Fluctuation of Share Prices in Dhaka Stock Exchange: A Critical Analysis

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EXECUTIVE SUMMARY

The main purpose of the present study was to give an overview of the share price movement and the impacts of the recent (2010) catastrophe in the stock in terms of invested capital and attitudes of the investors. The study also attempted to bring out the reasons for raising the share price before the crash and the factors which contributed to share price fall.

The present study employed a variety of methodologies including in-depth interview of investors using semi-structured interview schedule (questionnaire survey), focus group discussion (FGD), participant observation and case studies of the stakeholders of Bangladesh Capital Market. A total of 450 questionnaires were administered among various stakeholders of the capital market and 438 respondents responded correctly out of which 385 (87.90%) were investors, 08 (1.83%) were financial analysts, 15 (3.42%) were executives of regulatory bodies and 30 (6.83%) were employees of brokerage houses. The respondents were chosen randomly from Dhaka Metropolitan area.

As per profession, 114 (26.03%) were businessmen, 222 (50.68%) were service holders, 39 (8.90%) were housewives, 63 (14.38%) were others. According to the educational background, 96 (21.92%) respondents were undergraduate, 144 (32.88%) respondents were graduate, 196 (43.84%) respondents were post graduate, 06 (1.37%) more or others. Based on the duration of involvement with the stock market, 228 (52.05%) respondents were involved for less than 2 years, 113 (25.80%) for 2-3 years, 50 (11.42%) for 3-4 years and 47 (10.73%) for more than 4 years. Based on the reason or objective of involvement or investment in stock market the respondents could be classified as: 72 (16.44%) to create self-dependency, 15 (3.42%) to upgrade social status, **210 (47.94%) to earn higher return,** 111 (25.34%) easy to invest and 30 (6.84%) other reasons. Finally according to the sources of capital the respondents could be divided into a few groups as: 263 (60.05%) investors invested only own money, 48 (10.96%) investors invested taking fund from husband or father or relatives, 12 (2.74%) investors invested taking bank loan, 21 (4.79%) investors invested taking margin loan from broker, 94(21.46%) investors invested both own fund & taking loan (Please See Appendix-Table 2-4).

It appeared from the findings that not only a single factor could be made responsible for the share market crash but it alsovariouscollective factors were responsible for this huge crash.

From the study it is found that 21.57% of the respondents thought that cause of the recent catastrophe in the stock market was the lack of government awareness/control over the stock market, 6.16% respondents believed for apathetic aspects by the SEC, 7.89% felt for lack of adequate supervision of the investments of the commercial banks by the central bank, 35.80% realized for the syndication or manipulation in the stock market and the rest 28.58% assumed the Lack of proper knowledge/ skill of investors.

The investment of 198 (45.21%) investors was lost for below Tk. 1 lac and 173 (39.49%) investors were in the range of Tk. 1lac to Tk.10 lac, 38(8.68%) investors were in the range of Tk. 10 lac to Tk.15 lac, and only 29 (6.62%) had investment of Tk.15 lac and above. The investors also invested taking loan from banks and brokerage houses. Among the investors surveyed, 276 (63.02%) investors have lost loan of below Tk. 1 lac, 98(22.37%) investors lost loan in the range of Tk.1 lac to Tk. 10 lac, 34 (7.76%) lost loan in the range of Tk.10 lac to Tk. 15 lac; while 30 (6.85%) investors lost loan above Tk. 15 lac,

It is crystal clear that for the sustainable development of stock market all the parties concerned must work in a harmony as failure of any of them may lead the market to a further long decline towards a deep dark tunnel.

Therefore, all stakeholders of Bangladesh Capital Market including Government, Regulatory bodies, Listed Companies, Brokerage houses, Institutional Investors, and Retail Investors can follow the recommendations suggested in this study and should act rationally to maintain the stability in the capital market for the greater interest of the country as well as for themselves.

Chapter – 1

Introduction, Objectives and Methodology

1.1. Introduction:

Stock market is one of the most important financial institutions of any economy as well as Bangladesh. It opens the door for companies to raise huge amount of capital from a lot of individual investors inside & outside of a country. Hafer and Hein (2007) pointed that growth of new businesses or the economy would not be possible without availability of stocks and development of financial markets.

It has been observed that investors participate voluntarily to buy ownership of a company in the public market. It is said that stock market is an intermediary institution to adjust the gap between surplus units and deficit units of an economy. In these days, investing in stocks is more popular than investing in any other investment sectors to millions of middle class educated people in Bangladesh. For an investor, stocks are more liquid than any other investment sources as it gives ability to sell and buy ownership anytime without any hassle.

The financial year 2008-09 is known for the global financial and economic crisis. Many developed and developing countries fell into recession. However, it could not affect Bangladesh economy greatly. So, the stock market of the country did not see any significant changes or fall.

The consecutive outstanding performance of Bangladesh stock market in recent years before the crash lured millions of investors to the stock market to invest their little savings. Before the stock market crash the market had become a route of easy money for too many new individual investors. That is why; millions of fresh investors invested their small saving in the market during this period. Investing in this market provided a way to avoid working a job for these fresh investors. Even some BO account holders worked as intermediaries of friends, relatives to invest their money in the stock market.

At such a situation, the stock market crashed and taught these investors that investing money in the stock market involves risk too. But the lesson that investors got wreaked havoc on the lives of millions of innocent investors. The crash wiped out billions of taka from the market where fresh, illiterate investors were the main victims. It was more than a year since the crash had occurred, but the market is still struggling to recover its loss. Stock market crash of 2010-11 had become a national, political and social issue of the country.

1.2. Conceptual Framework:

" Stock market crash is a sharp and unexpected decline of stock market prices for a very short period of time, usually accompanied with the decline of many other assets' prices" mentioned by stockmarketcrashes.net. It causes significant capital losses of investors and speculators. The market participants become panicked which leads to more losses.

After the Bangladesh stock market debacle in 1996, the market recovered gradually and had been growing steadily until 2008. Investors were encouraged recently to invest more in the stock market for lower rates of interest on bank deposits, tax-free income benefit, overseas remittance, fair rate of return on investments and lack of sufficient avenues for investment by individuals,. The market became reasonably stable until 2008. In 2010, the share price index started rising and it became abnormally high in late 2010 creating an alarming situation and a concern among the experts.

Bangladesh Stock Market has been experiencing a prolonged bull run from mid-2009. The market returns has been amongst the world's highest over the period. Even in 2010, only Sri Lanka (+110%) and Mongolia, had probably beaten our market where prices grew roughly by about 90%. Now, while this sounds great, people frequently forget the risks of investment in such times of "irrational exuberance".

1.3 Literature Review

We have reviewed the existing literatures aligning with the objectives of the present study but a few research works were done on the fluctuation of share prices in DSE. As per the objectives of this paper, we have reviewed a lot of international and local literatures which include journals, repots as well as publications. The first reviewed literature was an international research journal named "**The Stock Market Manipulations**" conducted by Aggarwal, Minnesota; and Wu, Houston. There, we have found some theories and evidences of stock price manipulation. The second reviewed literature was an International research paper topic **"A Framework for the Analysis of Market Manipulation"** conducted by Ledgerwood and Carpenter, Brattle Group. There we found the behavior of market manipulation. The third reviewed literature was a local newspaper article **"Bangladesh Scenario: Bubbles and Busts"** by Islam, 2014 who identified some crucial factors including (a) Asymmetry of information,(b) Adverse selection, and, (c) Moral hazard. In addition, to the above factors, market manipulation has also been cited a cause of instability said by (Islam, 2014). The forth reviewed literature was "**Catastrophe in Stock Market of Bangladesh: Impacts and Consequences (A study on recent crash of Stock Market with a Reference to DSE)"** by Hossain & Islam 2012 and there we found the potential reasons behind the ballooning the share price and then fall.

Apart from the above literatures, different reports, journals and financial statements published nationally and internationally on the issue were reviewed; and the major outcomes are noted here.

A stock market crash is a sudden dramatic drop of stock prices across a significant cross-section of a stock market, following a significant loss of paper wealth. Paper wealth means wealth as measured by economic value as reflected in the price of assets. In the concept of stock market, investors own shares in a company and the worth or value of that investment increases, then the paper wealth of that investor is said to have increased.

1.3.1. World Stock Market Review of 2010:

The analysis made by Peninsula Asset Management and Investment Company Limited shows that the average country saw a major equity market index gain of 15.33% in 2010. Sri Lanka stock market gained the most at 96.01%, while Bermuda declines the most at -97.87%. Six other countries along with Sri Lanka gained more than 50% in 2010 namely **Bangladesh (82.79%),** Estonia (72.62%), Ukraine (70.20%), Peru (64.99%), Lithuania (56.49%) and Argentina (51.83%). Looking at just the G-7 countries, Germany did the best at 16.06%, followed by Canada 14.45%, US 12.87% and the UK 9%. The three other G-7 countries (France, Japan and Italy) all declined in that year. Of the BRICs, Russia gained the most at 22.70%, followed by India 17.43%, Brazil 1.04% and China -14.31%. The analysis further shows that Kenya was the best performing in Africa for 2010 financial year with a gain of 36.5%, followed by Ghana with a gain of 35.9%, Morocco 22.1%, Tunisia came forth with a gain of 19.1% while Nigeria was the fifth performing market in Africa with a gain of 18.9%.

1.3.2. Overview of Bangladesh Stock Market:

Most of the countries of the world have its own stock market. Stock exchange is an organized place or area where the buyers and the sellers are brought together so that they can buy and sale their stocks/shares. Bangladesh is a rising market with two stock exchanges, Dhaka Stock Exchange Ltd. (DSE) and Chittagong Stock Exchange Ltd. (CSE).

Dhaka Stock Exchange (Generally known as DSE) is located in Motijheel Commercial Area situated in the heart of the Dhaka city. It was incorporated in 1954.

Dhaka Stock Exchange is the first stock exchange of the country. Chittagong Stock Exchange (CSE) began its journey on 10th October of 1995 from Chittagong City through the cry-out trading system. One hundred and forty nine registered organizations are the owners of Chittagong Stock Exchange and 238 registered companies are the owners of Dhaka Stock Exchange. The owners receive the advantage of trade license for share trading. Apart from this, they don't get any extra benefit. DSE consists of a Board of Directors of 24 members. Among them 12 are elected by the members and other 12 are selected by the government. This Board has a President with 3 Vice-Presidents. This Board formulates the policy and implements the plan. Four directors have to retire every year and they are subject to get nomination for being re-elected as per the 1994 Company Act. The appointment of CEO of DSE & CSE is to be approved by SEC. After every 3 years, Stock Exchange Commission (SEC) has to approve the appointment of new CEO. To support the CEO in the daily activities the following departments are exercised: ICT division, Membership affairs administration, Monitoring, Investigation and compliance department, Training academy , Research, development & information department, General accounts department, Logistic, Maintenance and Protocol department , Listing department , HR department, etc.

