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A Survey of Stock Market Reaction to Public Information

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Abstract : *The paper analyzes respondents' opinions collected through a self-administered, structured questionnaire survey on securities investors' attitudes towards the information flow and the factors that influence market prices of listed companies' shares at the Nepal Stock Exchange (NEPSE). The survey was conducted in June 2007 in the Kathmandu valley, which comprised a set of 10-questions. Of the 124 questionnaires distributed to individual securities investors, 93 responses were usable, i.e., response rate was 75 per cent. The study found that shares of commercial banks, development banks and finance companies were more popular among the Nepalese investors. Similarly, capital appreciation was the main important motive behind investing in the shares. Most of the respondents found to have strong belief on impact of new information of price movement of the Nepalese stock market based on the flow of new information; it indicated that the Nepalese stock market was sensitive to new public information.*

I. Introduction

The Efficient Market Hypothesis (EMH) suggests that gaining from predicting price movements is very difficult and unlikely. The main engine behind the price changes is the arrival of new information. A market is said to be "efficient" if price adjusts quickly, and, on average, without bias, to new information. As a result, the current prices of securities reflect all available information at any given point in time.

Many investors try to identify securities that are undervalued and are expected to increase the value in the future, and particularly those that will increase more than others. Many investors believe that they can select securities that will outperform the market. They use a variety of forecasting and valuation techniques to help their investment decisions to translate them into substantial profit. The EMH asserts that none of these techniques are effective, and therefore no one can predictably outperform the market.

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Beside the theories, it is interesting to study as to how investors react to dissemination of new information in the market? It is the key issue raised in the paper seeking to answer using the survey technique. The study designed to elicit securities investor's attitudes towards the information flow and the factors that influence market prices of listed companies' shares at the Nepal Stock Exchange (NEPSE).

In the following sections, Section II presents a brief review of Efficient Market Hypothesis. Similarly, Section III outlines the methodology employed and describes the data used in this study. Section IV provides the survey results. Finally, Section V contains conclusion of the paper.

II. Literature Review: Efficient Market Hypothesis

Information is the key to be winner in the stock market with more returns than normal. Information may be either published or insider (unpublished). The Efficient Market Hypothesis (EMH) relies on the efficient use of information by investors and is often referred to as "information efficiency". Fama (1970) defined three forms of market efficiency on the basis of the information, namely, weak, semi-strong and strong. Each one is concerned with the adjustment of stock prices to one relevant information subset. The weak form efficiency states that stock price fully reflects historical information of past series of prices and returns. In this case, it is impossible to earn abnormal returns using past pattern of stock prices, i.e., price changes are random. If there is low level of market efficiency, market participants can predict prices and earn higher profit.

By increasing the information set to include publicly available information (i.e. information on interest rates, announcements of dividends, annual earnings, additional investments, political announcements, etc), it is not possible for a market participant to make abnormal profit, then the market is said to have semi-strong form efficiency. In the semi-strong market efficiency, stock prices fully reflect all information known to all market participants, i.e., public information. With the announcement of an event on a certain day, the information allows precise measurement of the speed of the stock price-response using the daily stock prices data.

By increasing the information set to include private information, it is not possible for the market participant to make abnormal profit; then the market is said to have the strong form efficiency. In the strong form of market efficiency, stock prices fully reflect all information including public and private information, known to any market participant.

The Efficient Market Hypothesis (EMH) states that stock prices reflect all available information so that stock prices are very near to their intrinsic values. According to Jensen (1978) a market is efficient with respect to information set θ, if it is impossible to make economic profits by trading on the basis of information set θ. The random walk hypothesis of stock market prices states that price changes cannot be predicted from earlier changes in any meaningful manner. Successive price changes in individual securities are independent over time and price changes occur without any significant trends or patterns.

Subsequently, Fama (1991) changes the categories and coverage of information. The first category now covers the tests for return predictability. The second and third categories, semi-strong tests are now called event studies, and strong form tests be called test for private information.

