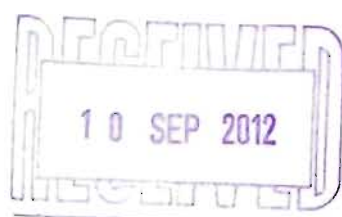


# Performance Appraisal of Dhaka Stock Exchange (2004-2010)



**Performance Appraisal of Dhaka Stock Exchange  
(2004-2010)**

**Prepared For**

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ID: 2007-3-10-044

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**Date of Submission: 21<sup>th</sup> August, 2011**



**EAST WEST UNIVERSITY**

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

**Subject: Submission of Project Report.**

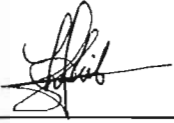
Dear Sir,

It is my pleasure to submit the report on “Performance appraisal of Dhaka Stock Exchange” as a part of my Project Report under BUS 498 in summer 2011.

I have enjoyed preparing this project report which enriched my practical knowledge of the theoretical concept. I tried to reflect the practical operational aspects which are complementary to the theoretical lessons.

I tried my level best to present this assignment without any errors. I hope that you like what I have attempted and presented.

Sincerely Yours



A. B. M Shakil Mahmud

ID: 2007-3-10-044

East West University

## ACKNOWLEDGEMENT

It really was a great challenge for me to prepare the report. First of all, I thank the Almighty, who has provided me the brilliant opportunity to build and complete this report successfully with good health & sound mind. I am grateful & thankful to my family members, my parents- without the support of whom this product could never exist.

My course instructor, Dr. Tanbir Ahmed Chowdhury, Professor, Department of Business Administration, East West University helped me all the way through. He gave me proper guidelines & directions about this project report. I really want to express our gratitude to him for giving valuable advice and time, which helped immensely in preparing this report.



## *Executive Summary*

The Dhaka Stock Exchange is the prime bourse of the country. Through its nonstop highly fault-tolerant screen based automated trading system, the exchange can offer facilities for transparent and highly efficient mechanism provisions for secondary market activities of shares, debentures and wide varieties of other securities. The Management of the Exchange is vested with the Board of Directors comprising 12 Members elected from the shareholders of DSE, 12 non-elected independent Directors representing different Institutions, Chambers and professional bodies and the CEO.

The overall operations of the exchange are run by a team of qualified executives. The bourse at present offers trading facilities for 490 securities worth Tk. 2818501 million. The Dhaka Stock Exchange is the rallying point for enterprises to raise capital in Bangladesh. With a nationwide coverage by brokers and dealers, DSE espouses shared vision of Bangladeshi business all over. The exchange maintains the lead in providing a launching pad for mobilizing savings of the public.

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## ***1.1 Origin of The Report***

This report has been prepared in respect to the four month course of “BUS 498 (Project Paper)”. Project report is a practical part of academic studies. This is a reflection of academic knowledge through practical work experience. Thus this Project report aims to reflect the professional view of real world working environment.

The report on “*Performance Appraisal of Dhaka Stock Exchange*” is prepared by A.B.M Shakil Mahmud. It is an individual work done under the supervision and guidance of Dr. Tanbir Ahmed Chowdhury, Professor, Department of Business Administration, East West University. It fulfills the requirement of the project work that a Business Graduate must undergo in order to qualify for the degree of BBA in East West University.

## ***1.2 Objectives of The Study***

The objectives of the study are as follows:

- i. To present an overview of DSE
- ii. To appraise the functions of DSE
- iii. To analyze different categories of Shares traded in DSE
- iv. To appraise the performance of DSE
- v. To identify the problems of DSE
- vi. To suggest remedial measures for the development of DSE



## ***1.3 Scope of The Report***

The scope of this report is to find out the overall performance of DSE by analyzing data of last seven years. The report is basically divided into two parts:

- Theoretical Foundation
- Performance Evaluation

The theoretical foundation part of the report gives an overview of Dhaka Stock Exchange. It focuses upon the history of DSE, mission of DSE, Vision of DSE, formation, legal control of DSE, membership, management, listing rule at DSE, objectives and functions of DSE,

forecasting financial market, and types of market at DSE. The study also concentrates upon the different functions performed by DSE including surveillance activities.

The analysis part of the report basically evaluates the performance of Dhaka Stock Exchange through different performance measurement indicators such as listed issues, issued capital, IPO offering, DSE turnover, market capitalization, DSE index etc. and in the last portion of the report problems and limitations of DSE is presented and some suggestions are addressed.

## ***1.4 Methodology***

The data is collected from discussion with my project instructor, reading of related books, publications, articles, different report magazines and documents collected from Internet, and information from DSE library. To perform the study after identifying and collecting the data from different sources, they will be classified, analyzed, interpreted and presented in a systematic manner. The analysis will be presented theoretically, analytically, mathematically, and graphically.

## ***1.5 Limitations of the Report***

It is true that at the time of doing any study on a subject or research on a subject, every material of study would not be available all the time. I might face some problems or there must be some limitations. At the beginning stage of my study I had some problem, like I did not get all relevant information. Sometimes I got information but later it turned into uncompleted or old information. Another significant limitation of the study was time restriction. Even though I have given our full effort to make this report a good one, but it is too tough to perform well such an analysis within a shorter period of time. Though I have faced some other problems such as unavailability of some information, technical problems which includes computer problem, virus problems, software problems, I also had problems regarding some brochures, file, information paper. But I did not give it up. I continued my quest. And I was able to get over the problems and limitations.

## ***2.1 Brief History of DSE***

Dhaka Stock Exchange was established as East Pakistan Stock Exchange Association Limited on April 28, 1954. Formal trading of the bourse began in 1956. On June 23, 1962, it was renamed as East Pakistan Stock Exchange Ltd. The name of the stock exchange was once again changed to Dacca Stock Exchange Ltd on May 13, 1964. The service on the stock exchange continued

uninterrupted until 1971. The trading was suspended during the liberation war and resumed in 1976 with the change of economic policy if the government.

Since then the bourse did not look back and continued its journey contributing to the development activities of the nation. On August 10, 1998 the DSE introduced screen-based state-of-the-art automated online real time trading through Local Area Network (LAN) and Wide Area Network (WAN). DSE upgraded its automated trading system on August 21, 2005. Central Depository System (CDS) for electronic settlement of share trading made a debut in the DSE during that period. The Dhaka Stock Exchange becomes a full Depository Participant (DP) of CDBL to facilitate the trading of its non-DP members. Government Bonds made a Debut on the DSE on 1<sup>st</sup> January, 2005. In its 55-year journey the stock Exchange has made significant contribution to the economy of Bangladesh providing the unique venue to raise investment from the members of the public. The Stock Exchange is in the relentless process of modernization and up-gradation of its systems and facilities to home in latest technologies available. Over the years, the bourse has earned confidence of the investors. The SEC approved the Dhaka Stock Exchange Direct Listing regulation-2006 as proposed by the DSE which paved the way for direct listing of large and profitable companies with the DSE. A new listing Regulation is also at final stage to accommodate the changing needs of the economy.

## ***2.2 Mission of DSE***

Mission of DSE is simple - to make one a better investor so that he can invest conveniently at Bangladesh stock exchanges. DSE tool lets one create the web's best looking financial charts for technical analysis. Its scan Engine shows one the Bangladesh share market's best investing opportunities.

In today's world, if one relies on fundamental analysis, brokers advise, share price information, newspaper articles or business channels for your investing or trading decisions, one is asking for a painful experience in the markets.

Whether you are a first time investor, a seasoned pro, an "in and out" day trader or a long term investor at Dhaka stock exchange, StockBangladesh.com will provide you with the necessary information you need for maximum profits and success in today's dynamic markets.

The goal of DSE is to help traders and investors of Bangladesh share market to achieve above-average returns from the markets by providing them with profitable trading signals and at the same time protect their trading capital from large drawdown with sound money management principles

The methods used to analyze securities and make investment decisions fall into two very broad categories: fundamental analysis and technical analysis. Fundamental analysis involves analyzing the characteristics of a company in order to estimate its value. Technical analysis takes a completely different approach; it doesn't care one bit about the "value" of a company or a commodity. Technicians (sometimes called chartists) are only interested in the price movements in the market.

Despite all the fancy and exotic tools it employs, technical analysis really just studies supply and demand in a market in an attempt to determine what direction, or trend, will continue in the future. In other words, technical analysis attempts to understand the emotions in the market by studying the market itself, as opposed to its components. If you understand the benefits and limitations of technical analysis, it can give you a new set of tools or skills that will enable you to be a better trader or investor.

## ***2.3 Vision of DSE***

To be a leading brokerage firm in Bangladesh by providing our clients a full range of investment products- including stocks, bonds, mutual funds, and CDs.

To be the premier provider of investment advisory and financial planning services- including sales, research, underwriting and trading for individuals and institutions.

## ***2.4 Formation of DSE***

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 238 members. Market capitalization of the Dhaka Stock Exchange reached to Tk. 1887177 million in 2009 and Tk. 3471109 million in 2010.

## ***2.5 Legal Control of DSE***

The Dhaka Stock Exchange (DSE) is incorporated as Public Limited Company. It is a Self-Regulatory Organization and its activities are regulated by:

- Articles of Association rules & regulations and bye-laws
- Securities and Exchange Ordinance – 1969
- Companies Act – 1994
- Securities & Exchange Commission Act – 1993

## **2.6 Membership**

The DSE has 238 members who are the shareholders of the Exchange. The members are licensed by the Securities and Exchange Commission (SEC) for conducting trading as Stock Dealer or Broker. All Brokerage house have been corporatized in 2006.

## **2.7 Management of DSE**

### **❖ The Board of Directors**

Through continuous reforms, Dhaka Stock Exchange has emerged into a modern Exchange. The day to day affairs of the DSE is run by a highly qualified and trained executive team who works independently under policies set by the Board of Directors.