1.3.3. Stock traders and investors:

Mainly, there are two types of investors in our country; institutional investor and individual investor. Institutional investors include Mutual fund, Merchant Banks, Provident Fund Companies, Insurance Company and Investment corporations. They have the right to invest in the share market. But their buying natures are restricted by the rules and regulations. They take part in the placement of shares. Individual investors are those who invest in the market with a view to earn profit. Their capital is not defined or confined by laws or means. The companies invite them to participate in the IPO. After the IPO, the shares enter into the secondary market for transaction. In the recent collapse of share market, the retail or individual investors are the main victims. The institutional investors are being accused of taking part in destroying the market (MOF, 2011). ICB has more than thirty thousand accounts to facilitate the institutional investors, whereas more than three hundred thousand people are involved in the share market. That means, there are more than 30 lakh small investors in our country.

1.3.4. Stock market collapses in 1996 & 2011:

Most of the countries' stock markets have confronted the taste of collapse at least once. In 2000, London Stock Exchange and American Stock Exchange encountered the collapse. Economic recession all over the world caused the share market collapse in America and Europe. But Bangladesh protected itself from this situation due to very little foreign investment in this country.

1.3.5. Stock Market Crash in 2010:

After 1996 collapse in the share market of Bangladesh, a neutral Inspection Committee was formed with a view to investigating the reasons behind the market collapse. Munir Uddin, an FCA, was the chief of that committee. He opined that the collapse of 1996 was the result of the activities of a group of people. Main accused at that collapse were outsiders to Bangladesh. Some of the leading businessmen along with the foreigners committed the crime. They were sued at that time but lack of evidence closed the files of the alleged persons. According to that Investigation Committee, more than 500 crore taka was transferred outside the country. But for that failure, the government and the SEC were accused showing that the controlling and the monitoring activities were weak.

As a whole, it can be said that paper based share certificate, lack of knowledge of the retail investors, manipulation, inside trading and greed are some of the main reasons of the collapse (MOF, 2011). The main catalysts for that collapse were the shrewd manipulators from both home and abroad (Mohiuddin, 2010). After 14 years, SEC and the two share markets again experienced the taste of collapse. But this time the reasons were different. The paper based share certificates were no more in existence. As per the report of Ibrahim Khaled, various reasons led towards this disaster. Institutional investors played a major role in this case. For instance, each merchant bank has the right to invest in the market 10% of the deposit money collected from the clients. But they didn' t comply with these rules. They invested more than ascribed amount that violated the rules. Another reason was that ICB has more than thirty thousand omnibus account. Many companies speculated and manipulated the total market with this accounts. The free entrance of the black money caused collapse of the share market. More than 30 lakh B/O accounts were then in Bangladesh. But there was no legal restriction about opening the B/O account. It was revealed in the report that a single person had more than 20 accounts to conduct share transaction. Lack of surveillance activities led toward this collapse (MOF, 2011). It was said by the expert economists that more than 30 thousand crore taka was taken away by the share market gamblers. These gamblers speculated the shares and increased the price, which attracted the retail investors. They entered in the market without having sufficient knowledge about share market. Lack of knowledge on the part of the small investors is also indicated as the reason of market collapse.

According to Centre for Policy Dialogue (CPD, 2011), the total number of BO Account holders on 20 December, 2010 reached to 3.21 million though the number was 1.25 million in December 2009. Most of these new investors didn' t have enough knowledge about the stock market but invested almost all of their savings in the market. Two hundred and thirty eight brokerage houses opened 590 branches at 32 districts. As a result, investment in the share market became a popular business among the educated middle class of Bangladesh. December 19, 2010 was a historical day of the financial year 2010-11 in Bangladesh stock market. On this day, DSE witnessed its biggest one day fall in 55 years history until the date with losing 551.76 points or 6.71 %.

The losing index was even higher than 284.78 points or 3.32 % of 12 December, 2010. Prices started to fall in an hour after the trading started and about 200 points were wiped off. In the middle of the session, it recovered a little bit and ended up the session at 7654 points. Chittagong Stock Market also met a similar fate. It is estimated that over three million people - many of them small-scale individual investors - had lost their money because of the plunging share prices. An abrupt crash of the market sparked violent protests from the Bangladeshi investors. They were finding ways and means to exit the market in order to minimize the losses. CPD report (2011) found that, internet-based trading operation, opening branches of brokerage houses across the country, easy access to market information, arranging a countrywide 'share fair' were the factors for increasing investors. But supplies of new securities through IPOs were not enough to chase the huge capital of too many investors in the market. Banks & other financial institutions of Bangladesh had a lot of excess liquidity due to less business opportunities in the recession period of 2009-10. To minimize the cost of bearing excess liquidity and as a great opportunity, these financial institutions & its officials as well as other people took loan and invested in the share market. This made a huge flood of liquidity in the share market. It was seen that the daily transaction in the share market was on an average from Taka 20,000 to 30,000 million in 2010 and the figure was double compared to 2009 (Raisa, 2011). To boost the economy, Bangladesh Bank took an adaptive monetary policy during the high inflation periods to support investment.

As Taka had been undervalued, it had made excess growth in money supply. In the last couple of years, remittance caused excess liquidity and the main motive behind it, was Bangladesh Bank`s exchange rate policy. Moreover, Security & Exchange Commissions was not able to monitor the market conditions properly. Due to poor monitoring & market shadowing, share prices of Z Category Companies and small companies increased dramatically. Moreover, some initiatives taken by SEC were not effective and it changed directives frequently such as; it changed directives of margin loan ratio 19 times. The most common reasons of the crash are incomplete account, placement share, book building method, rumors and so on. According to M. Shamsul Haque, combination of wrong information to the investors, illegal participation of banks and institutions in the stock markets, weak accounting functions were at the core of the crisis that saw billions of Taka being wiped out.

1.3.6. Fluctuation of share prices:

Volatility is a measure of the degree of price movements of a stock. It shows typically how active a stock price is over a certain period of time. In general, the volatility of stock return is determined by the fluctuations in stock index. Fluctuation in the stock index also depends on the demand and supply of securities traded in the stock exchange. The market estimate of volatility can be used as the barometer of the vulnerability of the stock market. Stock return volatility represents the variability of day to day stock price changes over a period of time, which is taken as a measure of risk by the relevant agents. High volatility, unaccompanied by any change in the real situation, may lead to a general erosion of investors' confidence in the market and redirect the flow of capital away from the stock market. The excessive level of volatility also reduces the usefulness of stock price as a reflector of the real worth of the firm.

1.4. Objectives of the study:

The main objective of the study was to examine the ups and downs of the share prices in Dhaka Stock Exchange and its effects on investors, issuers and other stakeholders in light of recent crash in the market.

The specific objectives of the study were:

I. To analyze the current situation of the Bangladesh Capital Market.

II. To examine the economic and psychological factors that contributed to rising stock prices.

III. To identify the main causes of the recent crash of the share market.

IV. To bring some recommendations and suggestions to regulatory body to avoid such crash.

1.5. Rationale of the Study:

The researchers were very keen to keep records of Bangladesh stock market especially Dhaka Stock Exchange because of their personal interest. The researchers personally experienced the dramatic rise of the market for last couple of years before the crash. Moreover, a lot of investors who lost their savings were researchers' friends, relatives and family members too. Another important motive behind choosing the topic was to be familiar with the common reasons of a crash in this market. So that researchers could be aware of those like other investors before investing in this market. The researchers would want to enrich their knowledge by studying different books, reports of various researches and articles on this contemporary issue.

1.6. Methodology of the Study

The present study is done based on both primary and secondary data. Secondary data were taken from different relevant studies, national and international dailies, websites of SEC, Bangladesh Bank, DSE, and CSE. Primary data were collected through a structured questionnaire survey.

A number of 450 questionnaires were administered among various stakeholders of the capital market and a total of 438 respondents responded correctly out of which 385 (87.90%) were investors, 08 (1.83%) were financial analysts, 15 (3.42%) were executives of regulatory bodies and 30 (6.83%) were employees of brokerage houses. The respondents were chosen randomly from Dhaka Metropolitan area. (Appendix-Table: 1)

Demographic Characteristics of the Respondents: As per profession, 114 (26.03%) were businessmen, 222 (50.68%) were service holders, 39 (8.90%) were housewives, 63 (14.38%) were others. According to the educational background, 96 (21.92%) respondents were undergraduate, 144 (32.88%) respondents were graduate, 196 (43.84%) respondents were post graduate, 06 (1.37%) more or others. Based on the duration of involvement with the stock market, 228 (52.05%) respondents were involved for less than 2 years, 113 (25.80%) for 2-3 years, 50 (11.42%) for 3-4 years and 47 (10.73%) for more than 4 years. Based on the reason or objective of involvement or investment in stock market the respondents could be classified as: 72 (16.44%) to create self-dependency, 15 (3.42%) to upgrade social status, **210 (47.94%) to earn higher return,** 111 (25.34%) easy to invest and 30 (6.84%) other reasons. Finally according to the sources of capital the respondents could be divided into few groups as: 263 (60.05%) investors invested only own money, 48 (10.96%) investors invested taking fund from husband or father or relatives, 12 (2.74%) investors invested taking bank loan, 21 (4.79%) investors invested taking margin loan from broker, 94(21.46%) investors invested both own fund & taking loan (Please See Appendix-Table 2-4).

Simple statistical techniques like frequency distribution, percentage of frequency were used to analyze the collected primary data.

1.6: Limitations of the Study:

The present study was a work funded (Tk. 59, 500.00) by Prime University which was done within a very short period of time and therefore it was not possible to collect opinion of all types of people relating to the stock market. It could be much more representative and comprehensive, if opinion could be collected from more respondents.

Chapter – 2

Overview and Present Scenario of DSE

2.1. Background of DSE:

The Stock Market of Bangladesh has got its origin from the then Pakistan through inheritance. Eight promoters have established the then East Pakistan Stock Market in between 1954-56. It was renamed as Dhaka Stock Exchange in 1964. The revolution of stock market had been initiated in 1976. A remarkable trade trend had been observed since 1986. The new General Index of Dhaka Stock Exchange has been established in 1993 by following the formula of International Finance Corporation (IFC) of World Bank. In the same year Security and Exchange Commission (SEC) has been established as the regulatory body of Stock Market by the Parliament.