On the basis of the above statements, the primary hypothesis for Efficient Market Hypothesis is that the prices accurately and quickly reflect all available information in such a way that one can earn abnormal returns. The time for the adjustment for any new information is considered as a critical factor. As per Hadi (2006), if the market adjusts more rapidly and accurately immediately after new information, it is considered more efficient market. There may be various reasons for the stock market not being able to adjust quickly and correctly. Hadi (2006) explained further about the alternative hypothesis, which security market is inefficient and the result of stock price is not accurately reflecting the new information. This might result from the following: (1) the investor is unable to interpret the new information correctly, (2) the investors have no access to the new information; (3) the transaction cost in trading security is an obstruction for free trading; (4) the restriction on short sale; and finally, (5) the investors might be misled by the change in accounting principles. Thus, the information and rational investors are the most important part of the market efficiency assuming that the information is available without cost.

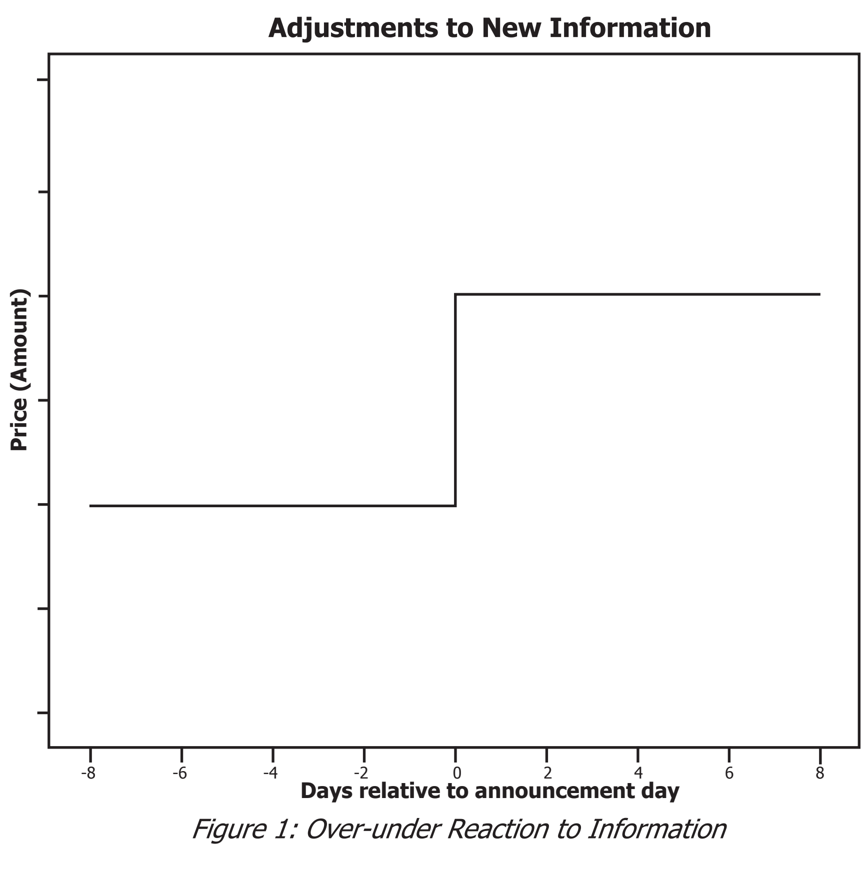

Figure 1: Over-under Reaction to Information

If there is gradual flow of new information, then successive price changes will be dependent on the quality of the information (Li, 2005). An effect from market reaction to new information may be either positive or negative on the basis of investors' perception of the news as good or bad. Market reaction towards the new information is dependent on the investors' psychology too. As per Conrad et al. (2002) reports the stock prices relatively more sensitive to bad-news than good-news. Sometimes, it is possible to have over/under-reaction to new information as shown on Figure 1.

III. Research Methodology

Survey Technique

The survey on individual securities investors was conducted in June 2007 within the Kathmandu valley. The survey questionnaire has been focused on self-administered, structured questionnaires. The survey comprised 10-questions. (see Annexure A).

The survey instrument is organised into three parts (a) an introductory description of the respondents, (b) the shareholders' perception on buying equity shares and market prices, and (c) shareholders' perception concerning announcement of new public information and market reaction on stock prices. Some of the questions asked respondents to select one answer among several possibilities, one question relating to multiple choices, while other questions asked the respondents to rank alternatives in terms of their relative importance.