The DSE Board comprises of 25 members. Among them 12 are elected through direct election from the 238 shareholders of DSE and 12 are selected from different trade bodies and relevant organizations. And the CEO of the Exchange is the 25<sup>th</sup> Director of the Board. According to the Articles of Association rules & regulations and bye-laws:

The control and management of the affairs of the Exchange shall be vested in a Board of Directors consisting of the following 24 (twenty-four) Directors, namely:

- Twelve Directors to be elected directly by the Members of the Exchange in accordance with the provisions of these Articles and the Election Rules made there under.
- One Director to be nominated by the Ministry of Finance (Finance Division) not below the rank and status of Joint Secretary;
- One Director to be nominated by the Bangladesh Bank from amongst its officers of or above the rank of General Manager;
- President of ICAB, ex-officio;
- President of FBCCI, ex-officio;
- President of MCCI, ex-officio;
- President of DCCI, ex-officio;
- One Director to be nominated by the Ministry of Industry not below the rank and status of Joint Secretary;

- One Director to be nominated by the Ministry of Commerce not below the rank and status of Joint Secretary;
- One Director to be nominated by the Ministry of Law not below the rank and status of Joint Secretary;
- President of Supreme Court Bar Association, ex-officio;
- President of Banks/Insurance Association, ex-officio;
- Head of the Department Finance/ Economics, Dhaka University, ex-officio.
- The nominated under sub-Article 1(b) and 1(c) shall hold office for a period of one year but shall be eligible for re-nomination.

The Directors elected under sub-Article 1 (a) shall elect from amongst themselves one President, one Senior Vice President and one Vice President, who shall be President, Senior Vice President and Vice President respectively of the Board of Directors of the Exchange. The President, Senior Vice President and Vice President shall be required to submit weekly statement to the Commission showing in details their transactions in shares and securities of the listed companies during the period of their holding office in the Board of Directors of the Exchange.

### ❖ *DSE Offices:*

**Head Office:** Motijheel, Dhaka.

**Branch Offices:**

1. Agrabad commercial area, Chittagong
2. Chowhatta, Shylet.
3. K.D.A. Avenue, Khulna
4. Station road, Rajshahi

## ***2.8 Listing Rule at DSE***

According to the listing regulations of the Dhaka stock exchange limited:

- a) No dealings in securities of a company shall be allowed on the Exchange either on the Ready quotation Board or Cleared List, unless the company or the securities have been listed and permission for such dealing has been granted in accordance with these Regulations.



- b) The permission under sub-regulation (1) may be granted upon an application being made by the company or in respect of the securities in the manner prescribed at least ten days prior to issue of the first prospectus. The Exchange, in granting such permission will consider, among other things sufficiently of public interest in the company or the securities as determined by the Council in a well defined way.
- c) The Exchange shall decide the question of granting permission within a maximum period of six weeks from the date of closure of subscription lists. In case the permission is refused, the reasons thereof will be communicated to the applicant and the Commission within six weeks from the date of closure of subscription lists.
- d) The Council will be the sole authority to grant, defer or refuse such permission and may for that purpose, relax any of these regulation subject only to two-third majority of the councilors present at such meeting of the council and so resolving by the majority of them.
- e) The application for listing shall be made by the applicant-company or on behalf of the security in the prescribed form and will be accompanied by the fees, specified in the Regulations.
- f) The Council may require additional evidence, declarations, affirmations and information as also other forms to be filled up reasonable and relevant to application for listing, and all such requisitions shall be deemed to be prescribed requisitions for the purpose of a proper application for consideration by the Council for listing.
- g) If an application together with the additional information referred to in sub regulation (2) is not submitted, the Council may defer consideration or decline to consider it in which case such application will stand disposed of as refused. However, the applicant may move a fresh application after six months from the date of such refusal unless the Council other-wise decides.
- h) An Applicant-company or security applying for listing shall furnish full and authentic information in respect thereof and such other particulars reasonable and relevant to the application for listing, as the Council or the Exchange may require from time to time. All routine particulars may be called for by the Secretary.

### **❖ *General Process of Listing Through IPO***

The unlisted companies are required to complete certain procedures to get listed at DSE. The present process/way of listing, in short, is described below:

## *Performance Appraisal of Dhaka Stock Exchange*

1. Every company intending to enlist its securities to DSE by issuing its securities through IPO is required to appoint Issue Manager to proceed with the listing process of the company in the Exchange.
2. The Issue Manager prepares the draft prospectus of the company as per Public Issue Rules of SEC and submit the same to the SEC and the Exchange(s) for necessary approval.
3. The Issuer is also required to make agreement with the Underwriter(s) and Bankers to the Issue for IPO purpose,
4. After receiving the draft prospectus, the Exchange examine and evaluate overall performance as well as financial features of the company which may have short term and long term impact on the market
5. The Exchange send its opinion to SEC within 15 days of receipt of draft prospectus for SEC's consideration
6. After proper scrutiny, SEC gives it consent for floating IPO as per Public Issue Rule
7. Having consent from SEC, the Issuer is required to file application to the Exchange for listing its securities within 5 days of issuance of its prospectus
8. On successful subscription, the company is required to complete distribution of allotment/refund warrants within 42 days of closing of subscription
9. After 100% distribution of shares/refund warrants and compliance of other requirements, the application for listing of the Issuer is placed to the Exchange's meeting for necessary decision of the Board of DSE.
10. The Board of DSE takes the decision regarding listing/non-listing of the company which must be completed within 75 days from the closure of the subscription.

### *❖ DSE Direct Listing Regulations 2006*

Mature companies are allowed for direct listing. But the following key conditions must be fulfilled to be eligible for direct listing-

- Shall have minimum paid up capital of Tk. 100 (one hundred) million



- Shall have no accumulated loss
- Shall be in commercial operation for at least immediate last five years
- Shall have profit in three years out of the immediate last five completed accounting / financial years with steady growth pattern
- Is regular in holding Annual General Meeting (AGM)
- Have a credit-rating of BBB or above



### ***3.1 Objectives of DSE***

The objects for the establishment of DSE are:

- a) To provide, regulate and maintain a suitable building, room or rooms for a Stock Exchange in Bangladesh.
- b) To conduct the affairs of the Stock Exchange.
- c) To facilitate the transaction of business on the Stock Exchange and to make laws, Bye-Laws and Regulations subject to which business on such Stock Exchange shall be transacted and the conduct of the persons transacting the same and generality for the good other and government of the members of Exchange.
- d) To promote, support and protect the character, status and common interests of Stock and Share Brokers and Stock Share Dealers.
- e) To adjust controversies between its members, to establish just and equitable Principles in the business, to promote honorable practices amongst members and to decide all question of usage or courtesy between or among members of the Exchange
- f) To Purchase, take on lease on tenancy or otherwise acquire for any estate or interest whatsoever and to hold, develop, deal with and turn to account options, leases, property real and personal which the Exchange for the purpose thereof, may from time to time think proper to acquire.
- g) To sell, exchange, mortgage let to lease or sublet disposes of account or otherwise deal with all or any part of the property of the exchange.

- h) To borrow or raise or secure the payment of any money in such manner as the Exchange shall think fit and in particular by the issue of debentures or debenture stock perpetual or otherwise charged upon and or any of the property of the Exchange both present and future including its uncalled capital and to purchase, redeem and pay off and such securities.
- i) To invest any moneys of the Exchange not for the time being required such investment (other than shares or stock in the Exchange) as may be thought proper and to hold, sell or otherwise deal with such investments.
- j) To subscribe for or guarantee money for any National, charitable, benevolent general or useful object.
- k) To enter into any arrangements and to take all necessary and proper steps with Government or with other authorities National, legal municipal or otherwise of any place in which the Exchange or its members may have interest and to promote or assist the promotion whether directly or indirectly of any legislation which may appear to be in the interest of the Exchange and to oppose and resist whether directly or indirectly any legislation which may seem disadvantageous to the Exchange or its members.
- l) To undertake and execute any trust the undertaking of which may seem to the Exchange desirable and either gratuitously or otherwise and to do all such other things as are incidental conducive to the attainment of the above object subject.

### ***3.2 Functions of DSE***

The major functions are:

- Listing of securities and ensuring compliance by the issuers.
- Trading provisions for listed securities through efficient trading platform (online screen based trading system).
- 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 bye-laws 1997).
- Investors Protection Fund (As per investor protection fund Regulations 1999).
- Announcement of Price sensitive or other information about listed companies through online.

Some more functions of DSE are given bellow:

- **Dispute resolution:** DSE has an arbitration system to resolve disputes or claims against members through a panel of judges comprising 5 retired district judges.
- **SMS facility:** DSE is offering SMS services. Anyone can get Latest Trade Information of any DSE Listed Company he or she desires by sending SMS.
- **GPRS facility:** DSE is offering GPRS services. For GPRS users to make use of the BULL software, it is needed to get registered first. Then anyone can access the software by mobile through GPRS to get a variety of Latest Trade Information of DSE. The application requires login before using it. Only Grameenphone users can register and login right now.

### ***3.3 Surveillance of DSE***

All the instruments traded in the market come under the Surveillance umbrella of DSE. The main objective of the Surveillance function of the Exchange is to promote market integrity in two ways –

- By monitoring price and volume movements (volatility) as well as by detecting potential market abuses at a nascent stage, with a view to minimizing the ability of the market participants to influence the price of the scrip/scrip's in the absence of any meaningful information.

- By managing default risk by taking necessary actions timely.

Market Abuse is a broad term which includes abnormal price/volume movement, artificial transactions, false or misleading impressions, insider trading, etc. In order to detect aberrant behavior or movement, it is necessary to know the normal market behavior. The surveillance department carries out investigation, if necessary, based on the preliminary examination/analysis and suitable actions are taken against members involved based on the investigation.

Surveillance activities at the Exchange are divided broadly into two major segments –

## ***1. Price Monitoring***

Price monitoring is mainly related to the price movement/ abnormal fluctuation in prices or volumes etc. The functioning of the Price Monitoring is broadly divided into following activities –

- On line Surveillance:** One of the most important tools of the Surveillance is the On-line Real Time Surveillance system with main objectives of detecting potential market abuses at a nascent stage to reduce the ability of the market participants to unduly influence the price and volumes of the scrips traded at the Exchange, to improve the risk management system and strengthen the self regulatory mechanism at the Exchange. The system provides facility to access trades and orders of members.
- Off-Line Surveillance:** The Off-Line Surveillance system comprises of the various reports based on different parameters and scrutiny thereof –
  - High/ Low Difference in prices
  - % change in prices over a week/ fortnight/ month
  - Top N scrips by Turnover over a week/ fortnight/ month
  - Top N scrips by Volume over a week/ fortnight/ month
  - Trading in infrequently traded scrips
  - Scrips hitting New High / Low etc.

c) **Investigations:** Conducting in-depth investigations based on preliminary enquiries/analysis made into trading of the scrip. In case of irregularities observed, necessary actions are initiated or investigation case forwarded to SEC, if necessary through the CEO.

d) **Surveillance Actions:**

- **Warning to Members:** The department may issue verbal/ written warning to member/s when a market irregularity in the scrip is suspected.
  