From the year 1993 to 1994, market capital increased from Tk.178 crore to Tk.408 crore. Observing the high growth rate, the government introduced Lock-in period of one year for IPO to sponsor in the year 1995. In 1995, another stock exchange named Chittagong Stock Exchange was established. The year 1996 is marked as the worst year for the capital market of Bangladesh. In that year, the capital market of Bangladesh had observed a big plunge in December after a bang having the market capital of Tk.2100 crore. Before the sag in December 1996, DSE General Index raised up to 3600 points through the "Pump and Dump Manipulation Scheme" of some dishonest stock brokers. After that, the Index had declined by about 83.44% in three years from 1996 to 1999.

Since no criminal responsible for that big plunge of 1996 has been punished, the stock market took long time to be stable even though the Government had taken different initiatives. Such measures of the Government included- both the stock exchanges have started online trading since 1998. In 1999-2000, Government allowed black money to enter into the capital market. In 2000-2001, companies had declared 25% or above dividend to get 10% tax rebate while tax deducted at source on bonus shares had been withdrawn by the Government. Permissions to the bank to open Merchant Bank wings and enhancement of minimum taxable income were other motivating efforts during that period. But such efforts could not bring expected results as no mentionable progresses were found.

The slow and steady movement of share prices has been observed from 2002 to 2006. In 2007 the capital market of Bangladesh got its momentum and it turned around with a rapid but stable growth which was a real booster for the investors. Almost, all of the phenomena of stock market such as market capital, index, and average turnover were showing a positive trend. Thus, the period of 2007 to 2009 was the best period of Bangladesh Stock Market so far. In the 1st three quarters of 2010, investors found a completely mysterious and unusual growth in capital market and the ultimate consequence was the historical crash of 2010-2011. Other factors like economic situation, reduction of investment in other sectors, unemployment situation of the country and finally the encouragement of regulators for investment in stock market also played an important role for unusual growth of stock market.

2.2. Present Scenario of Stock Market and Recent Catastrophe:

2.2.1. Capital Market at Present: On July 24, 2011, the number of active listed companies in the two stock exchanges DSE and CSE were 270 (236 A-Category, 9 B-Category, 5 N-Category and 20 Z-Category) and 212 respectively while there are 54 companies in the Over-The- Counter (OTC) Market. Among them, the number of mutual funds traded was 32 in both the stock exchanges and that of bond traded in both DSE and CSE was 3. The market capitalization in the two stock exchanges was TK.3, 135,133,167,493 and Tk.2, 543,976,851,118 respectively. The number of B/O Account holders was about 3.3 Million. Among them about 0.6 million were women. In the month of June, 2011 average daily turnover in DSE was 500 crore and in CSE it was 60 crore. Again the turnover had been showing an increasing trend as it stood at Tk.1958 crore in DSE and Tk.199 crore in CSE on July 24, 2011.

2.2.2. Surge and Fall in Capital Market in 2010: The market reached its peak in 2010 and on 13th October, DSE regulators warned of a looming collapse in stock market as all flurry cooling measures failed to end a record breaking bull run. While the DSE general index reached from 1318 in 2003-2004 to 3010 in 2008-2009 in five years, it hiked double in single fiscal year 2009-2010 to 6153. It had hit a new height in consecutive five months reaching 8602 in 30th November, 2010 followed by a 312 points drop to 8290 in one month followed by a series of drops before the massive market crash on 10th January, 2011 to 6499. With a rebound on 12th January, 2011 to 7690 the index again fell on 19th January, 2011 by a single day 587 points-fall leading to a second crash. The capital market had to suffer another crumple in ten days while on 20th January, 2011 trading was halted at a loss of 587 points or 8.5% plunge within five minutes of start of trading, although it crossed the circuit breaker threshold of 225 points by a huge margin. The SEC had introduced the new circuit breaker a day earlier although it did not work at all (Akkas, 2011).

From that collapse to till now the stock market in Bangladesh is continuing its lame run having some small crack and bounce. DSE General Index had shown a peculiar trend since 29th November, 2010. It declined from 8599.411 as on 29th November 2010 to 5612.519 as on 12th May 2011 with many sharp ups and downs as shown in the table given in the next page:

Table No. 2.1: DSE General Index from November 2010 to May 2011

Date	DSE General Index	Change in General Index	Date	DSE General Index	Change in General Index
29/11/10	8599.411	--	20/02/11	6389.625	+810.120
05/12/10	8918.514	+319.103	28/02/11	5203.085	-1186.540
19/12/10	7654.405	-1264.110	10/03/11	6639.181	+1436.096
02/01/11	8304.589	+650.184	27/03/11	6094.639	-544.542
05/01/11	7948.431	-356.158	10/04/11	6556.520	+461.881
10/01/11	6499.436	-1449.000	26/04/11	5806.309	-750.211
12/01/11	7690.690	+1191.254	03/05/11	5865.709	+59.400
20/01/11	6326.345	-1364.350	08/05/11	5611.471	-254.238
30/01/11	7572.610	+1246.265	11/05/11	5482.874	-128.597
07/02/11	6394.531	-1178.080	12/05/11	5612.519	+129.645

Source: www.bloomberg.com (Access Date: 12-05-2011)

Chapter – 3

Reasons and Impacts of Recent Catastrophe in Stock Market

From the study, it was found that 21.57% of the respondents think that cause of the recent catastrophe in the stock market was the lack of government awareness/control over the stock market, 6.16% respondents believed for apathetic aspects by the SEC, 7.89% felt for lack of adequate supervision of the investments of the commercial banks by the central bank, 35.80% realized for the syndication or manipulation in the stock market and the rest 28.58% assumed the Lack of proper knowledge/ skill of investors. Although 64.38% respondents believed that the syndication or manipulation in the stock market the Lack of proper knowledge/ skill of investors but other factors could not be ignored as the reasons of the crash (Please See Appendix-Table 5).

3.1. Reasons behind ballooning of the Bangladesh Capital Market:

After the Bangladesh stock market debacle in 1996, the market recovered gradually and had been growing steadily until 2008. In view of lower rates of interest on bank deposits, tax-free income benefit, overseas remittance, fair rate of return on investments and lack of sufficient avenues for investment by individuals, investors were encouraged recently to invest more in the stock market. In 2010, the share price index started rising and it became abnormally high in late 2010 creating an alarming situation and a concern among the experts.

From mid-2009, Bangladesh Stock Market had been experiencing a prolonged bull run. The market returns had been amongst the world's highest over the period. Even in 2010, only Sri Lanka (+110%) and Mongolia, had probably beaten our market where prices grew roughly by about 90%. Let's first look at what made the market go up in the first place.

- Commercial banks have been involved heavily in the stock market business in the last few years. Allowing merchant banking has exaggerated the situation. They became the key player in the stock market. Undoubtedly, any policy to control banks' exposure to the stock market could have significant impact on the capital market. Monetary easing during last two or more years (money supply was more than 22 percent during the period) could have helped stock market remain buoyant during these days.
- Perhaps, Bangladesh Bank (BB) was not much aware about banks' exposure to the stock market. Because, surprisingly, banks profit from share business seemed to be negligible according to their income statement or balance sheet although there is a wide perception that banks are making handsome profits from investing in shares and debentures. Proper data on their exposure to the capital market remained unknown, which was a failure from the part of the central bank as a supervisory agency.
- 333 (76.02%) of the respondents opined that huge amount of money was being circulated in the stock market in purpose of buying and selling of a few stocks. This overflow of funds caused the share price rise before the catastrophe according to the law of demand and supply.

Particulars	**1**	**2**	**3**	**4**	**5**
	Strongly Disagree	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
No. respondents	00	51	54	189	144
Percentage		11.64	12.32	43.15	32.87

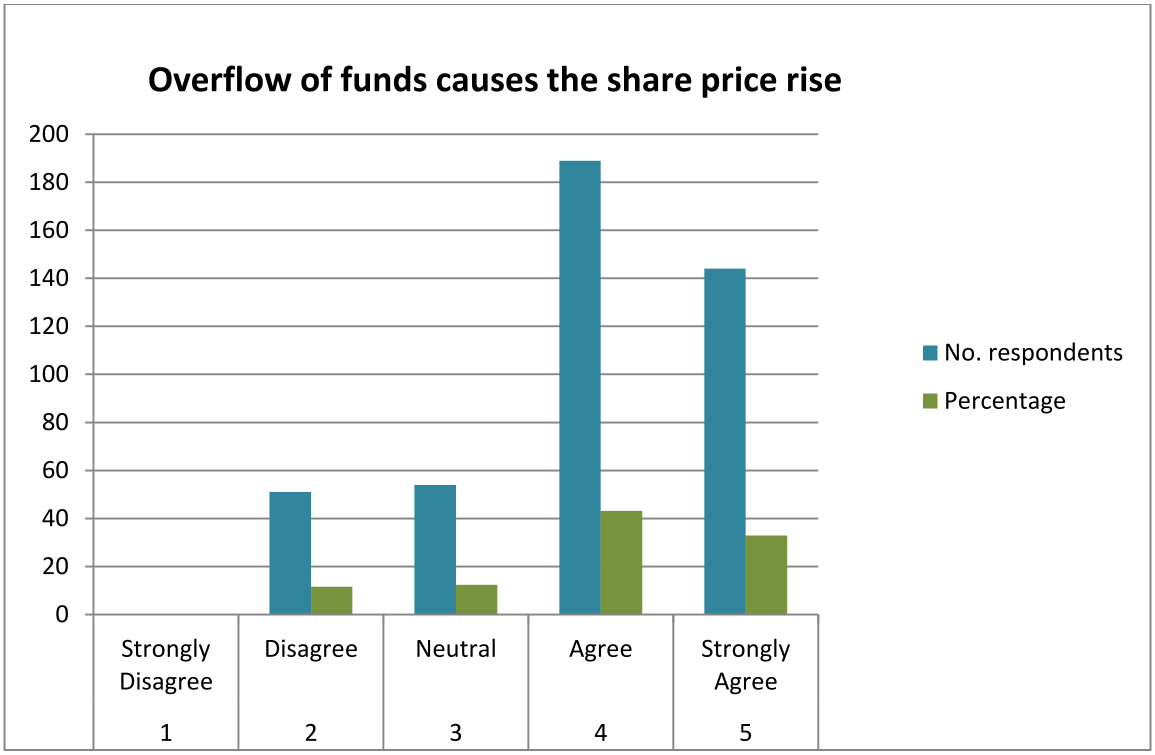

Figure-3.1 : Overflow of funds causes the share price rise

318(72.60%) of all the respondents picked the following reasons for the share price ballooning before the crash.

