Research methodology is systematic way finance essay

Finance

3. 1 Introduction

Research methodology is systematic way to solve the research problem. Research methodology describes the methods and process applied in the entire aspect of the study. It includes all the procedures from theoretical foundation to the collection and analysis of data." Research Methodology refers to the various sequential steps (along with a rational of each step) to be adopted by a research in studying a problem with certain object/objects in view" The word of research comes, re and search. If you describe that two world, it would be search the thing carefully, test and try re and re. Research means finding the something which is help for giving decision of anything such as investing for bank or in future purpose or developing the economic growth of the country. By the help of research many people can develop the skill, knowledge. It is good for study. (Kumar Ranjit, 2011)According to Grinnell: ‘ research is a structured inquiry that utilizes acceptable scientific methodology to solve problems and creates new knowledge that is generally applicable.’(1993) and Lundberg (1942) draw a parallel between the social research process, which is considered scientific, and the process that we use in our daily lives. Research is one of the paths of finding accurate answer of that particular thing, sound and reliable information about the effectiveness of your involvements, thereby providing you with evidence of its effectiveness. As service providers and professionals, we use different kind of tool to prof our research such as financial tool, statistical tools, macroeconomic tool, and also we use certain kind of software.

3. 2 Research Design

" Research design is a plan for the collecting and analysis of data. It presents a series of guide posts to enable the researcher to progress in the right direction in order to achieve the goal. The design may be specific presentation of the various steps in the research process. These steps include the selection of a research problem, presentation of the problem, formulation of hypothesis, conceptual clarity, Methodology, survey of literature and documentation, bibliography, data collection, testing of the hypothesis, interpretation, presentation & report writing." The research is based on recent historical data of last 7 years. The end of fiscal year is taken from Mid July 2001 to Mid July 2008. The research is mainly focused on risk and return of two commercial banks which are listed in NEPSE. It will be based on secondary data which is published by the commercial bank NEPSE, SEBON and NRB. Various types of financial, Statistical tools and hypothesis have been used for analysis and interpretation. The graphs, charts and table are used to analyze and interpret the finding of the study and draw out necessary suggestions and conclusion. The study evaluates the risk and return of the two selected commercial banks of Nepal i. e. SCBNL an NIBL (Mitchell & Jolley, 2010).

3. 3 Sources of Data

The more reliable and accurate the data is the more accurate will be the study. The method of data collection's main objectives is to collect the reliable and accurate data. To collect the reliable and informative data all the source as far possible are being searched. The data are collected from secondary source they are as follows:-Financial Statements, Annual Reports

and Newsletter of related banks from the FY 2001/02 to FY 2007/08. Websites of the related banks www. Standardchartered. com of SCBL and www. nibl. com. np of NIBL. Annual reports of Security Board of Nepal (SEBON) and its website www. Sebonp. com. Bulletins, Reports and periodically published by NEPSE and its websites www. nepalstock. com. Various Reports published By NRB and its website www. nrg. org. Other published materials such as newspaper, journals, magazine, text books and related thesis/ reports. Besides personal visits to the related banks and NEPSE have been done for the purpose of DATA collection and enquiries with respective authorized personnel of the banks and NEPSE has been accomplished for the clarification of their product and services and acquired data.

3. 4 Data Processing Procedure

Collected data are arranged and presented in a systematic way to yield meaningful information. It is further verified and simplified for analysis. Moreover, data and information, so gathered are to be checked, edited and tabulated in such ways that provide convenience for computation and interpretation. Relevant are presented in tables. Only the data that are relevant to the study have been presented in tabular and chart forms in the simple way and unnecessary data are excluded.

3. 5. Data Analysis Tools

After collecting the data from secondary sources, they were analyzed and separate into its concerned topics. Financial as well as statistical tools are

used to analyze the collected data to assess the risk and return. Following statistical tools are used for analyzing and interpretation of data:-

Financial Tools:-

Market Price of Stock (Po or Vo):-

There are three price records available. High, Low and Closing price. So, two approaches either average price (of high and low0 or closing price can be used. Closing price is used as market price of stock which has specific time span of one year and the study has focused in annual basis while average price represents the price of whole year. Hence, it is very difficult to get reliable and representative information.

