

**00279**  
**BBA**

# **INTERNSHIP REPORT**

**ON**

# **AN OVERVIEW OF BANGLADESH STOCK MARKET**

**Submitted To**

**Dr. Tanbir Ahmed Chowdhury**

Professor

Department of Business Administration

East West University



**Submitted By**

**M. Moniruzzaman Moni**

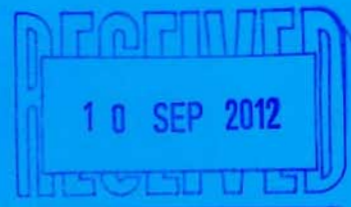
Id: 2007-2-10-041

Department of Business Administration

East West University

**Date of Submission**

April 25, 2011



# **EAST WEST UNIVERSITY**

# Letter of Transmittal

April 25, 2011

Dr. Tanbir Ahmed Chowdhury  
Professor  
Department of Business Administration  
East West University

Subject: Submission of Internship Report of BBA program

Dear Sir,

It is my great pleasure to submit the internship report on "*An Overview of Bangladesh Stock Market*" which is a part of BBA program to you for your consideration.

I made sincere efforts to study related materials, documents, observe the operation and performance of Stock market and examine relevant records for preparation of the report.

Within the time limit, I have tried my best to compile the relevant information as comprehensively as possible and if you need any further information, I will be glad to assist you.

Thanking you,

  
M. Moniruzzaman Moni

Id: 2007-2-10-041

Department of Business Administration  
East West University

# Acknowledgement

At first I would like to thank my internship supervisor Dr. Tanbir Ahmed Chowdhury from Department of Business Administration, East West University for providing me such an opportunity to conduct Internship program on "*An Overview of Bangladesh Stock Market*". Without his helpful guidance, the completion of this report was unthinkable.

For preparing this report, I have to browse Dhaka Stock Exchange and Securities and Exchange websites. On the other hand, I have to read some national daily newspapers like 'The Financial Express' and 'The Daily Star' that help me a lot for collecting information for preparing the report properly.

During my preparation of the report work I have come to very supportive touch of different individuals and friends who lend their ideas, time and caring guidance to amplify the report's contents. I want to convey my heartiest gratitude to them for their valuable responses.



# Executive Summary

The stock market plays various roles in an economy. It acts as an intermediary between surplus units and deficit units of the economy and facilitates savings into investments. Also by providing liquidity of these investments, the stock market ensures optimum allocation of resources. All these activities make it the engine for the growth of the economy. Stock market in Bangladesh is not yet to play its potential role as a vehicle for financing long term investment. However, the hangover of an unpalatable historical past which saw a dramatic plunge in the second half of 1996 and starting of 2011 only to be followed by a drastic downswing has been successfully trying to overcome.

A number of actions from the regulatory bodies were the main reason of losing public confidence from the stock market. Frequently changing the policy and poor response of institutional investors, merchant banks and commercial banks in the crisis period make the market unstable. It is surprising that "excess liquidity" has suddenly disappeared. It was available there in the market before demand for shares had exceeded supply thereof. It resulted into over-heating of the market several weeks back. Overheating of the market did not happen in one day or one week or one month; it happened during the last several months. "Shortage of liquidity" has caused the present market crash, with supply of securities far outstripping demand for the same. But such a shortage of liquidity is the effect of "overregulation" by Securities and Exchange Commission (SEC), the stock market regulator, and Bangladesh Bank (BB), the monetary watchdog, due to their not regulating in a right way it the right time.

This report is emphasizes the present and prospect of stock market in Bangladesh. The report also focuses stock market in 2010, stock market crash 2011, factors influencing stock market during the crisis and suggestions to overcome from the recent crisis.

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## **1.0 INTRODUCTION**

## 1.0 Introduction:

Stock market is a mechanism to flow fund from the hands of small savers (individuals and institutions) at low costs to those entrepreneurs who do need fund to start business or to business. In 2010, Bangladesh stock market was considered a boon year for investors, although a record fall in December created massive panic among those who had put their money in stocks. There was hardly any investor who made losses in 2010. The stock market witnessed a manifold boom –the price index, turnover, market capitalization and its ratio to GDP (gross domestic product), and the number of new arrivals both in terms of issues and investors. The Dhaka market ranked third globally in terms of performance, according to an analysis of LankaBangla Securities.

Bangladesh stock market experienced the fall in the first quarter of 2011. The bullish trend of market suddenly turned to bearish that is more than expected which ultimately made the market plummet and reduced confidence level that adversely affected to the trading behavior and attitude of retail investors.

The development of stock market has been receiving heightened attention from the policy-makers in recent years. One explanation lies in the fundamental shift of development strategy reflected in the nearly universal embrace of the private sector as an engine of economic growth. The governments in both developed and developing countries, the international financial institutions which exert tremendous influence on the policy-making apparatus of developing countries and, to a great extent, the intelligentsia have all joined together as ardent advocates of private entrepreneurship. Stock market can play an important role in accelerating economic development through efficient intermediation of savings into productive investments and in fostering the growth of private entrepreneurship.





## **1.1 Origin of the Report:**

This report has been originated as the course requirement of the BBA program. With the discussion of my supervisor, I decided to prepare report on the overview of Bangladesh stock market. I am interested to work on this topic because in the year 2010 stock market was one of the most discussed topics in the print media for bullish sign throughout the year and at the beginning of the 2011 it started to have bearish sign and individual investors or public lose confidence from the stock market. This work helps me a lot to gather enough knowledge from practical field.

I have given my best effort to suitably apply my potentiality and theoretical knowledge to make the report reliable and information worthy. I hope my sincere effort will be regarded as successful if this dissertation fulfills the objective of the program.

## **1.2 Objectives of the Report:**

The main objective of the study is to get an idea about the stock market scenario and the present condition of stock market. It will specify the reasons for recent stock market crash. In this reports the following objectives will be persuades:

1. To present the current scenario of Bangladesh stock market
2. To appraise the overview of Dhaka Stock Exchange (DSE), Chittagong Stock Exchange (CSE) and Securities and Exchange Commission (SEC) in Bangladesh Stock Market
3. To present the Bangladesh Stock Market in 2010
4. To identify the factors for recent stock market crash 2011
5. To present the prospect and problem of Bangladesh Stock Market
6. Suggestions to overcome the present crisis of Bangladesh stock market

### 1.3 Scope:

I am very fortunate that I could work on the topic 'overview of Bangladesh stock market'. I have to observe the overall performance of Bangladesh Stock market from the last eight months for preparing the report. It helps me to gather practical knowledge on stock market and enhance my analytical ability and research approach. The area of concentration of this report is confined in investigating different aspects of the stock market like performance, problems, and prospects of the stock market.

This study will explore the stock market in 2010, present crisis in the stock market, stock market crash in 2011, reasons behind the crash, problem and prospect of the stock market and suggestions to overcome the crisis.

### 1.4 Methodology:

Analysis has been made on the basis of the objectives mentioned before in the context of "*An Overview of Bangladesh Stock Market*". This report has been written on the basis of information collected from primary and secondary sources.

**1.4.1 Primary Data:** The primary information has been collected from the traders and some general investors who have investment in the stock market. Some opinions and ideas have been incorporated in the paper through interactive sessions and interview with the individual investors.

**1.4.2 Secondary Data:** For the completion of the present study, secondary data has been collected. The main sources of secondary data are:

- Website of Dhaka Stock Exchange (DSE), Chittagong Stock Exchange (CSE), Securities and Exchange Commission (SEC).
- News Paper articles.
- Journal and monthly review of Dhaka Stock Exchange.
- Report published by DSE, CSE and SEC.
- Different websites for report on stock market.

## **1.5 Limitations of the study:**

To make a report various aspects and experience are needed. But I have faced some barriers for making a complete and perfect report. These barriers or limitations, which hinder my work, are as follows:

- Difficulty in accessing data of its internal operations.
- Non-Availability of some preceding and latest data.
- Some information was withheld to retain the confidentiality of the organization.
- The time span was not sufficient enough to learn all the activities of the organization properly.

Therefore, it was very difficult to carry out the whole analysis.



## **2.0 STOCK MARKET OVERVIEW**

## 2.1 Stock Market Overview

The stock market is one of the most important sources for companies to raise money. This allows businesses to be publicly traded, or raise additional capital for expansion by selling shares of ownership of the company in a public market. The liquidity that an exchange provides affords investors the ability to quickly and easily sell securities. A stock market or equity market is a public (a loose network of economic transactions, not a physical facility or discrete) entity for the trading of company stock (shares) and derivatives at an agreed price; these are securities listed on a stock exchange as well as those only traded privately. The market in which shares are issued and traded either through exchanges or over-the-counter markets. It is one of the most vital areas of a market economy as it provides companies with access to capital and investors with a slice of ownership in the company and the potential of gains based on the company's future performance.

Participants in the stock market range from small individual stock investors to large hedge fund traders, who can be based anywhere. Individual investors refer to wealthy businessmen, usually with long family histories to particular corporations. Over time, markets have become more "institutionalized"; buyers and sellers are largely institutions (e.g., pension funds, insurance companies, mutual funds, index funds, exchange-traded funds, hedge funds, investor groups, banks and various other financial institutions).

Their orders usually end up with a professional at a stock exchange, who executes the order. Some exchanges are physical locations where transactions are carried out on a trading floor, by a method known as open outcry. This type of auction is used in stock exchanges and commodity exchanges where traders may enter "verbal" bids and offers simultaneously. The other type of stock exchange is a virtual kind, composed of a network of computers where trades are made electronically via traders.

Actual trades are based on an auction market model where a potential buyer *bids* a specific price for a stock and a potential seller *asks* a specific price for the stock. (Buying or selling *at market* means you will accept *any* ask price or bid price for the stock, respectively.) When the bid and ask prices match, a sale takes place, on a first-come-first-served basis if there are multiple bidders or askers at a given price.

The purpose of a stock exchange is to facilitate the exchange of securities between buyers and sellers, thus providing a marketplace (virtual or real). The exchanges provide real-time trading information on the listed securities, facilitating price discovery.

Stock market in Bangladesh can be split into two main sections: the primary and secondary market. The primary market is where new issues are first offered, with any subsequent trading going on in the secondary market.

A stock exchange is an entity that provides services for stock brokers and traders to trade stocks, bonds, and other securities. Stock exchanges also provide facilities for issue and redemption of securities and other financial instruments, and capital events including the payment of income and dividends. Securities traded on a stock exchange include shares issued by companies, unit trusts, derivatives, pooled investment products and bonds. Bangladesh has two stock exchange which are Dhaka stock exchange and Chittagong stock exchange.

Source: [www.investopedia.com/keyterms](http://www.investopedia.com/keyterms)

## **2.2 Overview of Dhaka Stock Exchange, Chittagong Stock Exchange and Securities and Exchange Commission:**

### **2.2.1 Overview of Dhaka Stock Exchange (DSE)**

Dhaka Stock Exchange (Generally known as DSE) is the main stock exchange of Bangladesh. It is located in Motijheel at the heart of the Dhaka city. It was incorporated in 1954. Dhaka stock exchange is the first stock exchange of the country. As of 18 August 2010, the Dhaka Stock Exchange had over 750 listed companies with a combined market capitalization of \$50.28 billion. The Dhaka Stock Exchange is open for trading Sunday through Thursday between 11:00am – 3:00pm, with the exception of holidays declared by the Exchange in advance.

Dhaka Stock Exchange (DSE) is a public limited company. It is formed and managed under Company Act 1994, Security and Exchange Commission Act 1993, Security and Exchange Commission Regulation 1994, and Security Exchange (Inside Trading) regulation 1994. The issued capital of this company is Tk. 500,000 which is divided up to 250 shares each pricing Tk. 2000. No individual or firm can buy more than one share. According to stock market rule only members can participate in the floor and can buy shares for himself or his clients. At present it has 230 members. Market capitalization of the Dhaka Stock Exchange reached nearly \$9 billion in September 2007 and \$27.4 billion on Dec 9, 2009.

#### **History**

It first incorporated as East Pakistan Stock Exchange Association Ltd in 28 April 1954 and started formal trading in 1956. It was renamed as East Pakistan Stock Exchange Ltd in 23 June 1962 again renamed as Dacca Stock Exchange Ltd in 13 May 1964. After the liberation war in 1971 the trading was discontinued for five years. In 1976 trading restarted in Bangladesh. In 16 September 1986 DSE All Share Price Index was started. The formula for calculating DSE all share price index was changed according to IFC in 1 November 1993. The automated trading was initiated in 10 August 1998. In 1 January 2001 DSE 20 Index was started. Central Depository System was initiated in 24 January 2004. As of November 16 2009, the benchmark index of the Dhaka Stock Exchange (DSE) crossed 4000 points for the first time, setting another new high at 4148 points.