I. Involvement of the commercial banks in the share market. (Money supply in the capital market)

II. Bangladesh Bank (BB) was not much aware about banks' exposure to the stock market.

III. Lack of available & proper data and information among the investors regarding the market

IV. Lack of proper initiatives by the regulatory bodies.

3.2. Reasons behind the recent capital market crash(2010):

Bangladesh stock market had crashed for some conventional factors as well as some economic & psychological factors such as failure of regulatory bodies and some smart manipulations over the market. But the respondents of the study picked up as the main reasons such as lack of control over the stock market by the government, Role of SEC and Bangladesh Bank, syndicate/manipulation in the stock market, lack of proper knowledge of the investors for the recent capital market crash (2010) which is shown in below through a graph.

Opinion	Lack of Govt. awareness/ control over the stock market	Role of SEC	Role of Bangladesh Bank in controlling the investment of commercial Banks	Syndicate in Stock Market	Lack of proper knowledge/ skill of investors
No. Respondent	94	27	35	157	125
Percentage	21.57%	6.16%	7.89%	35.80%	28.58%

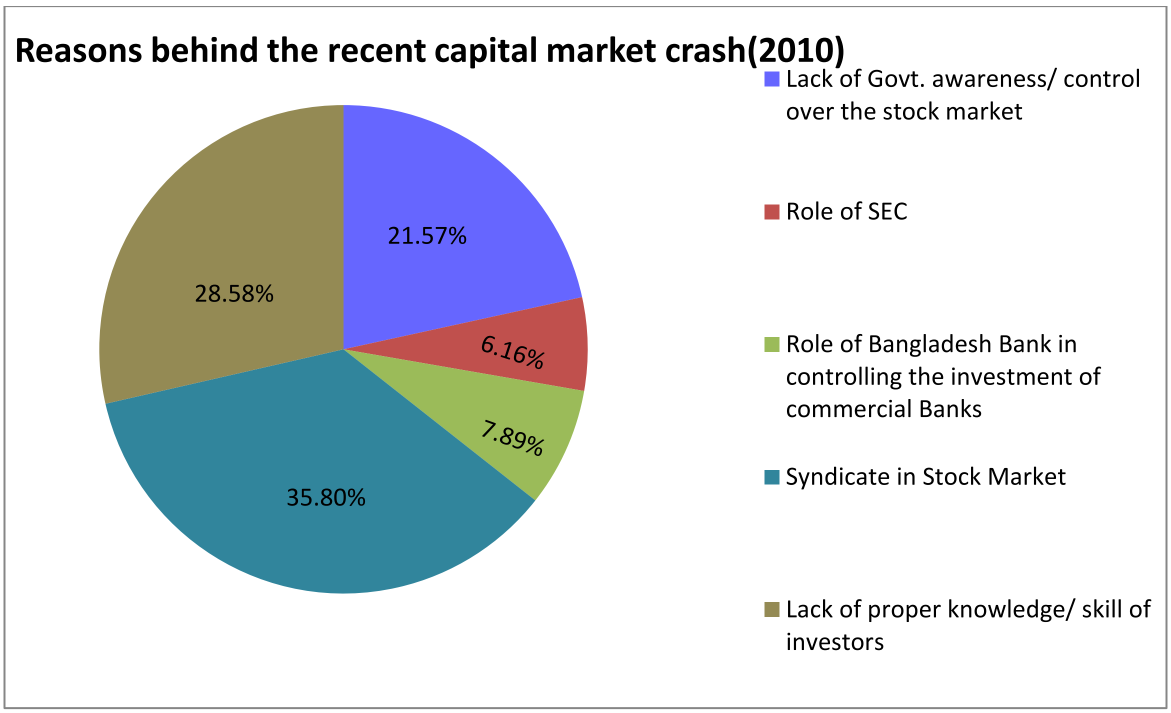

Figure-3.2: Reasons behind the recent capital market crash (2010)

3.2.1 Economic Factors:

Bangladesh Stock Market was crashed by various factors, but economic and psychological factors played the most prominent role in the crash. Various factors can lead to a stock market crash, a prominent one being the investor's sentiment. In a growing economy, wherein the gross domestic product is rising, consumer confidence is very high, and therefore there are more investments in the market. In such a situation, if the economy slows down considerably, or the growth rate declines and goes below the expected rate, there is panic among the investors and they start selling off their stocks. This excessive selling of stocks eventually triggers a stock market collapse that can be one of the reasons in the Bangladesh Capital Market.

3.2.2 Mob Psychology and Negative Attitude:

As making money is a primary goal for stock market participants, emotional or psychological factors exert a significant influence on changes taking place in the stock exchange. At times, a single event, such as a terrorist attack or a change in government, can also trigger a stock market crash. This most often happens when a single event creates panic in the market and investors are unsure about the future, and start to sell off their stocks. When some of the top investors leave the market, owing to the particular unfortunate event, other investors follow them. As most of the investors were particularly interested in selling of their stocks remembering the crash in 1996 which was also happened in the tenure the then Awami league government, thus, the price of various stocks decline.

3.2.3 Lack of knowledge about Stock Market:

Most of the investors in Bangladesh have a very little knowledge about Stock market. Most of them take their investment decision based on rumour. Since stock market is not a place of gambling, rather it' s a place of knowledge based game. So, many of them had to return home with a great loss & stun. Share value is generally its current book/asset value plus anticipated gain from the expected profit. Besides this fundamental another main catalyst to share value appreciation in the share market is people' s perception on its expected performance and profitability that is purely derived from the emotional gain in future.

3.2.4 Delusive Speculations:

When a particular stock is expected to gain value in the market, investors buy it with the aim of making profits in near future. As, a number of investors buy this stock to make profits, there is a rise in the demand and resulting in the price hike of that stock. This inflates the price of the stock to a price beyond its actual value, and at a particular point it reaches a level, wherein it becomes clear that the price is miscalculated, as opposed to its real value. This triggers a race to sell off the stock, and hence the price of the stock starts to fall. The panic caused by the decline in price further leads to more people selling off their stocks, eventually leading to the market collapse which has occurred in Bangladesh Capital Market.

3.2.5 Role of Regulatory Bodies and their Failure:

3.2.5.1 The Government:

It is natural from micro point of view that an individual will plan his investment on the basis of fiscal policy of the government which is expressed through the annual budget in the Parliament. Similarly from the macro point of view, it is important to through light on future national economic policy by means of budget. So, it is obvious that everybody will look for a clear indication of the government plan regarding the activities of a fiscal year including its thinking about the capital market. Thus, government plays an important role in the growth of capital market. But unfortunately, Bangladesh government failed to do so in the recent years which brought the mighty blow on the stock market. In the fiscal year 2010-2011 the government took some risky decisions which helped to create a bubble in the market. Such decisions included the reduction of interest rate, imposing tax on Government Saving Certificates, providing facilities to enter black money in the stock market and so on. It is worth mentioning that both of the big plunges of 1996 and 2010 have been followed by the permission of whitening the black money through stock market. Moreover, the government has changed several regulations and other ways which brought the ailing fruits.

3.2.5.2 Bangladesh Bank:

Bangladesh Bank as the regulatory body of financial market has the responsibility to materialize the plan of the government regarding financial market through controlling the activities of Banks and other financial institutions (Merchant Banks, Insurance Companies, Mutual Funds and Non-Banking Financial Institutions). Paradoxically Bangladesh Bank has failed to control the activities of financial market throughout the 2010-2011 fiscal years. During that period, most of the banks and their merchant banking wings invested in the stock market without following any rule. Even in some cases they invested money in capital market which they ought to invest in other industrial sectors. Bangladesh Bank did not take steps to abstain them from such activities until the last month of 2010. But all on a sudden, it realized the results of such unproductive investments and in December, 2010 it forced the banks to readjust its investments. Through a circular in December 2010, Bangladesh Bank increased Cash Reserve Requirements (CRR) from 5.5% to 6.00% and Statutory Liquidity Ratio (SLR) from 18.5% to 19.00%, the obvious result of which was the liquidity crises. As a result a huge sales pressure helped the acceleration of the pace of the slump of capital market. The small investors thought that the Bangladesh Bank and the Securities and Exchange Commission were responsible for the stock market crash in an unholy alliance with the corporate culprits and the bankers believed the central bank holding back and creating the liquidity pressure in the market. Some bankers felt that the central bank was more interested in dabbling in 'esoteric banking' and had touch with the real world (Ali, M.A, 2011).

Increasing the Cash Reserve Ratio (CRR) was a double debacle for the banks. Naturally, big players had to sell huge volumes of shares due to liquidity constraints, which caused share prices to decline. This also cast doubt on the reported amount of excess liquidity in the banking sector in BB's published reports. Withdrawal of banks' large investments from the stock market appeared to be the main reason for the recent crash in the capital market in Bangladesh.

Increasing Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) by the central bank resulted in limiting the liquidity flow into the capital market, this turned into a share price fall.

Particulars	1	2	3	4	5
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
No. respondents	**15**	**39**	**106**	**172**	**106**
Percentage	**3.43**	**8.91**	**24.20**	**39.26**	**24.20**

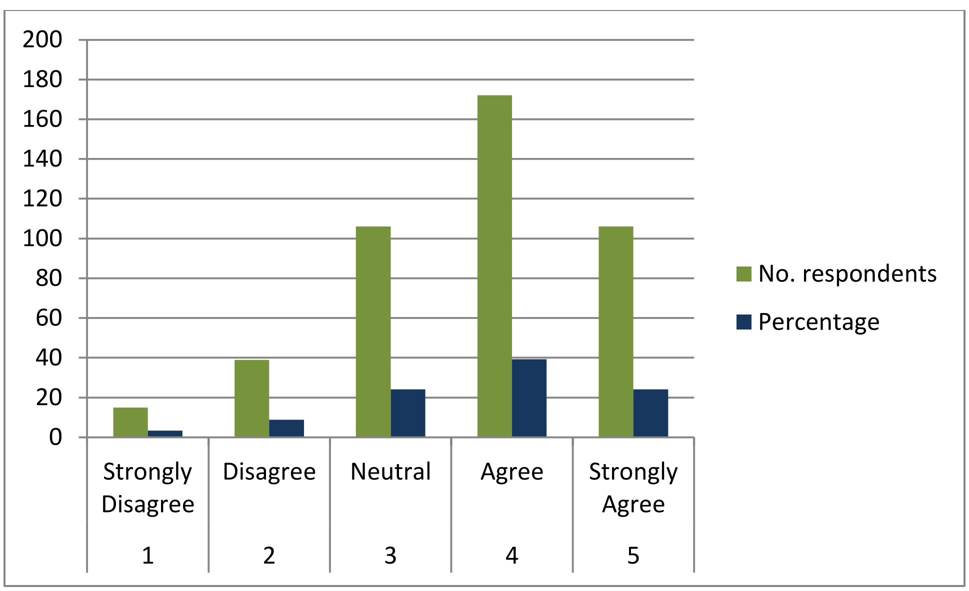

Figure-3.3: BB decision to limit the liquidity flow in the market.