Earning per share (EPS):-

Earning refers to the net income after tax of the company. Earnings per share (EPS) is the results of net income after tax dividend by the outstanding number of common shares. It can express as: Net Income after TaxEPS = No. of Equity Share

Dividend (D):-

Dividend is reward to the shareholders for their investment. It can be given in the form of cash or shares. If a company declares only the cash dividend, there is no problem to take dividend amount. But if company declare stock dividend (bonus share), it is difficult to obtain the amount that really shareholder has gained. In case of stock dividend the formula for total dividend amount is considered as follow: Total Dividend amount = cash dividend + (stock dividend % * Next Year's MPS)Where, MPS= market value per share.

Price Earning Ratio (P/E Ration):-

This ratio is closely related to the earning to the Yield/earning price ratio. This is computed by dividing the market price of share by the EPS. P/E Ratio = MPSEPSWhere, MPS = Market value per share. EPS = Earnings per share.

Holding Period Return:-

Common way to measure security return is the holding period return (HPR). The HPR measures the total return from an investment over a specific period of time. The formula for Finding the HPR on investment J during the period t, HPRj is defined as follows:-Symbolically, HPRj = Pt+1-Pt+Dt+1Pt'OR'HPRj = Pt-Po+D1PoWhere, Pt+1 or (Pt) = the price of the investment at the end of the period on stock j. Pt or (Po) = the price of the investment at the beginning of the period on stock j. Dt+1 or D1 = cash dividend received during the period on stock j.

Mean Rate of Return:-

Mean rate of return is obtained by computing the arithmetic mean of the return:-Symbolically, HPRj = ∑ HPRjN'OR'HPRj = ∑RNWhere,

❑ ❑

HPRj = Mean rate of return of stock j. N = Number of years that the return is taken.∑HPR or ∑R = Sum of rate of return of stock j.

Standard Deviation:-

Standard deviation is a statistical tool which is widely used to measure the total risk of the asset. The standard deviation " " can be denoted by j = ∑ (HPRj- HPRj) 2NWhere, j = Standard deviation for stock j. HPRj = Holding

period Return for stock j. N = no. of the years. HPRj = Mean rate of return of stock j.

Co-efficient of Variation:-

If absolute risk is measured by the standard deviation then risk per unit of expected return can be measured by the co-efficient of variation (C. V.). It is depicted as follows: Symbolically, jC. V. j = HPRjWhere,

j = Standard deviation of stock j.

HPRj = Mean return of stock j. C. V. j = Co-efficient of variation of stock j.

Beta Co-efficient:-

Beta measures market sensitivity of stock. Higher beta indicates high sensitivity with the market movement and situation. Beta is a systematic risk which can't be eliminated through the means of diversification. Symbolically, COVj. m. ßj = m2Where, ßj = Beta Co-efficient or systematic risk of stock j. COVj. m. = Covariance of individual j asset's return with the market return. m2 = Variance of market return.

Co-variance:-

Co-variance is a measure that combines the volatility of stock's returns with the tendency of those returns to move up or down at the same time stocks returns move up or down. Co-variance can be measured as follows:- Symbolically,∑ (HPRj-HPRj) (Rm-Rm)COVj. m = NWhere, COV j. m = Co-variance of stock j and stock m. HPRj = Rate of return of stock R j. HPRj = Average rate of return of stock j. Rm = Market return. Rm = Average market returnN = no. of. Period.

