

**Technical Analysis and Efficient Market Hypothesis in the Nepal Stock Exchange (NEPSE)****Bhubaneshwar Lamichhane<sup>1</sup>**<sup>1</sup>Lecturer, Department of Economics, Tribhuvan University, Mahendra Multiple Campus, Nepalgunj<sup>1</sup>Corresponding Author: madhavl558@gmail.com

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**Abstract**

Stock exchange is a trading platform for the buyer and seller of securities. The stock exchange acts as a “barometer” of the health of the economy or considered a mirror of economy. If the market as a whole expects economic prospects to improve, share price will rise, and vice versa. The history of securities market began in Nepal with the flotation of shares by Biratnagar Jute Mills Ltd and Nepal Bank Ltd in 1937 A.D. Introduction of the company Act in 1964 A.D., and the establishment of Securities Exchange Center Ltd in 1976 was other significant developments relating to capital markets in Nepal. At present there is only one stock exchange in Nepal, which is also called secondary market i.e. Nepal Stock Exchange (NEPSE). Nowadays, Nepal’s stock market has become major area of investments. Basically, there are two approaches of analyzing the securities: fundamental analysis and technical analysis. Beside these there is another technique for analyzing the share price behavior that is called efficient market hypothesis. Each price of an individual share is independent of the previous price. The price of a moment does not affect the price of another moment. This type of moment of prices is called random walk of prices.

*Keywords:* stock, exchange, trading, securities, trading, capital, fundamental, technical, efficient, investors, influence

**Introduction**

The development of capital market is very essential for the development of the national economy. Development of economy also demands the capital market development. The development of the people living in the society also depends upon the development of capital market. These three cannot be separated from each other. So, there is essential of efficient capital markets. Capital market is the market place through which the entrepreneurs collect the long-term capital by mobilizing the individual and institutional savings either directly or indirectly. It also plays the vital role in mobilizing a constant flow of saving and channeling their financial resources for expanding productive capacity in the countries. It helps economic development by mobilizing long-term capital, which is needed for productive sector. Therefore, capital markets stand as skeleton of nations development activities and also can be indicated as fertile-land for money to grow more.

Financial Market is the place where the financial instruments like share, bond and debenture are traded. "A financial market is a market for creation and exchange of financial assets if you buy or sell financial assets, you will participate in financial market in some way or

other" (Pradhan, 2002:24). There are different types of financial markets. Each market serves a different set of customer or deal with different types of security. Transfer of capital between savers and those who need capital take place in different ways like direct transfer, indirect transfer through investment banks and through financial intermediaries. Investment has significant role for the well development into two categories, real investment and financial investment. Keeping these views into consideration this study focuses on trend analysis of stock market in Nepal.

### **Constituent of Capital Market in Nepal Securities Board, Nepal (SEBO/N)**

Security Board, Nepal was established on 26<sup>th</sup> May 1993, under the provision of the Securities Exchange Act, 1983. It was established with the objective of promoting and protecting the interest of investors by regulating the securities market. It also assumes the responsibility of development of securities market in the country, besides regulatory role, Board has identified the policy development, legal and regulatory reform, standardizing disclosures, bringing enforcement to ensure compliance and promoting broad based market as a priority area to reform. The private sector has also been participating equally in establishing sound system in securities exchange. In private sector viz. investors, listed companies, financial and market intermediaries and in government sectors Ministry of Finance, registrar of companies (Ministry of Industry, commerce and Supply), Nepal Rastra Bank, Nepal Stock Exchange, Federation of Nepalese Chamber of Commerce and Industries (FNCCI), Institute of Chartered Accountants of Nepal (ICAN) and Association of Chartered Accountants have been playing vital role in promoting the capital market of the country.

The objective of the board is to promote and protect the interest of the investors, by regulating the issuance, sale and distribution of securities similarly purchase, sale or exchange of securities, by supervising and monitoring the activities of the stock exchange and other related firms on securities business, as well as it renders contribution to the development of capital market by making securities transactions fair, healthy, efficient and responsible.