The mean weight is used in this study to analyse the data and draw inferences from them. The degree of importance of each value to the overall total is measured by the mean weight. Mean weights are calculated to rank the issues, raised on questionnaire based on their importance as mentioned by respondents.

The degree of rank correlation between two successive sets of ranks is measured by Spearman's rank correlation coefficient "R", with the formula:

$$R = 1 - \frac{6\sum d^2}{n(n^2-1)}$$

Where, "d" is the difference in ranks for each ranks for each pair of observation and "n" is the number of paired observations. The significance of the rank correlation coefficient "R" is tested by using p-value.

Limitations of the study

The current study's findings might not be generalised, as tests were administered on a ninety-three respondents (investors) only. As most of the Nepalese investors have low level of sophisticated, updated knowledge; information may not reach most investors on time. Therefore, with the announced information failing to reach a majority of investors, the market reaction surfaces lately. Besides this, pre-tests have not been administered on the questionnaire survey. Similarly, no test has been performed to judge the respondent-bias or non-response bias.

IV. Survey Results

This section deals with the analysis of respondents' opinions collected through a questionnaire survey, regarding the factors that influence market prices of listed companies' shares at the Nepal Stock Exchange (NEPSE).

A: Respondents' profile

The data analysis has been focused on self-administrated structure questionnaires. Of the 124 questionnaires distributed to individual investors, 93 responses have been usable, i.e., 75 per cent of response rate.

The respondents are classified into two groups on the basis of their age; one, below or equal to 35 years old and two, above 35 years old. The classification of respondents on the basis of age can help in analysing the differences in their views regarding the impact of new information on share prices.

With respect to age of the respondents, 46 per cent of the respondents belong to the 'above thirty-five years old' category, and 54 per cent are of equal to or less than thirty-five years old. Profiles of the respondents are presented in Table 1.

Table 1: Profile of the respondents

Variables	Number	Percentage	Variables	Number	Percentage
Gender			Age		
Male	81	87	≤ 35 years	50	54
Female	12	13	> 35 years	43	46
Total	**93**	**100**	**Total**	**93**	**100**
Education level			Profession		
Undergraduate	4	4	Academician	38	41
Graduate	26	28	Government/Private service	27	29
Postgraduate	62	67	Business	13	14
Ph. D. and/or further	1	1	Professional (Auditors etc.)	7	7
Total	**93**	**100**	Self-employed	8	9
			Total	**93**	**100**

Source: Survey 2007

The questionnaire was divided into two key areas: (1) general questions relating to shareholders' perception for buying equity shares and market prices, and (2) specific questions relating to announcement of new public information and market reaction on share prices.

B: Shareholders' perception on buying equity shares and market prices

To examine the respondents' general perception on buying shares and influences of share price, they were asked a total of nine questions.

Market source to purchase equity share

The respondents were asked about the market source (i. e. primary, secondary or both) during purchase the shares. The majority (45 per cent) of the respondents purchased the shares from both primary and secondary markets. However, 38 per cent of the respondents used to purchase along from primary and remaining 17 per cent from secondary market. It indicates that the majority of the respondents are actively participating in the share trading activities.

Corporate firm's share holding

The respondents are asked about their holding the corporate firm's share. The majority (91 per cent) of the respondents were holding commercial bank's shares. Finance companies and development banks follow it by 43 per cent and 37 per cent of the respondents. Therefore, the shares of commercial banks, finance companies and development banks are more popular among the Nepalese investors. Insurance companies, manufacturing and processing, and trading companies are less popular categories of shares in Nepalese stock market. The Table 2 presents the respondents' holding corporate firm's shares.

Table 2: Structure of investment in shares by respondents

(Total respondents = 93)

Corporate firms	Number	Percentage
Commercial Banks	85	91
Finance companies	40	43
Development Banks	34	37
Insurances companies	28	30
Hotel	15	16
Manufacturing and processing	9	10
Trading	2	2
Others	5	5
Total respondents	93	

Source: Survey 2007

Attendance of shareholders' annual general meeting

With respect to the attendance of shareholders' annual general meeting of corporate firms, the majority of the respondents (62 per cent) of the respondents attend annual general meeting of corporate firms of which they hold shares.