3. 5. 2 Statistical Tools:-

Correlation Co-efficient (Pj. m):-

Correlation Co-efficient calculates the relationship between two shares. The range of correlation co-efficient is from -1 to +1. Correlation co-efficient can be denoted as follows:-Symbolically, COVj. mPj. m = m jWhere, Pj. m. = Correlation Co-efficient between stock j and market return m = Market risk.. j = Risk of stock j. COV j. m = Co-variance of return of asset j with the market. There are various cases of correlation and risk condition, which are presented as below. Perfect positively correlation (P j. m = +1)Return on two perfectly correlated stocks, these two stocks would be moving up and down together and a portfolio consisting of two such stocks would be exactly the same as risky as the individual stocks. Thus diversification does nothing to reduce risk if the portfolio consists of perfectly positively correlated stock. Perfectly negatively correlation (P j. m = -1)Return on two perfectly negatively correlated stocks would move perfectly together but in exactly opposite directions. In this condition, risk can be eliminated. Perfected negative correlation almost never found in the real world. No relationship between returns (Pj. m = 0)When the correlation between two stocks is exactly zero, there is no relationship between the returns, they are independent of each other, in this condition, and some risk can be reduced. Intermediate risk (p j. m = +0. 5)Most of the stocks are correlated with the risk, but not perfectly. On average the returns on two stocks would lie on the range of +0. 4 and+0. 75 under this condition combining stocks into portfolios reduce risk but does not eliminated at completely.

Chapter IV

Data presentation and Analysis

This chapter contains presentation, interpretation and analysis of the collected data. Details data of closing market value per share (MPS), earning per share (EPS), and dividend of each bank and relevant data of NEPSE indices is presented and their interpretation and analysis is done. With reference of various reading and literature review in the proceeding chapter, the effort has been made to analyze and established the relationship between risk and return of stock investment with special reference to selected listed commercial bank. This chapter also analyzed that systematic and unsystematic risk of each commercial bank. Different tables and diagrams are prepared to interpret band analyze the collected data in meaningful way.

4. 1 Financial Analysis of Selected Listed Commercial banks

Among 23 commercial banks operating in Nepal, only 18 are listed in NEPSE till F/y 2007/08. Among those, the study has only taken two commercial banks listed in NEPSE. Which was already mentioned in the research methodology? Data collection is being done of seven years from 15th July 2001 to 15th July2008. Details analysis based on risk, return DPS, EPS etc. are shown as follows:-

4. 1. 1 Standard Chartered Bank Nepal Limited (SCBNL):-

4. 1. 1. 1 Periodical closing MPS, EPS and Total Dividend of SCBNL:-

Closing market price of share, total dividend records and EPS of common stock of the bank are shown in table below. This analysis is based on the year ended MPS and EPS which shows the relationship between MPS and EPS with dividend payout ratio. The total dividend is calculated as the method mentioned in the research methodology in chapter 1.

Table. 4. 1 periodical closing MPS, EPS and Total Dividend Data of SCBNL:-

Fiscal year

Closing MPS

Cash Dividend

Stock Dividend

Total Dividend

EPS

2001/021575100

-

100141. 132002/03164011020 percent459149. 302003/04174511010 percent344. 5143. 552004/05234512020 percent875143. 142005/06377513040 percent2490175. 842006/0759008030 percent2129167. 372007/0868308030 percent80131. 92(Source:-NEPSE and SCBNL annual report 2007/08)According to the above table, it shows that the highest closing MPS of the common stock is 6830 in the FY 2007/08 and the

highest EPS is 175. 84 in the FY 2005/06. Similarly, the lowest MPS is 1575 in the FY 2001/02 and lowest EPS is 131. 92 in the FY 2007/08 respectively. After the year 2001/02 the banks Mps are increasing gradually. The movement of the MPS and EPs is presented graphically in the following diagram:-

Figure 4. 1 Movement of MPS and EPS of SCBL

4. 1. 1. 2 Calculation of Annual Rate of Return/ Holding Period Return (HPR) of SCBL:-

Closing MPS and total dividend including Cash and stock dividend of the bank are used to calculate the Holding Period Return of the bank for each year. And the closing MPS and Cash Dividend of the bank are adjusted accordingly.

