

Constraints Obstructing The Smooth Operation Of The Capital Markets Of Bangladesh And Probable Solutions To These Constraints : An Empirical Study Based On Investors' Perception

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ABSTRACT

This study was directed towards finding out the problem areas which are causing problems in the capital markets of Bangladesh. The investigation of such problems has been done after collecting the opinions of the investors through structured interviews with a well-documented questionnaire. Retail investors reckon incorrect price manipulation, insider trading, weak framework and policies as the main problems obstructing the development of the capital markets. They also notified that improper dividend policy, wrong valuation or corruption in SEC/DSE have a significant impact on the fluctuations of the markets. This study also covered the responses of the investors regarding the probable solutions suggested by the experts of the security markets. The investors feel that to get a better environment in this market, the concerned authorities should exercise the demutualization process as soon as possible and stop the insider trading. Strong and effective legal framework, standard face value and market lot, balance between demand and supply, surveillance of the central bank, and a strong and effective legal framework are pertinent to solve the problems that plague the capital markets of Bangladesh.

Keywords: Capital Markets of Bangladesh, Investors, Problems, Solutions, Framework, SEC, Dhaka Stock Exchange

INTRODUCTION

❖ **Background of The Study:** Although the securities market of Bangladesh made significant progress over the last few years, nevertheless, the market needs serious attention to gain stability, transparency and maturity. Many stock issues attained abnormally high price-earnings ratio within a very short period. Many shares are heavily overpriced, and some of the stocks appear to be selling well above their intrinsic value for a short period because of the high speculation about expected future earnings, which can be referred to as 'speculative bubbles'. Sometimes, market crash is an indication of the government's inability of adopting viable policies and monitoring the market activities carefully. These indicate that Bangladesh's securities market appears to be in the speculation stage. If the investors cannot correctly analyze the market, they might end up with substantial losses.

Many individual investors do not realize the importance and the process of stock market analysis. As a result, they are unable to predict the intrinsic value of a security and eventually, become losers at the end of the day. Historically, each emerging market is volatile and risky. However, the case for diversification into emerging markets originates from the high economic growth potential of emerging markets, together with low correlation with other developed markets. It has been complained by many investors that true information on the performance of companies selling shares are hard to get. Transaction costs can be quite high. However, the prospect of the market depends on further reforms along with the economic prosperity and political stability of the country.

Several studies show that satisfied investors are a necessary element of the stock market. They help to finance rapid expansion in developing countries. Funds for investment from savers to borrowers are channelled through the financial system. The capital market plays an important role by channelling the funds to those who can make better and productive use of the funds that improve the standard of life of the people of a country.

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The capital market is the engine of growth for an economy. Companies are seeking additional financing for business expansion. Vibrant capital is likely to support a robust economy (Rashid et al., 2009). However, retail stock investors have been found to have a shortage of professional skills and knowledge relevant to collecting and managing investment information (Wang, Shi and Fan, 2006). Thus, investors behave like short-run speculators and aggressive traders (Bloomfield, Libby and Nelson, 1998), which could serve socio-economic consequences in the developing countries. As a result, people are coming out on the streets in front of the stock exchange in Bangladesh. Despite a challenging political environment and widespread poverty, Bangladesh has achieved significant milestones on the economic development front. Though, at present, the Dhaka Stock Exchange Index is getting high, however, the daily stock prices and returns in DSE show positive skewness, excess kurtosis and deviation from normality. The returns display significant serial correlation, implying stock market efficiency (Hassan et al., 2000). This year, the Government has imposed a tax on depository income, so, a huge amount of capital is being invested in the capital market. At present, the government is heavily focusing on developing a debt capital market. Such measures are certainly welcomed as Bangladesh lacks a proper market for bonds and shares. However, the availability of the shares is not enough. At present, the price index of Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) are increasing day by day. All these indicators do not surely signify whether the capital market of Bangladesh is heading for further development or a disaster like 1996 and 2011. Though the capital market has potentiality, but the retail investors suffer in many ways. The present paper makes a comprehensive study on the investors in Khulna, Bangladesh and checks their current status with their recommendation to identify problems and probable solution for the capital market in Bangladesh.

JUSTIFICATION OF THE STUDY

The Capital market in Bangladesh is still underdeveloped, and its development is imperative for the full realization of the country's developmental potential. It is encouraging to see that the capital market is growing at a fast pace, but it is not following the appropriate financial grammar. As a result, this optimistic market faces many problems with the fluctuation of the prices of the shares, and most of the shares are extremely overpriced. After the bubble burst of 1996 and 2011, the capital market attracted a lot more attention, which led to the dissemination of the importance and awareness about the capital market. This awareness paved the way for infrastructural development of the market. So far, many research studies have been conducted about the problems and prospects of the Stock market by different researchers, and these studies were based on quite normal markets which have changed a lot in the recent times. However, now, the market is fluctuating so rapidly, which has become a burning question now-a-days. In depth and further studies are required to find out the problems and prospects of the capital market in Bangladesh. So, there is scope for further research to find out the major problems and prospects of the capital market in the recent times, where the market has become volatile and is following no financial grammar. These findings clearly indicate a satisfaction gap among the investors and calls for further study, which stimulated the present large-scale study.

OBJECTIVES OF THE STUDY

❖ **Primary Objective:** To thoroughly investigate the current stature of the capital market of Bangladesh from the investors' perspective.

❖ **Specific Objectives:**

- ❖ To discover problems in the capital market with special reference to Bangladesh.
- ❖ To get suggestions to overcome the problems associated with the capital market of Bangladesh.
- ❖ To find out the demographic characteristics of the retail investors.

LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

❖ **Development of Securities Market:** Development of the securities market is a precondition of the government's strategy to develop the economy through the private sector. In a study, Mazhar (2004) opined that a strong securities market mobilizes internal and external resources for faster economic growth, ensures efficient allocation of resources, and eventually generates economic development. Diversification of portfolio and large supply of securities are required to attain depth and breadth of the market. In another study by Ahmed (2007), it was found that inadequate

supply of good-quality securities is another major impediment to the development of the securities market. This has been evident in the subscription rates of primary security issues and responses from the investors. In the primary market, it has been argued that most of the security issues were oversubscribed.

❖ **Functioning of The Financial Markets :** Financial markets are absolutely vital for the proper functioning of the capitalistic economy, since they serve to channel funds from savers to borrowers. The financial markets permit both businesses and governments to raise the needed funds by selling securities. Investors in Bangladesh became increasingly interested in equity markets because many entrepreneurs looked for requirements from the equity markets for many reasons. In this connection, the Dhaka Stock Exchange (DSE) plays an integral role in the pace of the industrialization of the country (Alam et al., 2005). But in a study by Mobarek et al. (2008), the Dhaka Stock Exchange indicates that the distribution of the daily share return series on the exchange is not random as the probabilities associated with the expected number of runs are all greater than the observed number of runs. However, the non-random nature of the price series might be due to institutional factors on the DSE contributing to market inefficiency, including illiquidity, market fragmentation, trading and reporting delays and the absence of official market makers.

❖ **Factors Determining The Prospects Of The Markets :** The prospect of the market depends on further reforms along with economic prosperity and political stability. Adequate fiscal incentives should be provided to the publicly traded companies against the disincentives of increased administrative formalities, disclosure requirements and higher cost of capital. The management of stock exchanges should be separated from ownership in order to avoid unethical transactions. Foreign auditing companies should be hired in order to properly audit the balance sheet and income statements of the companies selling shares. Facilities should be created to train-up the stock brokers and to educate the small investors (Islam, 1994). In another study, it was found that the activities of the capital market of Bangladesh improved since 1994. Despite the overall growth, a vast improvement has been registered since 1997, where the all share price index was maximum (Alam et al., 1999). Another study shows that although the capital market experienced an increasing trend in the case of a number of securities traded in the exchange, total capitalization shows a decreasing trend over the period under study, particularly since the 1996 market crash. Market disaster in 1996 shattered public confidence tremendously (Akhter et al., 2005). The Government recently realized that increasing the base for institutional investors would help in the steady growth of the capital market in Bangladesh. It is now believed that developing the institutional sources of capital market in Bangladesh would in turn increase the demand for securities in the market. As a result, the capital market would revive with more active investor participation. Therefore, the Government has amended a number of relevant laws to facilitate increasing investments in capital instruments by institutional investors (Basher et al., 2006).

❖ **Satisfied Investors:** Satisfied investors are a necessary element of the stock market. They help to finance rapid expansion in developing countries. Analyses reveal that most retail investors were young and inexperienced but educated, with shortage of skills and income. The study suggested the importance of effective regulation, disclosure requirements to ensure a supply of quality information, investor education and technology driven trading in brokerage houses for overall investor satisfaction (Rashid et al., 2009).

In a study by Bepari et al. (2009), it was shown that stock returns in Dhaka Stock Exchange are not entirely random. As a consequence, investors may have opportunities to improve their returns by timing their investments. According to the famous Capital Asset Pricing Model, Market return, proxied by return from a broad-based market index should be related to the risk associated with macroeconomic health of the economy, as the latter affects an individual firm's cash flows and the systematic risk component. Therefore, the overall performance of the macroeconomic condition of a firm in terms of its contribution to the market portfolio return can be evaluated based on some macro variables like GDP growth, inflation, etc. (Mollik et al., 2006).

❖ **Problems Associated With The Stock Market And Remedies:** Equity market liberalization, if effective, leads to important changes as the economy become integrated into the world capital market (Harvey et al., 2003). It may also be stated that the Security and Exchange Commission (SEC) at times lacks regulatory insights in regulating financial products. For example, in August 2004, the SEC approved the prospectus for public floating of an Islamic Mutual Fund by the stated-owned ICB Asset Management Company. It was supposed that approval to such Islamic mutual fund would encourage the institutional investment component in the capital market. However, in a capital market where about 40% capitalization is held by banks and financial institutions that are shariah non-compliant, the success

of such mutual funds is a doubtful proposition. To revive the dormant capital market of Bangladesh, more private mutual funds should be generated to increase the institutional base for the capital market (Khalily and Baqui, 2003). The government's plan to privatize the Stated Owned Enterprise, combined with a large pipeline of IPOs, especially from the telecom sector, should underpin the future growth of the stock market. It is expected that market cap of Dhaka Stock Exchange will double within the next few years (Chowdhury and Azad, 2006). To have a prudent regulatory framework for encouraging institutional investment in the capital market, the Government and the capital market regulatory body, the Security and Exchange Commission (SEC) should take the following regulatory measures immediately: removing regulatory barriers to enable contractual savings funds (such as insurance company funds, pension and provident funds) to invest substantial amount of their collections into capital market instruments with better earning capacity; enforcing a level playing regulatory measure for public and private mutual funds; proper restructuring of ICB and making it more answerable and transparent; and reforming the current regulatory regime into one where more coordination is guaranteed among various regulators (Security and Exchange Commission, the Bangladesh Bank, the Department of Insurance, Ministry of Finance, Ministry of Commerce and others) who directly or indirectly influence capital market mechanism for institutional investments (Imam and Amin, 2003).