**Management:**

The management and operation of Dhaka Stock Exchange is entrusted on a 25 members Board of Director. Among them 12 are elected from DSE members, another 12 are selected from different trade bodies and relevant organizations. The CEO is the 25th ex-officio member of the board. The following organizations are currently holding positions in DSE Board:

- Bangladesh Bank
- Investment Corporation of Bangladesh
- President of Institute of Chartered Accountants of Bangladesh
- President of Federation of Bangladesh Chambers of Commerce and Industries
- President of Metropolitan Chambers of Commerce and Industries
- Professor of Finance Department of Dhaka University
- President of DCCI (Dhaka Chamber of Commerce and Industry)

Mr. Md. Shakil Rizvi is the current president of DSE.

**The major functions are:**

- Listing of Companies (As per Listing Regulations)
- Providing the screen based automated trading of listed Securities.
- Settlement of trading.(As per Settlement of Transaction Regulations)
- Gifting of share / granting approval to the transaction/transfer of share outside the trading system of the exchange (As per Listing Regulations 42)
- Market Administration & Control.
- Market Surveillance.
- Publication of Monthly Review
- Monitoring the activities of listed companies (As per Listing Regulations).
- Investors grievance Cell (Disposal of complaint by laws 1997)
- Investors Protection Fund (As per investor protection fund Regulations 1999)
- Announcement of Price sensitive or other information about listed companies through online.

Source: <http://dsebd.org/ilf.php#fnd>



## 2.2.2 Overview of Chittagong Stock Exchange (CSE)

The Chittagong Stock Exchange (CSE) began its journey in 10th October of 1995 from Chittagong City through the cry-out trading system with the promise to create a state-of-the-art bourse in the country. It was established as the second stock exchange of the country. The exchange is located in the Agrabad commercial area of the city.

Founder members of the proposed Chittagong Stock Exchange approached the Bangladesh Government in January 1995 and obtained the permission of the Securities and Exchange Commission on February 12, 1995 for establishing the country's second stock exchange. The Exchange comprised of twelve Board members, presided by Mr. Amir Khosru Mahmud Chowdhury (MP) and run by an independent secretariat from the very first day of its inception. CSE was formally opened by then Honorable Prime Minister of Bangladesh on November 4, 1995.

### **Mission:**

The Chittagong Stock Exchange believes that a dynamic, automated, transparent stock exchange is needed in Bangladesh. It works towards an effective, efficient and transparent market of international standard to serve and invest in Bangladesh in order to facilitate the competent entrepreneurs to raise capital and accelerate industrial growth for overall benefit of the economy and keep pace with the global advancements.

### **Objectives:**

- Develop a strong platform for entrepreneurs raising capital;
- Provide a fully automated trading system with most modern amenities to ensure: quick, easy, accurate transactions and easily accessible to all;
- Undertake any business relating to the Stock Exchange, such as a clearing house, securities depository center or similar activities;
- Develop a professional service culture through mandatory corporate membership;
- Provide an investment opportunity for small and large investors;
- Attract non-resident Bangladeshis to invest in Bangladesh stock market;
- Collect preserve and disseminate data and information on stock exchange;
- Develop a research cell for analyzing status of the market and economy.

### **Legal Basis of CSE:**

- As legal entity CSE is a not-for-profit public limited company. All of its 129 members are corporate bodies. It has a separate secretariat independent of policymaking Board. The Board comprises of brokers and non-brokers directors with equal proportion to ensure the transparency.
- The Board constituted Committees to delegate such functions and authority as it may deem fit. There is an independent secretariat headed by a full time Chief Executive Officer. CSE activities are regulated by it's own regulations and bye laws along with the rules, orders and notification of the SEC.

Source: <http://www.cse.com.bd/index2.php?option=content&page=3>

### 2.2.3 Overview of Securities and Exchange Commission (SEC)

The Securities and Exchange Commission (SEC) is the regulator of the stock market of Bangladesh, comprising Dhaka Stock Exchange and Chittagong Stock Exchange. The Securities and Exchange Commission (SEC) was established on 8th June, 1993 under the Securities and Exchange Commission Act, 1993. The Chairman and Members of the Commission are appointed by the government and have overall responsibility to administer securities legislation. The Commission is a statutory body and attached to the Ministry of Finance.

#### **Members perform the following functions:**

- Serve as the members of the Commission and supervise its management.
- Provide policy direction to industry and staff and promulgate legally binding rules.
- Act as an administrative tribunal for decisions on the stock market.

#### **Mission of the SEC:**

- Protect the interests of securities investors.
- Develop and maintain fair, transparent and efficient securities markets
- Ensure proper issuance of securities and compliance with securities laws

#### **The major functions are:**

- Regulating the business of the Stock Exchanges or any other securities market.
- Registering and regulating the business of stock-brokers, sub-brokers, share transfer agents, merchant bankers and managers of issues, trustee of trust deeds, registrar of an issue, underwriters, portfolio managers, investment advisers and other intermediaries in the securities market
- Registering, monitoring and regulating of collective investment scheme including all forms of mutual funds.
- Monitoring and regulating all authorized self regulatory organizations in the securities market.

- Prohibiting fraudulent and unfair trade practices relating to securities trading in any securities market.
- Promoting investors' education and providing training for intermediaries of the securities market.
- Prohibiting insider trading in securities.
- Regulating the substantial acquisition of shares and take-over of companies.
- Undertaking investigation and inspection, inquiries and audit of any issuer or dealer of securities, the Stock Exchanges and intermediaries and any self regulatory organization in the securities market.

Source: <http://www.secbd.org/about.htm>

## 2.3 Stock Market Index:

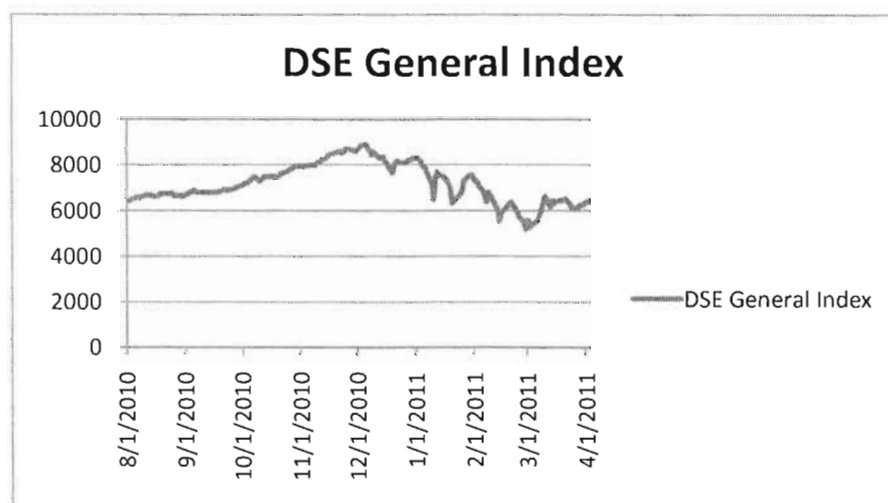
A stock market index is a method of measuring a section of the stock market. A stock market index is a number that indicates the relative level of prices or value of securities in a market on a particular day compared with a base day figure, which is usually 100 or 1000.

Dhaka Stock Exchange has three major indices to reflect market behavior namely DSE All Share Price Index, DSE General Index and DSE-20 Index.

### 2.3.1 DSE General Index:

DSE General Index was first introduced on 27 November, 2001 with a base index of 817.62 points. DSE General Index refers to the entire market capitalization excluding the Z-category, is taken into consideration in deriving the general index. It is calculated on the basis of price movement of individual stocks.

Figure 1: DSE General Index



(Source: [http://dsebd.org/recent\\_market\\_information.php](http://dsebd.org/recent_market_information.php))

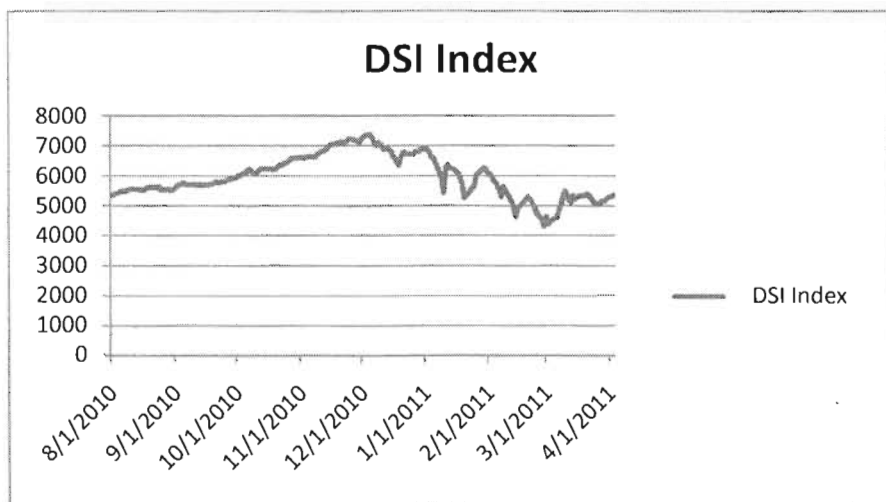
From the graph, we can see last eight months (August'10 to April'11) DSE General Index. Initially in 1<sup>st</sup> August, DSE General Index was 6436.77 then in 2<sup>nd</sup> September it was 6774.87 that was 5.25% higher than August. In the 3<sup>rd</sup> October it was 7223.49 and 6.62% higher than September. In the 1<sup>st</sup> November it was 7947.79 and 10.03% higher than October. In the 1<sup>st</sup> December it was 8723.18 and 9.76% higher than November. In the 2<sup>nd</sup> January it was 8304.59 and 4.80% lower than December. In the 1<sup>st</sup> February it was 7280.98 and 12.33% lower than January. In the 1<sup>st</sup> March it was 5601.69 and 23.06% lower than February. Initially from the month of August, 2010 DSE General Index was in upward movement that

refers market was in bullish condition but from December'10 market was in downward movement that refers market was in bearish condition. DSE General Index was in at highest value of 8918.51 on 5<sup>th</sup> December,2010.

### 2.3.2 DSE All Share Price Index (DSI):

DSE reintroduced All Share Price Index (DSI) on 28 March, 2005. DSI Index refers to the entire market capitalization including the Z-category. It is calculated on the basis of price movement of individual stocks.

**Figure 2: DSI Index**



(Source: [http://dsebd.org/recent\\_market\\_information.php](http://dsebd.org/recent_market_information.php))

From the graph, we can see last eight months (August'10 to April'11) DSE All Share Price Index. Initially in 1<sup>st</sup> August, DSE All Share Price Index was 5356.99 then in 2<sup>nd</sup> September it was 5782.42 that was 7.94% higher than August. In the 3<sup>rd</sup> October it was 6031.48 and 4.31% higher than September. In the 1<sup>st</sup> November it was 6611.17 and 9.61% higher than October. In the 1<sup>st</sup> December it was 7232.20 and 9.39% higher than November. In the 2<sup>nd</sup> January it was 6888.25 and 4.76% lower than December. In the 1<sup>st</sup> February it was 6032.43 and 12.42% lower than January. In the 1<sup>st</sup> March it was 4646.67 and 22.97% lower than February. Initially from the month of August'10 to December'10, DSI Index was in upward movement that refers market was in bullish condition but from December'10 market was in downward movement that refers market was in bearish condition. DSE All Share Price Index was in at highest value of 7383.94 on 5<sup>th</sup> December,2010.