Table4. 2 Calculation of Annual Rate of Return of SCBNl:-

Fiscal Year

Closing MPS

Cash Dividend

Annual returns of SCBNL(HPR SCBNL)2001/021575100

-

2002/0316404590. 33272003/041745344. 50. 27412004/0523458750. 84532005/06377524901. 67162006/07590021291. 12692007/086830800. 1712The Annual Rate of Return of each year is calculated as follows:-Annual Rate of Return of SCBNL in the F/Y 2007/08P1-Po+D1(HPR SCBNL) = Po6830-5900+80= 5900= 0. 1712The Annual Rate of Returns of SCBNL is graphically shown in the following figure;-

Figure4. 2 Annual Rate of Return of SCBNL

Table 4. 3 Calculation of Mean Rate of Return, Standard Deviation and Co-efficient of Variation of SCBNL:-

Here, the Calculation of Mean Rate of Return, Standard Deviation and Correlation Coefficient ofSCBNL are calculated. The Annual Return Is derived from above table:-

Fiscal Year

Annual Return(HPRSCBNL)(HPRSCBNL-HPRSCBNL)(HPRSCBNL-HPRSCBNL)22001/02

-

-

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2002/030. 3327-0. 40430. 16352003/040. 2741-0. 46290. 21432004/050. 84530. 10830. 01172005/061. 67160. 93460. 87352006/071. 12690. 38990. 15202007/080. 1712-0. 56580. 3201∑HPRSCBNL= 4. 4218∑(HPRSCBNL-HPRSCBNL)2 = 1. 7351∑HPRSCBNL 4. 4218Mean rate of return (HPRSCBNL) = = = 0. 7370n 6Standard Deviation (SCBNL) = ∑ (HPRSCBNL-HPRSCBNL) 2 1. 7351= = 0. 5378n 6 SCBNL 0. 5378Co-efficient of Variation (CVSCBNL) = = = 0. 7297HPRSCBNL 0. 7370Mean rate of return of SCBNL is 0. 7370 and Standard Deviation and Co-efficient of Variation of SCBNL is 0. 5378 and 0. 7297 respectively. Mean rate of return of SCBNL is greater than Standard Deviation of SCBNL. In this situation investment is favorable in SCBNL's Stock.

4. 1. 2Nepal Investment Bank limited (NIBL):-

4. 1. 2. 1 Periodical Closing MPS, EPS and Total Dividend of NIBL:-

Closing market price of share, total dividend records and EPS of common stock of the bank are shown in table below. This analysis is based on the year ended MPS and EPS which shows the relationship between MPS and EPS with the dividend payout ratio. The total dividend is calculated as the method mentioned in the research methodology in chapter I.

Table 4. 4 Periodical Closing MPS, EPS and Total Dividend Data of NIBL;-

Fiscal Year

Closing MPS

Cash Dividend

Stock Dividend

Total Dividend

EPS

2001/02760

-

30 percent238. 533. 592002/037952020 percent20839. 562003/049401515 percent13551. 702004/0580012. 512. 5 percent17039. 502005/0612602055. 46 percent978. 9059. 352006/071729530 percent74062. 572007/0824507. 540. 83 percent7. 5057. 87(Source: - NEPSE and NIBL annual report 2007/08)In this above, it shows that the highest closing MPS and EPs of the common Stock are 2450 in FY 2007/08 and the highest EPS is 62. 57 in

FY2006/07. Similarly, the lowest MPS and EPS are 760 and 33. 59 respectively in the FY2001/02. After the year 2001/02 the bank's MPS are increasing gradually. The movement of the MPS and EPS is presented graphically in the following diagram:-

Figure 4. 3 Movement of MPS and EPS of NIBL

4. 1. 2. 2 Calculation of Annual Rate of Return/ Holding period Return (HPR) of NIBL:-

Closing MPS and total dividend including Cash and stock dividend of the bank are used to calculate the Holding Period return of the bank for each. And the closing MPS and cash Dividend of the bank are adjusted accordingly:-