However, 38 per cent of the respondents do not attend the annual general meeting. It indicates that the shareholders appeared to be active to obtain the corporate information through attaining the annual general meeting of the corporate firm.

Shares traded in the secondary market

On top of that, the respondents asked shares traded in the secondary market in times. The majority of the respondents (42 per cent) have traded shares sometimes in the secondary market, while 20 per cent are of trade frequently. It is revealed that more than 60 per cent of the respondents are actively trade shares in the secondary market.

However, 20 per cent of the respondents participate seldom to trade in secondary market and 16 per cent never traded shares in the secondary market. The few (2 per cent) of the respondents did not respond to this question.

Information dissemination, shareholders' interest and legal provisions

The respondents were asked whether the corporate firms disseminate important information to investors/market on time, management protects shareholders' interest and legal provisions protect shareholders' interests or not. The details of the responses are presented in Table 3

Table 3: Information dissemination, shareholders' interest and legal provisions

This table reports the responses on the given statements

	Percentage of respondents*		
	Yes	**No**	**Don't no**
Do you think that the corporate firms disseminate important information to investors/market on time?	40	39	21
If yes, are you satisfied with the disseminated information?	38	57	5
Do you feel the management protects shareholders' interest?	37	44	19
Do you think that legal provisions are adequate in protecting shareholders' interest?	35	46	19

* These estimates are based on 93 responses.

Source : Survey 2007

The majority of the respondents (40 per cent) felt that the firms disseminated important information to investors/market on time. Among of them, a little more than half of the respondents (57 per cent) are not satisfied with the information disseminated by the corporate firms. Similarly, the majority of the respondents (44 per cent) opined that the management does not protect the shareholders' interest while the majority of the respondents (46 per cent) believed that the existing legal provisions are not adequate in protecting shareholders' interest.

Major motive behind investing in the stocks

The age would be important factors affecting decision to invest in shares. The next aspect of the study is concerned with motives behind investing in the equity shares. The overall survey results are shown in Table 4 in order of their significance as viewed by the all respondents.

Table 4: Major motive behind investing in the stocks as viewed by all respondents

This table reports the mean weightage of the responses on the given statements. The mean values are calculated by assigning scores 1 through 5 for rankings from 'lowest important' to 'highest important' respectively and by multiplying each score by the fraction of responses within each rank. A score of 0 is assigned when a statement is not ranked.

	Percentage of responses*						
	Lowest 1	2	3	4	Highest 5		
(a) Expectation of increase in market price	5.6	4.5	13.5	20.2	56.2	4.17	1
(b) Expectation of bonus/rights shares	2.2	11.8	26.9	39.8	19.4	3.62	2
(c) Expectation of cash dividend	6.7	5.6	44.9	25.8	16.9	3.40	3
(d) Because of no opportunities to invest in other fields	28.1	49.4	10.1	3.4	9.0	2.16	4
(e) Because of less risk compared to other investments	56.2	29.2	2.2	10.1	2.2	1.73	5

* These estimates are based on 93 responses.

Source: Survey 2007

The mean value of the major motive behind investing in the stocks in Table 6.4 varies from 1.73 to 4.17. In their overall ranks, the respondents gave the first preference to "Expectation of increase in market price (capital gain)", the second preference to "Expectation of bonus and rights shares", and the third preference to "Expectation of cash dividend". Similarly, the other statements such as "Because of no opportunities to invest in other fields" and "Because of less risk compared to other investment" are not important. These rankings are consistent with the previous study by Manandhar (2001) – who conduct a survey for the major motive behind investing in the stock with the given five statements on 2000 from 100 respondents. Interestingly, the respondents' opinions (i.e. ranking) are similar to those between 2000 and 2007 survey with respect to motive behind investing in the stock.

The motivations presented in Table 4 have been arranged in the order of their significance without making any distinction between the responses from adult and 35 plus investors groups. However, it is also necessary to assess the difference in the opinions of these two groups of respondents. The responses from these two groups are presented in Tables 5 and 6 in order of their significance.