*Market Cap.*

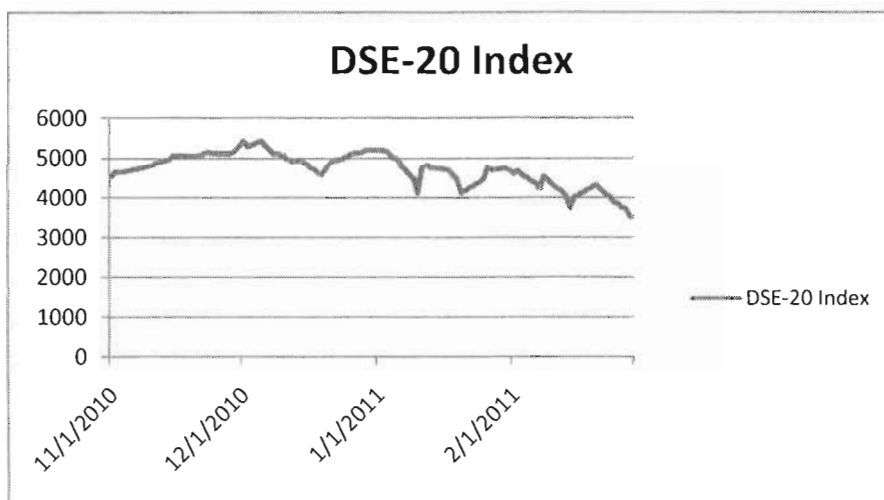
### 2.3.3 DSE-20 Index:

The DSE-20 Index was introduced on January 1, 2001. The Dse-20 index has the basis of 1000 base index. To be included in the criteria of DSE-20 index, the listed companies must have following requirement

- Minimum paid up capital should be 20 crore
- Minimum public portion of capital is 20%
- Having minimum 95% trading day in last six month
- Minimum declaration of 10% or more dividend in last three years
- Good corporate governance
- Regular arrangement of Annual General Meeting
- Sectoral representation



**Figure 3: DSE-20 Index**



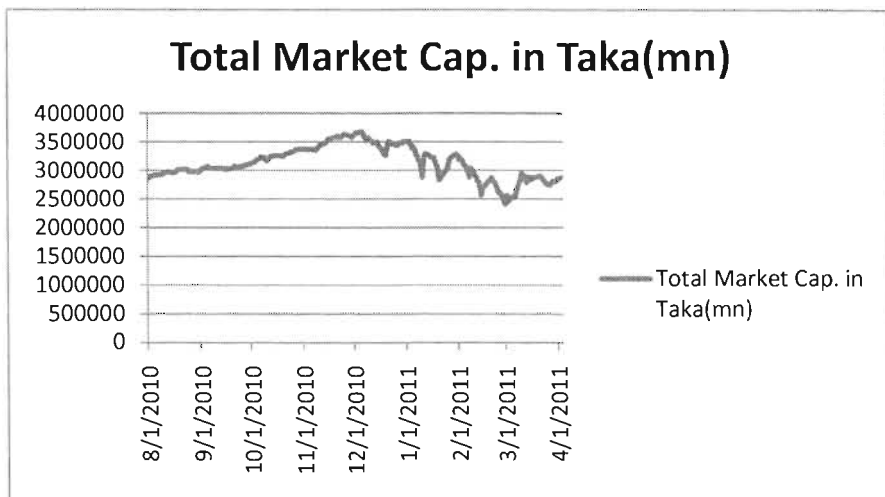
(Source: [http://dsebd.org/recent\\_market\\_information.php](http://dsebd.org/recent_market_information.php))

From the graph, we can see last five months (November'10 to April'11) DSE-20 Index. Initially in 1<sup>st</sup> November it was 4542.38 and in the 1<sup>st</sup> December it was 5429.29 that was 19.53% higher than November. In the 2<sup>nd</sup> January it was 5213.21 and 3.97% lower than December. In the 1<sup>st</sup> February it was 4609.23 and 11.58% lower than January. In the 1<sup>st</sup> March it was 3800.67 and 17.54% lower than February. Initially from the month of November'10 to December'10, DSE-20 Index was in upward movement that refers market was in bullish condition but from December'10 market was in downward movement that refers market was in bearish condition.

### 2.3.4 Total Market Capitalization:

Total Market capitalization is a measurement of size of a business enterprise (corporation) equal to the share price times the number of shares outstanding (shares that have been authorized, issued, and purchased by investors) of a publicly traded company. As owning stock represents ownership of the company, including all its equity, capitalization could represent the public opinion of a company's net worth and is a determining factor in stock valuation.

**Figure 4: Total Market Capitalization in Taka (mn)**



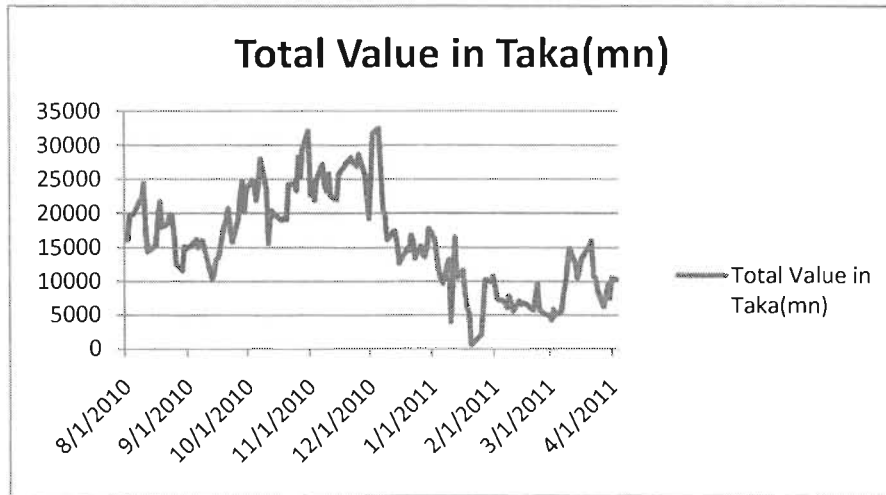
(Source: [http://dsebd.org/recent\\_market\\_information.php](http://dsebd.org/recent_market_information.php))

From the graph, we can see last eight months (August'10 to April'11) Total Market Capital in taka(mn). Initially in 1<sup>st</sup> August, Total Market Capitalization was 2865932.23 million taka then in 2<sup>nd</sup> September it was 3035273.16 million taka that was 5.91% higher than August. In the 3<sup>rd</sup> October it was 3163556.47 million taka and 4.23% higher than September. In the 1<sup>st</sup> November it was 3378564.48 million taka and 6.80% higher than October. In the 1<sup>st</sup> December it was 3635980.06 million taka and 7.62% higher than November. In the 2<sup>nd</sup> January it was 3513277.51 million taka and 3.37% lower than December. In the 1<sup>st</sup> February it was 3190829.26 million taka and 9.18% lower than January. In the 1<sup>st</sup> March it was 2565830.05 million taka and 19.59% lower than February. Total Market Cap was in at highest value of 3680714.20 million taka on 5<sup>th</sup> December,2010.



### 2.3.5 Total Traded Value in Taka (million):

Figure 5: Total Traded Value in Taka (mn)



(Source: [http://dsebd.org/recent\\_market\\_information.php](http://dsebd.org/recent_market_information.php))

This graph shows the total traded value in taka (mn) from 1<sup>st</sup> August, 2010 to 1<sup>st</sup> April, 2011. The maximum single day total traded value in taka (mn) is 32495.76 on the 5<sup>th</sup> December, 2010 and the minimum single day total traded value in taka (mn) is 680.84 on the 20<sup>th</sup> January, 2011. During this period the average total traded value in taka (mn) is 16020.

### 2.3.6 Total Number of Trade:

Figure 6: Total Number of Trade

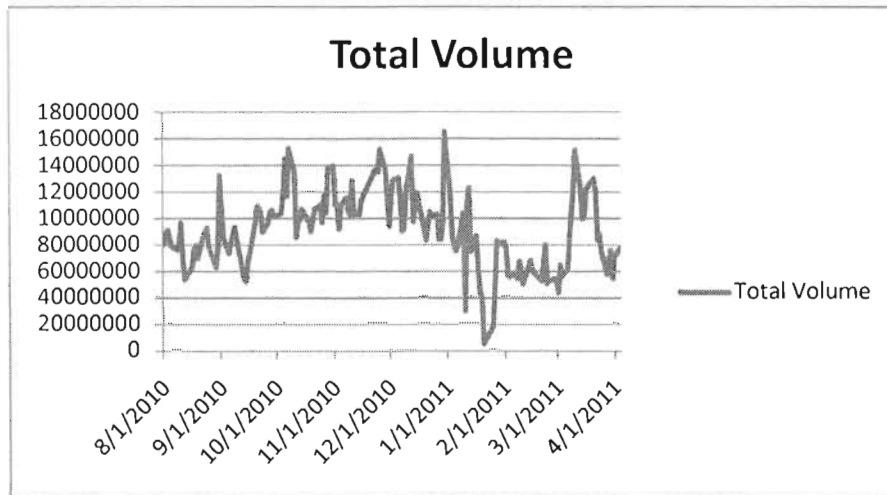


(Source: [http://dsebd.org/recent\\_market\\_information.php](http://dsebd.org/recent_market_information.php))

This graph shows the total number of trades from 1<sup>st</sup> August, 2010 to 1<sup>st</sup> April, 2011. The maximum single day total number of trades is 389310 on the 5<sup>th</sup> December, 2010 and the minimum single day total number of trades is 60350 on the 10<sup>th</sup> January, 2011. During this period the average total number of trades is 224426.

### 2.3.7 Total Trade Volume:

Figure 7: Total Trade Volume



(Source: [http://dsebd.org/recent\\_market\\_information.php](http://dsebd.org/recent_market_information.php))

This graph shows the total trade volume from 1<sup>st</sup> August, 2010 to 1<sup>st</sup> April, 2011. The maximum single day total trade volume is 165464146 on the 30<sup>th</sup> December, 2010 and the minimum single day total trade volume is 5876358 on the 20<sup>th</sup> January, 2011. During this period the average total trade volume is 91745544.

## 2.4 Circuit Breaker and Circuit Filter:

**Circuit Breaker:** The maximum and the minimum price range of any particular stock which can be vary in a single trading day from the Yesterday Closing Price (YCP). It refers to any of the measures used by stock exchanges during large sell-offs to avert panic selling. After an index has fallen a certain percentage, the exchange might activate trading halts or restrictions on program trading.

**Circuit Filter:** It is a mechanism for calculating the limit of any particular stock that can be increase or decrease from any particular trade or transaction.

Circuit Breaker and Circuit Filter was first introduced in 1996 but was not working effectively, later on January 25, 2011 Circuit Breaker and Circuit Filter was modified and reintroduce in the stock market to minimize the downward movement of share prices.

**Table 1:** Circuit Breaker and Circuit Filter

Share Price Slab (Tk.)	Circuit Breaker	Circuit Breaker (modified)	Not Exceeding Limit	Not Exceeding Limit (modified)	Maximum Price Slab
Up to 200	20.00%	10.00%	35.00 Tk	17.50 Tk	175.00 Tk
201 to 500	17.50%	08.75%	75.00 Tk	37.50 Tk	428.00 Tk
501 to 1000	15.00%	07.50%	125.00 Tk	62.50 Tk	833.00 Tk
1001 to 2000	12.50%	06.25%	200.00 Tk	100.00 Tk	1600.00 Tk
2001 to 5000	10.00%	05.00%	375.00 Tk	187.50 Tk	3750.00 Tk
5001 to above	07.50%	03.75%	600.00 Tk	300.00 Tk	8000.00 Tk
(N.B: Circuit Breaker limit will be calculated on the basis of yesterday close price)					
Share Price Slab (Tk.)	Circuit Filter Percentage		Circuit Filter Percentage (modified)		
Up to 833	10.00%		05.00%		
834 to 3750	07.50%		03.75%		
3751 to 12000	05.00%		02.50%		
12001 and above	$=(600*100)/YCP$		$=(300*100)/YCP$		
(N.B: Circuit Filter limit will be calculated on the basis of last trade price)					

Source: <http://dsebd.org/cbul.htm>

From the table, we can see modified circuit breaker and circuit filter is just 50% of the previous circuit breaker and circuit filter if any share price (yesterday trading price) is up to Taka 200 had earlier circuit breaker of 20% but from 25<sup>th</sup> January it is changed to 10% that means earlier share price can change by 20% (increase or decrease) but after modification, share price can change by 10% (increase or decrease). Here in the share price slab of up to Tk 200, when instrument's last trade price is Tk 175 or more, then instrument's price can change either increase or decrease maximum Tk 17.50 but if last trade price is bellow Tk 175, then share price can either increase or decrease by 10%. If share price is in the slab of Tk 201 to Tk 500 and instrument's last trade price is Tk 428 or more, then instrument's price can change either increase or decrease maximum Tk 37.50 but if last trade price is bellow Tk 428, then share price can either increase or decrease by 8.75%. Similar rule will be applicable for other share price slab but with modified percentage rate of circuit breaker.

In case of circuit filter, Share price slabs are divided into four criteria and circuit filter percentage are calculated on the basis of last trade price.