### **Nepal Stock Exchange (NEPSE)**

Nepal Stock Exchange was established on 1993 under Securities Exchange Act, 1983. Previously it was known as Securities Exchange Centre. Initially Securities Exchange Centre was established with an objective of facilitating and promoting the growth of capital markets. To avoid the limited functioning of SEC NEPSE established under the Securities Act (SEC) 1983. (First amendment) The major task undertaken by Nepal Stock exchange is brokerage, undertaking, managing public issue, and making market for government bonds and other financial services. Nepal Stock Exchange is a non-profit organization operating under Securities Exchange Act 1983. It was established with joint effort of Nepal Industrial Development Corporation and Nepal Rastra Bank to mobilize the public saving for ensuring public ownership in the shares public limited companies. In order to promote the stock exchange business, the center made a series of studies in the beginning regarding both the public limited companies and undertaking the business of buying and selling of securities.

The board of directors (BOD), which will govern NEPSE, constitutes of members representing different sectors. As per a recent revision, the BOD comprises seven members – two

including the chairman from the Nepal government, two from Nepal Rastra Bank (NRB), one from NIDC and rest to be nominated by the BOD, will be expert in the capital market. General Manager of NEPSE will serve as director.

NEPSE increased its authorized capital from Rs. 50 million to Rs. 160 million in May 2015 to meet the requirement of the Securities Market Operation Rule, 2064. Out of this Rs. 50 million was issued and Rs. 34.915 million was paid up capital.

Nepal government held the majority of shares of NEPSE (58.66%) Nepal Rastra Bank (34.60%), NIDC (6.12%) and remain held by other Members (0.62%). At present, there are 50 broker members. Besides this, it has licensed to dealers as primary and secondary market. At present 234 companies are listed in NEPSE Based on Annual Data of 2078/79 (NRB).

NEPSE replaced the Open-Out Cry System with a fully automated screen-based trading system (ATS) 24 August 2007, under the CFG project of the Nepal government. The Asian Development Bank had provided US\$ 300 thousand to automate the system. The system helps eliminate all possible human errors of the Open-Out Cry System. Several international practices have incorporated to make the system internationally applicable and modifications made to customize the existing rules and regulations of the country.

NEPSE started to circuit breakers to stop the price of share from rising or falling sharply since August 2006. If price of a share changes more than 10 percent in its trading in a single day, the trading of the share is halted by using circuit breaker. This rule of halting the trade of an individual share was amended later and the trading could be done within a range of 10 percent change on the previous day's closing price. Similarly, NEPSE has implemented the index-based circuit breaker system, effective from 21 September 2021.

The index-based circuit breaker or market halt system applies at three stages of the NEPSE index movement on either way by 4 percent, 5 percent and 6 percent. These circuit breakers when triggered bring about a halt in the trading of all equities.

- In case of 4% change in the index, there would be a market halt for 15 minutes if the movement takes place before 13:00. In case this movement takes place after 13:00 there will be no trading halt at this level and the market shall continue trading.
- In case of 5% change in the index, there would be a market halt for 30 minutes if the movement takes place before 14:00. In case this movement takes place after 13:00 there will be no trading halt at this level and the market shall continue trading.
- In case of 6% change in the index either way, trading shall be halted for the remainder of the day.

After automation NEPSE has continued T+2 for settlement but there is a little bit change in the process. If the trading is done at "T" and T+1, buying brokers have to submit bank vouchers for settlement along with a covering letter. At T+2 selling brokers must submit share certificates with a covering letter. At T+3, NEPSE prepares billing for payment and this will be forwarded to the bank.

The revised rate of brokerage commission on equity ranges from 0.27% to 0.4% on government bonds ranges from 0.02% to 0.10% and for all other stocks except equities and government bonds from 0.10% to 0.15% depending on the traded amount. Similarly, the basic objective of Nepal Stock Exchange is to impart free Marketability and liquidity to the government and corporate securities by facilitation transactions on its trading floor through market intermediaries such as brokers, market makers, etc.