❖ **Capital Markets of Bangladesh :** The unexpected rise and fall in share prices is related to the investor's confidence in political stability, prospect of quick capital gains, a vacuum in respect of institutional presence in the share market, monopolistic dominance of member brokers and SECs to cope with the developments. The 1996 share market crash still remains as a bad memory in the minds of the investors. Again, a major crash was observed in 2010-2011, which exceeded the previous one. Despite some improvements, stock markets are still in an embryonic state. Bond market is practically non-existent. Derivatives, futures and credit swaps are not in vogue in the Bangladeshi capital markets. The reluctance of listed companies to declare high dividends or to fix higher rate of returns for bonds is a big obstacle in the development of the stock market in Bangladesh. Therefore, in this situation, it was felt necessary to find out the problems of the capital market of Bangladesh and the ways to overcome the said problems.

The Securities and Exchange Commission (SEC) was established on June 8, 1993 under the SEC Act, 1993 in Bangladesh. The Chairman and the Members of the commission are appointed by the government and have the overall responsibility to administer securities legislation. The Commission is a statutory body and is attached to the ministry of Finance. Dhaka Stock Exchange (Generally known as DSE) is the main stock exchange of Bangladesh. It was incorporated in 1954. It was incorporated as the East Pakistan Stock Exchange Association Ltd. on April 28, 1954 and started formal trading in 1956. It was renamed as the Dhaka Stock Exchange Ltd. on May 13, 1964. After the liberation war in 1971, the trading was discontinued for five years. In 1976, trading restarted in Bangladesh. On September 16, 1986, the DSE Share Price Index was started. The automated trading system was initiated on August 10, 1998. Central Depository system was initiated on January 24, 2004. The management and operation of the Dhaka Stock Exchange is entrusted to a 25 members Board of Directors. Among them, 12 are elected from DSE members, another 12 are selected from different trade bodies and relevant organizations. The Chittagong Stock Exchange (CSE) began its journey on October 10, 1995 from Chittagong city through the cry-out trading system, with the promise to create state-of-art bourses in the country. Founder members of the proposed CSE approached the Bangladeshi government in January 1995 and obtained the permission of the SEC on February 12, 1995 for establishing the country's second stock exchange (Monthly Review November, 2010).

PROSPECTS OF THE CAPITAL MARKETS OF BANGLADESH

❖ **Rise In Price Index:** The Dhaka Stock Exchange witnessed a steep rise, with the benchmark index crossing nearly the 8000-mark for the first time before the major crash in December 2011. Driven by liquidity, the market rose for seven straight sessions in a row. The booming market attracted many investors. Liquidity took the market to a new high. Nevertheless, the investors again experienced a crash in the stock market in 1996 and in 2011, which again put the markets in deep trouble.

❖ **Amendment of Insider Trading Rules:** The SEC amended the section 4, sub-section-2 of the Insider Trading Rules, 1995 restricting the sponsor, director, officer, staff, auditor, legal advisor and the insiders as per law from buying and selling stocks.

❖ **Investment By Banks:** Most of the Banks have invested their excess liquidity in different government treasury bills

and bonds to minimize the cost of funds. Now, 20 commercial banks out of 47 are actively investing in the capital market that also helps to ease the excess liquidity pressure on the banking sector. 11 private commercial banks have exceeded shareholding as well as exposure limits.

❖ **Reduction of Interest Rates On The Savings Instruments:** The government has reduced the interest rates on secured savings instruments and exposed tax on the profit. Investors always look for the sectors where they can make more profit. They find the capital market to be more promising, and the benefits are not subject to taxes.

❖ **Committee To Ensure Proper Implementation of The Book Building Method:** The Book Building Method was introduced in the country's capital market in early March 2009. The SEC formed a committee to ensure proper implementation of this method, which is known as the scientific price discovery method.

❖ **Institutionalization of The Market :** It is expected that more institutional investors are bringing long term commitment and liquidity to the market. Longer investment horizons will reduce market volatility. Institutional investment strategies are fundamentally focused rather than being speculative.

❖ **Listing of Fundamentally Sound, Well Reputed Companies:** With the improvement of corporate governance, the Government has attracted sound corporates to come to capital markets. Their quality scrips provide liquidity and motivation for educated investors to participate in the capital markets. Listing of large, reputable corporates will attract foreign investors and increase liquidity in the market.

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❖ **Floating of Mutual Funds:** Some US\$300 million in mutual funds were expected to enter the market by mid or end of 2010-11. Strong pipeline for listing of mutual funds provide the investors with safer, indirect market access, preventing wealth and capital losses.

❖ **Facilitate Private Equity Investment:** Recent introduction of certain foreign private-equity investors in Bangladesh will provide a stable flow of capital, given the mid to long term investment horizon of the investments. High risk hurdles and selective investments direct fund the quality local corporates.

❖ **Inclusion In Global Indices:** Bangladeshi companies are now included in global indices. The Dow Jones SAFE Index has already included 5 Bangladeshi Banks and a power company. Inclusion of Bangladeshi companies in the Index can result in the inclusion of the index in global indices (Ahmed, 2007).