Table 4. 5 Calculation of Annual Rate of Return of NIBL:-

Fiscal Year

Closing MPS

Cash Dividend

Annual Return of NIBL (HPRNIBL)2001/027602138. 5

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2002/037952080. 31972003/049401350. 35222004/058001700. 03192005/061260978. 901. 79862006/0717297400. 95952007/0824507. 50. 4213(Source: - Annual Report of NIBL)The Holding Period Return of NIBL each year is calculated as follows:-Holding Period Return of NIBL in the FY 2007/08P1-Po+D1(HPR NIBL) = po2450-1729+7. 5= 1729 = 0. 4213The above calculated Annual Rate of Return of NIBL is depicted in the following Figure:-

Figure4. 4 Annual Rate of Return of NIBL

4. 1. 2. 3 Calculation of Mean Rate of Return, Standard Deviation and Co-efficient of Variation of NIBL:-

Here the Calculation of Mean Rate of Return, Standard Deviation and correlation Co-efficient oNIBL are calculated. The Annual Return Is derived from Above table.

Table4. 6 Calculation of Mean Rate of Return, Standard Deviation and Co-efficient of Variation of NIBL:-

Fiscal Year

Annual Return (HPRNIBL)(HPRNIBL-HPRNIBL)(HPRNIBL-HPRNIBL)22001/02

-

-

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2002/030. 3197-0. 32750. 10732003/040. 3522-0. 2950. 08702004/050. 0319-0. 61530. 37862005/061. 79861. 15141. 32572006/070. 95950. 31230. 09752007/080. 4213-0. 22590. 0510∑(HPRNIBL)= 3. 8832∑(HPRNIBL-HPRNIBL)2 == 2. 0472∑ (HPRNIBL) 3. 882Men Rate of Return (HPRNIBL) = = = 0. 6472n 6∑ (HPRNIBL-HPRNIBL) 2 2. 04Standard Deviation (NIBL) = = = 0. 5841n 6 NIBL 0. 5841Coefficient Variation (CVNIBL) = = = 0. 9025HPRNIBL 0. 6472Mean rate of return of NIBL is 0. 6472 and Standard Deviation and Co-efficient of Variation of NIBL 0. 5841 and 0. 9025 respectively. Mean rate of return of NIBL greater than Standard deviation of NIBL. In situation investment is favorable in NIBL's stock.

4. 2 Inter Firm Comparison

In this part, comparison between SCBNL and NIBL on behalf Mean rate of return, Standard Deviation, Co-efficient of Variation and Beta Coefficient has been presented.

Table4. 7 Comparative Analysis between SCBNL and NIBL:-

BankMean Rate of ReturnStandard DeviationCo-efficient of VariationRemarksReturn SD CVSCBNL0. 73700. 53780. 7297Highest Lowest LowestNIBL0. 64780. 58410. 9025Lowest Highest HighestFrom the above table, it can be seen that stock of SCBNL has higher mean of return i. e. 0. 7370 than that of NIBL i. e. 0. 6478. Also the risk is high in the stock of NIBL i. e. 0. 5841 than of SCBNL i. e. 0. 5378. Coefficient of Variation gives the best result for choosing the investment to the investor. If the common stock has low the co-efficient of Variation, it will be lower risk. Thus, the investor must be chosen which stock that has the lower coefficient of variation. The comparison can be also shown with the help diagram below:-

Figure 4. 5 Comparative Analysis of the selected Banks

Table 4. 8 Comparative Analysis of EPS of selected Banks:-

Comparing the Average EPS, the EPS of the SCBNL is the highest. It has more than Rs. 100 EPS each year. NIBL's Average EPS is the lowest than SCBNL.

Fiscal Year

SCBNL(Rs.)

NIBL(Rs.)

2001/02141. 1333. 592002/03149. 3039. 562003/04143. 5551.

702004/05143. 1439. 502005/06175. 8459. 352006/07167. 3762.

572007/08131. 9257. 87Total1052. 25344. 14Average EPS150. 3249. 16

Table 4. 9 Comparative Analysis of Closing MPS of selected Banks:-

Fiscal Year

SCBNL (Rs)

NIBL(Rs.)

