary) market. The NEPSE Index was found fluctuating - increasing trend up to August 2008 and decreasing till July 2010.

-) The NEPSE market opening days is fluctuating. In the initial year (F/Y 2005/06) the market was opened 228 days and it was in decreasing trend. Market opening days was 232 days in F/Y 2006/07, 235 days in F/Y 2007/08, 234 days in F/Y 2008/09 and 225 days in F/Y 2009/10. Instable political situation, Maoists problem and strike of NEPSE employers affected the NEPSE market opening days.

5.3 Recommendations

On the basis of analysis and finding of the study, following recommendations have been presented to overcome to weakness and inefficiency and to improve the awareness program and policies of NEPSE.

-) NEPSE Index is decreasing substantially from September 2009. Therefore, it is difficult to predict market whether it will go in bullish or bearish trend in future. SEBON and NEPSE should make confidence environment about security market. The performance of commercial bank, finance companies, and development bank sector are comparatively better than the other remaining sector. So it recommended to the investor to invest in these sectors.

- J Investors are not concentrating only in Kathmandu Valley. There are a lot of investors out side the Kathmandu. Therefore, for the development of securities market in Nepal, it is important to expand its services to the regional level rather than concentrating solely in the Kathmandu Valley. It should open branches in other big cities such as Biratnagar, Bhairahawa, Nepalgaunj, Pokhara etc. to expand its business. NEPSE should increase its capital base. More trading locations will provide many places for transaction that will ultimately attract more investors in this sector.

- J Margin trading and short selling system should start to attract investor in security market of Nepal. The procedures for offering public issue should be simplified and rationalized; Securities Board of Nepal and other concerned authorities should conduct public awareness and investors education programs to increase the level of investor's awareness.

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APPENDIX -1

Sector wise Transaction

From 16th July 2005 to 16th July 2006

Name Of Share	No. of Listed Companies	Annual Turnover (Million)	Traded Share Quantity (Thousand)	Makret Capitalization (Million)
Commercial Bank	15	2696.28	5534.90	68694.36
Development Bank	8	82.76	386.39	1577.45
Financial Companies	50	305.85	1957.68	5000.04
Insurance Companies	15	129.90	575.00	4952.19
Hotels	4	19.17	392.80	2344.21
Mfg. and Processing	29	17.19	59.80	5472.11
Trading	8	15.80	15.22	764.44
Others	6	183.88	3301.54	8008.94
Total	135	3450.83	12223.33	96813.74

APPENDIX -2

Sector wise Transaction

From 16th July 2006 to 15th July 2007

Name Of Share	No. of Listed Companies	Annual Turnover (Million)	Traded Share Quantity (Thousand)	Market Capitalization (Million)
Commercial Bank	15	5563.50	8700.00	135568.00
Development Bank	16	577.50	1360.48	6025.60
Financial Companies	53	713.60	2534.09	9019.30
Insurance Companies	16	205.00	427.64	8059.28
Hotels	4	7.00	81.79	3268.30
Mfg. and Processing	21	24.30	82.92	6200.00
Trading	5	10.40	11.47	796.90
Others	5	1258.80	4748.65	16455.79
Total	135	8360.10	17947.04	185393.17

APPENDIX -3

Sector wise Transaction

From 16th July 2007 to 15th July 2008

Name Of Share	No. of Listed Companies	Annual Turnover (Million)	Traded Share Quantity (Thousand)	Makret Capitalization (Million)
Commercial Bank	17	14351.00	10695.60	259955.30
Development Bank	23	2075.20	2985.40	17997.80
Financial Companies	55	2518.50	3204.06	97674.40
Insurance Companies	17	264.90	444.89	11241.40
Hotels	4	27.70	158.07	4809.60
Mfg. and Processing	18	343.40	2865.15	7516.90
Trading	4	33.60	14.97	1170.20
Others	4	3206.50	7377.40	25881.90
Total	142	22820.80	27745.54	426247.50

APPENDIX -4

Sector wise Transaction

From 16th July 2008 to 15th July 2009

Name Of Share	No. of Listed Companies	Annual Turnover (Million)	Traded Share Quantity (Thousand)	Makret Capitalization (Million)
Commercial Bank	21	12406.45	12472.4	302219.29
Development Bank	29	2740.36	3654.72	27137.89
Financial Companies	61	2615.4	4408.94	43007.13
Insurance Companies	17	212.8	648.21	10537.49
Hotels	4	18.69	96.95	4851.95
Mfg. and Processing	18	26.08	95.12	7706.09
Trading	4	33.48	14.65	1696.36
Others	5	3627.87	4267.43	115782.88
Total	159	21681.13	25658.42	512939.08

APPENDIX -5

Sector wise Transaction

From 16th July 2009 to 15th July 2010

Name Of Share	No. of Listed Companies	Annual Turnover (Million)	Traded Share Quantity (Thousand)	Makret Capitalization (Million)
Commercial Bank	23	7196.24	7196.24	206282.52
Development Bank	40	1323.53	1323.53	27488.87
Financial Companies	62	1263.94	1263.94	29869.59
Insurance Companies	19	183.47	183.47	9756.61
Hotels	4	10.15	10.15	5285.58
Mfg. and Processing	18	37.74	37.74	7592.03
Trading	4	35.43	35.43	1617.51
Others	6	1800.61	1800.61	88978.67
Total	176	11851.11	11851.11	376871.38

APPENDIX -6

Market Opening Days

From 16th July 2005 to 15th July 2010

	Market Opening days				
Year	2005/006	2006/007	2007/008	2008/009	2009/010
Days	228	232	235	234	225