Now, the question is, whether BB had any good reason to stop banks from substantially investing in the share market this time? There might have been a few reasons behind the decisions, such as (i) to control inflation, (ii) to channel more credit to the real sector, and (iii) to protect the interest of the bank depositors by limiting them from risky investments.

If BB did so to control the supply of money due to rising inflation trends, it would rather be said that the issue was not analyzed properly. The money that was running behind stocks had some multiplier effect in accumulating more stocks. Thus, it appears not to contribute to inflation to that extent, as it was not channeled directly to food prices or other non-food prices -- that are the main components of inflation.

From these viewpoints, BB's policy did not strongly justify their action against banks' investment in the stock market.

3.2.5.3 SEC:

Security and Exchange Commission (SEC) is the supreme regulatory body of capital market. So, it must have a formal plan of actions to regulate the activities of stock market. But ironically its failure in doing so was a matter of shame. Though it needs to impose rules considering the future growth, it became a kind of joker by frequently changing its own decisions. Even it has record of changing own decision within an hour of making it. It had to undergo a lot of criticisms when its members made some very sensitive decision whimsically. The main reasons of such meaningless decisions were the lack of coordination among the members and involvement of many of them in share trading in others' name. Moreover, the manpower required to operate such an organization was not sufficient in SEC. It is unfortunate that SEC had no software of its own. Even it did not have any Chartered Accountant to ensure accurate audit report.

3.2.5.4 DSE and CSE:

Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) should have played vital role in monitoring the activities of brokerage houses as well as the smooth functioning of stock market through giving permission of listing companies, delisting a certain company for violation of rules and other reasons, placing a company in a specific category (e.g. A, B, Z, N) and queering unusual price hike of a particular script. It was a matter of sorrow that both the stock exchanges failed to ensure proper monitoring. Especially two activities of DSE played pivotal role behind the recent surge and plunge in the capital market. The first one was the circulation of news that within a very short period of time a huge number of Beneficiary Account (B/O) had been opened which was an indicator of the confidence of investors towards the capital market and can be compared with the provocation for investing money in the capital market. Thus it worked as a catalyst of price hike. Again DSE called for a press conference on 13th October, 2010 through which it urged people not to invest in the stock market as it became a risky sector according to them. It was a clear indication of upcoming crash. Thus it spread threat among the investors and they put a huge sell pressure even the institutional investors were also involved in force sell and trigger sell considering all the negative factors. Such a panic situation even provoked people to sell fundamentally strong shares.

3.2.5.5 Credit Rating Agencies:

Investors get a clear picture of a company through its credit rating because such rating indicates the financial strength, management efficiency and growth potential of a company. There are four credit rating agencies in Bangladesh namely, (a) Credit Rating Agency of Bangladesh (CRAB), (b) Credit Rating Information and Services Limited (CRISL), (c) National Credit Rating Limited (NCRL) and (d) Emerging Credit Rating Limited (ECRL). But most of the listed companies were being rated by none of the above mentioned credit rating companies. As a result, investors were deprived of proper information about those companies which was one of the major obstacles of making informed investment decision.

The capital market regulator introduced regulations one after another which neither gave any clear direction nor set any "standards" for the market. It introduced "lock-in" on shares on July 02, 2009. The result was restriction on supply, creating an imbalance between demand and supply.

3.2.5.6 Others Factors:

i. Price Manipulation:

Manipulation can occur in a variety of ways, from insiders taking actions that influence stock prices to the release of false information or rumours in Internet chat rooms, e.g., accounting and earnings manipulation such as in this case. Moreover, it was well known that large block trades could influence prices. For example, by purchasing a large amount of stocks, a trader could drive the price up. Bangladesh stock market had been manipulated by a class of investors in the following manner.

Market manipulation had been less thoroughly examined in the academic literature but was a growing concern on many emerging stock markets. The possibility that the markets can be manipulated was an important issue for both the regulation of trading and the efficiency of the market. Security regulators generally prohibit market manipulations on the basis that the manipulators distort prices, hamper price discovery, and create deadweight losses. In particular, many Asian stock markets have securities that are thinly traded and therefore more susceptible to manipulation.

In modern financial markets, manipulations are often done in hidden ways that cannot be easily detected and outlawed. While manipulative activities seem to have declined on the main exchanges, it is still a serious issue in the Bangladesh’ s capital market. Although several theories on stock market manipulation were investigated, empirical evidence about stock manipulation was scarce. When investigating the possibility of a manipulation, there are many signs that may indicate whether price rigging has occurred.

The sudden debacle in the stock market in Bangladesh was definitely a result of market manipulation which left general investors with a great loss of their invested capital even though there were warning signs in the market before the crash which were not been grasped by the general investors.

This emotional factors could be used to manipulate the share value if one had a controlling stake or a large chunk of shares of a compay by speculation. There are various rules and regulations to control the excessive speculation and manipulation from within insider trading.

1996 crash of share market that not only depleted the market value and volume of DSE but also it ruined many families mainly the middle class who were allured by few manipulator or speculators. When thousands made to put in their last stake inflating the share values every day, then at its pick insiders took away their profit by selling and leaving the market and siphoning the cash outside the country.

ii. Sudden Activity in Thinly Traded securities:

Manipulators often look to thinly traded shares because their price is generally easier to influence. Here, prices can be altered with only a limited number of buy or sell orders. Conversely, it is difficult to manipulate the price of share that is widely held, well-capitalized and actively traded.

iii. Statements about the Future Price of Securities:

In an effort to raise the price of a script, the company or its promoter may begin issuing encouraging reports which suggest that a share is undervalued or predict that investors can expect the price to rise in the near future.

iv. Trading in "Benami" Accounts:

To disguise their activities, manipulators often resort to trading through accounts opened under the names of family members, business associates or companies that they control. This practice aids the manipulators in concealing their activities.

v. The Circulation of Rumors:

Sometimes manipulators actively spread rumors about a company in the hopes of creating interest in a particular script. These rumors are sometimes published in the financial press.

vi. Consistent Late Trades:

The financial press regularly prints price of the shares but people look more to the closing price of a share. A person wishing to create the appearance of a rising price might succeed by making a series of end-of-day purchases, on a regular basis, over a short period of time.

vii. Direct Financial Benefit to Manipulators and Syndicators:

Persons attempting to manipulate the price of a script would almost invariably have a direct financial interest in the success of their scheme. Evidence of direct financial interest is often a conclusive way to prove intent.

Persons associated with the securities market often engage in activities that cause the price of a security to rise or fall, but that are not illegal since there is no intent to manipulate. For instance, a large investor may attend a shareholder meeting and conclude that the share of the company is overvalued. Based on this conclusion, the shareholders may decide to sell their securities. This action may depress the price of the share. Similarly, a member of the financial press may write a positive news story about a company based on the performance of a new management team. This action may cause a rise in the price of the script of the company. In both examples, individuals took action that caused a change in the price of a share.

345 (78.76%) of the respondents believed that there were big syndicates acting together to artificially influence the prices, resulting in huge profits for them at the expense of the average investors who put in their hard earned lifetime savings.

Particulars	1	*2*	3	4	5
	Strongly Disagree	*Disagree*	Neutral	Agree	Strongly Agree
No. respondents	**00**	***24***	**69**	**93**	**252**
Percentage		***5.48***	**15.75**	**21.23**	**57.53**

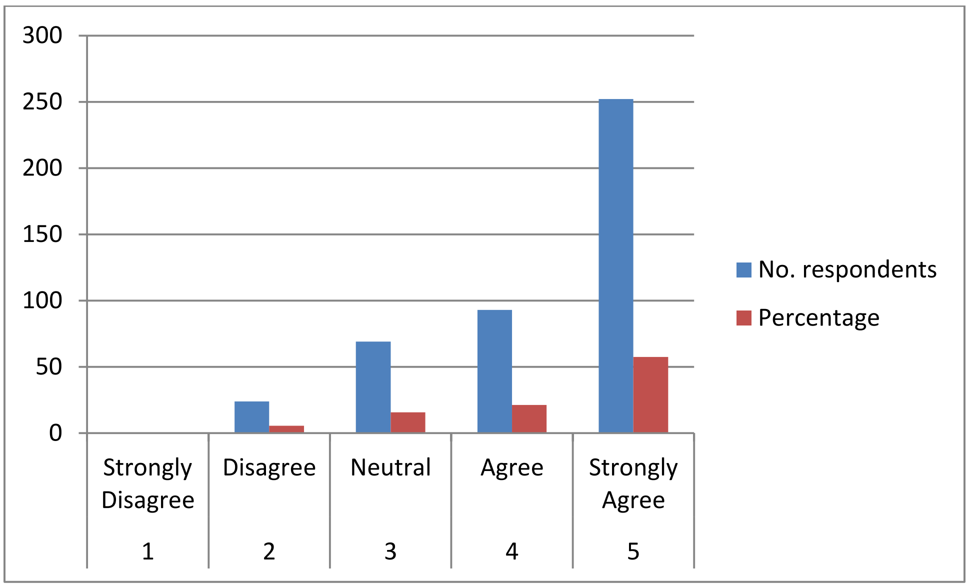

Figure-3.4: Manipulation in the stock market

From the aforementioned discussion, it could be reached that the recent crash in Bangladesh capital market was happened for manipulations along with some imprudent decisions which could be either intentional or unintentional.

3.3 Impact of the Recent Catastrophe:

3.3.1 Loss of own capital: The investment of 198 (45.21%) investors was lost for below Tk. 1 lac and 173 (39.49%) investors surveyed was in the range of Tk. 1lac to Tk.10 lac, 38(8.68%) investors surveyed was in the range of Tk. 10 lac to Tk.15 lac, and only 29 (6.62%) had investment of Tk.15 lac and above (Please See Appendix-Table-7).