Table 5: Major motive behind investing in the stocks as viewed by adult investor respondents

This table reports the mean weightage of the responses on the given statements. The mean values are calculated by assigning scores 1 through 5 for rankings from 'lowest important' to 'highest important' respectively and by multiplying each score by the fraction of responses within each rank. A score of 0 is assigned when a statement is not ranked.

	Percentage of responses*						
	Lowest 1	2	3	4	Highest 5		
(a) Expectation of increase in market price	4.2	2.1	16.7	20.8	56.3	4.23	1
(b) Expectation of bonus/rights shares	2.0	18.0	22.0	36.0	22.0	3.58	2
(c) Expectation of cash dividend	10.4	6.3	41.7	29.2	12.5	3.27	3
(d) Because of no opportunities to invest in other fields	22.9	43.8	16.7	4.2	12.5	2.40	4
(e) Because of less risk compared to other investments	58.3	29.2	2.1	10.4	0.0	1.65	5

* These estimates are based on 50 responses.

Source: Survey 2007

Table 6: Major motive behind investing in the stocks as viewed by 35 plus investor respondents

This table reports the mean weightage of the responses on the given statements. The mean values are calculated by assigning scores 1 through 5 for rankings from 'lowest important' to 'highest important' respectively and by multiplying each score by the fraction of responses within each rank. A score of 0 is assigned when a statement is not ranked.

		Percentage of responses*						
		Lowest 1	2	3	4	Highest 5		
(a)	Expectation of increase in market price	7.3	7.3	9.8	19.5	56.1	4.10	1
(b)	Expectation of bonus/rights shares	2.3	4.7	32.6	44.2	16.3	3.67	2
(c)	Expectation of cash dividend	2.4	4.9	48.8	22.0	22.0	3.56	3
(d)	Because of no opportunities to invest in other fields	34.1	56.1	2.4	2.4	4.9	1.88	4
(e)	Because of less risk compared to other investments	53.7	29.3	2.4	9.8	4.9	1.83	5

* These estimates are based on 43 responses.

Source: Survey 2007

With respect to the age group, the adult investor respondents gave the first preference to "Expectation of increase in market price (capital gain)", the second preference to "Expectation of bonus and rights shares", and the third preference to "Expectation of cash dividend". Similarly, other statements such as "Because of no opportunities to invest in other fields" and "Because of less risk compared to other investment" are placed forth and fifth in rank. These ranking are not found different during the comparison to 35 plus investor group. Therefore, the major motives behind investing in the equity shares are not influenced by the respondents' age.

Factors affecting the share prices

The respondents asked to rank the factors affecting the share prices. There are provided five different factors affecting share prices. The survey results are presented in Table 7 in order of their significance as viewed by the all respondents.

Table 7: factors affecting the share prices as viewed by all respondents

This table reports mean weightage of the responses on the given statements. The mean values are calculated by assigning scores 1 through 5 for rankings from 'lowest important' to 'highest important' respectively and by multiplying each score by the fraction of responses within each rank. A score of 0 is assigned when a statement is not ranked.

		Percentage of responses*						
		Lowest 1	2	3	4	Highest 5		
(a)	Announcement of bonus shares and rights issue	5.5	9.9	22.0	39.6	23.1	3.65	1
(b)	Political-Economic events	13.5	23.6	9.0	11.2	42.7	3.46	2
(c)	Announcement of cash dividend	9.0	21.3	25.8	28.1	15.7	3.20	3
(d)	Announcement of earnings	22.0	19.8	30.8	14.3	13.2	2.77	4
(e)	Announcement of changes in management of the company	49.4	23.6	12.4	5.6	9.0	2.01	5

* These estimates are based on 93 responses.

Source: Survey 2007

The mean value of the major factors affecting the share prices in Table 6.7 varies from 2.01 to 3.65. The majority of the respondents gave the first importance factor to "announcement of bonus share and right issues", the second importance to "political-economic events" and the third importance to "announcement of cash dividend". The other statements such as "Announcement of earnings" and "Announcement of changes in management of the company" are not important factors affecting the share prices.

The factors affecting the share prices presented in Table 7 have been arranged in the order of their significance without making any distinction between the responses from adult and 35 plus investor groups. However, it is also necessary to assess the difference in the opinions of these two groups of respondents. The responses from these two groups are presented in Tables 8 and 9 in order of their significance.