## 2.5 Initial Public Offering (IPO)

An initial public offering (IPO), referred to simply as an "offering" or "flotation", is when a company (called the *issuer*) issues common stock or shares to the public for the first time. They are often issued by smaller, medium size companies seeking capital to expand, but can also be done by large privately owned companies looking to become publicly traded. In the year 2010-11, there are twenty companies are listed for initial public offering. In the following table we can get the IPO archive of 2010-11.

**Table 2: IPO Archive 2010-2011**

Serial No	IPO Name	Sector	IPO Size	Current Market Category
1	IFIC Bank 1 <sup>st</sup> Mutual Fund	Mutual Fund	Tk. 1,200 million	A
2	Phoenix Finance 1 <sup>st</sup> Mutual Fund	Mutual Fund	Tk. 600 million	A
3	ICB AMCL 3 <sup>rd</sup> NRB Mutual Fund	Mutual Fund	Tk. 1,000 million	A
4	First Janata Bank Mutual Fund	Mutual Fund	Tk. 2,000 million	A
5	Green Delta Mutual Fund	Mutual Fund	Tk. 1,500 million	A
6	Popular Life First Mutual Fund	Mutual Fund	Tk. 2,000 million	A
7	IFIL Islamic Mutual Fund-1	Mutual Fund	Tk. 1,000 million	A
8	PHP First Mutual Fund	Mutual Fund	Tk. 2,000 million	A
9	AIBL 1 <sup>st</sup> Islamic Mutual Fund	Mutual Fund	Tk. 1,000 million	A
10	MBL 1 <sup>st</sup> Mutual Fund	Mutual Fund	Tk. 1,000 million	A
11	ACI Limited (ACI 20% Convertible Zero Coupon Bonds)	Bond	Tk. 534.34 million	N
12	Subordinated 25% Convertible Bonds of BRAC Bank Limited	Bond	Tk. 3,000 million	N
13	United Airways (BD) Limited	Travel & Leisure	Tk. 1,000 million	B
14	Male Spinning Mills Limited	Textile	Tk. 400 million	A
15	RAK Ceramics (Bangladesh) Limited	Ceramics Sector	Tk. 345.1 million	N
16	Beacon Pharmaceuticals Limited	Pharmaceuticals & Chemicals	Tk. 300 million	Z
17	Active Fine Chemicals Limited	Pharmaceuticals & Chemicals	Tk. 160 million	N
18	Deshbandhu Polymer Limited	Engineering	Tk. 160 million	N
19	MJL Bangladesh Limit	Oil	Tk 400 million	N
20	MI Cement Factory Limited	Cement	Tk 300 million	N

Source: [http://dsebd.org/ipo\\_archive.php](http://dsebd.org/ipo_archive.php)

From the table, we can see from the January 2010 to March 2011, total 20 companies listed for initial public offering. Among them, there are ten mutual fund companies who have fund size of Tk 13,300 million in the stock market. Two new bonds are listed in the market and have Tk 3534.34 million size of fund that is a positive indicator for the market. On the other hand, there are some other firm introduced in the market and have a fund size of Tk 2400 million.

## 2.6 Stock Market in 2010

The Bangladesh stock market continued to rally handsomely in 2010 even though U.S and European market had to recover from recession effect. The market capitalization to GDP ratio has been increased over the year from 30% to 50%. DSE General Index (DGEN) has gained its peak at 8,918.51 point in December 5, 2010 and the lowest value was at 4,568.40 point. Over the year, DGEN increased 82.78% and reached at 8,290.41 point at the end of the year. The total market capitalization of all shares and debentures (excluding t-bills and t-bonds) of the listed securities at the end of December, 2010 also stood higher at USD 49.4 billion, indicating a gain of 84 percent which was higher than USD 26.8 billion at the end of December, 2009. The total turnover has increased from USD 0.13 billion to USD .25 billion which indicates a 91% growth. Along with other factors, at least a portion of the upward movement of the market can be explained by the inadequate number of securities and huge fund flow in the stock market. The market was not able to uphold its bullish position from the beginning of December, 2010.

**Table 3: Records at Dhaka Stock Exchange**

<b>Particulars</b>	<b>Values</b>	<b>Date</b>
Total Number of Trades	389310	05-12-2010
Total Trade Volume	165464146	30-12-2010
Total Traded Value in Taka(mn)	32495.756	05-12-2010
Total Market Capital in Taka(mn)	3680714.195	05-12-2010
DSI Index	7383.93657	05-12-2010
DSE General Index	8918.51346	05-12-2010

Source: [http://dsebd.org/recent\\_market\\_information.php](http://dsebd.org/recent_market_information.php)

During this time institutional investors had the tendency to realize profit from the market and it was expected that the market would remain flat in this time. However, the actual steep downward trend was not expected. One of the primary reasons for this abnormality could be the Bangladesh Bank's decision regarding CRR (Cash Reserve Ratio) and SLR (Statutory Liquidity Ratio) in the hope of curbing the inflationary pressure. Following the actions, call money rate has soared significantly and it rose as high as 180%, breaking the earlier record of 150% hit on March 30, 2006. The returns in Dhaka General Index over the past five year years have been impressive as under:

**Table 4: Year end DSE General Index from 2005 to 2010.**

<b>Year</b>	<b>DSE General Index (at end of year)</b>	<b>Return (%)</b>
2005	1677.35	
2006	1609.51	-4.05
2007	3017.21	87.46
2008	2795.33	-7.36
2009	4535.53	62.25
2010	8290.41	82.78

Source: <http://www.bdstock.com/blogs.php?id=43>

Towards the close of 2010, the average P/E in Bangladesh market for the stock index moved up to 29.71 times the expected anticipated earnings of index stocks, which reflects the bullish outlook among the investors. However, it is expected that PE ratio may be reduced to sustainable level considering earnings growth of the listed companies and steady growth of the overall economy.

During the year under review, all the sectors experienced an upward trend. As per the sector indices, Life insurance sector was the highest gainer providing 170% return. The other notable sectors - General Insurance (114.45%), Foods and Allied (154.74%), Engineering & Electrical Sector (122.12%), Bank (125.29%) and Leasing & Finance (156.29%) - doubled during the twelve months. Mutual fund was the least performer during the year which was 0.2%.

In a steady stock market, Foreign Institutional Investment (FII) comes as portfolio investment can stimulate the local market. In a country where infrastructure and administrative bottlenecks complicate Foreign Direct Investment, FII becomes an easy alternative for foreign investors. However, the flow and impact of FII in Bangladesh is as unpredictable as its stock market. Lack of regulation and improper management of the stock market fails to attract regular inflow of FII, but encourages opportunistic short-term investment that results in boom-and-bust of the secondary market and repatriation of the capital.

Source: <http://www.bdstock.com/blogs.php?id=43>

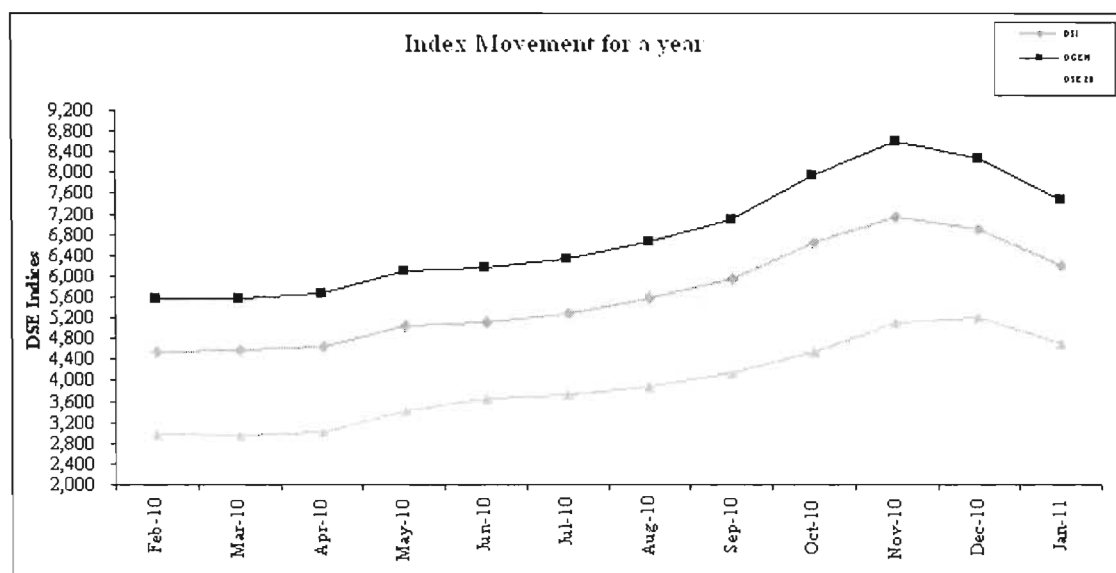


## 2.7 Current Crisis in Stock Market:

After having gained by about 80 percent during the year 2010, Dhaka Stock Exchange has shown an unprecedented nose-dives in the first quarter of 2011. Current crisis in the Bangladesh stock market is given bellow:

- Since mid-2010, as the index crossed the 5000 mark, the market has clearly been driven by speculative forces. During the last two-month period leading up to the peak, the index increased by more than 2000 points before crossing the 8900 level on December 5. To put it in proper perspective, the index level was at about 1500 until this recent surge started in 2007. Daily market turnover increased 30 fold about Tk. 1.0 billion to Tk. 33 billion over the three-year period. Clearly, economic fundamentals cannot support this level of valuation gain and turnover, and the market is bound to correct itself once it runs out of steam.

**Figure 8: Index Movement for a year**



Source: [http://dsebd.org/recent\\_market\\_information.php](http://dsebd.org/recent_market_information.php)

- December is the month for closing account of most of the banks for that financial year. To show higher income commercial banks tried to sell shares at the end of year. For all these reasons, commercial banks took the role of sellers rather than buyers to enhance liquidity. This made the share price decreased.

- "Shortage of liquidity" has caused the present market crash, with supply of securities far outstripping demand for the same. But such a shortage of liquidity is the effect of "overregulation" by Securities and Exchange Commission (SEC), the stock market regulator, and Bangladesh Bank (BB), the monetary watchdog, due to their not regulating in a right way at the right time. It is surprising that "excess liquidity" has suddenly disappeared. It was available there in the market before demand for shares had exceeded supply thereof. It resulted into over-heating of the market several weeks back. Overheating of the market did not happen in one day or one week or one month; it happened during the last several months.
- Bangladesh Bank and the government that pushed down uptrend of market to downtrend. Bangladesh Bank remained silent when banks and financial institutions invested in securities, leading to an aggregate investment of Tk 250 billion (25,000 crores) or so, in stock market. Consequently, over-demand caused over-heating of the market. Suddenly, it enforced all types of restrictions at a time, creating a fund-crunch in the market. This has led to the present crisis. Although such restrictions are kept in abeyance "unofficially" by Bangladesh Bank, yet, in the absence of "official notifications", these hardly work.
- According to DSE officials, more than 1,00,000 retail investors on an average are joining the share market every month as the number of active B/O account holders doubled in a year to reach 3.2 million in December 2010. Most of the new investors have little knowledge about market environment and mechanism. During this price fall they became panicky and started to sell their shares even at a loss. So the downward trend got more speed and ultimately market fell more steeply. Investment in the stocks is a popular business among the educated middle class of Bangladesh who were left frustrated with the sudden loss to their capital. They were finding ways and means to exit from the market in order to minimize the losses.
- The analysts have opined that the immediate reason for this crash was the policy of the regulators of the market who laid down a limit for investment by the banks and other financial institutions in the stocks. This was done in order to avoid the market being overvalued. As the banks and other big investor institutions withdrew the capital from the market, the panic ensued.

- Frequent imposing and changing rules make the investors confused and reduce their confidence which has negative impact on market price. The regulator started to play with margin loan ratio. No stock market regulator in any country fixes loan margin ratio but that was done in Bangladesh. On February 01, 2010, SEC, as a bolt from the blue, fixed loan margin ratio at 1:1.5. Just two days after, it reversed its decision to 1:1 which was in existence for months and years. SEC again increased this ratio to 1:1.5 on March 15, 2010, then again reduced this to 1:1 in July, 2010; and 1:0.5 in October, 2010. SEC never explained proper reasons for such frequent revisions. It has now rectified those errors, increasing margin loan ratio to 1:1, to 1:1.5 and 1:2 on January 10, 2010 but with little effect. It is not SEC's business to dictate to whom, when, and how much the loan is to be given. It is a bilateral decision between the lender and the borrower. Such over-regulations created constant imbalance between demand for, and supply of, shares/funds, and over-heating or overcooling of the market.