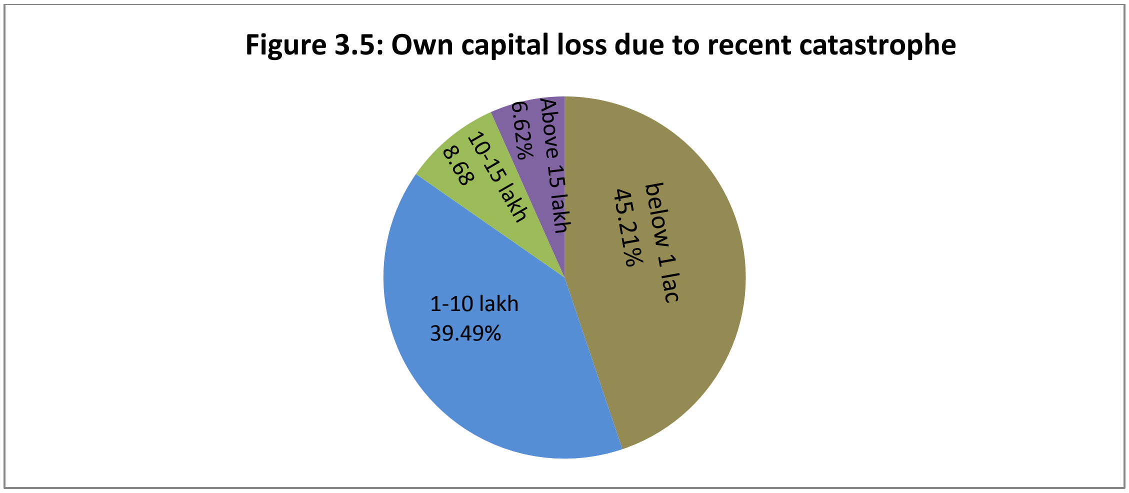

Figure-3.5: Own capital loss due to recent catastrophe

3.3.2 Loss of borrowed capital:

The investors also invested taking loan from banks and brokerage houses. Among the investors under survey, 276 (63.02%) investors had lost loan of below Tk. 1 lac, 98(22.37%) investors lost loan in the range of Tk.1 lac to Tk. 10 lac, 34 (7.76%) investors lost loan in the range of Tk.10 lac to Tk. 15 lac; while 30 (6.85%) investors lost loan above Tk. 15 lac, (Please See Appendix-Table-08).

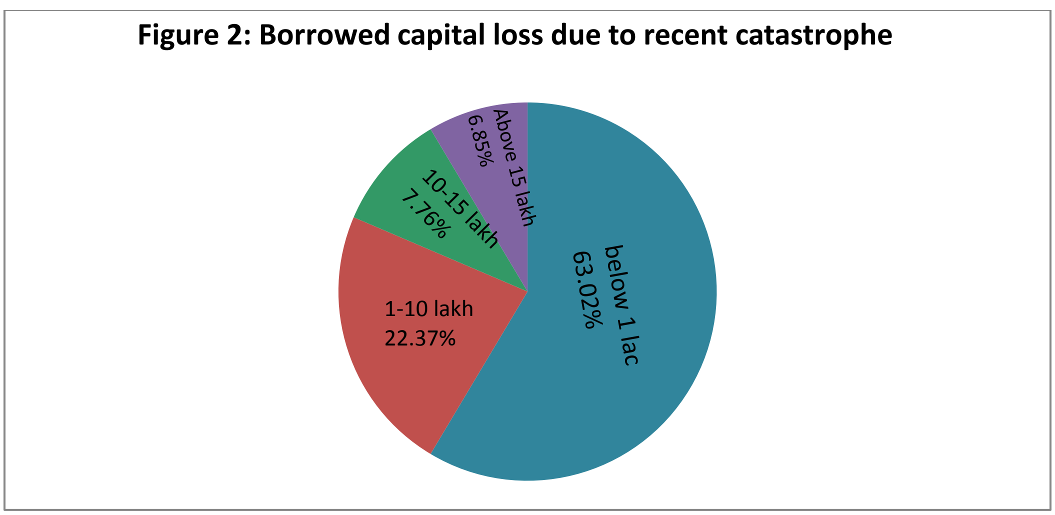

Figure-3.6: Borrowed capital loss due to recent catastrophe

3.3.3. Panic for the investors:

A total no. of 402 (91.78%) respondents believed that this crash would act as a panic among the investors for the further investment of which 291 **(66.44%)** of the respondents strongly believe and 111 (**25.34%)** believe on the statement.

Particulars	1	2	3	4	5
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
No. respondents	**3**	**6**	**27**	**111**	**291**
Percentage	**0.68**	**1.36**	**6.16**	**25.34**	**66.44**

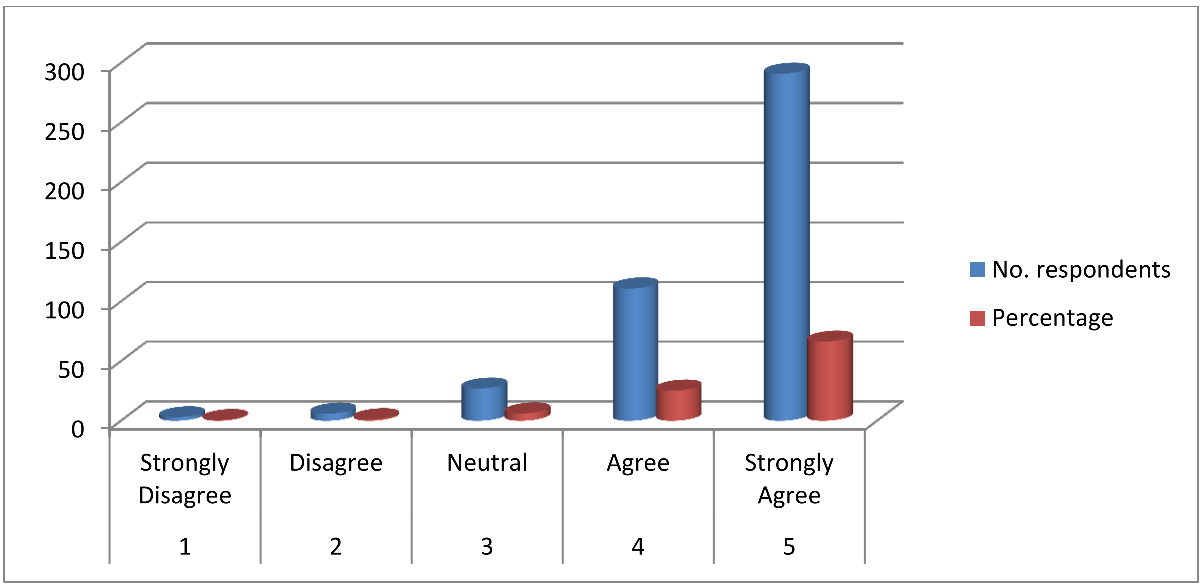

Figure -3.7: Panic for the investors

3.4: Effects emerged by the scam

- Bangladesh currency 'taka' continued to fall against the US dollar. Taka loses about 17.5% value against dollar during the year.
- Because of the scam, investors had lost the interest of investing in Bangladesh, even in the infrastructural development. Bangladesh was losing the opportunity

to be developed by infrastructural development. The scam had created crisis in the market because other investment sectors were not also in the confidence of the investor. That had adverse effects on consumption as well.

- Many of the people lost their money in the stock market so that the real rate of economic growth would adversely affected which was already started. Entrepreneurs were not willing to start new business in afraid of business failure or low price of market share.

- Because of low share price, financial institutions like Corporate & Investment Banks were not willing to provide easy loan to the organizations that was why, companies were unable to manage proper capital structure.

- The investment of millions of people stuck in the market and they lost everything so that numbers of business were not being established during these years. So, it was expected that numbers of job facilities would not come as expected.

- The people who made manipulated the share market for their interest, huge sum of black money was stuck with them. So when the money came out to the consumption market the inflation rate automatically raised. In fact, the inflation rate according to Government was about 12% but the real inflation rate was about 33% accumulating the CPI [Consumer Price Index].

- The standard of living includes factors such as income, quality and availability of employment, class disparity, poverty rate, quality and affordability of housing, gross domestic product, inflation rate, cost of goods and services, infrastructure, national economic growth, economic and political stability, environmental quality, climate and safety which were totally not feasible in our country because of current situation of stock market.

- Investors those who are capable of changing the face of stock market and expertise on the title; they were losing the attraction of investing in Bangladesh after the overwhelming clash in afraid of losing capital.

- Because of the stock market scam, a few numbers of people captured the huge amount of money by insider trading. As a result common people were caught off losing their initial investment. Middle class people brought down to the street & top class people became the minor.

Chapter – 4

Results

After preparing this report, it has come to our mind that only a single factor could not be responsible for this share market crash. But it was due to the combination of various factors that were responsible for this huge debacle. The followings were some of the factors:

I. Number of listings in the DSE & CSE; and the procedures of listings were not fair and square.

II. Book building method was not followed properly in case of share pricing. For this reason share price especially IPO pricing was overvalued. It can be said that by taking chance of weak asset revaluation method, the companies had overvalued their asset also.

III. Demand and supply side of stock in the stock market were mismatched which resulted a great crash in the 55 year history of Bangladesh.

IV. Stock price manipulation and insider trading was very common phenomena in the stock market in which SEC did not perform its inspection clearly.

V. Omnibus accounts of ICB and merchant banks were another major reason behind the stock market debacle. This kind of account made a lot of illegal transactions and manipulation which was unfavorable for the stock market.

VI. Coordination between stock market and stock exchanges was very poor and irregularities and reluctance to take actions against the manipulators were also responsible for this crash.

VII. During the time of the crash year, block trading, circuit trading and direct listing were also significantly noticeable.

Chapter – 5

Recommendations and Conclusion

It was crystal clear that for the sustainable development of stock market all the parties concerned must work in a harmony as failure of any of them may lead the market to a further long decline towards a deep dark tunnel. So, we would like to suggest a few recommendations for different stakeholders of the capital market.