2001/0215757602002/0316407952003/0417459402004/0523458002005/06

377512602006/07590017292007/0868302450Total238108734Average

MPS3401. 431247. 71According to the above table, the average MPS of

SCBNL is highest. It has the greater MPS of Rs. 3401. 43 which is the highest

Closing MPS compare to NIBL. The average MPS of NIBL is lower than SCBNL.

Table 4. 10 Comparative Analysis of Total DPS of selected Banks:-

Fiscal Year

SCBNL(Rs.)

NIBL(Rs.)

2001/02100238. 52002/034592082003/04344.

51352004/058751702005/062490978. 902006/078052007/08807.

5Total4428. 51742. 9Average DPS632. 64248. 99After looking at the above table, we can find that Average DPS of SCBNL is the highest Comparing to NIBL which is 632. 64 while the NIBL is 248. 99

Table4. 11 Comparative Analysis of P/E Ratio selected Banks:-

Banks

MPS

P/E Ratio = EPS

Remarks

SCBNL22. 63LowestNIBL25. 38HighestAccording to the P/E Ratio table, NIBL has the highest P/E Ratio i. e. 25. 38 times while SCBNL has lowest i. e. 22. 63 times. In indicates that NIBL bank has a bright Future.

4. 3 Comparison with Market

There is only stock exchange in Nepal where stocks are traded. Nepal Stock Exchange (NEPSE) is a non-profit organization operating under securities exchange act 1983. Overall market movement is represented by market index. Following is the calculation of market return, its standard deviation and coefficient of variation of NEPSE from 2001/02 to 2007/08.

Calculation of Annual Rate of Return/ Holding Period Return of NEPSE:-

Table 4. 12 Calculation of Annual Rate of Return of NEPSE

Fiscal Year

NEPSE Index (Rs.)

Annual Return of NEPSE (Rm)

2001/02227. 54

-

2002/03204. 86-0. 09972003/04222. 040. 08392004/05286. 670. 29112005/06386. 830. 34942006/07683. 980. 76812007/08963. 360. 4085∑Rm = 1. 8013(Source: Periodic Trading Reports of NEPSE)The annual rate of return of beach year is calculated as follows:-P1-Po+D1 963. 36-683. 95+0Return of NEPSE in the FY 2007/08 = = = 0. 4085Po 683. 95NEPSE index is the highest in the FY 2007/08, which is Rs. 963. 36. The lowest index is Rs. 204. 86 in the FY 2002/03. NEPSE's returns are negative in the FY2002/03 which is -0. 0997 respectively. On the contrary, there are positive returns of 0. 0839, 0. 2911, 0. 3494, 0. 7681 and 0. 4085 in the FY 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 respectively. Total return of NEPSE (2001/02 to 2007/08) is 1. 8013. Returns are clearly shown in the table ahead. NEPSE's indices trend is decreased in the FY2002/03 trend due ton political disturbance, instability and lack of peace. For increasing NEPSE index government should make peace and political stability in the country.

Figure4. 6 Annual rate of return of NEPSE

4. 3. 2. Calculation of Mean Rate of Return, Standard Deviation and Coefficient of Variation of NEPSE:-

Here, the calculation of Mean Rate of Return, Standard Deviation and Correlation Coefficients of NEPSE are calculated. The Annual Return is derived from Above table.

Table 4. 13 Calculation of Mean Rate of Return, Standard Deviation and Coefficient of Variation of NEPSE:-

Fiscal Year

Return (Rm)

(Rm-Rm)

(Rm-Rm)2

2001/02

-

-

-

2002/03-0. 0997-0. 39990. 15992003/040. 0839-0. 21630. 04682004/050. 2911-0. 00910. 00002005/060. 34940. 04920. 00242006/070. 76810. 46790. 21892007/080. 40850. 10830. 0117∑Rm = 1. 8013∑(Rm-Rm)2 = 0. 4397∑Rm 1. 8013Mean Rate of Return (Rm) = = = 0. 3002n 6∑ (Rm-Rm) 2 0. 4397Standard Deviation (m) = n = 6 = 0. 2707 m 0. 2707Coefficient of Variation (CVm) = = = 0. 9017Rm 0. 3002Mean rate of return of NEPSE is 0. 3002. In the same way, Standard Deviation and Efficient of Variation of NEPSE are 0. 2707 and 0. 9017 respectively.