### **Statement of the Problem**

Although Nepal's stock market has a trend towards an organized stock market after the restoration of democracy. There are still many challenges and complexities confronting by this sector. The large number of investor and general public are still unknown about financial market which is the main problem in Nepalese capital market. Most of the investors are not well known about what should be the price and what would be the price of stock. So, investors are not rational and they are unable to get optimal benefit from their investment.

Nepalese stock market is also characterized by a low trading, volume, absence of professional brokers, early stage of growth, limited movement of share prices, and limited information available to investors. Beside these, political instability and interference, anti-government activities, economic imbalances, ineffective implementation of liberal economic policy, lack of suitable laws etc. are the burning issues in Nepalese stock market. Due to lack of various required information, investors are confused which stocks are bad and which stocks are good. They are haphazardly investing in shares i.e. they are failure to 'beat' the right 'time' to purchase or sale the securities.

There are only limited researches on predictability of stock price in NEPSE using technical analysis. Technical and fundamental analysis models are most appropriate models to evaluate the prices of shares in our context. Therefore, here researcher main concern is about technical analysis and efficient market theory. This study also puts an effort to improve on shortcoming of limited past studies in the hope that the trends of future share piece can be predicted using technical analysis.

The study mainly deals with following research questions:

- Whether their possibility to predict future market trends on the basis of identified market trends?
- Whether Technical Analysis of Nepalese helps investors to reach best investment decision about common stock?
- What is the relationship between economic growth & concern stock market variables in Nepal?

### **Objective of the Study**

The main objective of this study is to explore the potentiality of technical analysis in Nepalese stock market.

### **Limitations of the Study**

This study may face the following limitations during the course of research.

- This research mainly based primary and secondary data which have been collected from questioners, interviews, books, journals, financial statements, report of Securities Board Nepal (SEBON) and Nepal Stock Exchange (NEPSE), annual reports of companies, web sites and other publications.
- The study heavily focusses on the technical analysis of Nepalese stock market
- Studies and reference were also extremely limited in the prospective of Nepalese stock market.
- The market price of shares also gets affected by happening on the political and economic factors or fundamentals of the company, i.e., changes in an intrinsic value of share, hence all the deviations cannot represent the market sentiments.

### **Literature Review**

It includes literature regarding theories on the topic and review of the empirical evidence of previous studies done before within and outside the country.

### **Technical Analysis Theory**

Technical analysis of the security prices involves the study of market price in an attempt to predict the future price movement. It is alternative theory of predicting the market price of share in stock market it is market-oriented theory based on force of demand and supply. The share price is reflected in the action of market especially past market rather than the intrinsic value of share. The analyses who analyze the security behavior of past movement to predict the future price of share, is known as technical analysis or technicians.

Technical analysts focus most of their attention on the charts of security market prices and on related summary statistics about security transactions. Therefore, technical analysts are called chartists. Most technical analysts prepare and study the charts of various financial variables in order to make forecasts about security prices.

Technical analysis is the 90 percent psychological and 10 percent logical, which means market is driven by psychology of investors in 90% of the times and in 10% of the times logical factors affect the market. It is based on the belief that history repeats itself, which means price patterns and traded volume occurs again and again over a period of time. This repetition of price and volume pattern helps in predicting near future price movements (Khatri, 2006: 156).

Technician analyzes the past data and then reach conclusion of coming future. The technician believes the forces of supply and demand are reflected in patterns of price and volume of trading. By examination of these patterns, he predicts whether prices are moving higher or lower and even by how much Therefore, the past behavior in market prices is the basic of technical analysis Trend analysis of past prices is major focus of this analysis to determine whether prices are likely to rise or fall. Looking backward is the false of technicians. The technician usually attempts to predict short-term price movements and thus makes recommendations concerning the timing of purchases and sales of either specific stock or groups of stocks (such as industries) or stocks in general. It is sometimes said that fundamental analysis is designed to answer the question "What?" and technical analysis to answer the question "When?" (Sharpe, Alexander and Bailley, 2001: 844).