❖ **Unexpected Rise And Fall In Share Prices:** Excessive volatility and fluctuations in stock prices fail to provide the correct signal to the company's real worth. Stocks are an important avenue for channeling funds to investors through mobilizing resources from individuals to businesses. In view of the speedily increasing role of the stock market, volatility in stock prices can have significant implications on the performance of the financial sector as well as the entire economy. There exists an important link between stock market uncertainty and public confidence in the financial markets. The unexpected rise and fall in share prices are mostly a result of the general confidence of the investors about political stability, prospect of quick capital gains, absence of balance between demand and supply and so on. The circuit breaker system was introduced within three months during the stock market bubble burst in 1996. Daily price limits may truncate the distribution of price changes for individual stocks and produce irregularly observed or missing data as the equilibrium prices are no longer observable when the price limit becomes binding. For instance, the fears of illiquidity or of remaining locked into an investment position may increase early trading, as participants recognize the risk of being unable to trade when prices move closer to the limit. Investors' confidence has not fully recovered after the major crash in 1996 and 2011. Despite attempts at reform, the capital market continues to suffer from poor governance and inadequate market supervision. The major market players have no strategic long-term vision for market development and continue to have limited capacity. Consequently, there has been limited investment interest and the supply of capital market instruments remains inadequate. The overall transparency of market transaction is low by international standards and generally, there has been slow development of the underlying market infrastructure. Market participants have identified many reforms that are needed in the capital markets.

Despite these, some areas are briefly mentioned, which are problems of capital markets in Bangladesh (Imam and Amim, 2003).

❖ **Earlier Studies Conducted On Revealing Companies' Performances:** Research studies on the subject matter of efficiency of capital markets are a frequent case in the world of Finance and capital acquisition. Various research works have been done across the world in this field, and the basic goal of such studies were to identify major reasons behind the inefficiency and problem areas in various capital markets across the world. The studies conducted by Inderst and Muller (2004); Zulu and Datar (1995, 2000) have identified several reasons behind various problems in the capital markets. These studies also suggested various solutions for detecting the problems and also came up with major tools for eliminating these problems. In their studies, Maya (2006), Levine and Zervos (1996) had identified that the growth of the stock market depends on the assurance of various key issues like information flow, free flow of capital, stability, trustworthiness, sound technological system and so on. They also detected and presented the fact that stable and efficient stock markets also contribute a lot for economic development of each and every economy. The cases of developing countries are even more important. Stable capital markets are a rarity in the developing world. However, if the developing countries can get rid of such situations, their fate can be changed. Sahlman (1990), Von Thadden, (1995) and Holmstrom et al. (1997) identified the issues - good governance, periodic and regular monitoring are key solution mechanisms for eliminating the problems facing the capital markets. From these studies and earlier literature review, it is obvious that finding out the problem areas of capital markets is always important, and this can contribute in a great way for the development process of capital markets for each and every country.

❖ **Significance of This Study In Adding Value To Existing Literature And Overall Contribution:** From the earlier studies and thorough review of literature, it is obvious that the significance of evaluating the problem areas of capital markets and finding out the solution of those problems is always essential for an efficient capital market in every country. This study has been intended towards doing the same thing. Moreover, the significance of the outcome of this study is even more as this study is totally oriented towards the perception of the investors. Thus, this study will help immensely to develop an efficient capital market in Bangladesh.

MATERIALS AND METHODS

❖ **Research Questions :** Research questions were determined after reviewing the existing literature and also evaluating the contexts of local businesses and market set-ups. In the process of setting the research questions - the prospective future contribution of this research work has also been considered. The following research questions were set afterwards :

- ❖ What are the main problems in capital markets?
- ❖ What are the best possible suggestions to overcome these problems?
- ❖ What are the demographic characteristics of investors?

Sub-questions

Research Question 1: What are the main problems facing the capital markets?

Sub-questions of Research Question 1:

- ❖ What is the mean score of different relevant problem variables?
- ❖ What is the median score of different relevant problem variables?
- ❖ What is the mode score of different relevant problem variables?
- ❖ What is the standard deviation score for different relevant problem variables?

Research Question 2: What are the best possible suggestions to overcome the problems?

Sub-questions of Research Question 2:

- ❖ What is the mean score of different relevant solution variables?
- ❖ What is the median score of different relevant solution variables?
- ❖ What is the mode score of different relevant solution variables?
- ❖ What is the standard deviation score of different relevant solution variables?

Research Question 3: What are the demographic characteristics of retail investors?

Sub-questions of Research Question 3:

- ❖ What is the frequency of different general information variables?
- ❖ What is the percentile condition of the above - mentioned variables?

RESEARCH DESIGN

In order to solve the above-mentioned research questions and the corresponding sub-questions, this study adopted the following research design, comprising of data collection and analysis. This study has utilized quantitative survey research methodology, which is mainly based on primary data. Alongside that, few secondary sources were also utilized for this purpose. The data collection procedure mainly comprised of collecting data from the survey from the concerned retail investors. The entire research design is mainly based on the successful answering procedure of the settled research questions and thus, all are directed towards achieving that particular goal. The research design consists of the following sub - items, starting from the population to the work plans.

THE POPULATION

The concerned population of this study are all the investors of Khulna region who had their stake in the capital markets.

SAMPLING DESIGN

Investors (non -professional and professional) in the capital markets, government and non-government officials and general people who had invested in capital markets were selected by random sampling method from the brokerage house of Khulna, Bangladesh. The sample size was 100 respondents. The available secondary data was collected up to June 2011 and the primary data was collected from the respondents from April 2011 to July 2011.

INSTRUMENT DEVELOPMENT

A questionnaire was developed by using a 5-point Likert Scale, and the data was coded with this scale, where 1 represents “strongly disagree” and 5 represents “strongly agree” and for general information, ordinal scale was used. Data was collected by face to face interview. The questionnaire included three types of questions: Part one- 9 general questions were used to gather information about the current status of retail investors of capital markets in Khulna. Part two- 10 questions were used to collect information about their perceived problems associated with the capital markets. Part three- 10 questions were asked to get probable solutions related to these problems.