Source:

<http://www.inewsone.com/2011/04/07/systemic-failure-blamed-for-bangladesh-share-market-crisis/41789>

<http://www.spotlightofpeace.com/finance/bangladesh-stock-market-faces-biggest-crash-in-55-years/>

[http://www.thefinancialexpress-bd.com/more.php?news\\_id=123668&date=2011-01-23](http://www.thefinancialexpress-bd.com/more.php?news_id=123668&date=2011-01-23)



## **2.8 Stock Market Crash-2011**

In the back-drop of recent stock market move towards sudden upward trend based on measures of different stakeholders and then falling trend again hints that restoration of investors' confidence has been very much mandatory at this moment. Anyway the market movements in recent time have been reminding us of the minimum or least degree of confidence from the major players in the securities market. Instead of focusing concentration on liquidity supply in the market all the relevant stakeholders should now put on all-out effort to restore investors' confidence. Here most vital point comes across the discussion in the responsibility behavioral role of the institutional investors. If the institutional investors come out with more co-operative support while the market is undergoing continuous fall, the market may rebound which will ultimately augment the investor's confidence. Panic and rumor have also been responsible for the drastic and unexpected fall; there was no valid or rational reason behind the huge downward movement but in reality it has happened. From the market regulators to other stakeholders everyone has been cautioning the investors and advising not to be panicked but the result is almost nothing. Investors themselves should be alert and wise enough to handle their investment in the stock market.

Stock market, by nature, is a very much sensitive place. Not only decision rather simple comments may affect this part of market mechanism very deeply. The people and other who are directly or in-directly associated with the securities market should behave in a rational way. Constructive and productive suggestions and advice are always welcome but random negative hints will never produce any effective outcome. Through 33 lakh BO accounts many investors are associated with this market, so everyone should ponder over making any comment about securities market. Without any specific evidence no one should blame the stock exchange authority, any division or department as it harms the overall management and market as well. In days ahead every one of us should play active and responsible role to make the market rebound from the present situation.

(Source: DSE Monthly Review, December '10 and January '11-Editorial)

## 2.9 Reasons behind the “Stock market Crash 2011”:

Bangladesh stock market experienced the fall for first quarter of 2011. The bullish trend of market suddenly turned to bearish more than expected which ultimately made the market plummet and reduced confidence level that adversely affected to the trading behavior and attitude of retail investors. The reasons behind the stock market crash 2011 are given below:

- Lack of monitoring and proper action by the regulatory body, the Securities Exchange Commission (SEC), which then only held a news conference with the functionaries of Dhaka Stock Exchange (DSE) to warn investors to avoid its liability. The Stock market regulator introduced regulations one after another which neither gave any clear direction nor set any "standards" for the market. It discontinued direct listing of private sector companies; and pursued a slow-approval process about initial public offerings (IPOs). The result was further restriction on supply, leading to overheating of the market. These over-regulations led to syndication, manipulation and distortion in the market and, thus, the current crisis.
- There are more than 1,00,000 retail or individual investors on an average are joining the share market every month as the number of active B/O account holders doubled in a year to reach 3.2 million in December 2010. Most of the new investors have little knowledge about market environment and mechanism. So during this price fall they became panicky and started to sell their shares even at a loss. So the downward trend got more speed and ultimately market fell more steeply.
- There are several reasons which made the market fall recently. More tightened policies came from several sides like SEC, Bangladesh Bank and the government that pushed down uptrend of market to downtrend. A large portion of the market investors are institutional investors and most of them are commercial banks. Moreover commercial banks are now investing more in share market to enhance their profit through capital and dividend gain. It is alleged that many of commercial banks invested industrial loan in share market. We see that Bangladesh Bank has declared several circulars regarding money market exposure. Sudden increase of CRR from 5.5 % to 6%, SLR from 18.5% to 19 % and increase of paid up capital created an extra pressure for commercial banks to raise their liquidity.

- December is the month for closing account of most of the banks and financial institution for that financial year. To show higher income institutional investors tried to sell shares at the end of year. For all these reasons, commercial banks took the role of sellers rather than buyers to enhance liquidity. This made the share price decreased.
- The stock market regulator, however, does not do its own job. It was asking the government to offload its shares to the market but it was itself sitting with IPOs one after another. It could clear off these cases for direct listings/IPOs. There were IPOs/direct listings (other than mutual funds) of eight companies only in 2010. Had the regulator allowed direct listings of shares and IPOs on time, there would have been no gap between demand and supply that led to the current crisis.
- The SEC was too reluctant to react properly to the bullish market. It mainly tried to control the market by reining in margin facility though, at that time, millions of fresh money was flowing into the market from several different sources. Most of the decisions taken by the SEC to control the market were crap, as if they were trying to help some “gambling syndicate” rather trying to protect the rights of the small investors.
- It is quite obvious that lack of supply of new stocks in the market caused the bubble which eventually caused disaster to millions of people. Our government could resolve the situation by bringing the shares of state-owned companies to the market in due time. Failure of the government is another reason behind the crash. The SEC also failed to attract many private companies to the market. This caused supply crisis in the market, especially during the last year.
- Technicians can install software, but they can't fix a problem in it. This is proved by the latest market crash, because most of the SEC members are like “stock market technicians,” but not true experts. Government should have been much more careful before selecting SEC members, because to run a market like ours, we need experienced academics who are practitioners in the field of finance and economics.

- Some recent untimely comments of a few so-called classical economists, who hardly accept the importance of stock market in the economy and only cry for the development of real sectors, forgot that stock market is the most important channel to mobilize funds for the real sectors. These people cannot be the well wishers of the market as they claim to be, because now the market needs positive comments from everyone responsible. Mysteriously, these people remained quiet when the market was skyrocketing and didn't warn people about imminent crash.
- Bangladesh Bank shamelessly saved commercial banks at the cost of the stock market, because it is liable for the well-being of the banking sector, not of the stock market. But it cannot avoid its large responsibility for the crash, as it did not take effective timely actions and remained silent when commercial banks were crossing their exposure limits to the market. After the banks made some hefty profits in 2010 from the stock market at the cost of the millions of retail investors, it was only then the central bank called its wards back home. Moreover, some actions in the money market to control inflation accelerated the inevitable crash.
- During the crash, the merchant bankers who act as market makers did not discharge their responsibilities properly, though they talked about a liquidity crisis, but the government gave them some instructions which they didn't follow. If they had performed their work in right earnest, the market would not have faced such a crash.

Source:

[http://www.thefinancialexpress-bd.com/more.php?news\\_id=127086&date=2011-02-25](http://www.thefinancialexpress-bd.com/more.php?news_id=127086&date=2011-02-25)

[http://www.thefinancialexpress-bd.com/more.php?news\\_id=123668&date=2011-01-23](http://www.thefinancialexpress-bd.com/more.php?news_id=123668&date=2011-01-23)

[http://www.thefinancialexpress-bd.com/more.php?news\\_id=122303&date=2011-01-09](http://www.thefinancialexpress-bd.com/more.php?news_id=122303&date=2011-01-09)

## 2.10 Stock market is not a place for all

Stock market is not a place for all. It is a very risky and technical place and only those who have sound knowledge about it should invest here. But in Bangladesh most of the people who invest in the stock market are there because they have heard that making a huge profit is possible in the share market and that too within a very short time. Many people can't even say 'P/E' properly, they say 'P' instead and they have no idea about earning per share (EPS) and net asset value (NAV), which measure the fundamentals of a company and it is not unexpected that a market full of such kinds of people one will day crash, as people invest here not by fundamentals but by hearsay.

Obviously, the greed on the part of general investors dragged them to the market; most of them did not even know the slightest about the market. When some experts and newspapers were crying that "the bubble in the market is about to burst which will have severe consequences," the retail investors paid no heed to it and kept investing which made the bubble even bigger. So the greed of those people who expected 100 per cent return within a very short time is in fact behind the crash.

There are differences between speculators and gamblers. Speculators are seen in almost all the developed stock markets that with their expertise take the position of the stocks in the market and bear huge risk for them. On the other hand, gamblers are those who purchase a stock at a lower price and with the help of his syndicate spread the rumor that the price of the stock is going to increase. As most of the people lack in proper knowledge, they follow the rumor and go on a buying spree which pushes the price up to an unsustainable level. People do not understand when they buy shares that the gamblers sell to them. A large presence of such gamblers who act in the market with ill-motives is another reason which made it extremely overvalued and eventually to its crash.

Absence of information intermediaries in our market is a reason which made the gamblers so powerful. So lack of information intermediaries is another reason behind the crash. Moreover, a large number of insider trading and manipulation by the sponsors of a number of listed companies made people dependent on the gamblers.



Decision makers are brokers as well as investors in our market. This made the market more volatile and allowed some powerful people to escape the losses due to the crash, as they knew when to leave the market. Some brokers telecast enticing advertisements to attract people to their houses. A brokerage house advertised that “their house provides attractive facilities for jobless young people and housewives to earn money.” When considerable expertise is required in this market to make investment, such advertisements of brokerage houses made people confused and enticed them to invest in the wrong place. Now after the crash, these people became the worst sufferers.

The SEC in the meeting with bourses chiefs and merchant bankers also decided to send 14 companies, which were sent to the spot market last month due to the abnormal price hikes, to normal trading. The 14 companies are Pharma Aids, Aziz Pipes, Ambee Pharmaceuticals, Bangladesh Autocars, CMC Kamal, Dacca Dyeing and Manufacturing Company, Desh Garments, Miracle Industries, Mithun Knitting and Dyeing, Safko Spinning Mills, Standard Ceramic Industries, Tallu Spinning Mills, United Airways and Sonali Aansh Industries.

Source:

[http://www.thefinancialexpress-bd.com/more.php?news\\_id=127086&date=2011-02-25](http://www.thefinancialexpress-bd.com/more.php?news_id=127086&date=2011-02-25)

<http://www.stocktradersblog.net/capital-market-not-for-all-and-sundry-6341>



### **3.0 FACTORS AFFECTING BANGLADESH STOCK MARKET**

### **3.0 Factors affecting Bangladesh Stock Market:**

The recent Stock market disaster is the effect of not only one reason rather there are many factors that led to this crisis. Major factors that accelerated this crash are as follows:

#### **3.1 Market crash and the role of Bangladesh Bank**

A central bank, reserve bank, or monetary authority is a public institution that usually issues the currency, regulates the money supply, and controls the interest rates in a country. Central banks often also oversee the commercial banking system of their respective countries. In contrast to a commercial bank, a central bank possesses a monopoly on printing the national currency, which usually serves as the nation's legal tender. A central bank has important role in stock market of the country.

Some experts argue in favor of the view that central banks should burst bubbles. But, in their view, monetary policy should respond to asset bubbles in a cautious and moderate manner in order to avoid economic distortions. Some others argue against the role of central bank in bursting bubbles. They say bubbles generally arise out of some combination of irrational exuberance, jumps forward in technology and financial deregulation, for which the connection between monetary conditions and the rise of bubbles is tenuous.

However, the central bank is at the centre point in this debate. The recent crash in the stock market in Bangladesh is also associated with some policies of the central bank. The reasons of recent crash may lie in the following two aspects:

- a. Whether the monetary policy response was appropriate to the rise and the recent collapse of the bubble, and
- b. Whether the behavior of financial institutions was optimal to the policy response.

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 policies to control banks' exposure to the stock market could have significant impact on the stock 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 stock market remained unknown, which is a failure from the part of the central bank as a supervisory agency.

Moreover, almost all policies to minimize the exposure of banks were taken in the second-half of 2010, when the stock index had reached an alarming level. For example, the situation worsened when it was made mandatory for all banks to maintain their investment in the stock market equivalent to 10 percent of their total deposit and to comply by December, 2010, when in reality, the ratio was much higher than this level.

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 casts 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 appears to be the main reason for the recent crash in the stock market in Bangladesh. BB had some reason to stop banks from substantially investing in the share market. There might have been a few reasons behind the decisions, such as

- a. to contain inflation,
- b. to channel more credit to the real sector, and
- c. to protect the interest of the bank depositors by limiting them from risky investments.

BB did so to control the supply of money due to rising inflation trends; It would rather say 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. Whether investing in the stock market crowds out private investment in the real sector is also not clear -- perhaps this is also not a very strong reason. Credit given by the merchant banks seems to be negligible compared to market capitalization or even to daily transactions. The third one might be reasonable, but this

does not require any hard measure like the one that has been undertaken. Soft landing (measures) was expected to reduce banks' investment in the stock market to 10 percent of total deposits. Commercial banks should have been given more time for gradual adjustments. In addition, the CRR was not raised at an appropriate time. From these viewpoints, BB's policy does not strongly justify their action against banks' investment in the stock market.