## Fundamental Analysis Theory

Fundamental analysis, the first approach to security analysis, tries to identify the real or true value of financial assets. The real value of any kind of financial assets is the present value of the future cash flow to forecast the timing and size of these cash flows, and then converts them into their equivalent present value by using an appropriate discount rate. Once the real value is calculated, it is, thereby, compared with the current market price per share to identify whether the security is underpriced or over-priced. If

Current Market Price > Real Value (Price) = Overpriced or Over valued

Current Market Price < Real Value (Price) = Underpriced or Under valued

These unusual cases of miss-pricing will be corrected in the future the under- priced security's price increases to meet the real price. The person utilizing this technique is called a fundamentalist or a fundamental analyst (Bhattrari, 2005:4).

## Efficient Market Theories

An efficient market is one where, shares are always correctly priced and where it is not possible to outperform the market consistently. In other words security prices fully reflect available information in an efficient market. In efficient market, the new information plays vital role of changing the price of stock. In such market the only price changes that would occur, are those, which result from new information. So, if efficient market it uses all available information to determine stock price, the efficient market reflected from the perfect competition market where all information is available without cost and rational investor with no taxes or transaction cost.

## Review of National and International Researches

Regarding the various empirical studies have been conducting related area of technical analysis. Some empirical studies that try to highlight about the subject matter are discussed below.

Roberts (1959) in his article paper entitled "stock market patterns" and financial analysis sating that, "a common and convenient name for analysis of stock market patterns is technical analysis. Perhaps no one in the financial world completely ignores technical analysis indeed, its terminology is ingrained in market reporting and some rely intensively on it. Technical analysis includes many different approaches, most requiring a good deal of subjective judgment in application. In part they are based on analogy with physical processes, such as tides and waves. Roberts further argued that "the history of the market itself contains "patterns" that give clues to the future, if only these patterns can be properly understood. Technical analysis theories maintain that only the pattern of the past need to be studied since the effect of everything else is 'reflected on the tape".

Gautam (2005) in her research on "A Study on the Behavior of Stock Prices" concluded that NEPSE is not providing facilities for investors such as general awareness about investment, investment procedure for general public and movement of stock trend in different periods and their cause. Market makers, brokers, and NEPSE staffs are making coalition for fraudulent



activities towards investors. She also concluded that signaling factors play major role for fluctuating NEPSE index.

Shrestha (2013) in his study on “Share Price Behavior of Commercial Banks Listed in NEPSE” concluded that the dependence in the series of price changes implies that the price changes in the future will be dependent with the historical price. Thus, the information of historical price is helpful to predict future prices of the shares. Nepalese stock market may not be defined as weakly efficient in pricing the shares where market efficiency is defined as all past information is reflected in share prices. Also Mr. Shrestha concluded that the share price movements are caused by flow of several kinds of information in the market.

Mainalee (2016) on his study on “Technical Analysis of Common Stock of Joint Venture Bank” concluded that investors in the stock exchange are not well aware about their investment decision. He also concluded that in all cases it is not possible to forecast the future price movements through technical analysis.

Karki (2018) on his study of “Trend Analysis of Share Price in NEPSE's” concluded that most of the theories and assumptions of technical analysis matches with the Nepal’s stock market. Although mostly fundamental factors influence the share price in NEPSE but one cannot also ignore the past price and traded volume of the company. Investors were found that they were eager to learn and apply the technical tools. He also concluded on his study that three oscillators (i.e. MACD, ROC and RSI) are very helpful tools of technical analysis, which help in depicting the future market.

## Research Gap

Many researchers have studied stock market behavior of Nepal through fundamental and efficient market theory, but only few researchers have studied about technical analysis, tools in stock market. Thus, the current study is a supplement to overcome the different of past works and fill up the research gap, the investigator claims that following points will be justifiable to the study conducted on Application of Technical Analysis Tools in Nepalese Stock Market. Some researchers have concluded that most of the share prices of companies are overpriced. Despite of overpriced, none of them are arriving at their intrinsic price. This concludes that the fundamental analysis seems to be failure in Nepalese stock market. Thus, analyzing security technically became most essential.

## Research Methodology

### Research Design

In this study, descriptive as well as analytical approach is followed. The variables related with the performance of the company, market information and relevant subjects are included in the study. Descriptive and analytical approach has been used in this study.