- **Imposition of penalty/ suspension:** The department, through the CEO, imposes penalty or suspend the member/s who are involved in market irregularities, based on the input/ evidence available from investigation report.

e) **Rumor verification**

- Liaising with Compliance Officers of companies to obtain comments of the company on various price sensitive corporate news items appearing in selected News Papers.
- Comments received from the companies are disseminated to the market by way of online news bulletin.
- Investigations based on rumor verifications are carried out, if required, to detect cases of suspected insider trading.

## ***II. Position Monitoring:***

The position monitoring relates mainly to abnormal positions of members, etc. in order to manage default risk. The Surveillance Department closely monitors outstanding exposure of members on a daily basis. For this purpose, it observes various off-line and on-line market monitoring reports. The reports are scrutinized to ascertain whether there is excessive purchase or sale position build up compared to the normal business of the member, whether there are concentrated purchases or sales, whether the purchases have been made by inactive or financially weak members and even the quality of scrips is considered to assess the quality of exposure. The following key areas are examined to assess the market risk involved –

a) **Online monitoring of Brokers Position:** Surveillance closely monitors broker's gross turnover exposure for ensuring margin calls in time.

- b) **B/S Statement of Trading Members:** Scrutinizing the statement on daily basis. It is for keeping a watch on the exposure of the members & ascertains the quality of exposures. A detailed report on the net outstanding positions of top purchasers and top sellers in individual scrips, is prepared, if considered necessary.
- c) **Concentrated B/S:** It is considered a risky issue. In case, such a situation is noticed, fundamentals of the scrips, their daily turnover, and their nature of transactions are ascertained. Thereafter, based on the market risk perception appropriate surveillance actions are taken.
- d) **B/S of scrips having thin trading:** It is closely scrutinized as comparatively high market risk is involved in trading in such scrips. Details of trades in such scrips, if necessary, are called from members to assess the market risk involved & decide on the appropriate surveillance action.
- e) **Verification of Institutional Trade:** The institutional trades executed by the trading members are verified to ascertain the genuineness of trades.
- f) **Verification of Foreign Trade:** The foreign trades executed by the trading members are verified to ascertain the genuineness of trades.
- g) **Verification of Cross Reporting Trade:** The report crossing trades executed by the trading members are verified to ascertain the genuineness of trades.
- h) **Verification of Dealers own trades:** Trades executed by the trading members (Dealers) are verified to ascertain the genuineness of trades
- i) **Verification of Sponsor's Trade:** The Sponsors trades executed by the trading members are verified to ascertain the genuineness of trades.
- j) **Snap Investigation:** To carry out, wherever considered necessary, preliminary investigation of certain dealings to verify irregularities. Further actions, viz., referring the case for detailed investigation, referring the case to the Sec, depending on the findings of preliminary investigation.
- k) **Market Intelligence:** The rumors floating in the market are verified with the data available with DSE, Newspapers, Television news channels & Reuters to ascertain the national & global factors affecting the market sentiments. This enables the Exchange to avert market problems before it causes a serious damage.

**l) Review Block Trades:** To determine –

- Whether the block was executed at a price, even if at a discount or premium which was in line with other trading of the stock.
- Whether there was any news on the company which caused the price increase or decrease subsequent to the block transaction.

**m) Review List of Settlement Failures:**

To identify –

- Broker/s with frequent failures
- A particular stock with a pattern.

**n) Verify Company Accounts:** To scrutinize company announcements, company reports, auditors qualifications & other notes of special interests in the published accounts of such company.

**Review Media Information:** To scrutinize press articles or other media on the daily basis, the news relevant to the share prices of companies.

**Monitoring on Newly Listed Stock:** To review all activities of a newly listed stock for the first 1/2 weeks to identify any abnormal deal.

**Develop Good Liaison:** To develop & maintain good liaison with staff members of SEC & listed companies & member firms as well. Develop market contacts & to pick up Intelligence.

### ***3.4 Forecasting Financial Market***

The methods used by DSE for Financial Market Forecasting are as follows:

**a) Fundamental Analysis:**

Fundamental Analysis is a method in which a security is evaluated by trying to determine its intrinsic value by examination of associated economic, financial, and other qualitative and quantitative factors. Fundamental Analysts research on everything that influences the value of the security. This may also include macroeconomic factors (overall condition of economy and industry) and particular individual factors (management and financial condition of companies). Fundamental analysis uses real data for evaluation of the value of a security like Asset Valuation, Balance Sheet Data, and Income Statement etc.



## **b) Technical Analysis:**

The technical analysis is a method in which securities are evaluated with the help of analyzing statistical data, which is generated by market activities like past prices and volumes. Technical Analysis does not try to measure the intrinsic value of a security. It utilizes charts, graphs, and other tools to determine patterns suggestive of future activities. Technical Analysis suggests that the past performances of stocks and markets indicate the future performance. It is just the opposite approach of Fundamental Analysis.

### **3.5 Types of Market at DSE**

Trading is done through automated on-line system every day except Friday, Saturday and other government holidays. There are four markets in the system:

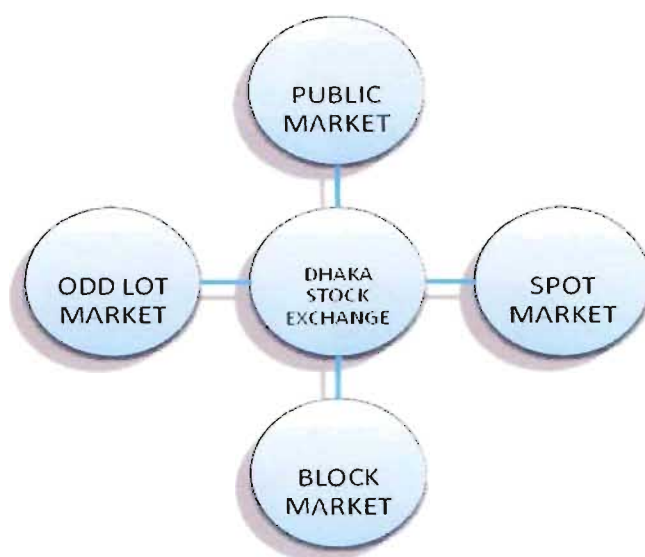


Figure: Types of market at DSE

1. **Public Market:** In this market instruments are traded in normal volume. Only trading of market lot share is done here through automatic matching.
2. **Spot Market:** Instruments are traded in normal volumes under corporate action if any. Spot transactions are done here through automatic matching which must be settled within 24 hours



3. **Odd lot Market:** Odd lots of all Instruments are trade in this market. Odd lot scripts are traded here based on pick and fill basis.
4. **Block Market:** Instruments are traded in bulk volume. It is a place where bulk quantities of shares are traded through pick and fill basis.
5. Recently Dhaka Stock Exchange introduced **OTC** market for the junk shares traded in DSE.

All transactions in public market of a day, after netting, are settled and cleared through the DSE Clearing House due on 3rd and 7th working day respectively, calculated from date of trading. Members shall be allowed to carry out transaction of foreign buyers and/or seller involving a custodian bank to be settled directly between the members through the custodian bank within the fifth day subsequent to the trading day.

### 3.6 Transaction Process at DSE

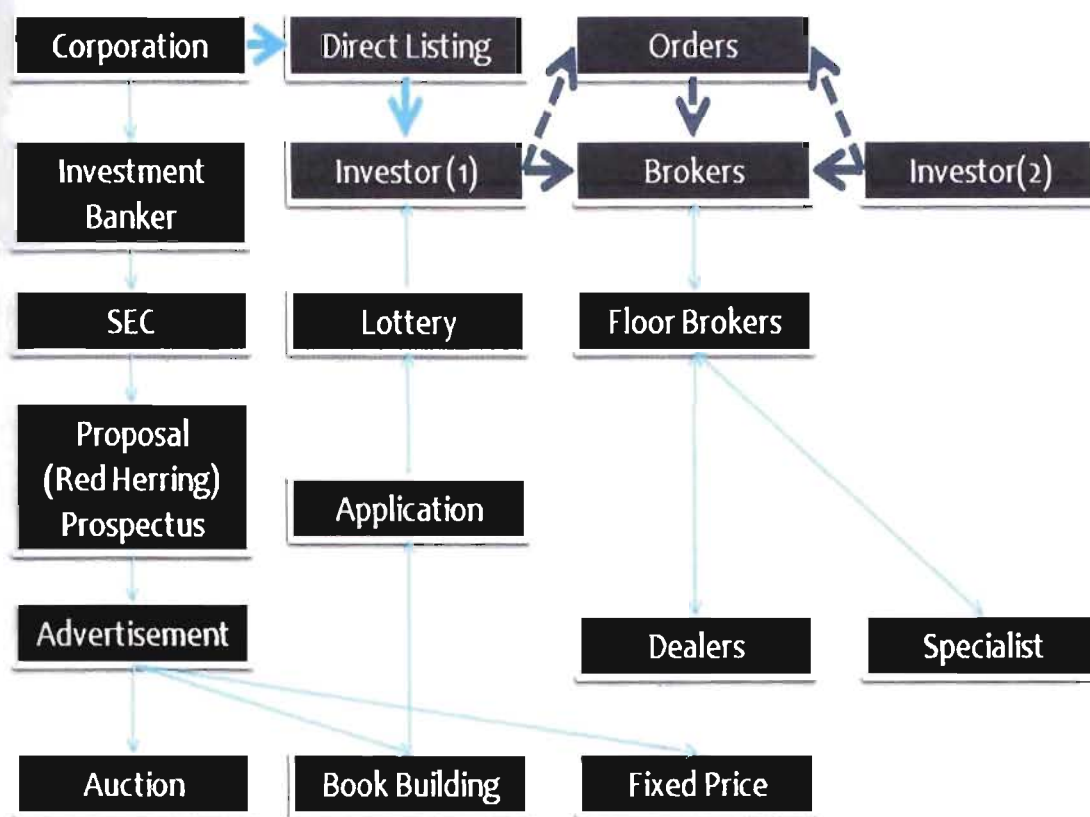


Figure: Transaction process at DSE

### **3.7 Categorization of Share**

The prime bourse of the country introduced "Group A" and "Group B" from July 2, 2000 based on its financial strength and performance to give clear information to investors for making informed decision. DSE has further categorized the securities by introducing "Group Z" which came into effect from September 26, 2000. The Stock Exchange introduced another company category "Group G" on June 30, 2002. The categorization helps a lot the investors in choosing companies before making investment decision. N Category- the newest one was launched through an order of SEC on July 3, 2006.