Source:

<http://www.thedailystar.net/story.php?nid=172300> Tuesday, April 19, 2011



### **3.2 Market crash and the role of Institutional Investors:**

Institutional Investors refer to a non-bank person or organization that trades securities in large enough share quantities or amounts that they qualify for preferential treatment and lower commissions. Institutional investors face fewer protective regulations because it is assumed that they are more knowledgeable and better able to protect themselves. Watching what the big money is buying can sometimes be a good indicator, as they (supposedly) know what they are doing. Some examples of institutional investors are pension funds and life insurance companies.

December is the month for closing account of most of the financial institution for that financial year. To show higher income institutional investors tried to sell shares at the end of year. For all these reasons, commercial banks took the role of sellers rather than buyers to enhance liquidity. This made the share price decreased. Experts on stock market urged institutional investors to play constructive role in the current fall in share prices. They blamed institutional investors for the recent unprecedented slump of the market. Experts urged investors, who hold strong fundamental shares, not to get panicked in the volatility of stock market. In every market institutional investors play pivotal role when stock market faces major fall in stock prices. But in the recent slump institutional investors failed to play their due part. Subsequently, the indices had a major correction and general investors got panicked. There are still so many strong fundamental shares, but they are also losing price abruptly which is very surprising. Small investors off-loaded good shares as they got panicked by the volatility prevailing in the market. Stock market is losing points in big volumes everyday, which is not natural by any means. There are big numbers of mutual fund, active merchant banks who could have played different role when indices continued to fall.

Dhaka Stock Exchange (DSE) urged the policymakers to formulate separate guidelines determining institutional investors' role during the stock market's crisis period. He also hailed the government's steps to stabilize the volatile stock market.

It has been inevitable that institutional investors and major market players must come up with due and responsible role to bring back investors' confidence situation country's securities market has been undergoing very much unexpected and undesired time, dampening the

investment-friendly attitude of potential investors. Since the downward movement of share price index the government and concerned regulatory bodies especially the Securities and Exchange Commission, Bangladesh bank and Dhaka Stock Exchange limited have spared no pain unturned to bring back life in the market stock market. The government in three phases sanctioned fund amounting to Tk 600 crore for the Investment Corporation of Bangladesh to buy shares from the stock market. While the giving fund to ICB through Bangladesh Bank the government sanctioned fund for state owned four commercial banks- Sonali Bank Limited, Agrani Bank Limite, Rupali Bank Limited and Janata Bank Limited in two phases to buy shares from the stock market. Efforts of bringing normalcy in the stock market has been faltering as when the market is going up general investors' huge selling pressure is causing fall again. The indispensable point haunts our mind is that institutional investors especially merchant banks, mutual funds, and others concerned should play due role in this critical situation. It has been widely presumed that as institutional investors merchant banks and mutual funds play very significant role in bringing and maintaining continuous growth and sustainability in the country's securities market. But the recent role of institutional investors just like silent spectator has surprised many quarters.

The prevailing circumstance that market regulator will urge the institutional investors to buy shares when market prices fall drastically and they will be active does not match with the basic and fundamental principles of such types of institutions. Without any urge they should come forward to play time bound role in the securities market. Again it may be mentioned that condemning or blaming the DSE management whimsically or irrationally on any ground without any specific valid reason is completely unwise and goes beyond the corporate norms. Time has come to be united to make the market vibrant taking comprehensive and all out efforts. With support and cooperation from every quarter the stock market will gain momentum which has been our long term hopes; not only for investors but also for the overall economy.

(Source: Monthly Review, February '11, Editorial)

### **3.3 Market crash and the role of Merchant Banks:**

Merchant Banking means negotiated private equity investment by financial institutions in the unregistered securities of either privately or publicly held companies. Merchant Bank deals mostly in (but is not limited to) international finance, long-term loans for companies and underwriting. Both commercial banks and investment banks may engage in merchant banking activities. Merchant Banks are playing important role in our stock market. But frequently change in rules and regulation, imposing new polices by regulatory bodies etc affecting Bangladesh stock market.

The Securities and Exchange Commission as regulatory body started to play with margin loan ratio from last one year. No stock market regulator in any country fixes loan margin ratio but that was done in Bangladesh. On February 01, 2010, SEC, as a bolt from the blue, fixed loan margin ratio at 1:1.5. Just two days after, it reversed its decision to 1:1 which was in existence for months and years. SEC again increased this ratio to 1:1.5 on March 15, 2010, then again reduced this to 1:1 in July, 2010; and 1:0.5 in October, 2010. SEC never explained proper reasons for such frequent revisions. It has now rectified those errors, increasing margin loan ratio to 1:1, to 1:1.5 and 1:2 on January 10, 2010 but with little effect. It is not SEC's business to dictate to whom, when, and how much the loan is to be given. It is a bilateral decision between the lender and the borrower. Such over-regulations created constant imbalance between demand for, and supply of, shares/funds, and over-heating or overcooling of the

However SEC raised the margin loan ratio to increase the purchasing power of the share investors who have sustained heavy losses in the last few months. But due to availability of fund, merchant banks are unable to provide loan up to optimum level. However, the Bangladesh Merchant Bankers' Association (BMBA) proposed providing margin loans by adding the money collected for the purpose of IPO (initial public offering) rights shares, at purchase price or market price, whichever is the lowest. BMBA has proposed providing margin loans in accordance with the present margin loan ratio of 1:2, set by the SEC. As SEC frequently changes the loan ratio without adjusting with the money market, BMBA said that they had already given loans to the highest limit and the central bank should provide more fund if regulatory bodies want to increase the loan ratio.



Merchant Banks are playing an important role as portfolio manager. Most of the time clients are taking loan against their equity in order to average their cost of investment when market was continuously falling. But from the last few months, market was continuously falling and those investors who already took loan from merchant bank were in problem in their debt to equity position. There is a provision for the merchant banks like if any investor has their debt to equity position of only 30 percent (the percentage changes from time to time), then merchant bank for saving their own investment and interest income start force selling that is known as trigger selling. Trigger sale is a right for the portfolio manager to execute sale of appropriate portion of investors' portfolio in case of fail to provide additional deposit as required under margin call within three business day or if equity falls further below a certain percentage (the percentage changes from time to time) of debt obligation. It is executed to reduce investor's debt burden.

On the other hand, merchant banks sometimes participate in the stock market as institutional investors' merchant banks at the end of their financial year; for taking profit merchant banks sell instruments that ultimately impact on the overall market. December is the month for closing account of most of merchant banks for that financial year. To show higher income merchant banks tried to sell shares at the end of year. For all these reasons, commercial banks took the role of sellers rather than buyers to enhance liquidity. This made the share price decreased. During the crisis, public lose their confidence from the stock market. If they participate properly in the crisis period, then market will turn back from worst condition.

Source:

[http://www.thefinancialexpress-bd.com/more.php?news\\_id=129192&date=2011-03-15](http://www.thefinancialexpress-bd.com/more.php?news_id=129192&date=2011-03-15)

<http://theindependentbd.com/business/banking/34959-govt-to-increase-capital-of-merchant-banks-muhith.html>

### **3.4 Market crash and the role of Brokerage Houses:**

Brokerage houses are not significantly liable for the stock market crash 2011. But their recent wrong activities help some people to influence the stock market. There are some compliance and rules for the brokerage firm that is set by SEC for making the market stable and suitable for all kind of investors. During the crisis, it was expected that brokerage firms will maintain the compliance of regulatory bodies but involvement of some wrong activities influence the stock market and created panic among the small investors that violated the rules of Securities and Exchange Commission. Violation of SEC rules like margin loan provide, netting facilities on non net able shares, short sell etc has been occurred during the crisis period by the brokerage firms. As retribution, Securities and Exchange Commission has decided to take actions against 23 brokerage firms as they gave margin loans to their clients to buy shares of companies under 'Z' category, violating securities rules, said an SEC official. According to official, SEC's chairman Ziaul Haque Khondker took the decision after an investigation of the regulatory body found evidences of wrongdoing by the firms.

As per the securities laws, brokerage houses and merchant bankers are not allowed to give loans to their clients for purchasing shares of companies under 'Z' category which groups low profile shares. The commission also found that the share prices of 'Z' category companies rose abnormally in recent times as investors bought shares of the low profile companies with the loans provided by the stockbrokers. The price of Z category shares had become overpriced as the brokerage houses continued providing margin loans to their clients to buy shares of the issues under the category.

State owned brokerage firm ICB Securities and Trading Company and NCC Bank, a private commercial bank, made up the list of firms which are found to have violated the SEC laws. The other wrongdoing firms include Nouvelle Securities, Salam and Company, Azam Securities, Al-Mutaha Trading Company, Sub-Valley Securities, Wifang Securities, Fakhrul Islam Securities, Razzak Securities, Alliance Securities, Sinha Securities, Island Securities, DSFM, Shyamol Equity, Mondol Securities, SNM, Mika Properties, Dhanmondhi Securities and Expo Traders securities. Their penalty will be depending on the degree of offence.

Source:

<http://www.thebangladeshtoday.com/archive/January%2011/21-1-2011.htm>

### **3.5 Stock market crash and Small Investors factor:**

There are 3.5 million investors in the Dhaka Stock Exchange (DSE); among them maximum are small-scale or retail investors. The rising value of the stocks in recent years has attracted them to invest in stock market. Some of them have sold their possessions and borrowed as much money as they could to invest in stocks during last year's bubble growth. It became a popular investment for ordinary people, often providing higher returns than bank deposits and savings. The recent liquidity crisis in the banking sector following the Bangladesh Bank's move resulted in a liquidity shortage in the stock market that changes the market condition. Investors do not have enough knowledge on stock market and easily panicked by observing the market condition. Small investors have largely lost their confidence in the market when they saw institutional investors like commercial banks are reacting due to some change in monetary policy and government rules. A crisis has arisen for diversion of funds from the market. The market will rebound soon but it loses their confidence from the market. They are even afraid of keeping fundamental shares. At one stage, some investors start selling shares at the lower price than their cost price and took loss from the market. A strong selling pressure, mainly from small investors, drove all the indices in the negative terrain for the second consecutive session. Panic sell-offs by nervous investors triggered the slump, the quickest in the history of Bangladesh's stock market.

The recent liquidity crisis in the banking sector following the Bangladesh Bank's move resulted in a liquidity shortage in the stock market that made investors worried and go for panic-selling. SEC created a panic in the market by issuing a string of short-term stringent directives to make opportunities for market manipulation. Small Investors' Association of Bangladesh said that some SEC members are responsible for creating panic in the market prompting a panic selling. On the other hand, in the mean time finance minister had also helped create the panic in the market by declaring that the government within 20 days would offload 50 per cent of its stakes in the state-owned enterprises in the stock market that resulted in a massive slide in SoE share prices. This news minimizes the demand of share due to possibility of heavy supply of shares. The retail investors got panicked seeing no positive impacts of the regulator's measures on the market. Market experts put the declining trend down to the liquidity crunch in the secondary market. But the situation has worsened for lack of confidence among investors. Others say coordinated measures from the government, the

regulator and stakeholders can help the market overcome the current situation. The stock market regulator also postponed the book building method for initial public offering after a strong criticism for the system's misuse by some issuer companies.

Now at the current situation, small investors have largely lost their confidence in the market and they are even afraid of buying share at current available attractive prices. Angry investors said they had no option but to take to the streets to see their capital shrink in the last few months. Aggrieved investors set fire to wood and paper in front of DSE building, vandalized private cars, and chanted slogans against top bosses of the bourse and the market regulator. Most of the small investors wanted the government to take initiatives to sustain and develop the stock market. Small Investors' Association of Bangladesh said that the stock index took a dip in last few months, but will recover soon and people started pouring money in the market again.