### Population and Sample

There are altogether 245 listed companies from 10 different sectors at the end of Mid-March 2023. Commercial banks, development banks, finance companies, manufacturing and

processing companies, hotels, trading, insurances, hydropower, investment company and others. The research period March/April 2023 is undertaken in this study is of 70 respondents. The share transaction of commercial banks usually controls over 64.7% of the total transaction at NEPSE, any fluctuation in its price easily reflects the behavior of market.

### **Data Collection**

All the information related to the stock prices are taken from NEPSE. Thus, in order to make the study more reliable, coherent and convenience, primary sources have been applied here while collecting data, facts and statistics.

### **Questionnaire**

In order to meet the objectives of the study various questions were developed and distributed to the various individual and organization that are directly or indirectly related with the Nepal's share market.

### **Data Analysis Tools**

To analyze the collected data many statistical and non- statistical tools can be used. the study focused only simple type tools. Moving average and bar diagrams are used for the presenting and analyzing data.

### **Analysis and Presentation of Data**

In this section researcher tried to know the state and potentiality of technical analysis in Nepal's share market. For this, based on theory and assumptions of technical analysis various questions were developed and asked to the respondents.

#### **Opinion towards status of Technical Analysis in Nepal's Stock Market**

In order to know whether the technical analysis matches or not with the Nepal's share market, various sub questions related to the technical analysis were developed and were asked to the respondents, which are presented below.

Respondents were asked whether the trend of share price can be predicted or not in NEPSE by studying the historical price and volume data with the help of charts. Most of them were agreed i.e. 54.29% of respondents agreed but 34.29% of them were disagreed with this statement.

Majority of the respondents i.e. 48% did not agree with the statement that share market moves in trend. They mean that movement of share price in NEPSE is in random not orderly. But 35% respondents replied that this is true in NEPSE. When asked, they believe in repeats if history in NEPSE. Out of total respondents 50% of respondents believed in this one of the assumptions of technical analysis, 28.57% of respondents answered that they don't believe that assumption of technical analysis be true in NEPSE.



In the same way, out of total respondents' equal numbers i.e. 48.57% agreed in favor and against towards the belief of technical analysis relating with NEPSE i.e. share price is determined by its supply and demand despite of fundamental factors. But remaining 2.86% of respondents remained response less.

**Table 1***Status of Technical Analysis in Nepal's Stock Market*

Research Variable	Yes		No		Don't Know		No. Resp.		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
<b>Theory of TA</b>										
Predication of Trend	38	54.29	24	34.29	5	7.14	3	4.28	70	100
Reflection of all information in share price	40	56.71	23	34	4	5	3	4.29	70	100
Market Moves in Trend	25	35	34	48	8	12	3	5	70	100
Repetition of History	35	50	20	28.57	9	12.86	6	8.57	70	100
Supply and Demand Determines Share Price	34	48.57	34	48.57	0	0	2	2.86	70	100

Source: Field Survey

**Respondents applying Technical Analysis**

Only about 15.71% of the respondents always apply technical analysis to analyze the share price movement in NEPSE, 22.86% of them said they apply sometime, 57.14% of them said they never apply technical analysis and remaining 4.29% respondents remained response less.