- ❖ **'A' Category Companies:** Companies which are regular in holding the Annual General Meetings and have declared dividend at the rate of 10 percent or more in a calendar year. (Mutual Funds, Debentures & Bond are being traded in this Category).
- ❖ **'B' Category Companies:** Companies which are regular in holding the Annual General Meetings but have failed to declare dividend at least at the rate of 10 percent in a calendar year.
- ❖ **'G' Category Companies:** Greenfield Companies.
- ❖ **'N' Category Companies:** All newly listed companies except Greenfield companies will be placed in this category and their settlement system would be like B-category companies.
- ❖ **'Z' Category Companies:** Companies which have failed to hold the Annual General Meetings or failed to declare any dividend or which are not in operation continuously for more than six months or whose accumulated loss after adjustment of revenue reserve, if any, is negative and exceeded its paid up capital.



### 3.8 Automated Trading System

The application, which runs in DSE for trading, is called TESA (The Electronic Securities Architecture). TESA has two parts: MSA (Member's Server Application) & TWS (Trader workstation). MSA is the "Gateway" between the traders and the Stock Exchange, which manages all the transactions and database operations between the traders and the Trading Engine. TWS is the Front-end Application closer to investors, where they can submit Buy/Sell orders for their desired securities.

TESA (The Electronics Securities Architecture) is the Trading software (Based on HP proprietary O/S & DBMS). It has developed in view of Distributed Database system. In the client site it is being using SQL as local Database Trading Software is MSA & TWS. In STSD (Signal trader Single Database) system both MSA & TWS are running on a Windows 2k Professional /XP Professional workstation and for MTSD (Multiple trader Single Database), MSA install in a Windows 2k Server & the TWSs are in different Windows 2k Professional /XP Professional workstation-using members in house LAN.



Figure: TESA-TWS running

## ***Development & Growth Performance Evaluation:***

In this section the overall performance of DSE is analyzed by considering the performance of number of listed issues, issued capital, market capitalization, turnover volume and value, daily average turnover value, initial public offerings, daily average number of trade, daily average trade volume and share price index etc.

### ***4.1 Listed Issues***

Investment instrument (such as stock/shares, bonds) that is officially listed (quoted) on a stock exchange for public trading. Unlisted securities are traded in over the counter market or in alternative investment market. Also called listed investment or quoted security. Listed securities include stocks, bonds, convertible bonds, preferred stocks, warrants, rights, and options, although not all forms of securities are accepted on all exchanges.

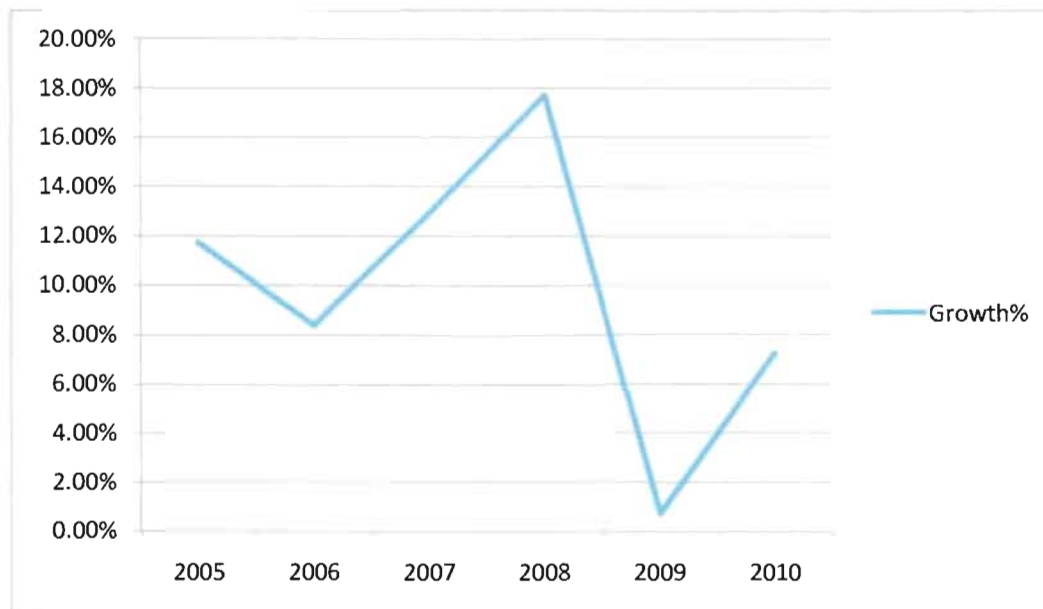
**Table 1:** Listed Issues

<b>Year</b>	<b>Listed issues</b>	<b>Growth%</b>
<b>2004</b>	256	--
<b>2005</b>	286	11.71%
<b>2006</b>	310	8.39%
<b>2007</b>	350	12.90%
<b>2008</b>	412	17.71%
<b>2009</b>	415	0.73%
<b>2010</b>	445	7.23%

*Source: Compiled from different issues of monthly review, Dhaka Stock Exchange*

Average Growth rate: 8.38%

Growth rate of listed securities from 2004 to 2010 is shown below by a line chart



Growth pattern of DSE listed securities is reflected from the chart. From 2004 to 2010 every year listed securities has increased in DSE. In 2004 number of listed securities was 256 and in 2010 it was 445. The growth was highest 17.71% in 2008 and lowest 0.73% in 2009. The average growth rate of listed securities of DSE from 2004 to 2010 is 8.38%. So the number of listed company is in a growing stage. Each year the number is increasing than previous year.

## 4.2 Issued Capital

An amount of capital which is formed of money paid for shares issued to stockholders. Funds raised by issuing shares in return for cash or other considerations. The amount of share capital a company has can change over time because each time a business sells new shares to the public in exchange for cash, the amount of share capital will increase. Share capital can be composed of both common and preferred shares.

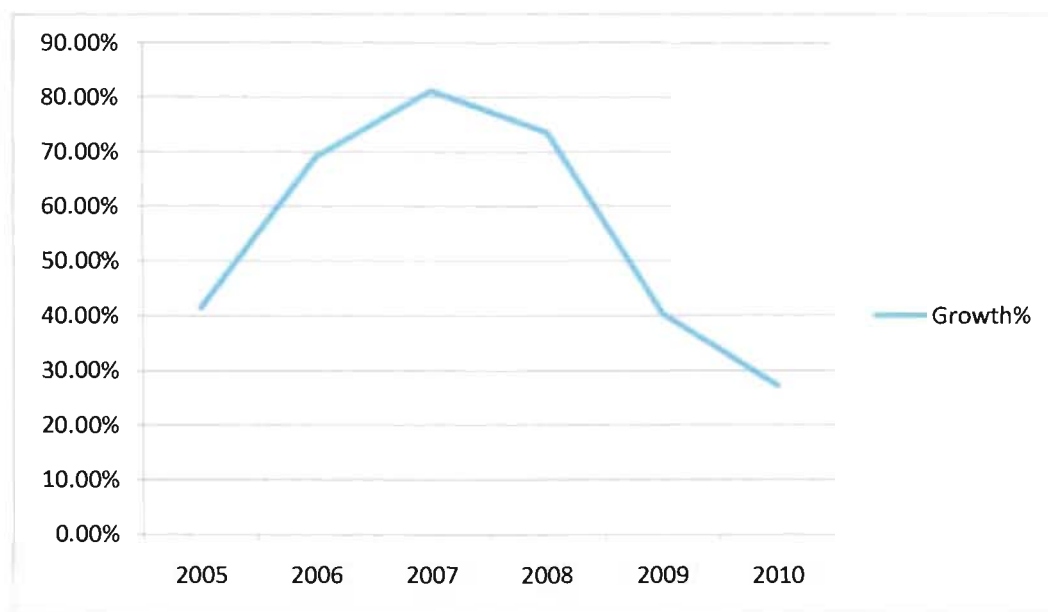
**Table 2: Issued Capital**

Year	Issued capital (Tk. millions)	Growth%
2004	49531.67	--
2005	70093	41.51%
2006	118437	68.97%
2007	214472	81.09%
2008	372156	73.52%
2009	522099	40.29%
2010	664242	27.23%

Source: Compiled from different issues of monthly review, Dhaka Stock Exchange.

Average Growth rate: 47.52%

Growth rate of issued capital from 2004 to 2010 is shown below by a line chart





This chart shows the growth rate of issued capital in DSE from 2004 to 2010. From this table it is reflected that issued capital of listed company has increased every year. It also shows that issued capital is increasing at an increasing rate. The issued capital was highest in 2010 and the value is 664242 in Tk million and height growth rate was 81.09% in 2007 and lowest growth rate was 27.23% in 2010. Issued capitals have increased by more than 40% during 2004 to 2009. The average growth rate of issued capital of DSE is 47.52%.

### **4.3 Market Capitalization**

Market capitalization is defined as a measurement of the size of a business enterprise value. Market capitalization is equal to the share price in secondary market multiplied by the number of shares outstanding for company XYZ. Capitalization is the therefore the company's worthiness in public opinion. Capitalization can not give the actual value of a company but rather a market estimate of a company's value, based on public perceived future prospects, economic and monetary conditions - and the general public is always wrong.