Source:

[http://www.thefinancialexpress-bd.com/more.php?news\\_id=125740&date=2011-02-11](http://www.thefinancialexpress-bd.com/more.php?news_id=125740&date=2011-02-11)

### 3.6 Bangladesh Fund to Overcome the Current Crisis:

The stock market has greeted the recent announcement about floatation of a Taka 5000 Crore 'Mutual Fund' (MF) at the initiative of the government. The details about the operational modalities of the fund, to be called the Bangladesh Fund (BF). The timing of its floatation has not also been specified. In this context, the announcement about the fund is clearly purported to give a positive signal to the small investors about the joint efforts of seven state-owned financial institutions, including the Investment Corporation of Bangladesh (ICB), Sonali Bank, Janata Bank, Agrani Bank, Rupali Bank, Bangladesh Development Bank, Sadharan Bima Corporation and Jibon Bima Corporation, to help improve the demand-side situation in the country's stock market, in the midst of a turmoil, if not a collapse. One prime objective of the latest announcement about setting up the BF, is to help create some confidence among the investors. The proposed BF will, according to the announcement, be an open-ended mutual fund. An open-ended mutual fund is a professionally managed collective investment scheme that has unlimited lifetime and size. The fund manager pools money from many sponsors or investors through its selling agents and invests it in stocks, bonds and short-term money market instruments, and pays out dividends to the unit holders annually.

The activities of the MFs have not been strong in the country's stock market. Even when the stock market was severely overheated, transactions in MF, from the investors' point of view, were not attractive. This was borne out by thin trading in MFs, reflecting the lack of interest in general among the investors to trade in existing MFs. The MFs or unit certificates in the stock markets of most countries do not have an unlimited period of life. Such funds and certificates, whether open-ended or closed-ended, do normally have a stipulated time-framework for redemption, in order to pass on the benefits of capital gains or net asset values duly calculated - and not "doctored ones" - to the holders of shares in such funds or unit certificates. It has not yet been spelt out whether the BF will have an unlimited life like the de facto present case with the original ICB unit certificates - that have become de facto closed with the only exception that those holding the same under a cumulative plan get their annual dividends in the form of new unit certificates -- or be structured with a clearly specified time framework for retirement or redemption.



On their part, the authorities concerned are now taking speedy moves on the proposed BF, to operationalize it sooner rather than later. At this stage, nobody knows how this pudding will taste because none is yet able to eat it. Meantime, some extra benefits have, according to reports in the media, have been sought by the would-be sponsors of the proposed BF. The benefits include tax exemption, 5.0 per cent quota in the upcoming initial public offerings and 30 per cent of the shares of the state-owned enterprises that would be offloaded in the "near future" in the market, at their face value. It is also perhaps in the fitness of things in the context of the specifics of the situation in Bangladesh that the sponsors have decided to invest 50 per cent of the proposed fund in stocks and the rest in money market instruments. Investments in the BF particularly by the state-owned banks and insurance companies will need to be properly hedged in the sense of their risks -- due to exposure to the stock market - being adequately protected. Besides, the extra benefits that the proposed fund would be seeking, might raise the issue of discrimination against other existing open-ended mutual funds.

Since a half of the proposed fund would be deployed to buy stocks from the secondary market, application of proper judgment and caution in the selection of its portfolio will be of primordial importance. This is because there are now both over-priced and under-priced stocks in the market. All these issues must be very carefully addressed while floating the BF. The floatation of the proposed fund might help to buoy up the demand in the market to a certain degree. But that will certainly not suffice for restoring investors' confidence on a sustained basis. For such confidence-building purposes, an expeditious process of identification, trial and punishment of the masterminds of the latest stock market debacle will rather work better at this stage. The sooner this is done; the better will be the outcome.

Source:

[http://www.thedailystar.net/newDesign/latest\\_news.php?nid=29396](http://www.thedailystar.net/newDesign/latest_news.php?nid=29396) April 18, 2011

[http://www.thefinancialexpress-bd.com/more.php?news\\_id=128843&date=2011-03-12](http://www.thefinancialexpress-bd.com/more.php?news_id=128843&date=2011-03-12)



## **4.0 PROBLEMS AND PROSPECTS OF BANGLADESH STOCK MARKET**

## **4.0 Problem and prospect of Bangladesh stock market**

The recent performance of the stock markets in Bangladesh, notably from December 2010 till February of 2011, has been very poor compared with its performance over the last five years. The index fell from a high of around 8,900 points to 5,200 points, a drop of almost 42 percent in just three months. Bangladesh stock markets have been in the top three best performing markets in the world over the last three years. However, its recent performance has cast a big doubt about its future performance. It is a case of “too much money chasing too few stocks”.

### **4.1 The problems of the stock market:**

The problems of the stock market in Bangladesh are structural, and, actually quite far-reaching than what meets the eye. The unexpected rise and fall in share prices mostly followed from the general confidence of the investors about political stability, euphoria of investment in shares, prospect of quick capital gains, a vacuum in respect of institutional presence in the share market, monopolistic dominance of member brokers, inefficiency of the SECS to cope with the developments, absence of proper application of circuit breaker etc. Delivery versus payment mechanism was used as one of the main vehicles of manipulation. The problems of Bangladesh stock market are given below:

- The DSE index calculations being incorrect. If we look at the issues individually like the DSE Index, the syndicates, comprising of stock exchange members and the SEC we can find the common link, which is the stock exchanges and the SEC.
- 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.
- Many of the stocks are over priced and this is a serious risk factor for the inexperienced investors. Entry of new companies in the market can help reduce gap between demand and supply and help bring stability in the market. New companies need to be encouraged to come to the bourse through market friendly policy. But recent policy interventions do not seem to be moving towards that end. The state-owned companies are not coming forward for listing despite repeated assurances



given by the authorities. Immediate entry of at least two or three large companies could be extremely helpful for a balanced growth of the market.

- Access to high quality and credible corporate information remains a major problem in the market. While a handful of institutional investors may enjoy certain benefits since they have an investment unit manned with qualified officers, nothing exists for retail investors. And, in the absence of independent research houses, retail investors primarily focus on advice given by their brokers, which often consists of market rumors. This is not acceptable, and it often leads to enormous losses for small investors who are vital for a low-income and emerging market like Bangladesh. Filtering of information among different types of investors may leave scope for manipulation; this assumption had been proved right in the 1996 market meltdown at the cost of many individuals and households.
- The market does not have an adequate number of fundamentally sound scrips. The authorities should not force major corporations to come into the market, without creating an enabling environment. The focus should be on the privatization of state owned enterprises through public offerings in the bourses. The market has to reach such a stage of development that companies will take it as a serious alternative to bank financing.
- An important aspect for stock market is reflection of fair value of scrips. This is not adequately present in the current scenario, and due to this reason the market is not receiving the attention of an important segment of investors, both foreign and local. Investors are perhaps depending more on speculative analysis, resulting in volatility in the market, as opposed to fundamental analysis, which could attract more stable long-term investors who are sure about their investment tenure and expectations.
- It has been observed that the share values of some profitable companies has been increased fictitiously some items that hampers the smooth operation of Stock market. Financing procedures and delivery of securities sometimes take an unusual long time for which the money is blocked from nothing.

- Many companies do not focus real position of the company as some audit firms involve in corruption while preparing financial statements. As a result the shareholders as well as investors do not have any idea about position of that company. On the other hand Some companies do not hold Annual General Meeting (AGM) and eventually declare dividends that confused the shareholders about the financial positions of the company
- Growth of mutual fund in Bangladesh has been slow. Only recently there has been a rush for new funds. Many banks and financial institutions are in the queue with proposals for their funds. Mutual fund is often a misunderstood subject in Bangladesh. Many investors do not understand the difference between mutual fund shares and other company shares. Mutual fund share is not the share of a company. It is a fund under a trust. Investment in mutual fund is ideal for investors who do not want to take risk because the fund is managed professionally and the collective investment is diversified. Mutual fund share price can also fluctuate heavily and be subject to wild speculation. As a result the safe investment tool often becomes a risky area.
- And last, but definitely not least, is the Securities and Exchange Commission (SEC) whose total policy and regulations favors' the syndicates which primarily consists of high net worth people and the stock exchange members resulting in an “artificial demand driven market”. Until and unless these fundamental issues are addressed the stock markets here will fail to see the light of the day.

Source:

[http://www.thefinancialexpress-bd.com/more.php?news\\_id=122303&date=2011-01-09](http://www.thefinancialexpress-bd.com/more.php?news_id=122303&date=2011-01-09)

[http://www.thefinancialexpress-bd.com/more.php?news\\_id=123668&date=2011-01-23](http://www.thefinancialexpress-bd.com/more.php?news_id=123668&date=2011-01-23)

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## 4.2 The Prospect of Bangladesh Stock Market:

The stock market is the engine of growth for an economy, and performs a critical role in acting as an intermediary between savers and companies seeking additional financing for business expansion. Vibrant capital is likely to support a robust economy. While lending by commercial banks provides valuable initial support for corporate growth, a developed stock-market is an important pre-requisite for moving into a more mature growth phase with more sophisticated conglomerates. Today, with a \$67 billion economy and per capita income of roughly \$500, Bangladesh should really focus on improving governance and developing advanced market products, such as derivatives, swaps etc.

Despite a challenging political environment and widespread poverty, Bangladesh has achieved significant milestones on the social development side. With growth reaching 7 percent in 2006, the economy has accelerated to an impressive level. It is noteworthy that the leading global investment banks, Citi, Goldman Sachs, JP Morgan and Merrill Lynch have all identified Bangladesh as a key investment opportunity. The Dhaka Stock Exchange Index is at a 10-year high, however, the stock market in Bangladesh is still underdeveloped, and its development is imperative for full realization of the country's development potential. The recent growth of stock market of Bangladesh was behind time. We have witnessed the money market grow stable in this country over the last decade; our economy was starving for a matured and stable stock market. The stability came through a variety of sources namely, educated retail investors, institutional investors and last but not least the stock market regulators. The prospects of Bangladesh stock market are given below:

- As it is a market that involves both the sponsors and investors, the need for a healthy and stable market became necessary. Through various forms of reforms and automation the stock market of Bangladesh won the confidence of investors from all walks of life. It is a fact that stock market outperformed money market by far in the last couple of years but that was only possible due to the uniform and state of the art technology that has been used as the platform of our stock market. In addition to that, the government facilitated our stock market by structuring its monetary and fiscal policies in a pro- stock market manner.

- The central bank played a thoughtful part in developing our stock market. It brought transparency to the banking sector, which actually welcomed the retail investors to join the stock market with high confidence. The performance and healthy return of the banking sector worked as a crucial component to bring in institutions and foreign investors. Power and pharmaceutical sector also outperformed the expectations of general investors; resulting fresh fund injection into our stock market.
- Our emerging economy mostly invited the funds from all over the globe. Market capital has shown amazing growth. Although current market price earning ratio is higher than that of the neighboring country but that considering the demand for lack of avenue to invest, the capital m
- Addressing the issue regarding our stock market, 'liquidity' and lack of "instrument" would top the list of challenges that we have right now. The major reason for the existence of the stock market is to provide liquidity of shares and diversified instruments which helps increase market capitalization. It also helps investors to gain more confidence and positively impact Gross Domestic Product (GDP) of our country. Neighboring countries such as India and Pakistan have market capitalization of more than 75% of their GDP. Comparatively, the Bangladesh stock market accounts for a far lesser share of its GDP indicating ample scope for future intensification in this sector. Hence, we should address the above to issues with utmost seriousness and with a future vision.
- As we know, our economy is an emerging one; there is ample scope of growth of our stock market. Our market capitalization, accounts for a lower share of our GDP in a comparative regional perspective. With the help of upcoming issues (IPO) we are very optimistic that the market capitalization is reach a higher level within a short span of time. Automation and introduction of Central Depository helped our capital market to grow considerably. The regulatory body, namely Securities and Exchange Commission, is continuously facilitating our stock market with its international standard surveillance and monitoring. The continuous endeavor of the SEC has resulted in our stock market to be free from fraudulent and manipulative activities. Thus presence of the SEC has impacted significantly in the development of the

market. However, considering our market size, the SEC should employ more professionals from private sector. Would bring more dynamism to the market.

- Absence of capital gain tax is the most attractive reason for foreign investors (FI) to invest in Bangladesh stock market, which is not very common in emerging economies such as Bangladesh. In addition to high return and significant dividend yield, FIs should be attracted to our stock market because of the easy and hassle free repatriation of funds.
- From the present point of time the future seems bright, not only because of our vibrant stock market but also of our room for new products. With the introduction of direct listing and possible book building method, our primary market is improving in line with the secondary market. The market cap will grow significantly within next few years and turnover shall reach an international level. Moreover, institutional clients, namely banks are entering the market with their huge liquid fund causing the stock market to grow very rapidly. Domestic and international banks have started not only to invest in the stock market but also to operate brokerage and merchant banking wing. Cross border trading and index trading are ideas we might adopt in future, which will result in liquidity and new avenues for investment and minimize our cash market risk.