4. 3. 3 Beta Coefficient, Correlation of Coefficient and Total Risk of the selected Commercial Bank.

The Beta Coefficient measures the systematic risk, which cannot eliminate through the means of diversification. Beta Coefficient explains the market sensitivity of stock. Higher the beta represents greater the sensitivity and higher the reaction to the market movement. For the individual stock, the beta could be less than equal to or more than one depending upon the volatility of the stock return relative to market return. Beta lies between +1 to -1, if beta is more than one that stock is called the aggressive stock. In the following table shows the beta coefficient, Correlation Coefficient, systematic risk and unsystematic risk of each of selected commercial banks, which are calculated and presented in the appendices.

Table 4. 14 Beta Coefficient, Correlation Coefficient and Total risk of banks:-

BanksBeta CoefficientCorrelation CoefficientSystematic RiskUnsystematic riskSCBNL1. 0750. 54120. 29110. 2467NIBL0. 86110. 39910. 23310. 3510(See: Appendix II for calculation)From, the above table, it shows that the beta coefficient of SCBNL with markets is greater than 1it is called an aggressive and beta coefficient of NIBL with market is less than 1 it is called defensive. Both the banks stock move positive with market as their betas is positive. Similarly, both the banks stock returns are positively correlated with the return of the market which explains positive nature of the beta coefficient. Similarly, in total risk of stock of the banks, participation of systematic risk is greater in every banks stock. The systematic risk of the

SCBNL is greater than that of NIBL whereas NIBL unsystematic risk is higher than SCBNL.

Chapter V

Summary, Conclusions and recommendations

5. 1 Summary

Today's business age is a globalization and competitive age. Therefore, the business world of today is different from the past. The changing life style of people and their desires and membership in world Trade Organization (WTO) has also given more fluctuation and opportunities in the business. Due to development of sophisticated technology and different opportunity, today's business is more developing than the past. Investor are also very much aware how and where to invest their capital. So, no investors want to invest their capital on risky assets unless they are fully assured and confident that investment is safe for the future and yield required return. There are different types of investor with their nature. According to the risk bearing capacity some are risk seeking, some are risk averse and some may be neutral. Risk is the fact of life and return is reward for bearing risk. Risk plays a central role in the analysis of investment. Higher risk give higher return and the trade off between the two assumes a linear relationship between risk and return. Risk and return are the important elements for an investment. Every investment involves full of uncertainties that make put future return in risky. A risk return trade off is related to preference f the investor. Risk can be thought of as possibility that the actual return from holding a security will deviate from the expected return. Hence, risk is inseparable from return. At present 23 Commercial banks have been operating in Nepal. After

government adopted liberal financial policy. Commercial banks and financial companies have increased in number. The no. of companies listed in NEPSE increased to 149 till FY 2007/08 and include seven month data in mid-February 2009. Among them 18 commercial bank are listed in the NEPSE. The prime purpose of the study is to know risk and return of the listed commercial bank with reference to two commercial banks i. e. SCBNL and NIBL bank. This study is mainly based on Secondary data. The researcher had collected all the necessary data straight from the NEPSE, NRB, Concerned banks, SEBON and the internet. The study covers the period of seven years from the Fiscal year 2001/02 to 2007/08. The data have been analyzed by using financial tools and statistical tools like expected rate of return, S. D, C. V, Correlation Coefficient and Beta Coefficient etc. While analyzing risk and return brief review of related studies has performed. Scientific methods are used in data analysis and table graphs diagram are used and presented and interpreted the results. Since the main objectives of this study is to know the risk and return of the selected banks, to find out the relationship between EPS and MPS of the selected commercial banks and measures systematic and unsystematic risk of the selected banks. The study is focused on the common stock of listed commercial banks i. e. SCBNL and NIBL. From the financial and statistical analysis of selected banks following are summarized and made conclusion as follows.