5.1 Recommendations for the Government:

There is no doubt that the failure of the government in making various decisions regarding capital market played role behind the recent crash which was also admitted by the Planning and Finance Minister in his different speeches. Thus, the govt. should ensure the followings:

i) Government should ensure the supply of fundamentally strong shares in the market to meet the demand which will make the market efficient as investors would not go for buying junk shares. For ensuring the supplies of such shares, Government can offload the shares of different companies which it possesses now. It also can urge the private limited companies to go public by offering tax benefits through fiscal policy. Even it can offer shares to the public for infrastructural development work like constructing big bridges, highways and power stations.

ii) Government must ensure the appointment of skilled and capable personnel in different regulatory bodies and must give punishment to the persons responsible for any kinds of irregularities.

iii) The responsible persons of the Government should refrain from delivering irrelevant, irresponsible and sensitive speeches which many of them did before.

iv) Government should ensure more active merchant banks to participate in the smooth building of a sound stock market.

v) Government must ensure that the chairman and members of the Investment Corporation of Bangladesh (ICB) are honest and skilled. Any sort of direct or indirect involvement of any of the ICB members and officials in the stock market must be stopped in any way.

vi) Government should delegate all power to the SEC to take legal actions against the criminals. Even if necessary, new Act may be passed in the Parliament in this regard.

vii) Flow of black money in the capital market must be restricted as it can never bring any good results in the long run other than creating bubble in the stock market, the blast of which nothing but a disaster.

5.2 Recommendations for Securities and Exchange Commission (SEC):

SEC as the guardian of capital market should play significant role in its forward march. It must ensure the followings:

i) SEC must ensure that neither of its members nor any of its officials is involved either directly or indirectly with the transactions in the stock market.

ii) The monitoring and surveillance should be strengthened so that none can get chance to gamble.

iii) SEC must have its own certified Chartered Accountants to ensure the accuracy of the Financial Statements of the listed companies and they should give punishment if the books of accounts are not accurately audited.

iv) SEC must rethink about the rule of disclosure of quarterly financial reports by the companies because many of the companies misused it as a vehicle of misguiding the investors. In fact, it became a common practice of most of the listed companies to show high quarterly EPS in its un-audited quarterly report to bring down P/E ratio. In some cases, it was seen that a few companies' annual audited EPS for the year ended 2010 was lower than its accumulated EPS of three quarters.

v) It must ensure speedy disposal of decision for market operation and all the decisions should be taken considering the long term effect on the market.

vi) To bring fundamentally strong private companies in the capital market, there is no alternative of Book Building Method of IPO. So, the postponed Book Building Method must be reintroduced with necessary correction to resist all sorts of manipulation.

vii) It was high time for SEC to take a decision regarding the stocks in the OTC market because huge amount of money was blocked due to inefficient OTC market. The companies in the OTC market should either be de-listed and their assets and liabilities should be settled or these companies may be brought in the main market through acquisition by the Government or by the interested entrepreneurs restarting production of those enterprises.

5.3 Recommendations for DSE and CSE:

Both Dhaka and Chittagong Exchanges have important role to play as the monitoring authority of the Broker Houses. So, they need to play vital role by ensuring the followings:

i) They must ensure proper monitoring of the brokerage houses for which more skilled manpower should be appointed in the Monitoring and Surveillance Team.

ii) Any sort of irregularities in case of trading should be identified promptly and immediate action should be taken.

iii) The operating software of both the stock exchanges should be updated as often these failed to take immediate sale or buy order especially that of CSE is very poor. Sometimes, it was seen that trade in DSE was on progress but due to technical problem CSE was postponed its operation which was really a big problem as it created a gap between the prices of script in two stock exchanges. So, they must bring new software within the shortest possible time.

iv) There was a common practice by DSE and CSE to ask for query for price hike of any script which was nothing but a routine work. To make such query fruitful, visible action should be taken if any involvement of sponsor/directors is identified.

v) To aware the investors having no or insufficient skills about the investment in stock market should be trained through different training programs, seminars and motivating fair.

vi) Last but not the least, the stock exchanges need to be demutualized as it was the demand of time now to have a new corporate governance structure for more effective conflict management among market participants, and to make more quick decision with greater flexibility.

5.4. Recommendations for Bangladesh Bank:

Though Bangladesh Bank is the regulatory body of Money Market; but its decisions were also reflected in the capital market as the money market and capital market are interrelated. In this regard it has the following roles to play:

i) It must ensure that the Banks and Other financial institutions' exposures do not exceed the limit from the very beginning. But in the recent slump it failed to do so as it could not monitor the involvement in the early stages while it put pressure on the banks to readjust their capital market exposures at the eleventh hour which accelerated a huge sale pressure from their side.

ii) It must ensure the proper functioning of the Merchant Banks through arranging money from the parent company to mitigate liquidity crisis.

iii) It should keenly monitor the loan of the commercial banks to industrial sector and take regular feedback so that no industrial loan might flow to the capital market. It was found that in the time of catastrophe, it failed to do so as about 72 crore taka taken for industrial loan had directly been invested in capital market according to the report of newspapers published in most of the dailies as on 5th December, 2010. Moreover, Bangladesh Bank identified a Ready- made Garments Exporter to take loan of Taka 36 crore and 74 lac for his business purpose and to invest in the capital market while a Berth Operating Organization of Chittagong port did the same amounting to Tk. 5 crore and 1 lac. According to a report published in the Daily Prothom-Alo on 5th November, a listed company had taken loan from a Government owned bank and invested in the stock market. There were many other such examples which urge for proper monitoring of Bangladesh Bank on time.

5.5 Recommendations for Institutional Buyers:

Institutional Buyers (Mutual Funds, Merchant Banks etc.) ensure balance in capital market through reacting according to the interaction between demand and supply. But in the recent past, they completely did the opposite as when there was huge sales pressure in the market instead of buying, they also sold shares in a large scale resulting further decline. Their behavior in that case was not different from individual investors. Hence, they need to act in the way mentioned below:

i) They must show mature behavior to ensure balance in the stock market by buying shares when there is sale pressure and vice-versa.
ii) In providing margin loan, they must follow the rules as prescribed by SEC as well.
iii) They should advise their client giving emphasis on the benefits of the clients instead of thinking their own benefits only.
iv) At the time of huge decline they should not be involved in forced/trigger sale of clients' shares without giving them any chance to adjust their loan.
v) All sorts of transactions through omnibus accounts should be restrained.

5.6 Recommendations for Individual Investors:

No matter what is the reason of a crash, individual investors were the ultimate losers. Hence, it was their own duty to take care of their own money and they ought to consider the following things while taking investment decisions.

i) Before investing in a particular script they must analyze the key factors of that company to justify whether the company is fundamentally strong. Such factors include EPS, P/E Ratio, NAV, future growth, industry average etc.

ii) In analyzing financial strength of a company they must consider the audited annual reports instead of quarterly un-audited report as often these information is not accurate or do not reflect the real position of the company.

iii) They must restrict themselves from buying junk shares and taking whimsical investment decision.

iv) They must build their portfolio in a way which will involve at least three or four different types of fundamentally strong shares from different industries. They should also possess shares considering both long term and midterm benefits.

v) Instead of being traders, the retail investors need to think of being investors.

vi) They ought to keep some cash for emergency so that they might buy more shares (fundamentally strong) which they bought earlier when there was a big decline in price.

vii) They should not buy on the basis of rumor or following advices of the persons who do not possess sufficient knowledge about capital market investment.

viii) They ought to participate in different seminars and training programs relating to stock market to enhance their knowledge and skill in making stock market investment decisions.

ix) They must know that both gain and loss are the indispensable parts of stock market. Instead of looking for gain, sometimes they must accept loss with patience so that they may recover the loss in future through higher gain.

x) Above all, they must understand that perseverance and patience is the key to success in investing in capital market.

Conclusion:

As an important part of the economy of the country, well-functioning of the capital market is a must for the industrialization process of an un-industrialized country like Bangladesh but instability in the sector may negatively affect the total financial system. From our analysis we have found that major indicators of the country's two stock exchanges are becoming more volatile over time and the regulators are not efficient enough to guard this volatility. But, for a developing country like Bangladesh, the importance of sound development of the capital market cannot be undermined. Although the SEC has been trying to maintain a continuous flow in the market, very often its role meets the broad economic objectives rather than making the market less volatile, SEC itself should be strengthened in terms of number of manpower and quality of the professionals involved with special focus on independent research, monitoring mechanisms and prompt decision making.

Security and Exchange Commission (SEC) of Bangladesh and government should take the short term and long term initiatives to stabilize the market. They should encourage more public limited companies to offer more share to meet the current demands. Income tax rebate, Injection of Market Stabilization Fund, Mandatory holding certain percentage of share among the board of directors, short term incentives packages should be introduced to get back the confidence among the existing investors. Regulatory bodies of Bangladesh stock market must educate the current and potential investors about the market mechanism and provide them the accurate information so that investors can trade their shares carefully. Unless, there are any corrective measures, Bangladesh Capital Market will be facing this irrational downward of DGEN Index again in the near future.

To guide and restore the confidence of individual investor in capital market, the regulatory authority should take necessary actions to encourage corporate governance rating among listed companies, which will enable investors to differentiate the good governance companies from the rest and can then attach higher value to those firms as well. And, without improving the governance of the market and eliminating scope of manipulation, it will be difficult to attract good scripts at the desired level. In this endeavor, regulators must adapt continuously to the changes in the economy and the pressures of globalization.

Therefore, all stakeholders of Bangladesh Capital Market including Government, Regulatory bodies, Listed Companies, Brokerage houses, Institutional Investors, and Retail Investors can follow the recommendations suggested in this study and should act rationally to maintain the stability in the capital market for the greater interest of the country as well as for themselves.

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Appendix

I. Questionnaire

Dear Sir/ Madam,

Take our greetings with best wishes. We, the three faculty members of Prime University are going to conduct a research work on **"Fluctuation of Share Prices in Dhaka Stock Exchange: A critical Analysis"** especially considering the recent (2010) crash in the stock market. Therefore, as one of the stakeholders of stock market, you are requested to give opinion on the issue by answering the following questions and your response will be preserved with confidentiality.

A. Kindly choose the appropriate answer by using tick mark.

1. What is your profession?

A	B	C	D
Business	Service	Housewife	Others

2. What is your educational level/status?

A	B	C	D
Undergraduate	Graduate	Post Graduate	More

3. Your involvement with the stock market as-

A	B	C	D
Investor	Financial Analyst	Regulator	Broker

4. Why have you invested in stock market/ Reason of involvement?

A	B	C	D	E
To create self-dependency	To upgrade social status	To earn higher return	Easy to invest	Others

5. What are the reasons for increasing the share price before this crash (2010)?

A	B	C	D	E
Involvement of the commercial banks in the share market. (Money supply in the capital market)	Bangladesh Bank (BB) was not much aware about banks' exposure to the stock market.	Lack of available & proper data and information among the investors regarding the market	Lack of proper initiatives by the regulatory bodies.	All the reasons in a. b. c. & d.