**Table 2***Respondents Applying Technical Analysis*

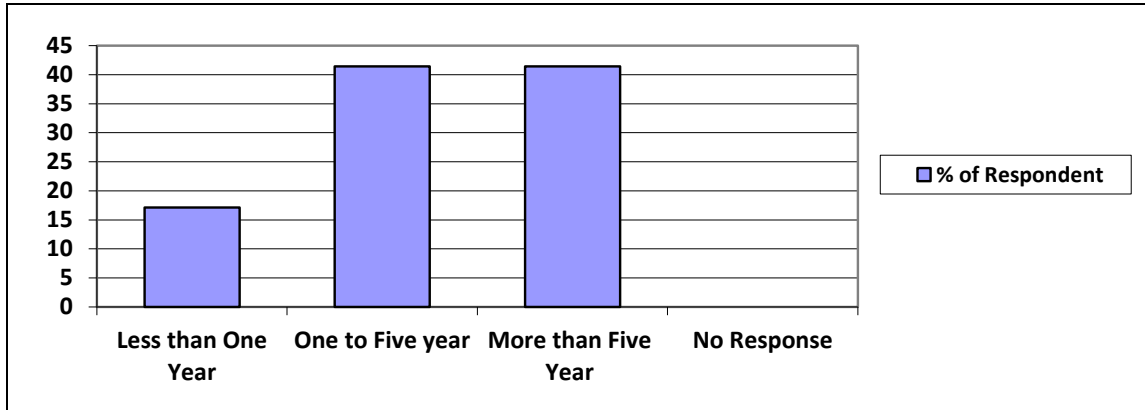
Research variables	No. of Respondents	% of Respondents
Applying Always	11	15.71
Applying Sometime	16	22.86
Never Applying	40	57.14
No. Response	3	4.29

Total	70	100
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Source: Field Survey

**Figure 1**

*Respondents Applying Technical Analysis*



**Reasons for Not Applying Technical Analysis**

When asked reason for not applying technical analysis, 10% of them answered they based their analysis only on fundamental facts but 75% of them replied due to lack of knowledge of technical analysis only on fundamental facts but 75% of them replied due to lack of knowledge of technical analysis.

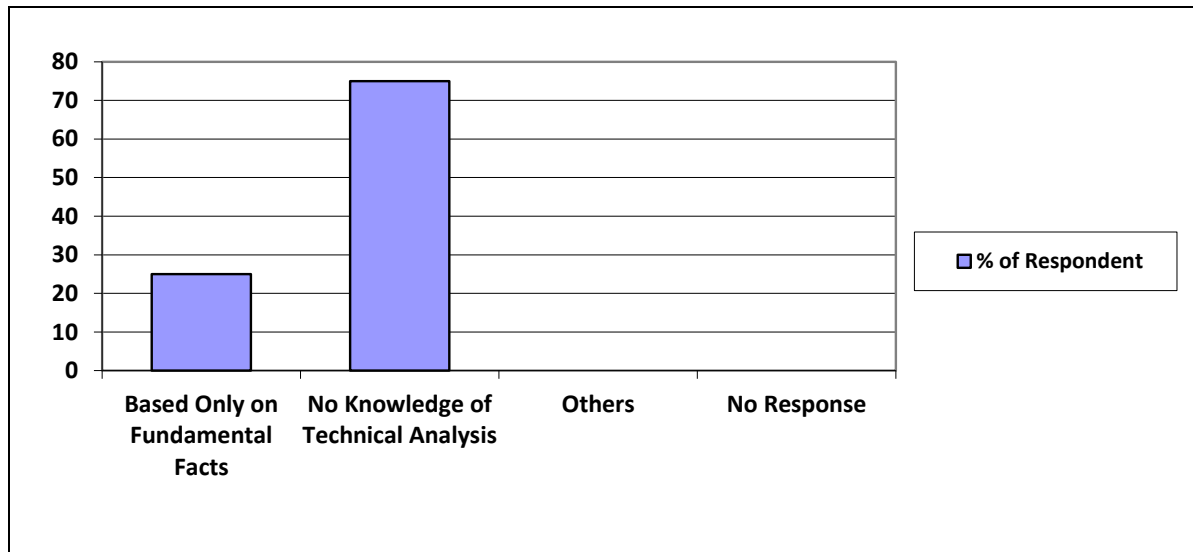
**Table 3**

*Reasons for Not Applying Technical Analysis*

Research Variables	No. of Respondents	% of Respondents
Based Only on Fundamental Facts	10	25
No Knowledge of Technical Analysis	30	75
Others	0	0
No Response	0	0
Total	40	100