Findings and Conclusion

The expected return is an income received on stock investment which is usually expressed. Expected return on common stock of SCBNL is highest i. e. 0. 7370 and Expected return of NIBL is lowest i. e. 0. 6472 than SCBNL.

Risk is variability of return which has measured in terms of standard deviation of return. The shares with larger S. D seem to be able produce higher rates of return. Higher the will be return. However, the risk return characteristics do not seem to be the same for all the shares reviewed. In terms of risk, common stock of NIBL bank is most risky while SCBNL is less risky. We know that C. V. is the best Statistical tools, which measures the risk per unit of return. In this study, SCBNL and NIBL C. V. are 0. 7297 and 0. 9025 respectively. This indicated that the security of NIBL has the highest C. V. i. e. 0. 9025 and SCBNL has lowest C. V. i. e. 0. 7297. So, SCBNL is the best common stock for investment. S. D is only the measure of unsystematic risk which is not defined by market. Another major aspect to risk is systematic risk, which is defined by market and measured by beta coefficient. Beta explains the sensitivity or volatility of the stock with market. So, which stock has the higher beta, it shows that greater volatility and more sensitive of the stock with market. Greater the beta means more sensitivity of the stock with the market. If beta is greater than 1 then it is more volatile with the market and is called an aggressive asset. If beta is less than 1 the asset is called defensive asset and its price fluctuation are less volatile with the market. In terms of beta coefficient, among the selected bank the SCBNL is aggressive stock or I think it risky stock which has beta coefficient higher than 1. The stock of SCBNL bank is the more volatile one i. e. 1. 075. Similarly, the stock of the NIBL is defensive because it has beta less than 1.

Recommendations

Based on the analysis of data and major finding of this research following recommendations and suggestions have been prescribed. The research is

mainly focused on the risk and return of the listed commercial banks in NEPSE. From the analysis of individual securities, SCBNL shows the highest expected return i. e. 0. 7370. So, it is recommended for investors to invest on SCBNL's securities. In term of risk, the beta coefficient of NIBL's stock shows the less of 0. 8611. However, its expected return is 0. 6472. It shows hat NIBLis taking low risk and having low return. If the inventors want to bear a low risk then they can choose the NIBL's stock. The coefficient of variation shows that the risk per unit of return and it provides a more meaningful basis for comparison. While considering the C. V. of commercial banks its is found that each company's per unit risk is much higher. Among them, NIBL has highest C. V. i. e. 0. 9017 and SCBNL has the lowest C. V. i. e. 0. 7279. This means that SCBNL has higher return and it's per unit risk is lower with compare to NIBL. After partition of total risk into systematic risk and unsystematic risk, it is clearly seem that SCBNL is more risky in comparison to NIBL but it has low unsystematic risk. The systematic risk of NIBL is lower than SCBNL but it has high unsystematic risk. Hence, it seems that the stock can be diversified since unsystematic risk is controllable in nature therefore companies should try to minimize it by effective management. So, due to the undiversified nature of systematic risk investors should not always follow traditional system while buying common stock further they also need to concentrate on the related companies' unsystematic risk. Under the investment performance evaluation, it is seen that SCBNL has the best investment opportunity than NIBL. Therefore, it would better if the investors invest in the bank, which has the best strategy and rank in the market. The investors should analyze all these matter. The Nepalese investors are getting

the required information from the companies where they have invested their money. Hence, concerned authorities should be liable to disseminate the required information to the public through appropriate means. Lack of timely rules and regulations investing in stock market have a negative impact in the investor. Therefore, authorized institutions as NEPSE and SEBON should disseminated such information through their journals and organized training programs and seminars to aware private and general investors regarding these rules and regulations. This is the time of information technology but NEPSE has still traded on open –cry system. The trading system of NEPSE should be modernized, reliable and effective information channel should be launched. Data available in the website should be up-to-data and developed online trading system. As a main body to regulate and developed capital market, SEBON needs to take quick action.