DATA COLLECTION

The study was based on the capital market assessment, studies of institutions, investors and data analysis. Capital market history, trend analysis and investment situation constituted the main approach. The possible causes for underdeveloped capital markets and regulatory weakness was focused upon. In practice, primary data collected was gathered in field (sampling and interviews) and secondary data was synthesized from books, journals, internet, articles and other sources.

DATA ANALYSIS

When the data was collected, editing, coding and translation of the data was done properly. Once the data was correctly sorted, it was entered into the computer using MS Excel (2007) software. The data analysis has been done by utilizing both quantitative and qualitative analysis techniques. The Mean, Mode, Median and Standard Deviation were calculated to take the decision and prove the hypothesis to accomplish the research objectives. The results had been interpreted by the tables. Data had been analyzed with the help of the literature of the previous research works in the same field. In order to make the analysis fruitful and goal directed, special attention was given towards fulfilling all the research questions and sub-questions successfully by the process of data analysis. The following four research questions and their corresponding sub - questions were analyzed by utilizing the following respective data analysis techniques:

❖ **Research Question 1:** What are the main problems facing the capital markets?

Research question 1 is the main question of this study. In order to solve this question properly, descriptive statistical techniques had been used. The Mean, Median, Mode and Standard Deviation score of the concerned problem variables had been obtained and analyzed for achieving the research objective.

❖ **Research Question 2:** What are the best possible suggestions to overcome the problems?

Research question 2 is the second main question of this study. In order to answer this question properly, descriptive statistical techniques had been used and Mean, Median, Mode and Standard Deviation score of the concerned solution or suggested variables had been obtained and analyzed for achieving the research objective.

❖ **Research Question 3:** What are the demographic characteristics of retail investors?

Research question 3 is about finding out the general information of the respondents of the survey. In order to find out the outcome of the general information, cross tabulation was done, and from that, the general background of the investors was explained.

MEASUREMENT OF VARIABLES

In this study, 20 variables have been tested, and scores were obtained. Out of the 20 variables, 10 variables represent the problem variables of the capital market and the remaining 10 are about the solutions. The problem variables are : Incorrect Price Manipulation; Insider Trading; Wrong Financial Statement; Purchasing of Overvalued Shares; Lack of Confidence; Lack of Intention of Reinvestment By Bank Creates a Crisis of Liquidity; Improper Dividend Policy; Shortage of Skilled Manpower; Lack of Viable Policy of Bangladesh Bank.

The solution variables are : Demutualize The Share Market, Strong And Effective Legal Framework, Balance Between Demand And Supply, Publishing Accurate Information For Investors, SEC Should Appoint Professional Auditing Company, Standard Face Value and Market Lot of Shares, Providing Training Programmes Outside Dhaka, Stop Force Sell, Improve the Regulatory System, Surveillance and Policy, State-owned Companies Are To Be Listed.

STATISTICAL TESTS

Descriptive statistical tests were the main ingredients of the study.

FINDINGS AND ANALYSIS

A pilot survey was executed before organizing the questionnaire for the survey. Information was taken from the investors from different brokerage houses. Then, 9 general questions were prepared to gather information about the current status of retail investors of capital markets in Khulna. From the perception of the retail investors, 10 questions were used to collect information about the problems associated with the capital markets, and 10 questions were prepared to get probable solutions related to these problems. The results for each variable were carefully calculated to find out the objectives of this research. The analysis of general information are shown by percentage, the decision for problems, which affect the capital markets most according to the investors were taken on the basis of Mean, Mode, Median and Minimum and Maximum value.

RESULTS OF THE PROBLEMS PLAGUING THE CAPITAL MARKETS

❖ **Incorrect Price Manipulation :** Many a times, it was proven, that illegal traders buy a huge amount of lower valued shares at a large amount, then influence the employees in the stock exchanges to manipulate the share price, spread rumors and create fake demand of that market. As a result, the price of that stock rises tremendously. At a certain point, the illegal trader sells all the shares purchased at low prices with a heavy profit, and takes away the money. Hence, Incorrect Manipulation was given the second highest score by all the respondents (Mean : 4.55).

❖ **Insider Trading:** In the capital markets of Bangladesh, a corporation's stocks and securities are traded by individuals with potential access to non-public information about the company. Such trading by corporate insiders such as high officials, key employees, directors, and large shareholders is morally illegal. This type of trading should be done away with in a way that it does not take advantage of non-public information. Some of the owners, directors or employees of any particular company do share business on their own share and buy/sell the shares when they come to know (with the

Table 1: General Information							
Information of Age		Information of Duration		Information of Investment		Information of Education	
Range	F	Range	F	Range	F	Range	F
under 20 years	00	1 year	25	under BDT 100000	15	S.S.C	00
21 - 30 years	40	2 years	30	BDT 100000 to 500000	40	H.S.C	00
31 - 40 years	39	3 years	20	BDT 600000 to 1000000	30	Diploma/Degree Courses	28
41- 50years	16	4 years	15	BDT 11000000 to 2000000	10	Bachelor with honours	35
51 - 60Years	04	5 years or over	10	BDT 2000000-3000000	4	Masters degree	36
over 65 Years	01			Over 3000000	1	PhD	1
Σ	100	Σ	100	Σ	100	Σ	100
Sources of Funds		Education and Training		Employment		Dependency on Income	
Range	F	Range	F	Range	F	Range	F
Own Savings	42	Educational Institution	25	Government Employee	07	Main income	33
Brokerage house	40	SEC or DSE	05	Private Employee	25	Partial income	67
Borrow from others	10	Brokerage House	00	Businessman	25		
Selling Fixed Asset	5	Consultant or Expert	05	Student	25		
On Contract Basis	3	No training	65	Unemployed	15		
				Retired person	03		
Σ	100	Σ	100	Σ	100	Σ	100
Source: Primary Survey and its Statistical Output							