Source: Field Survey

**Figure 2**  
 Reasons for Not Applying Technical Analysis



### Reliability of Technical Analysis in Nepal’s Stock Market

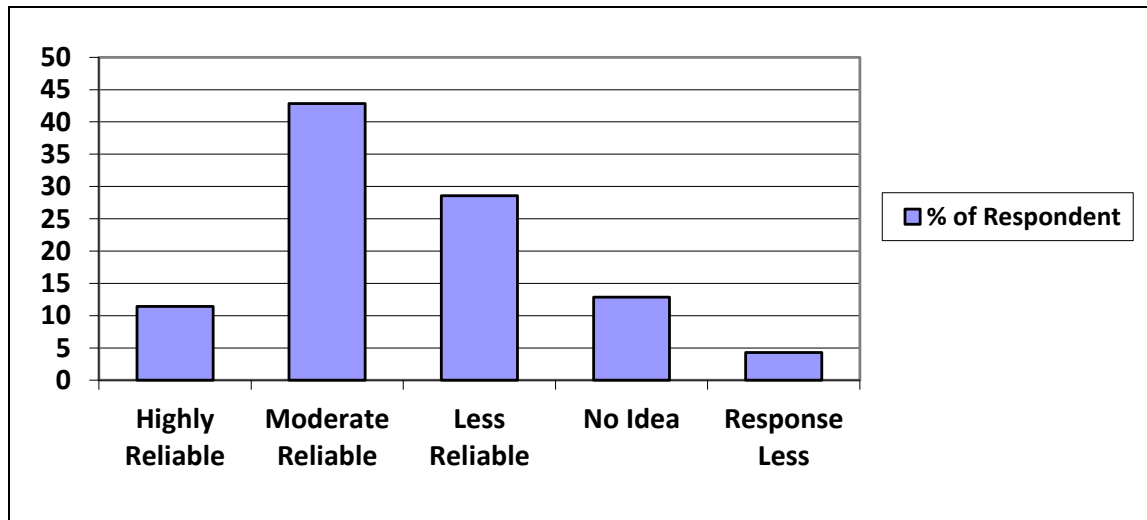
In order to know the potentiality of the technical analysis, respondents were asked about the reliability of it in Nepal’s share market. 11.43% of them think it is highly reliable, 42.86% of them think its reliability can be moderate, 28.57% of them replied less reliability of technical analysis in Nepal, 12.85% of them answered they have no idea on it and remaining 4.29% of them remained response less.

**Table 4**

*Reliability of Technical Analysis in Nepal’s Stock Market*

Research variables	No. of Respondents	% of Respondents
Highly Reliable	8	11.43
Moderate Reliable	30	42.86
Less Reliable	20	28.57
No Idea	9	12.85
Response Less	3	4.29
Total	70	100

Source: Field Survey

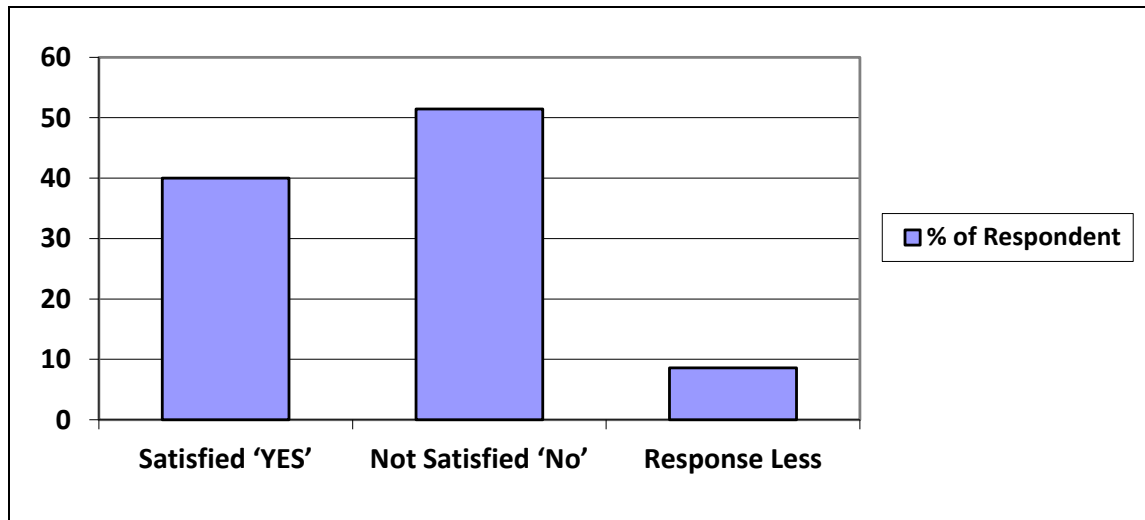
**Figure 3***Reliability of Technical Analysis in Nepal's Stock Market***Respondent's faith upon their Analyzing Technique**