The Bangladesh stock market still has a long way to go. The recent measures taken by the transitional government have already begun to positively impact the markets. If more investor friendly policy reforms were to be implemented, the stock market will undoubtedly play a critical role in leading Bangladesh towards being the next Asian tiger with growth comparable to India, Vietnam and the other most dynamic economies in the region.

Source:

[http://www.thefinancialexpress-bd.com/more.php?news\\_id=122303&date=2011-01-09](http://www.thefinancialexpress-bd.com/more.php?news_id=122303&date=2011-01-09)

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## **5.0 SUGGESTIONS FOR BANGLADESH STOCK MARKET**

## **5.1 Suggestion for Regulatory Bodies' of Stock Market:**

Securities and Exchange Commission (SEC), in collaboration with other relevant agencies, can initiate several steps with a view to enhancing the confidence of the investors, increasing the quantity and variety of instruments, and improving the functioning of the market. Some of the measures to help in sustainable market condition and improved performance of stock market are as follows;

- It is expected that stock market has its own nature and if regulatory body and respective parties perform their role perfectly then this unwarranted situation can be over. The SEC should protect investors' interest and create an efficient market environment for issuers. It must employ more resourceful, competent and qualified people. The SEC may think of imposing a permanent policy for the margin ratio rather than frequent experiments. Merchant bankers and brokerage houses can organize regular awareness program for investors. They can also motivate investors to invest in fundamental based share and avoid rumors based investment. Besides, brokerage houses should stop comments about speculation of share price.
- Government can improve its guidelines for stock market. At present there are more than 3600 garments in Bangladesh with strong financial background. These garments industries should be encouraged to be listed. Innovative financial products and hybrid securities needs to be introduced to enrich our stock market. A separate corporate bond market can be introduced. Less time-consuming compliances of numerous formalities, low cost of initial public equity offerings, elimination of double taxation will be helpful to equity market improvement.
- SEC should initiate awareness, educational and promotional programs through institutional training for a vibrant market with active presence of issuers and investors. Bangladesh Bank needs to strictly monitor the activities of commercial banks specially their activities leading to stock market exposure.

- Stock market cannot be functional without investors. So the activities of investors have high influence on market movement. The decisions regarding the market should be taken considering behavioral psychology of the investors. Now long term policy, appropriate guideline by Bangladesh Bank for commercial banks to adjust stock market exposure, support of big institutional investors and easing of rules, regulations are necessary to restore confidence of retail investors. Finally there should be a proper coordination between all market players -SEC, DSE, CSE, merchant banks and government so that stock market can play a vital role efficiently for the economic development of the country.
- During downtrend, it has been observed that most of the general investors came to the street, show protest and then suddenly prices go up. This indicates the existence of syndicates and market manipulators in the stock market. Market experts believe that the bearish trend is a result of market correction. It is true that a correction is needed but it should be in a proper way. If the correction destroys the market and confidence of the investors then there is no need such type of correction.
- It has been observed that Z category shares offering more capital gain than A category even these are very much risky. This attracts new investors and they invest in Z category share which increase the risk of loss. The number of Z category shares is about 100 or about 40 per cent of the total shares listed with the market. These shares are floated mostly by companies of the manufacturing sector. Although a few of these labor-intensive units have real problems, the majority of the companies have been consistently showing losses artificially in their balance sheets. Their conditions are not as bad as they used to claim or show in calculation. The boards of directors of these companies are doing so only to siphon off capital from the companies and evade corporate tax to be paid to the government. As a result, the net asset value of these companies has been decreasing every year, leading to abnormal fall in the prices of shares. The Securities and Exchange Commission (SEC) should play the role of a watchdog on these Z categorized company to protect the interests of the common investors.





- In order to make the market more attractive, the corporate tax bracket can be lowered in order to encourage sponsors to list their companies in the exchanges. We can also introduce Future and Option Market and help our already existing bond market to be more vibrant leaving the investors with more instruments. Although we have some mutual funds (MF) currently trading in the secondary market, but it is unexpected that these close end mutual funds are traded below the face value. Usually most of the investors invest in mutual funds to reduce investment risk but traded below the face value incur them loss.
- Recently there is an announcement about floatation of a Taka 50 billion open-ended mutual fund to be called Bangladesh Fund (BF). The timing of its floatation has not also been specified. In this context, the announcement about the fund is clearly purported to give a positive signal to the small investors about the joint efforts of seven state-owned financial institutions, including the Investment Corporation of Bangladesh (ICB), four commercial banks and two insurance companies, to help improve the demand-side situation in the country's stock market, in the midst of a turmoil, if not a collapse. Offloading this fund with in a short period of time can make the stock market stable.
- The regulatory bodies' frequently changing policy and rules that is not good for the market stability. For example margin loan ratio. No stock market regulator in any country fixes loan margin ratio but that was done in Bangladesh. On February 01, 2010, SEC, as a bolt from the blue, fixed loan margin ratio at 1:1.5. Just two days after, it reversed its decision to 1:1 which was in existence for months and years. SEC again increased this ratio to 1:1.5 on March 15, 2010, then again reduced this to 1:1 in July, 2010; and 1:0.5 in October, 2010. SEC never explained proper reasons for such frequent revisions. It has now rectified those errors, increasing margin loan ratio to 1:1, to 1:1.5 and 1:2 on January 10, 2010 but with little effect. It is not SEC's business to dictate to whom, when, and how much the loan is to be given. It is a bilateral decision between the lender and the borrower. Such over-regulations created constant imbalance between demand for, and supply of, shares/funds, and over-heating or overcooling of the market.

- As of now, enforcement powers of SEC are, after due enquiry and giving an opportunity to the violators to be heard, limited to cancellation or suspension of registration of market intermediaries, and imposition of penal measures which may involve levying of fines on or filing of cases in competent courts against issuers / market intermediaries. There are no legal provision for SEC to award compensation to shareholders or to file cases on behalf of shareholders. SEC is in the process of drafting amendments to the relevant laws so as to be able to better protect the interests of the shareholders.
- The need for strengthening compliance by all market intermediaries is greatly felt. As present, the regulatory requirement for appointment of a compliance officer extends only to stock broker/dealer. SEC intends to extend the requirement to other market intermediaries laying down the qualifications of the concerned officials and specifying the issues to be addressed in implementing internal compliance procedures.
- A sound stock market requires depth with a wide range of products and instruments to cater to varying risk return liquidity preferences of investors and also to ensure that the adverse effects arising from disturbance in some part do not assume systemic proportions. In this regard, SEC, in collaboration with Bangladesh Bank had made long term government bonds tradable on stock exchanges. But, not much of trading has been actually taking place. SEC and Bangladesh Bank have formed a joint committee to suggest measures to activate trading in government bonds. Recently introduced asset backed securities which are now being issued only on private placement basis need to be brought into the mainstream secondary market.
- At the initial stages of stock market development, privatization of state owned enterprises can make a significant contribution. In Malaysia, for example, the Privatization Master Plan resulted in many government linked firms being listed with Kuala Lumpur stock exchange. Seven largest firms listed with the exchange belong to this category. Government linked firms account for 34 per cent of total market capitalization. In Bangladesh also efforts are being made to progressively offload government shares through the stock exchanges.

- A healthy stock market requires engagement of competent professionals by a wide range of market actors. Among the positions which require the services of people with adequate knowledge of the principles of corporate governance as well as security laws and regulations are the members of company boards, company secretaries, officials of the share departments of companies, authorized representatives of brokers, compliance officers of market intermediaries etc. Academic institutions or the professional bodies in the country do not produce enough people to fill up such positions. SEC has constituted a Steering Committee for preparing suggestions to set up a stock market training institute to bridge the gap. Asian Development Bank is expected to assist in this endeavor. SEC's investors' education program has been intensified to enable investors to make informed decisions concerning their portfolio.
- SEC is revisiting IPO and rights issue rules and drafting direct listing rules. The objectives are to reduce issue cost, simplify procedural requirements and shorten the time gap between submission of an application to and consent by SEC. The Securities and Exchange Commission (SEC) should formulate a revised guideline on book building method because through this system investors are paying higher premium on the face value that actually have bad reflection on the market.
- All the Bangladesh Bank economic data should be provided to the market as and when they come. It will help to balance the investors' decision with the pace of country's economy. Major daily political, economical, whether and environmental data update (both domestic and international) should be disseminated in the market as and when they come basis from proper sources. 'Reuters' can be tagged with DSE and CSE terminal and also with their respective website so that investors can take their investment decision with overall global scenario.
- Regular TV and Radio program should be made on developments and other topics relating to the stock market to make the investors aware and also to train them up. It would help them to learn more about market fundamentals and technicalities.

Source:

<http://www.thefinancialexpress-bd.com> date: 09-01-2011

<http://www.stocktradersblog.net/capital-market-not-for-all-and-sundry-6341>

## 5.2 Some long-term proposals for Individual Investors:

More than three million people are currently involved in the country's stock market. After the crash, most of them have lost 70 to 80 per cent of their capital which brought them on to the street to demonstrate. Investors must understand that stock market is the riskiest place amongst all the sectors of investments. In most of the developed countries investors in this market who are much better informed and better educated also suffered from losses due to rise-and-fall in the market. Investors could consider the following facts for the well being of the market. Some long term proposals for individual investors are given below:

- Stock market is not a quarry where one can come, dig and get the money out and become rich. It is a very sophisticated place where success depends on the very well-thought-of and soundly analyzed investment decisions. After making the investment, the investors should wait for some time to get the result; but in our country most investors do not want to wait for long and they want the return immediately which is not possible. To see a better market in future, people should discard this type of attitude.
- People like students, retired persons etc., should not come to this market, as they are dependent on their savings. A decision with marginal error can eat up their investment. Only people with sufficient savings who are also well informed about the market and do not hesitate to take risks, should come here and make investment. It is not a place for risk-averse people.
- To influence investors to make long term investments, the government should introduce capital gains tax immediately in the next budget. Capital gains tax will help government to generate additional revenue and also drive traders away from the market which will eventually help stabilize the market in the long run.
- Investors should discard "four-day" gain attitude. This is not possible anywhere in the world. One is gaining because the others are losing. This type of trading drives the price to such a level that is far beyond the fundamentals of a company. People making investment at should least wait for a quarter to realize the gains, as the price of a stock

goes up after the declaration of the quarterly news, if the company does well during that particular period.

- Investors should understand that a fundamental analysis includes three steps: economy analysis, industry analysis and company analysis. Often much importance is given to the company analysis. But investors should give emphasis to the economy and industry as well. Good understanding of the state of the economy and stage of the industry will help investors generate useful insight about future price movement of a particular company's stock.

Source:

[http://www.thefinancialexpress-bd.com/more.php?news\\_id=127086&date=2011-02-25](http://www.thefinancialexpress-bd.com/more.php?news_id=127086&date=2011-02-25)

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## **6.0 CONCLUSION**

## **6.0 Conclusion:**

Stock market has been experiencing a bearish trend over the last three months in Bangladesh. Once DSE general index crossed 8900 landmark and the average daily market turnover crossed over Tk.20000 million. But recently the drastically fall of stock market DSE General index touches 5200 point and the average volume is Tk.7000 million. The market capitalization has been decreasing tremendously down which is now over Tk. 25 billion level. According to DSE source, the market basically trends to bearish due to inactive participation of the institutions, which is, 60% of the total trade; 20% of it comes from the foreign investors and the rest 20% comes from the retail investors as well as the confidence level of general investors are also decline. This is indeed a very bad sign for the stock market of Bangladesh and we are also looking to more general, institutional and the foreign participants to overcome this situation.

One of the main reasons why the market is going down can be identified due to sustaining volatility in the money market. Frequently changing policies make the overheated. Individual investors are losing confidence from the market. Some big telecom companies and some govt. own companies are also coming in the market within short time, which will eventually enhance the total market capitalization. We are also expecting Bangladesh Mutual Fund will come and contribute to the market for its good growth and will create much depth indeed.

Our regulator, Security and Exchange Commission is also need to be more cautious in monitoring all the discrepancies done by any listed company in compare to their past years activities. They are now remarkably competent and proficient in performing their activities. In the final analysis, the Bangladesh stock market still has a long way to go. It is growing, but the pace needs to be faster. With the support from government and multilateral institutions for capacity building this market has every possibility to improve. We are yet to have in place several missing parts of the vital market infrastructure, and valuation and appropriate rules are essential segments of this expected infrastructure. So, it is easily to be felt that our capital market is growing and seems to have a very healthy shape in the coming days to come.



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