Table 8: Factors affecting the share prices as viewed by adult investor respondents

This table reports mean weightage of the responses on the given statements. The mean values are calculated by assigning scores 1 through 5 for rankings from 'lowest important' to 'highest important' respectively and by multiplying each score by the fraction of responses within each rank. A score of 0 is assigned when a statement is not ranked.

	Percentage of responses*						
	Lowest 1	2	3	4	Highest **5**		
(a) Announcement of bonus shares and rights issue	6.0	12.0	24.0	34.0	24.0	3.58	1
(b) Political-Economic events	12.5	22.9	8.3	10.4	45.8	3.54	2
(c) Announcement of cash dividend	14.6	18.8	25.0	27.1	14.6	3.08	3
(d) Announcement of earnings	16.7	16.7	35.4	18.8	12.5	2.94	4
(e) Announcement of changes in management of the company	50.0	29.2	6.3	8.3	6.3	1.92	5

* These estimates are based on 50 responses.

Source: Survey 2007

Table 9: Factors affecting the share prices as viewed by 35 plus investor respondents

This table reports mean weightage of the responses on the given statements. The mean values are calculated by assigning scores 1 through 5 for rankings from 'lowest important' to 'highest important' respectively and by multiplying each score by the fraction of responses within each rank. A score of 0 is assigned when a statement is not ranked.

	Percentage of responses*						
	Lowest 1	2	3	4	Highest 5		
(a) Announcement of bonus shares and rights issue	4.9	7.3	19.5	46.3	22.0	3.73	1
(b) Political-Economic events	14.6	24.4	9.8	12.2	39.0	3.37	2
(c) Announcement of cash dividend	2.4	24.4	26.8	29.3	17.1	3.34	3
(d) Announcement of earnings	27.9	23.3	25.6	9.3	14.0	2.58	4
(e) Announcement of changes in management of the company	48.8	17.1	19.5	2.4	12.2	2.12	5

* These estimates are based on 43 responses.

Source: Survey 2007

With respect to age group, 35 plus investors gave the first priority to "Announcement of bonus shares and right issues" the second importance to "Political-economic events" and the third importance to "Announcement of cash dividend". The other statements such as "Announcement of earnings" and "Announcement of changes in management of the company" factors are placed fourth and fifth in the rank for affecting the share prices. These rankings are not found different during the comparison to 35 plus investors group. Therefore, the factors affecting the share prices are not influenced by the respondents' age.

C: Announcement of new public information and market reaction on share prices

At the end of the questionnaire, the respondents were provided with a list of 12 different statements of observations regarding announcement effect of new public information and market reaction on share prices by using a five-point Likert Scale questionnaire.

In order to highlight the significance of the selected statements of observations, mean value of responses for each statement of observation have been computed. The higher value of mean indicates that the statement is highly significance to majority of the respondents. Applying these criteria, the survey results are presented in table 10 in order of their significance.

The mean values of observation statements varied from 2.92 to 4.20. The majority of the respondents identified that market price of the stock is mainly affected by the announcement of stock dividends. Similarly, they ranked "Announcement of merger or acquisition of firms" and "Announcement of cash dividend" as the second and third important factors influencing share prices.

With respect to other statements such as '"Announcement of present macro-economic report by government", "Changes in capital gain tax", "Announcement of changes in cabinet (government)"; and "Announcement of changes in corporate tax rates" give the least influencing factors to set market price of share.

Therefore, the dividend related information announcements, i.e., cash dividend, stock dividend, have a larger impact on the share price while the political-economic events influence less. Announcement of rights share issuance, merger and acquisition of firms, and government policies have some influence on the share price.

Table 10: Announcement of new public information and market reaction on share prices as viewed by all respondents

This table reports mean weightage of the responses on the given statements. The mean values are calculated by assigning scores 1 through 5 for rankings from 'strongly disagree' to 'strongly agree' respectively and by multiplying each score by the fraction of responses within each rank. A score of 0 is assigned when a statement is not ranked.