Table 2 : Results On The Problems Facing The Capital Markets Of Bangladesh							
Problems	Mean	Median	Mode	Std. Dev.	Min	Max	Sum
Incorrect Price Manipulation.	4.55	5.00	5	0.500	4	5	450
Insider Trading.	4.65	5.00	5	0.479	4	5	465
Wrong Financial Statement.	3.85	4.00	4	0.729	3	5	385
Purchasing of Overvalued Shares.	3.70	4.00	4	0.958	2	5	370
Lack of Confidence.	4.05	4.00	5	0.808	3	5	405
Lack of Intention Of Reinvestment By Bank Creates Crisis Of Liquidity.	4.50	5.00	5	0.595	3	5	450
Improper Dividend Policy.	3.00	3.00	3	1.271	1	5	300
Shortage of Skilled Manpower.	2.65	2.50	2	1.018	1	5	265
Lack of Viable Policies Of Bangladesh Bank.	3.70	4.00	5	1.150	1	5	370
Limited Job Opportunities For The Youth.	3.25	3.00	3	0.947	1	5	325
Source: Primary Survey and its Statistical Output							

help of inside information) that the price of the share has changed. Insider Trading was given the highest gravity (score) by all the respondents (mean : 4.65).

❖ **Wrong Financial Statement:** After a particular period of time, every company needs to publish their financial statement after getting the same duly audited by an auditing firm. Sometimes, some companies publish wrong financial statements for the public with unscrupulous motives, which lead to wrong valuation of stocks in the market. Mean of this problem was found to be 3.85.

❖ **Purchasing Shares Without Checking The Company's Condition:** Many retail investors had no idea how to evaluate the share price. Before purchasing the shares of a company, it is essential to consider the company's assets,

their dividend policy for the previous years and so on. Mean of this problem was found to be 3.70.

❖ **Lack of Investors' Confidence In The Market:** Many of the retail investors lost their faith in the capital markets after the major crash in December 2010. They were now scared to invest in the market and many of them had already lost their hard earned savings and were financially ruined. Though the PE ratio of many good companies is not under 20, even they are not finding it as a safe place for investment. Mean of this problem was found to be 4.05. Respondents found it to be a significant issue.

❖ **Lack of Intention Of Reinvestment By Bank Creates Crisis Of Liquidity In The Market:** It has been observed that commercial organizations made good profit from their portfolio by investing more money and at that time, they did not maintain the last limit which Bangladesh Bank had fixed. However, they had no intention to reinvest the profits in the market. Most retail investors thought this factor to be a major cause of liquidity crisis in the market. Mean of this problem was found to be 4.50, which shows that the respondents accused the Institutional investors for the crisis of liquidity in the market.

❖ **Improper Dividend Policy :** A company's dividend policy is the company's usual practice when deciding how big a dividend payment to make. An investor can make useful decisions to see the dividend given in the past time. Most of the permanent companies in Bangladesh do not have the policy to declare a dividend. Mean of this problem was found to be 3.00. Many of the investors were found to be not too much worried about dividend policy, and they did not consider it to be a major problem. It shows that investors actually like trading and look for short time benefits, and did not want to wait for long until the company declares the dividend.

❖ **Shortage of Skilled Manpower :** The respondents complained that there is a shortage of skilled manpower in different brokerage houses, stock exchanges and other related organizations. Mostly, it was observed that they had shallow knowledge of the capital market business, share valuation and other business transactions. Lack of experience was another side of it. This problem got the least importance by the respondents, with a mean score of 2.65. Many investors argued that those who were working in this market were quite capable, and they were satisfied with the services rendered to them. However, some respondents felt that the capital markets should be vested with professionals. Maximum investors were actually neutral with this problem.

❖ **Lack of Viable Policy Of Bangladesh Bank :** Bangladesh Bank lacks sufficient capacity to regulate, monitor, supervise or enforce regulations effectively and has limited resources to devote to its development functions. At the same time, the bank makes different policies that sometimes contradict with the market situation; though initially, the bank made some good decisions like reducing interest rate on the savings instruments of commercial banks, government savings certificates and bonds. This problem got a significant importance, with a mean score of 3.70, but some respondents disagreed or strongly disagreed with the statement. They opined that Bangladesh Bank actually thought about the macro economic condition of the country. So, it did the right thing by pressurizing the Commercial banks through SLR/CRR, which actually saved these banks from going bankrupt, as they had overinvested in the markets and fell into the liquidity crisis.

❖ **Limited Job Opportunities For The Youth:** The young generation of Bangladesh is not getting enough job opportunities - a growing number of people enter the job market every year, but jobs are not created at the same rate. As a result, unemployed youth are investing in the capital market and are taking this as their profession without better knowledge. This is resulting in instability and speculation, because this market is for long term investment, and not for short term trading. This problem got a significant importance, with a mean score of 3.25. Maximum respondents were neutral and agreed with it, but they also opined that the capital markets were a good source of extra income and investing in the capital markets cannot be the alternative of a regular job or business.

RESULTS OF THE SOLUTIONS FOR THE PROBLEMS PLAGUING THE CAPITAL MARKETS

❖ **Demutualizing The Share Market:** Demutualization refers that the people who hold a position in SEC or DSE or have any relation with the capital markets, and those who are the Directors or owners or hold key positions in any of the companies who are participating in the capital markets, they will not be able to trade in this market. Such a practice will

help to curb insider trading in the market because these key people get valuable insider information, which is unavailable to the general investors. It is unfair and can destroy the market. Demutualization was marked with the highest value towards the solution, with the highest mean score of 4.55.