To know whether respondents were satisfied with the method they are using to analyze the share price of companies. 40% of them answered they are satisfied, 51.43% of them answered they are not satisfied with the method they are using and rest 8.57% of respondent remained response less.

**Table 5***Respondent's faith upon their analyzing technique*

Research variables	No. of Respondents	% of Respondents
Satisfied 'YES'	28	40
Not Satisfied 'No'	36	51.43
Response Less	6	8.57
Total	70	100

*Source: Field Survey*

**Figure 4***Respondents faith upon their analyzing Technique*

### Conclusions

Mass participation in industrialization process is possible through the efficient securities market. Securities market promotes efficient collection of small and scattered savings and provides returns. It plays a key role in allocating capital to the corporate sector that will have real effect in the economy. Stock market is the booming sectors in Nepalese economy. Oversubscription in all the IPO, coverage in Medias & newspapers matter related to stock market, lack of other investing sectors in the country, bullish trend in NEPSE in past two years, emerging of share training institutions & portfolio managers etc. signal the booming trend of capital market in Nepal and then from September, 2016 to till date the trend has been changed to downward. Inconsistent political environments, unrest in terai, Nepal Banda are major cause for bearish trend of NEPSE. Stock market in Nepal is not yet mature in terms of its infrastructure, governance, investors, and confidence, pricing of stock and stability and analyzing stock before investment decisions. Rather than investing haphazardly one should analyze stock to beat the market. In order to have the accurate result from the analysis necessity of efficient market is most.

Based on these various problems, researcher tried to conclude actual situation of Nepalese stock market on this study. Based on major findings of the study various conclusions are drawn Study showed that most of the theories and assumptions of technical analysis matches with the Nepal's stock market. Although mostly fundamental factors influence the share price in NEPSE but one cannot also ignore the past price and traded volume of the company. Similarly, from the analysis and interpretation made upon the three sample companies' researchers can conclude that most of the time technical tools gives true result. Despite of technical correction in the market from time-to-time technical tools are able to interpret the market trends most of the time. Most of the time it was difficult to identify trend shown by the moving average. During the study period most of the time moving average and bar diagrams line remained in downward zone of all the samples, indicates the bearish market of the share.

Globalization of economies and market has been one of the major instruments of changes. There is no gainsaying that Nepal is already sandwiched between the economic liberalization and globalization process. Therefore, Nepal cannot stay from these developments by pursuing a policy of isolation and inward-looking strategy. Though overall policy setting has not been conducive to the development of the stock market, it can be said that the Nepalese stock market is in stage of development. Since stock market offers opportunity and liquidity to the government and corporate securities by facilitating transaction, it is considered a crucial element in the national economy.

They have taken the stock exchange as moneymaking enterprise and thought that any investment made would bring a sure return on the other hand. Some handful market players have joined hands with officials for price manipulation. Investors are losing their confidence in the stock market of Nepal due to the heavy fluctuations in their share prices which is caused by having lack of adequate knowledge to investors, market disorders, price manipulation, fraudulent share market activities etc. The market prices of shares also get affected by happening on the political and economic factors or fundamentals of the company. The analysis of Nepalese stock market shows that sometimes the Nepal's stock market is primarily by whims and not by new information this is a sign of market inefficiency but investor can earn more gain from this if they try to understand such underlying causes of market movement and act accordingly.

With such a scenario prevailing in the market, there is necessary to establish clear concept on share price fluctuation. Analyzing the securities before taking investment decision is the best way to get high return from the shares. Moving average and chart analysis are very helpful tools of technical analysis, which help in depicting the future market

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