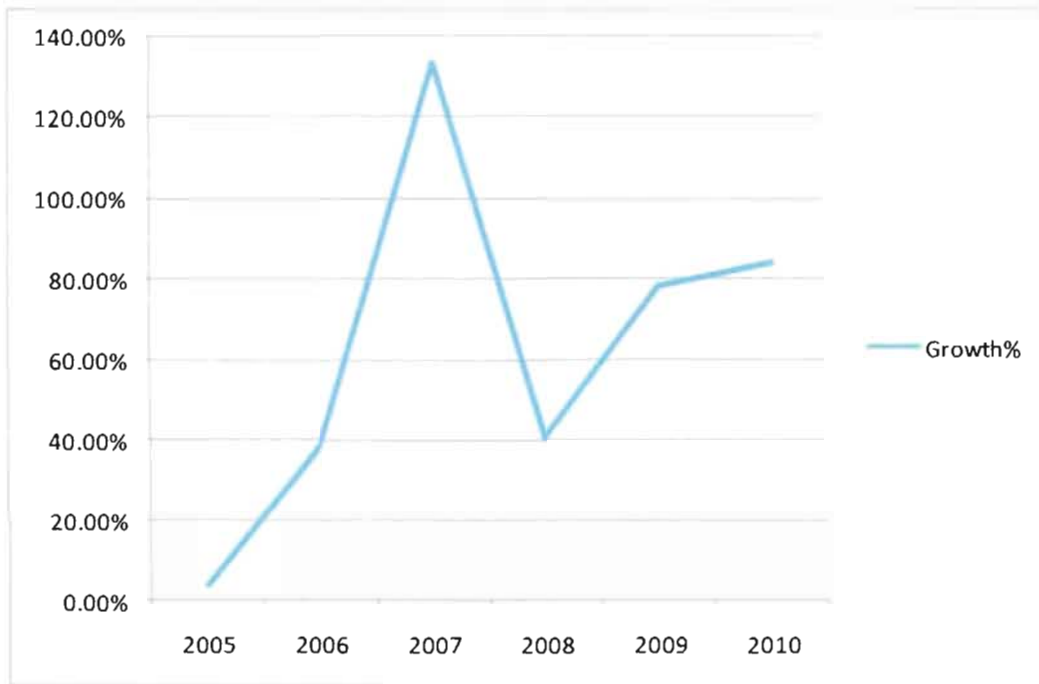
**Table 3: Market Capitalization**

<b>Year</b>	<b>Market Capitalization (Tk. millions)</b>	<b>Growth%</b>
<b>2004</b>	224922.74	--
<b>2005</b>	233542.93	3.83%
<b>2006</b>	323368	38.46%
<b>2007</b>	753955	133.16%
<b>2008</b>	1059530	40.53%
<b>2009</b>	1887177	78.12%
<b>2010</b>	3471109	83.93%

*Source: Compiled from different issues of monthly review, Dhaka Stock Exchange*

The average growth rate is 54.01%

Growth rate of market capitalization from 2004 to 2010 is shown below by a line chart



Growth pattern of market capitalization has shown in this chart. During 2004 to 2010 every year DSE market capitalization has increased from the previous year. But market capitalization has exceptionally increased in 2007, amount was Tk. 753955 million and growth was 133.16% in 2007. And in 2008 it decreased by a huge amount. Growth rate decreased to 40.53% from 133.16%. It is also reflected from the table that market capitalization of different year has fluctuate at a larger percentage.



## 4.4 Total Turnover in Volume

Volume of shares traded as a percentage of total shares listed on an exchange during a period, usually either a day or a year. The same ratio is applied to individual securities and the portfolios of individual or institutional investors.

**Table 4: Total Turnover in Volume**

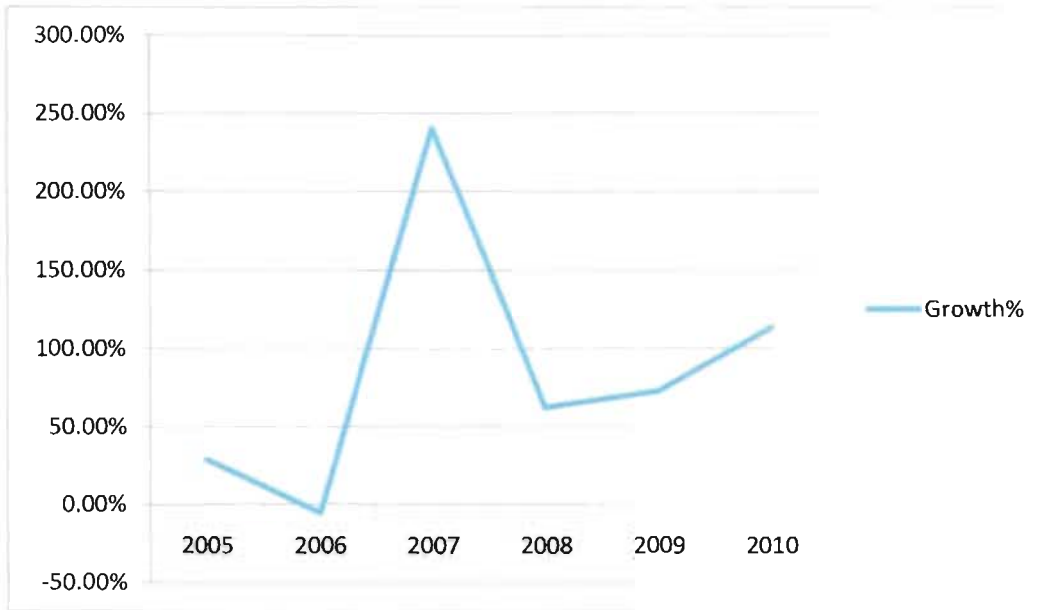
Year	Total Turnover in Volume (mn)	Growth%
2004	684.08	--
2005	880.809	28.76%
2006	832.71	-5.46%
2007	2831.23	240.01%
2008	4605.38	62.66%
2009	7968.23	73.02%
2010	16974.52	113.03%

*Source: Compiled from different issues of monthly review, Dhaka Stock Exchange*

The average growth rate is 73.15%.



Growth rate of Total turnover in volume from 2004 to 2010 is shown below by a line chart



This chart shows the total turnover in volume in DSE. From this table it is reflected that total turn over in volume has increased 2005 from the previous year the amount was 880.809mn from 684.08mn. The growth rate of turnover in volume of DSE has increased to 28.76% in 2005 and the value decreased in 2006. Again the value has exceptionally increased in 2007, amount was Tk. 2831.23 million and growth was 240.01%. The total turnover in volume was highest in 2010 and the value was 16974.52mn and growth rate was 113.03% and lowest in -5.46% 2006. The average growth rate of total turn over in volume of DSE is 73.15%.

## 4.5 Total Turnover in Value

The total value of stock sold in a year divided by the average value of goods held in stock. This checks that cash is not tied up in stock for too long, losing its value over time.

**Table 5: Total Turnover in Value**

Year	Total Turnover in Value (Tk. millions)	Growth%
2004	37032	--
2005	64863.63	75.16%
2006	65079.11	0.33%
2007	322867.07	396.11%
2008	667964.82	106.89%
2009	1475900.69	120.95%
2010	4009912.67	171.69%

Source: Compiled from different issues of monthly review, Dhaka Stock Exchange

The average growth rate is 124.45%.

Growth rate of Total turnover in value from 2004 to 2010 is shown below by a line chart

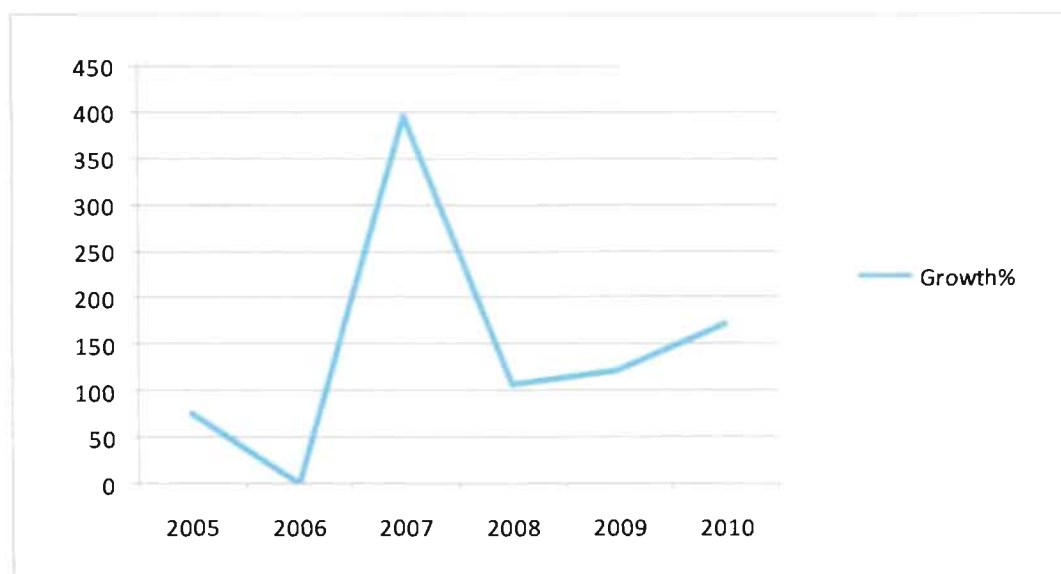


Table 5 shows the DSE total turnover in value. From the above table of the DSE total turnover in value, we can see that in 2010 the total turnover in value (Tk. 4009912.67mn) was highest and in 2004 it was lowest (Tk. 37032mn). During 2004 to 2010 every year DSE total turnover in value has increased from previous year. The growth rate of turnover in value of DSE has increased in 2005 and decreased in 2006 from 75.16% to 0.33%. Again the value exceptionally increased to 369.76% in 2007 and also decreased in 2008. After 2008 to 2010 the value increases at a decreasing rate.

## ***4.6 Daily Average Turnover Value***

Daily average turnover is calculated through dividing total turnover value of the year by total trading days of that year.

**Table 6: Daily Average Turnover Value**

<b>Year</b>	<b>Daily Average Turnover (Tk. millions)</b>	<b>Growth%</b>
<b>2004</b>	199.60	--
<b>2005</b>	251.41	25.96%
<b>2006</b>	290.00	15.35%
<b>2007</b>	1362.30	369.76%
<b>2008</b>	2,818.42	106.89%
<b>2009</b>	6,046.31	114.62%
<b>2010</b>	16,434.07	171.80%

*Source: Compiled from different issues of monthly review, Dhaka Stock Exchange*

The average growth rate is 114.91%.