❖ **Strong And Effective Legal Framework:** Enforcement of laws and regulations for the stockbrokers, merchant banks and other intermediaries related to capital markets or issuer companies or their directors who violate and fail to comply with the laws. Most of the respondents believed that a strong and effective legal framework will make the share business more efficient. It may include good governance, implementation and enforcement of various laws. To establish a strong and effective legal framework was marked with the second highest value towards the solutions to the problems facing the capital markets, with the mean score of 4.55.

❖ **The Balance Between Demand And Supply Of Shares:** At present, there is a huge demand of good shares. Huge investors are entering the market for making investments. But at the same time, shares of good companies are not coming to the market. So automatically, there is a huge gap between demand and supply of shares in the market. This generally leads of overvaluation of the shares because of the imbalance of the demand and supply. To create a balance between demand and supply of shares was given significant importance towards the solutions to the problems facing the capital markets, with a mean score of 4.31.

❖ **Publishing Accurate Information For The Investors:** If the enlisted companies publish correct financial information for the public, then there not will be any possibility for the weak companies to overvalue their shares. Wrong financial statements and wrong valuation of the firms may misguide the investors. As a result, this may cause them to buy wrong shares. Nevertheless, some customers have the tendency to invest in Z-category shares, even though they know it is risky. To publish accurate information was given a huge priority towards the solutions to the problems facing the capital markets, with a mean score of 4.05.

❖ **SEC Should Appoint A Professional Auditing Company To Calculate The Value of The Shares :** Many respondents believe that SEC and DSE should appoint a professional auditing company to calculate the standard face value, market lot of shares, book building system and calculate the asset valuation of the company. But some people showed their negative approach as they gave the logic that these professionals might be convinced by these companies or they may be offered bribe and this happens very frequently. However, a large number of the respondents supported this as a solution to the problem. Mean was found to be 3.70.

Table 3: Results On Solutions Of The Problems Of The Capital Markets

Problems	Mean	Median	Mode	Std. Dev.	Min	Max	Sum
Demutualize The Share Market.	4.55	5.0	5	0.575	3	5	455
Strong And Effective Legal Framework.	4.52	5.0	5	0.577	3	5	452
Balance Between Demand And Supply.	4.31	4.5	5	0.774	3	5	431
Publishing Accurate Information For Investors.	4.05	4.00	5	0.808	3	5	405
SEC Should Appoint A Professional Auditing Company.	3.70	4.00	5	1.150	1	5	370
Standard Face Value and Market Lot of Shares.	4.15	4.00	4	0.729	3	5	415
Providing Training Programmes Outside Dhaka.	4.00	4.00	4	0.778	3	5	400
Stop Force Sell.	4.39	5.00	5	0.802	3	5	439
Improve the Regulatory system, Surveillance And Policy.	4.15	4.00	5	0.796	3	5	415
Bringing State Owned Companies To Be Listed.	2.91	3.00	1	1.729	1	5	291
Source: Primary Survey and its Statistical Output							

❖ **Standard Face Value and Market Lot of Shares:** Presently, the market lot and face value of individual shares are not standardized. This creates confusion for the investors. Many a times, the government tried to standardize it, but could not proceed as bureaucracy and corruption can distort the value. A standardized Face Value and Market Lot of shares is required, which was opined by most of the investors. Mean was found to be 4.15.

❖ **SEC Should Arrange Training Programmes For The Investors Outside Dhaka:** Though the investors are educated, but they do not have better knowledge about the capital markets and for the lack of knowledge, they suffer a lot. They cannot make proper judgement in which shares they should invest and more often, they depend on somebody's suggestions or information. The respondents also argued that outside Dhaka, there are no opportunities for getting training so that they can learn and upgrade themselves for this market. A significant amount of mean score (4.00) reveals that the investors located outside Dhaka wanted better training programmes to upgrade them from SEC/DSE.

❖ **Bangladesh Bank Should Put Pressure On Commercial And Merchant Banks To Stop Force Selling of Shares:** Many investors are now becoming penniless as the commercial banks execute force selling of shares and try to get their loan back. After the major crash of December 2010, the retail investors suffered a lot; especially those who had availed marginal loans on high interest rates. Such investors are already reeling due to the losses incurred by then and the payment of increasing interest rates. When the banks exercise force and sell the shares of the investors forcefully, they are left with nothing in their portfolio. A significant amount of mean score (4.39) reveals that Bangladesh Bank should put pressure on merchant and commercial banks to stop force selling of the shares to save the retail investors.

❖ **Improve The Regulatory System, Surveillance And Policies To Save The Investors:** Monitoring and surveillance by some Government regulatory system and Bangladesh Bank may reduce many of the malpractices occurring in the capital markets, as opined by many of the respondents. The main objective is to promote market integrity in two ways, by monitoring price and volume movement and detecting potential market abuses by stopping the big gamblers and big shots who make the market environment unsuitable for the retail customers. A significant amount of mean score (4.15) proclaims that the investors demand an improved regulatory system, surveillance and policy to have a better environment in the markets.

❖ **State Owned Companies Are To Be Listed To Balance The Demand And Supply:** The shortage of good shares in the capital market can be solved by supplying more shares. Many private companies are entering the market, but the state-owned companies are also needed to be enlisted on the markets. Mixed experience actually came for this variable as some investors argued that in the present market situation, it will not be wise to bring in state shares to the markets, which may reduce the prices of the shares further, as there is already a crisis of liquidity in the markets; whereas, some argued that the markets should be corrected for the long run, otherwise, the bubble may occur again due to the shortage of supply of good shares. The lowest mean score (2.91) was found for this variable.