6. What are the causes behind the recent capital market crash (2010)?

A	B	C	D	E
Lack of Govt. awareness/ control over the stock market	Role of SEC	Role of Bangladesh Bank in controlling the investment of commercial Banks	Syndicate in Stock Market/Manipulation in the stock market	Lack of proper knowledge/ skill of investors

7. Duration of your involvement with stock market before the crash (2010)-

A	B	C	D
Less than 2 years	2-3 years	3-4 year	More than 4 years

8. Own capital loss for the recent crash (2010) in the stock market-

A	B	C	D
Below 1 lakh	1-5 lakh	10-15 lakh	Above 15 lakh

9. What was your original investment before crash (2010)?

A	B	C	D
Below 1 lakh	1-5 lakh	10-15 lakh	Above 15 lakh

10. What was your investment after crash (2010)?

A	B	C	D
Below 1 lakh	1-5 lakh	10-15 lakh	Above 15 lakh

11. What are the sources of your capital invested in the stock market?

A	B	C	D	E
Own money	Husband or wife or father	Bank loan	Margin Loan from broker	Combination of own & loan

12. Borrowed capital loss for the recent catastrophe in the stock market-

A	B	C	D
Below 1 lakh	1-5 lakh	10-15 lakh	Above 15 lakh

13. What is your opinion to avoid such crash in the stock market?

A	B	C	D	E	F
More control of government over stock market	Organizing more training, seminar and awareness program	Appointment of more honest and skilled person in the regulatory bodies.	Taking immediate action against the liable persons for the catastrophe.	Elimination of syndicate from the stock market.	Ensuring all these matters.

B. *Please tick in the appropriate column. The scale of the responses ranges from 1 = Strongly Disagree to 5 = Strongly Agree. The scale is assigned into five segments such as 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree.*

1	2	3	4	5
Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree

SL. No.	***Statement/Question***	***Scale***				
I.	*Demutualization of the stock market is essential to avoid such catastrophe (crash) in the future.*	***1***	***2***	***3***	***4***	***5***
II.	*Too much money in the stock market in a few stocks is the*	***1***	***2***	***3***	***4***	***5***

	cause for raising the share price before the catastrophe.					
III.	*Increasing cash reserve ratio (CRR) and statutory liquidity ratio (SLR) by the central bank results in limiting the liquidity flow into the capital market, which turns into a share price fall.*	***1***	***2***	***3***	***4***	***5***
IV.	*There are big syndicates acting together to artificially influence the prices resulting in huge profits for them at the expense of the average investors who put in their hard earned lifetime savings*	***1***	***2***	***3***	***4***	***5***
V.	*The Securities and Exchange Commission (SEC) whose total policy and regulations favors the syndicates which primarily consists of high net worth people.*	***1***	***2***	***3***	***4***	***5***
VI.	*To survive a market from crash it is helpful to have a sound investment strategy and a suitable back up plan.*	***1***	***2***	***3***	***4***	***5***
VII.	*Information of the company should be available to the investors-*	***1***	***2***	***3***	***4***	***5***
VIII.	*This crash will act as a panic among the investors for the further investment.*	***1***	***2***	***3***	***4***	***5***

II. Tables and Graph:

Table No. 1: Involvement with the stock market as-

Involvement as	Investor	Financial Analyst	Regulator	Broker	Total
Frequency	385(87.90%)	08 (1.83%)	15(3.42%)	30 (6.83%)	438(100%)

Source: Own Survey on Investors, Brokers and Regulators in Dhaka during March-May, 2013.

Table No. 2: Profession and Educational Status of Investors in capital market-

Profession	**Business**	**Service**	**Housewife**	**Other**	**Total**
Frequency	114 (26.03%)	222 (50.68%)	39 (8.90%)	63(14.38%)	438 (100%)
Education	**Undergraduate**	**Graduate**	**Post Graduate**	**More**	**Total**
Frequency	96 (21.92%)	144(32.88%)	192(43.84%)	06 (1.37%)	438 (100%)

Source: Own Survey on Investors, Brokers and Regulators in Dhaka during March-May, 2013.

Table No. 3: Why have you invested in stock market/ Reason of involvement?

Opinion	**To create self - dependency**	**To upgrade social status**	**To earn higher return**	**Easy to invest**	**Others**	**Total**
Frequency	72 (16.44%)	15 (3.42%)	210(47.94%)	111(25.34%)	30(6.84%)	438 (100%)

Source: Own Survey on Investors, Brokers and Regulators in Dhaka during March-May, 2013.

Table No. 4: Sources of capital of the investors in stock market-

Sources of Capital	Own money	Husband or father	Bank loan	Margin Loan from broker	Combination of own & loan	Total
Frequency	263(60.05%)	48(10.96%)	12(2.74%)	21 (4.79%)	94(21.46%)	438(100%)

Source: Own Survey on Investors, Brokers and Regulators in Dhaka during March-May, 2013.

Table 5: What are the reasons for increasing the share price before this crash (2010)?

Opinion	Involvement of the commercial banks in the share market. (Money supply in the capital market)	Bangladesh Bank (BB) was not much aware about banks' exposure to the stock market.	Lack of available & proper data and information among the investors regarding the market	Lack of proper initiatives by the regulatory bodies.	All the reasons in a. b. c. & d.
Frequency	39(8.9%)	24(5.48%)	27(6.16%)	30(6.83)	318(72.60%)

Source: Own Survey on Investors, Brokers and Regulators in Dhaka during March-May, 2013.

Table No. 6: Most serious cause of the recent catastrophe in the stock market-

Opinion	Lack of Govt. awareness/ control over the stock market	Role of SEC	Role of Bangladesh Bank in controlling the investment of commercial Banks	Syndicate in Stock Market	Lack of proper knowledge/ skill of investors	Total
Frequency	**94 (21.57%)**	**27(6.16%)**	**35 (7.89%)**	**157(35.80%)**	**125(28.58%)**	**438(100%)**

Source: Own Survey on Investors, Brokers and Regulators in Dhaka during March-May, 2013.

Table No. 7: Own capital loss for the recent catastrophe in the stock market-

Own capital loss	Below 1 lakh	1-10 lakh	10-15 lakh	Above 15 lakh	Total
Frequency	198 (45.21%)	173(39.49%)	38(8.68%)	29 (6.62%)	438(100%)

Source: Own Survey on Investors, Brokers and Regulators in Dhaka during March-May, 2013.

Table No. 8: *Borrowed capital loss for the recent catastrophe in the stock market-*

Own capital loss	Below 1 lakh	1-10 lakh	10-15 lakh	Above 15 lakh	Total
Frequency	276 (63.02%)	98(22.37%)	34(7.76%)	30 (6.85%)	438(100%)

Source: Own Survey on Investors, Brokers and Regulators in Dhaka during March-May, 2013

Table No. 9: Comparison of original investment and investment after catastrophe-

Class of Investment	**Below 1 lakh**	**1-10lakh**	**10-15 lakh**	**Above 15 lac**	**Total**
Before Slump	112 (25.57%)	217(49.55 %)	93 (21.23%)	16(3.65%)	438(100%)
After Slump	198(45.21%)	181 (41.32%)	50(11.42%)	9(2.05%)	438 (100%)
Change	19.64%	-8.23%	-9.81%	-1.60%	-

Source: Own Survey on Investors, Brokers and Regulators in Dhaka during March-May, 2013.

Table 10: Demutualization of the stock market is essential to avoid such catastrophe (crash) in the future.

Particulars	1	2	3	4	5
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
No. respondents	**24**	**70**	**80**	**144**	**120**
Percentage	**5.48**	**15.98**	**18.26**	**32.88**	**27.40**

Source: Own Survey on Investors, Brokers and Regulators in Dhaka during March-May, 2013.

Table 11: Too much money in the stock market in a few stocks is the cause for raising the share price before the catastrophe.

Particulars	1	2	3	4	5
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
No. respondents	**00**	**51**	**54**	**189**	**144**
Percentage		**11.64**	**12.32**	**43.15**	**32.87**

Source: Own Survey on Investors, Brokers and Regulators in Dhaka during March-May, 2013.

Table 12: Increasing cash reserve ratio (CRR) and statutory liquidity ratio (SLR) by the central bank results in limiting the liquidity flow into the capital market, which turns into a share price fall.

Particulars	1	2	3	4	5
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
No. respondents	**15**	**39**	**106**	**172**	**106**
Percentage	**3.43**	**8.91**	**24.20**	**39.26**	**24.20**

Source: Own Survey on Investors, Brokers and Regulators in Dhaka during March-May, 2013.

Table 13: *There are big syndicates acting together to artificially influence the prices resulting in huge profits for them at the expense of the average investors who put in their hard earned lifetime savings*

Particulars	1	2	3	4	5
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
No. respondents	**00**	**24**	**69**	**93**	**252**
Percentage	**-**	**5.48**	**15.75**	**21.23**	**57.53**

Source: Own Survey on Investors, Brokers and Regulators in Dhaka during March-May, 2013.

Table 14: The Securities and Exchange Commission (SEC) whose total policy and regulations favors the syndicates which primarily consists of high net worth people.

Particulars	1	2	3	4	5
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
No. respondents	**00**	**45**	**75**	**123**	**195**
Percentage		**10.27**	**17.12**	**28.08**	**44.53**

Source: Own Survey on Investors, Brokers and Regulators in Dhaka during March-May, 2013.

Table 15: To survive a market from crash it is helpful to have a sound investment strategy and a suitable back up plan.

Particulars	1	2	3	4	5
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
No. respondents	**00**	**15**	**54**	**148**	**221**
Percentage		**3.42**	**12.33**	**33.79**	**50.46**

Source: Own Survey on Investors, Brokers and Regulators in Dhaka during March-May, 2013.

Table 16: Information of the company should be available to the investors-

Particulars	1	2	3	4	5
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
No. respondents	**3**	**15**	**57**	**123**	**240**
Percentage	**0.68**	**3.42**	**13.01**	**28.08**	**54.79**

Source: Own Survey on Investors, Brokers and Regulators in Dhaka during March-May, 2013.

Table 17: This crash will act as a panic among the investors for the further investment.

Particulars	1	2	3	4	5
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
No. respondents	**3**	**6**	**27**	**111**	**291**
Percentage	**0.68**	**1.36**	**6.16**	**25.34**	**66.44**

Source: Own Survey on Investors, Brokers and Regulators in Dhaka during March-May, 2013.