Growth rate of Daily avg turnover value from 2004 to 2010 is shown below by a line chart

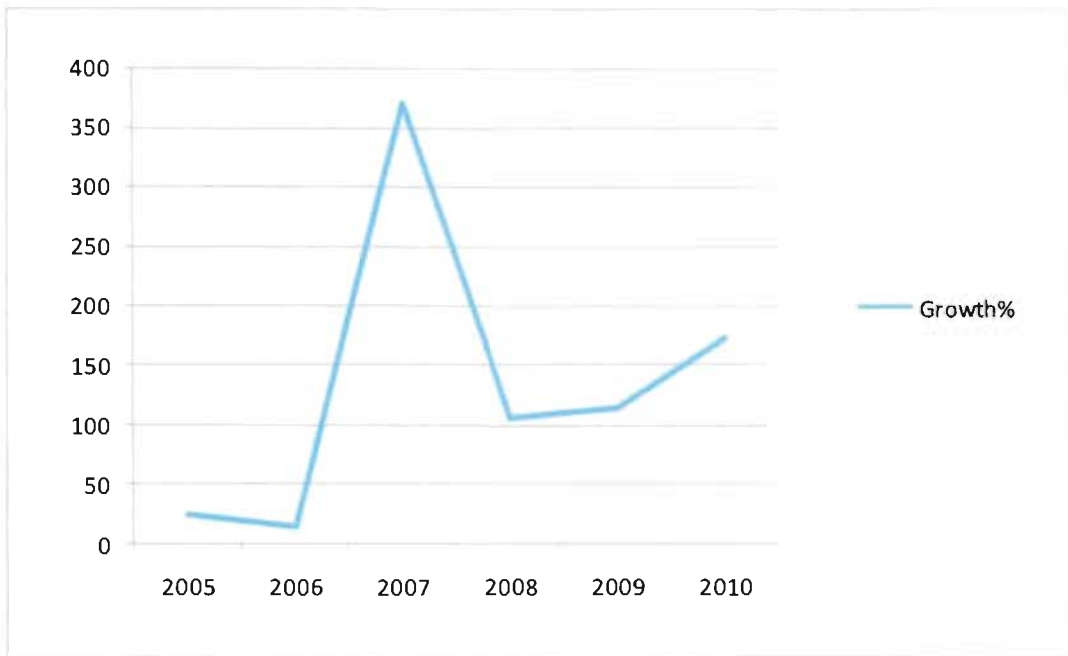


Table shows the Daily average turnover value. From the above table, we can see that in 2010 daily average turnover value (Tk.16434.07mn) was highest and in 2004 it was lowest (Tk. 199.60mn). During 2004 to 2010 every year DSE daily average turnover value has increased from previous year. The growth rate of daily average turnover value of DSE has increased in 2005 and decreased in 2006 from 25.96% to 15.35%. Again the value exceptionally increased to 369.76% in 2007 and also decreased in 2008. After 2008 to 2010 the value increases at a increasing rate.

## 4.7 Initial Public Offering

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, younger companies seeking capital to expand, but can also be done

## Performance Appraisal of Dhaka Stock Exchange

by large privately-owned companies looking to become publicly traded. In an IPO the issuer may obtain the assistance of an underwriting firm, which helps it determine what type of security to issue (common or preferred), best offering price and time to bring it to market.

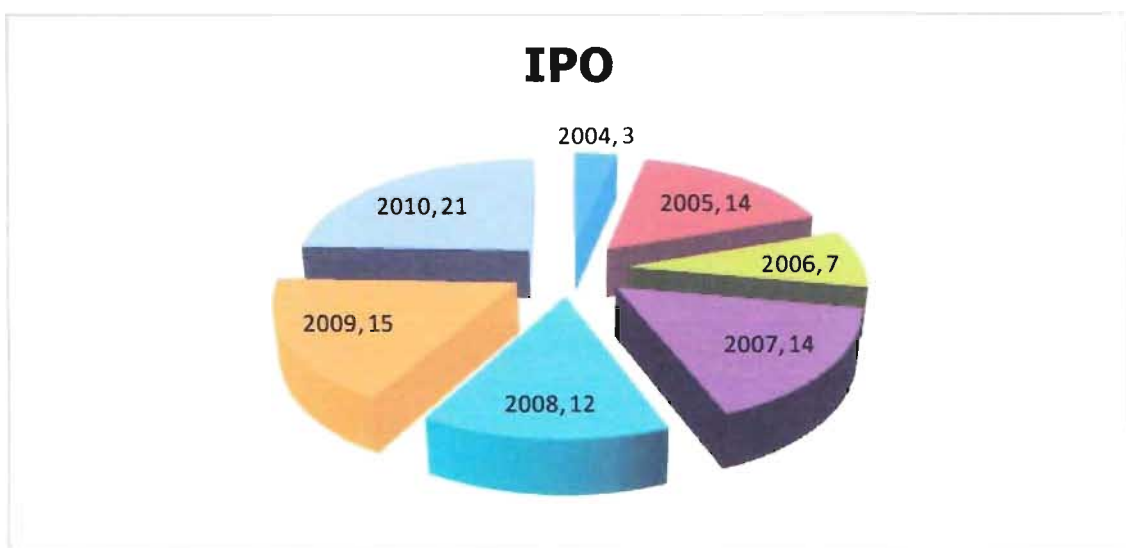
**Table 7: Initial Public Offering**

Year	IPO	Growth%
2004	3	--
2005	14	366.67%
2006	7	-50%
2007	14	100%
2008	12	-14.3%
2009	15	25%
2010	21	40%

*Source: Compiled from different issues of monthly review, Dhaka Stock Exchange*

The average growth rate is 66.77%.

Issuing IPO from 2004 to 2010 is shown below by a pie chart



From this pie chart it is observed that height number of IPO offered in 2010 and lowest number of IPO offered in 2004. From the table we can say that the growth rate of IPO has been fluctuated during 2004-2010. IPO has exceptionally increased in year 2005 by 366.67% and decreased in 2006 and 2008. There was a 100% increase in 2007. And in 2009 and 2010 the growth rate is below the average growth rate of IPO.

## ***4.8 Daily Average Number of Trade***

Daily average number of trade is calculated through dividing total number of trade of the year by total trading days of that year. The calculation is done on the basis of fiscal year.

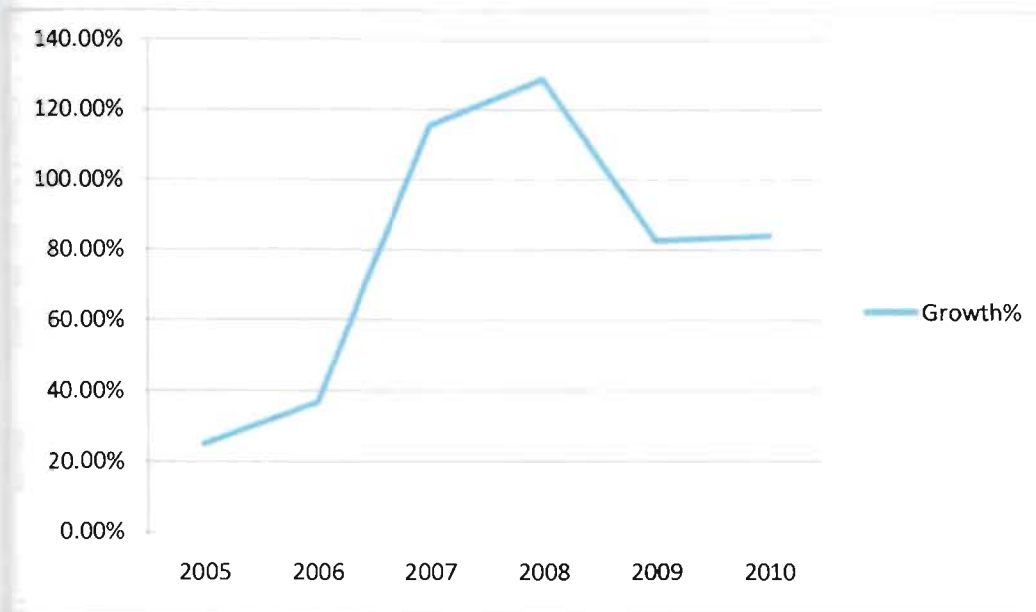
**Table 8:** Daily Average Number of Trade

<b>Year</b>	<b>Daily Avg. No of Trade (million)</b>	<b>Growth%</b>
<b>2004</b>	0.008	--
<b>2005</b>	0.010	25.00%
<b>2006</b>	0.013	36.78%
<b>2007</b>	0.028	115.38%
<b>2008</b>	0.064	128.57%
<b>2009</b>	0.116	82.53%
<b>2010</b>	0.213	83.97%

*Source: Compiled from different issues of monthly review, Dhaka Stock Exchange*

The average growth rate is 67.46%.

Growth rate of Daily Avg. No. of Trade from 2004 to 2010 is shown below by a line chart



From this line chart it is observed that highest growth rate of daily average number of trade was in 2008 and lowest was in 2005 and the value was 25%. From the table we can say that daily average number of trade had been increased during 2004-2010. It has exceptionally increased in year 2008 by 128.57% and the value was 0.64 million.

## 4.9 Daily Average Trade Volume

The average amount of individual securities traded in a day or over a specified amount of time. Trading activity relates to the liquidity of a security; therefore, when average daily trading volume is high, the stock can be easily traded and has high liquidity. As a result, average daily trading volume can have an effect on the price of the security.