CONCLUSION AND RECOMMENDATIONS

From the general study, it was observed that the respondents within the age group between 21- 40 years were actually more interested in the markets. From the respondent's information, they were attached to the markets since 1-5 years, and most of the retail investors had made an investment between 1-10 Lakh. Most of the respondents were educated, but unfortunately, they did not have any formal training regarding investing in capital markets. That is why they were not well capable of managing their portfolio. Many investors were observed to have availed loans in their portfolio with high interest rates, and these type of investors were really in trouble after the markets crashed, as they were the victims of force sell. Different professionals, especially the employees from the private sectors rather than the government sectors had more involvement in this market. In addition, students had a significant involvement with this market. Many investors totally depended on the benefits of the capital markets, while some used to invest in the stock markets for extra income.

Retail investors ranked incorrect price manipulation, insider trading, weak framework and policies as the main problems facing the capital markets, while they also notified that improper dividend policy, wrong valuation or corruption in SEC/DSE had a significant impact on the fluctuations of the market. For the liquidity crisis, they blamed the institutional investors who had no intention to re-invest after making a huge profit, and they wanted Bangladesh Bank to spur into action. To get a better environment in these markets, they wanted the authorities to exercise the demutualization process as soon as possible and stop the insider trading. Strong and effective legal framework, standard face value and market lot, balance between demand and supply, surveillance of central bank, strong and effective legal framework were important measures that were required to solve the problems. As the sample was taken from the Khulna zone, retail investors demanded that the SEC must provide or arrange training programmes

through brokerage houses or other ways to provide an opportunity for investors to get better knowledge about the capital markets. Enlisted of state owned enterprises are an important approach to strike a balance between the demand and supply to get rid from the market bubble , but many investors did not support the idea in the present situation where the markets are going through a crisis period.

Satisfied investors are a necessary element for the capital markets. Continuous change in the rules by SEC, Bangladesh Bank and the higher authorities create problems for the capital markets, and the sufferers are the retail investors. From the financial year of 2010-11, interest rates of different deposit schemes had been introduced. So, people become more biased towards the capital markets to earn more profit, which leads to unjustified speculation and demand. At the same time, good shares are not coming into the markets. This is creating a huge demand in the existing share markets, and bad share prices are also rising only because of the demand. In the absence of independent research houses, retail investors primarily focus on advice given by their brokers, which often consists of market rumors and actually, it often leads to enormous losses for them. It has been observed that the incorrect and overvaluation of many companies hamper the smooth operation of the stock markets. No market in the world is without manipulations and rumors. However, the situation of the Bangladeshi stock market is quite bad than other countries and the capital markets are not following the proper financial grammar. The present markets are getting riskier, and thereby, big fluctuations are being observed.

Some companies do not hold Annual General Meetings (AGMs) and eventually, declare dividends that confuse the shareholders about the financial position of the company. Some members being the directors of listed companies of DSE, SEC, and CSE look for their own interests, using their internal information of the share market. Many companies do not focus on the real position of the company, as some audit firms are involved in corruption while preparing the financial statements. As a result, the shareholders as well as investors do not have any idea about the actual and true position of that company. Lack of skilled manpower creates problems in this market and in the absence of a comprehensive legal and supervisory framework, the environment of this market is not improving. Thus, the absence of proper policies keeps the investors in a more unsecured position. The Securities and Exchange Commission (SEC) lacks sufficient capacity to regulate, monitor, supervise, or enforce regulations effectively. The young generation of Bangladeshi's are not getting enough job opportunities. As a result, unemployed youths are investing in the capital markets and are taking this up as their profession. This results in instability and too much speculation. Moreover, most of them do not have adequate knowledge of the share business, and still, they start investing in the markets blindly.

Although a lot has been achieved during the last years, however, there is a lot which still needs to be accomplished. Some measures suggested by the respondents during the survey can be considered to improve the functioning of the capital markets in Bangladesh. The measures are: the Government should make rules that the institutional investors should not create any large vacuum in the market because they can play a great role in the market correction. They take out their profits, and they are not re-investing in the markets when the markets need them very badly. There should be better coordination and link among SEC, the Bangladesh Bank and the Ministry of Finance. Enlisted companies should publish adequate and correct information for the public. If the investors get accurate information about the company's business and prospects, then it will help them to take better decisions for share preferences. Gamblers or big shots who are destroying this market need to be identified and punished to save the retail investors. To force the listed companies to publish their annual reports with actual and proper information, the management of SEC, DSE and CSE should be vested with neutral professionals, who should not in any way be linked with the ownership of stock exchange and other firms. Measurement of a company's valuation - the Book building system should be created by experts, professionals or if needed, by foreign accountants, who can do a good job. The investors should be educated about fundamentals, PE ratio, EPS consideration and other technical issues to deal in share transactions and training facilities should be arranged outside Dhaka. The authorities should arrange the demutualization process as soon as possible. This will not be so easy with respect to Bangladesh. Bangladesh's neighbours - India took 5 years, and Pakistan took 7 years to do that. This process can save the retail investors from the big-shot players and gamblers like persons being the directors or owners of listed companies or persons who are employed with the brokerage house will not be allowed to hold any post or be a member of CSE or DSE. Otherwise, the retail investors will never get the safe environment to trade in the capital markets. Finally, the retail investors should change their mentality. Capital markets are for long time investments, and they should have better knowledge of the markets before investing in shares. Otherwise, it is suggested that they should not get involved in trading in capital markets.

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