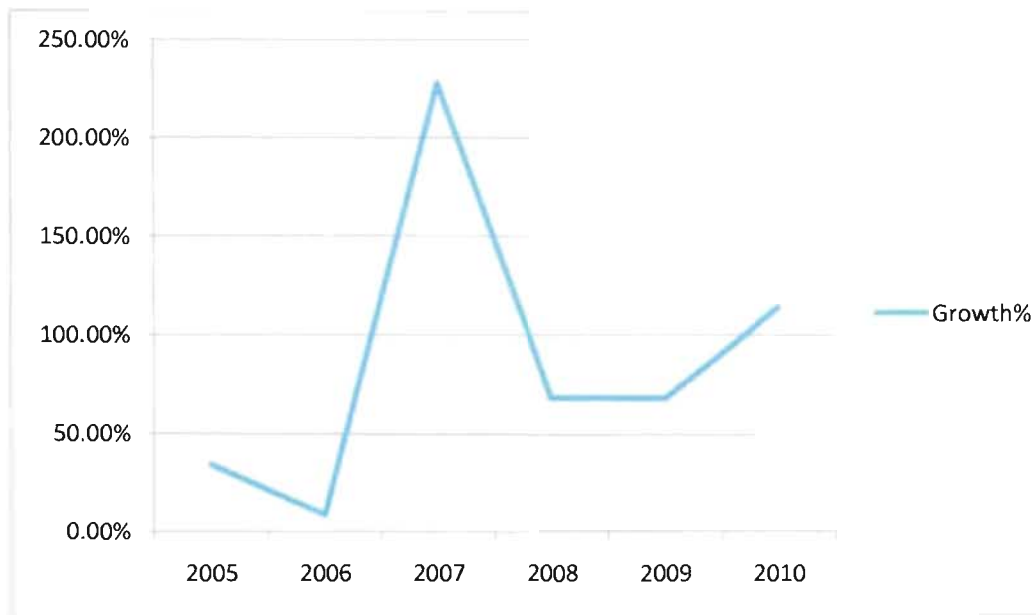
**Table 9: Daily Average Trade Volume**

Year	Daily Avg. Trade Volume (million)	Growth%
2004	2.55	--
2005	3.42	34.12%
2006	3.65	8.90%
2007	11.95	227.39%
2008	19.43	68.17%
2009	32.66	68.06%
2010	69.60	113.44%

Source: Compiled from different issues of monthly review, Dhaka Stock Exchange

The average growth rate is 74.30%.

Growth rate of Daily Avg. Trade Volume from 2004 to 2010 is shown below by a line chart



This chart shows the daily avg. trade volume of DSE. From this table it is reflected that daily avg. trade volume has increased in every year from 2004 to 2010. The growth rate of daily avg. trade volume of DSE has increased to 34.12% in 2005 and the rate decreased to 8.90% in 2006. Again the value has exceptionally increased in 2007, value was 11.95 million and growth was 227.39%. Daily avg. trade volume was highest in 2010 and the value was 69.60 and lowest was 2.55 in 2004. The average growth rate of daily avg. trade volume of DSE is 74.30%.

### **4.10 DSE Index**

There are three types of index calculation used in Dhaka Stock Exchange. They are DSE General Index, DSI Index and DSE-20 Index. Here is a brief about these three types of Index:

Sl.No	Index Name	Base Index	Remarks
1	DSI (all shares)	350 (as on 01-11-1993)	
2	DGEN (A, B, G & N)	817.63704 (as on 24-11-2001)	SEC directive regarding index was on 17-11-2001
3	DS20	1000 (on 01-01-2001)	

#### **A. DSI (all shares)**

The all Share Price Index (DSI) comprises all listed securities of the exchange which has been calculated since November 01, 1993 calculated on the basis of price movement of individual stocks using IFC method. Earlier a price average index was in practice which was not perfect.

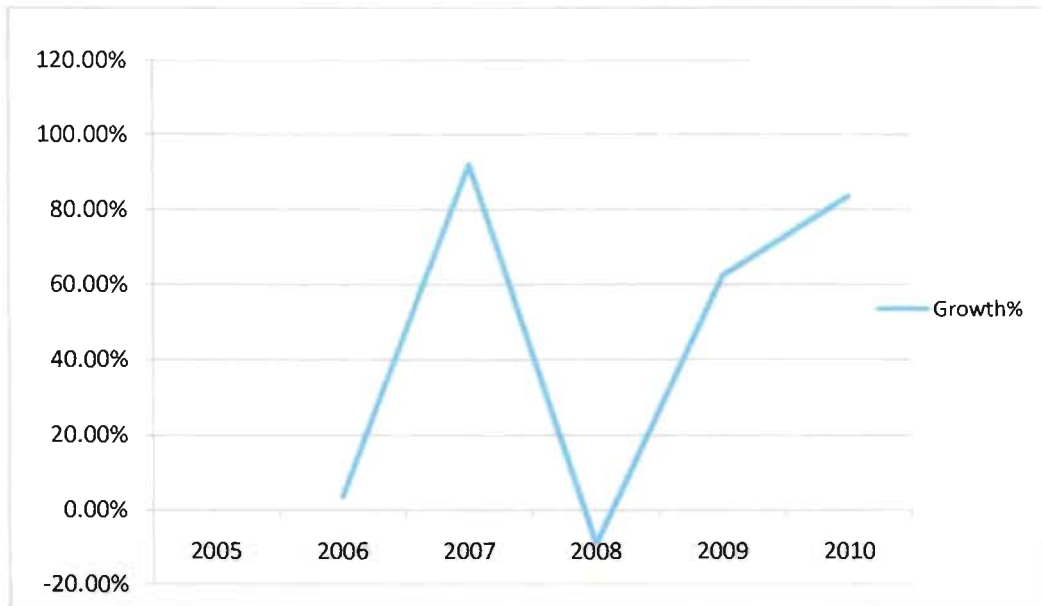
Table 10.1: DSI (all shares)

Year	DSI (all shares) Year ended	Growth%
2005	1275.05	--
2006	1321.39	3.63%
2007	2535.96	91.92%
2008	2309.35	-8.94%
2009	3747.53	62.28%
2010	6877.66	83.53%

Source: Compiled from different issues of monthly review, Dhaka Stock Exchange

The average growth rate is 38.74%.

Growth rate of DSI (all shares) index from 2005 to 2010 is shown below by a line chart



## *Performance Appraisal of Dhaka Stock Exchange*

The above table and graph shows the movement of price of DSI Index from year 2005 to 2010. In 2005, the year end index was 1275.05. We can see from the above graph the growth rate ups and down there are no consistencies in the growth rate of DSI Index. In year 2010 the year end index price was 6877.66, the highest and lowest price were 1275.05 in 2005. The height growth rate was 91.92% in 2007 and the growth rate went to a negative value (-8.94%) only in 2008.

### ***B. DSE General Index:***

DSE general index with a base-index of 817.62 points started on November 27, 2001. It includes A, B, G and N group shares. But the index excludes companies of Z-category and is calculated on the basis of price movement of individual stocks. The entire market capitalization excluding the Z-category is taken into consideration in deriving the general index.

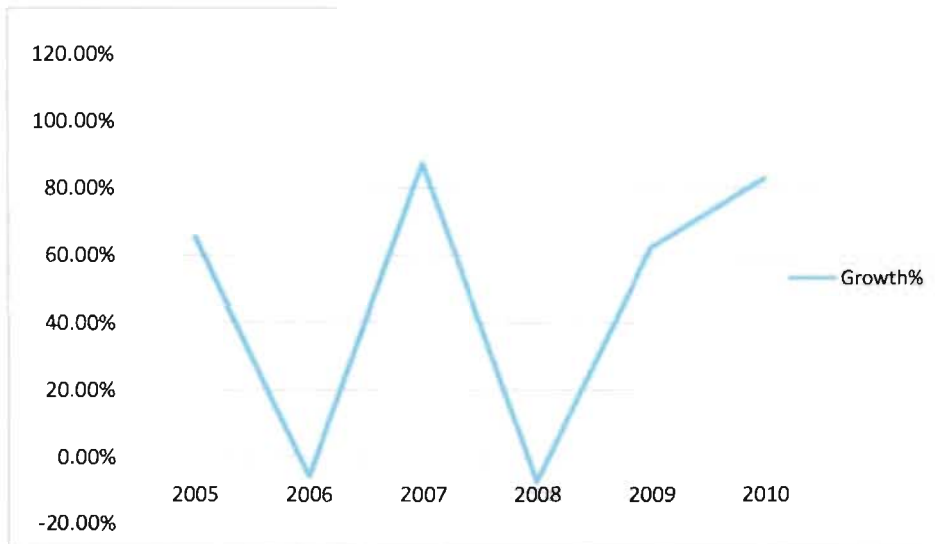
**Table 10.2:** DSE General Index

<b>Year</b>	<b>DGEN (Closing Index)</b>	<b>Growth%</b>
<b>2004</b>	1031.72	--
<b>2005</b>	1708.55	65.60%
<b>2006</b>	1609.51	-5.80%
<b>2007</b>	3017.21	87.46%
<b>2008</b>	2795.34	-7.35%
<b>2009</b>	4,535.53	62.25%
<b>2010</b>	8,290.41	82.79%

*Source: Compiled from different issues of monthly review, Dhaka Stock Exchange*

The average growth rate is 40.71%.

Growth rate of DSE general index from 2004 to 2010 is shown below by a line chart



The year end index price of DSE General Index (DGEN) was highest in year 2010 which is 8290.41. On that year the highest index price was 8290.41 which was much higher than the previous 6 years. The lowest price of the index on 2004 was 1031.72. The growth rate was minimum in 2006 and the amount was -5.80% and it increases to 87.46% in the year 2007 which was the maximum growth rate.

### **C. DS20**

DSE-20 index was introduced on January 01, 2001. The Index comprises leading 20 shares with a base index of 1000. The criteria taken into account in formulating the index were market capitalization, free float shares in public hands, minimum payment of 10 percent dividend for the last three consecutive years and 95 percent trading day's liquidity in terms of trading during the last six months. Subjective criteria such as good corporate

governance, regular holding of annual general meeting and sector representation were the other key factors for becoming eligible for inclusion in the Index.

DSE- 20 index includes:

1. ACI Limited,
2. A.M.C.L Pran,
3. Apex Tannery Ltd.,
4. Bata Shoe Company (Bangladesh) Ltd.,
5. BATBC,
6. Bangladesh Lamps Ltd.,
7. BOC Bangladesh Ltd.,
8. Beximco Pharmaceuticals Ltd.,
9. Dhaka Bank Ltd.,
10. GQ Ball Pen Industries Ltd.,
11. Islami Bank Bangladesh Ltd.,
12. Meghna Cement Mills Limited,
13. Monno Ceramic Industries Ltd.,
14. National Bank Ltd.,
15. Prime Bank Ltd.,
16. Singer Bangladesh Ltd.,
17. Southeast Bank Ltd,
18. Square Textile Ltd.,
19. Square Pharmaceuticals Ltd.,
20. Uttara Finance



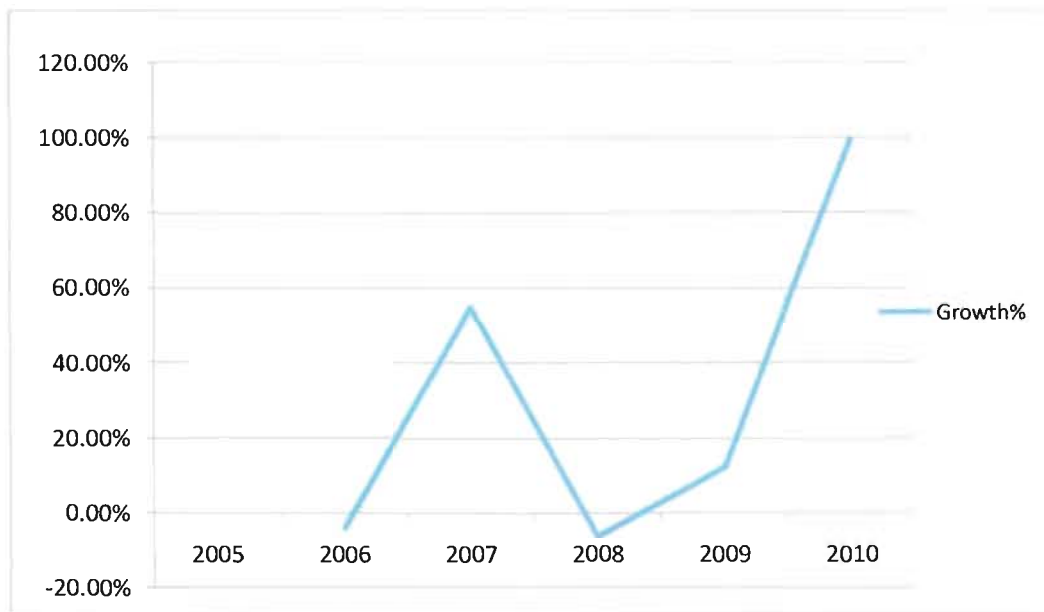
Table 10.3: DS 20

Year	DS20 (Year ended)	Growth%
2005	1677.35	--
2006	1609.51	-4.04%
2007	2485.87	54.49%
2008	2328.71	-6.32%
2009	2613.49	12.23%
2010	5204.98	99.16%

Source: Compiled from different issues of monthly review, Dhaka Stock Exchange

The average growth rate is 25.92%.

Growth rate of DS20 (Year ended) from 2005 to 2010 is shown below by a line chart





From the above table and graph we can see that DS20 index was height in 2010 and lowest was in 2006. The height value was 5204.98 and the lowest value was 1609.51. The height growth rate was 99.16% in 2010 and the lowest growth rate was -4.04% in 2006. After 2008 the graph shows a upward trend of DS20 index.

## ***5.1 Causes of Stock Market Instability***

What is essentially needed is to bring about a rational behavior in stock markets and to remove the erratic movements in stock prices. This can be done by (i) banning speculation (ii) allowing only cash purchases of shares, and (iii) removing management malpractices.

### **I. Speculation**

Speculation consists in the forward purchase or sale of stocks on margin without the intention of taking or making actual delivery. Only about 1 percent of all futures contracts are settled by actual delivery, the rest, about 99 percent, are liquidated prior to the delivery month by offsetting transactions. In fact it is generally felt that trading in futures contracts is for purposes other than the exchange of titles.

The speculator either sells short or buys long. A 'short' sale is a sale of securities that the seller does not own at the time of the sale or does not intend to deliver from his own portfolio. The short seller, popularly called a bear, expects the price of the security sold short to decline and hopes to be able to 'cover' his short-sale through an 'offsetting' purchase at a lower price before maturity date to secure a profit. The long buyer, known as a bull, buys stock which he does not want in the hope of making an 'offsetting' sale at a higher price before the date of maturity.

While forward purchases or sales of certain agricultural commodities or manufactured goods perform an economic function by making an allowance for the time period it takes to produce the goods, thus providing producers as well as users with the assurance that they can sell or receive the goods when ready or needed, the forward market in shares performs no such function. The quantity of shares is constant and the 'forward' seller has no role to play. He sells "something he cannot consume or use in his business, upon which he performs no work and to which he adds no value."

Spot purchases against cash payment and reciprocal receipt of shares do not constitute speculation irrespective of when the purchaser decides to resell them. This is because the spot seller already owns the shares purchased against cash and his decision to resell them will be determined by changes in his economic circumstances or his perception of the market, both of which may, but not necessarily, change immediately.

## **II. Margin Purchases**

The ability to make margin purchases provides the speculator with a high degree of leverage and enables him to make a larger purchase with a smaller amount. In a margin purchase, the customer is required to deposit with the broker, either in cash or acceptable securities, a fraction of the purchase price to protect the stock broking firm against loss in the event of default. The balance is loaned to the customer by the brokerage house which obtains the funds usually by pledging the purchased securities with a bank for a collateral loan. The stock buyer is required to keep the margin good by depositing additional cash or acceptable securities in the event of a decline in prices below the minimum margin requirement. Conversely the customer may withdraw cash or securities from his account if a rise in price should increase his margin substantially above the requirement.

Speculative sales combined with margin purchases bring about an unnecessary expansion or contraction in the volume of transactions and, hence, contribute to fluctuations in stock prices without any real change in the supply of stocks which remains constant, or the underlying economic conditions, which do not change from day to day. Variations in margin requirements and interest rates tend only to add a further dimension of uncertainty and instability into the stock markets. The lowering of margin requirements and/or interest rates generates unnecessary heat in the market. Their raising afterwards with the objective of restoring 'sanity' to the market only forces speculators to liquidate their positions, this brings down prices and ruins some of the speculators at the altar of others who are usually 'insiders' and who know what is coming.

## **III. Stock Market Malpractices**

Stock market speculation combined with the availability of credit through margin purchases has in fact contributed to excessive price swings by promoting excessive buying, when prices are expected to rise, or selling, when prices are expected to fall. The claim that speculation helps stabilize prices would be true only if the speculators operated in different random directions and their separate actions were mutually corrective. The claimed stabilizing effect would require that there be no marked disparity in the speculators' purchases and sales. But speculation involves judgment or anticipation of a rise or falls in prices, and gets accentuated when something happens or some information is available on which judgment can be based. The same events or rumors give rise to the same judgments.

In the real world, because of rumors, sometimes purposely spread by insiders and vested interests. There is a wave of speculative buying or selling concentrated in the same direction leading to abnormal and unhealthy fluctuation in prices. It is generally acknowledged that prices in the stock markets are susceptible to manipulation and rigging. There are, in the words of Marchland Sage, "intrigues, lethal competitions, tense lunch-time deals, high-stake gambles, the subterfuges, cover-ups, and huge payoffs that make Wall Street the greatest playground in the world". There are "safeguards against such rigging but they don't work," because "Wall Street plays its games seriously, sometimes so well that neither you nor I -

nor, seemingly, the Securities Exchange Commission - knows who is in there playing."

## ***5.2 Problems And Limitations of DSE***

- **Price Manipulation:** It has been observed that the share values of some profitable companies have been increased fictitiously some times that hampers the smooth operation of DSE. Delays of settlement Financing procedures and delivery of securities sometimes take an unusual long time for which the money is blocked for nothing.
- **Irregular payment dividends:** Some companies do not hold Annual General Meeting and eventually declare dividends that do not reflect the real or actual financial positions of the company and ultimately shareholders become confused.
- **Selection of membership:** Some members being the directors of listed companies of DSE look for their own interest using the internal information of share market.
- **Improper Financial Statement:** Many companies of DSE 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 the company.
- **Technical problems and political infighting:** The concept of centralization of securities market has not been implemented that arises technical problems and political infighting.
- **Lack of skilled manpower:** There is a lack of skilled manpower in DSE as well as in financial and non financial institutions involved in the securities market.

Besides these problems there are some other identifiable problems as well and these are:

- Lack of Concentration of DSE members.
- DSE members only act as a members not as a market makers
- Availability of reliable and unbiased information about capital issue and companies.
- Fraudulent Acts and Insider trading.

### ***5.3 Suggestions to Improve The Activities of DSE***

To improve the activities of DSE the following Course of actions are suggested:

- ✓ To force the listed companies to publish their annual reports with actual and proper information that can ensure the interests of investors
- ✓ To introduce automated monitoring system that may control price manipulation, malpractices and inside trading
- ✓ To introduce full computerized system for settlement of transactions.
- ✓ Forcing the listed companies to declare and pay regular dividends through conducting Annual General Meeting
- ✓ Taking remedial action against the issues of fake certificates.
- ✓ Banks, insurance companies and other financial institutions should not be encouraged to deal in share business directly
- ✓ Punish the member brokers for breaching of contract by fraudulent behavior
- ✓ Strengthening market regulation and supervision
- ✓ Developing the capital market infrastructure
- ✓ Modernizing capital market support facilities
- ✓ Increasing the limited supply of securities in the market
- ✓ Developing institutional sources of demand for securities in the market and Improving policy coordination

## ***Conclusion***

The capital market is market for securities, where companies and Governments can raise long-term funds. It is the group of interrelated markets, in which capital in financial form is lend or borrowed for medium and long term and, in cases such as equities, for unspecified periods. The primary role of the capital market is to raise long-term funds for governments, banks, and corporations while providing a platform for the trading of securities. This fund rising is regulated by the performance of the stock and bond markets within the capital market.

Bangladesh capital market is one of the smallest in Asia but the third largest in the south Asia region. The Dhaka Stock Exchange is the prime capital market of Bangladesh. It provides the listed companies with a channel to seek capital fund from the public and at the same time it provides the investors a place to buy and sell shares of the listed companies. The objectives of the Exchange are to establish a sound and stable securities market based on just and equitable principles of trade as well as to conduct the business in securities giving due regards to the public interest. For this it is continuously working and the improvement can be seen through its performance and the new initiatives taken by the DSE.

The Exchange is a non-profit making public company. It works for the betterment of the country's economy. Thus the Dhaka Stock Exchange is relentlessly trying to make the securities market an efficient reliable transparent organization that will be capable of meeting the challenges of economic reality of the country.

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