		Percentage of responses*						
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree		
		5	4	3	2	1		
1	Market price of the stock is affected by the announcement of stock dividends.	36.3	48.4	14.3	1.1	0.0	4.20	1
2	Announcement of merger or acquisition of firms affects market price of shares.	34.4	45.2	17.2	3.2	0.0	4.11	2
3	Stock price is affected by the announcement of cash dividend.	23.9	63.0	12.0	1.1	0.0	4.10	3
4	Stock price in market is affected by the announcement of rights share issuance.	21.5	54.8	20.4	3.2	0.0	3.95	4
5	Market price of the stock is affected by the announcement of government's policies.	20.9	46.2	24.2	4.4	4.4	3.75	5
6	Share price is affected by the announcement of additional business expansion.	10.9	40.2	35.9	12.0	1.1	3.48	6
7	Stock price is affected by the announcement of accounting information.	6.5	40.2	37.0	14.1	2.2	3.35	7
8	Market price of the stock is affected by the announcement of new corporate management leader/team.	5.5	35.2	41.8	11.0	6.6	3.22	8
9	Announcement of present macro-economic report by government affects share price.	8.6	29.0	35.5	23.7	3.2	3.16	9
10	Changes in capital gain tax affects share prices.	2.2	29.0	41.9	25.8	1.1	3.05	10
11	Announcement of changes in cabinet (government) affects market price of the stocks	8.6	30.1	30.1	15.1	16.1	3.00	11
12	Stock price is affected by the announcement of changes in corporate tax rates.	3.3	23.9	42.4	22.8	7.6	2.92	12

* These estimates are based on 93 responses.

Source: Survey 2007

The 'observation statements' presented above have been arranged in order of their significance without making any distinction between the responses of adult investor and 35 plus investor group. However, it is necessary to assess the difference in the views of these groups of respondents. These responses are presented in Table 11 and Table 12.

Table 11: Announcement of new public information and market reaction on share prices as viewed by adult investor respondents

This table reports mean weightage of the responses on the given statements. The mean values are calculated by assigning scores 1 through 5 for rankings from 'strongly disagree' to 'strongly agree' respectively and by multiplying each score by the fraction of responses within each rank. A score of 0 is assigned when a statement is not ranked.

		Percentage of responses*						
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree		
		5	4	3	2	1		
1	Announcement of merger or acquisition of firms affects market price of shares.	42.0	42.0	12.0	4.0	0.0	4.22	1
2	Market price of the stock is affected by the announcement of stock dividends.	32.7	51.0	16.3	0.0	0.0	4.16	2
3	Stock price is affected by the announcement of cash dividend.	26.5	55.1	16.3	2.0	0.0	4.06	3
4	Stock price in market is affected by the announcement of rights share issuance.	20.0	56.0	22.0	2.0	0.0	3.94	4
5	Market price of the stock is affected by the announcement of government's policies.	20.4	46.9	22.4	4.1	6.1	3.71	5
6	Share price is affected by the announcement of additional business expansion.	14.3	42.9	28.6	12.2	2.0	3.55	6
7	Stock price is affected by the announcement of accounting information.	6.0	48.0	32.0	12.0	2.0	3.44	7
8	Market price of the stock is affected by the announcement of new corporate management leader/team.	8.3	45.8	31.3	10.4	4.2	3.43	8
9	Announcement of present macro-economic report by government affects share price.	12.0	22.0	32.0	30.0	4.0	3.08	9
10	Changes in capital gain tax affects share prices.	2.0	26.0	50.0	20.0	2.0	3.06	10
11	Stock price is affected by the announcement of changes in corporate tax rates.	4.1	20.4	46.9	22.4	6.1	2.94	11
12	Announcement of changes in cabinet (government) affects market price of the stocks	10.0	32.0	16.0	18.0	24.0	2.86	12

* These estimates are based on 50 responses.

Source: Survey 2007

With respect to different age group, 'announcement of new public information and market reaction on stock price' are arranged in Table 11 in order of their significance as viewed by the adult investor group.

The mean values of 'observation statements' in Table 11 varied from 2.86 to 4.22. Among them, adult investors gave the first priority to "Announcement of merger and acquisition of firm, the second importance to "Announcement of stock dividend", and the third importance to "Announcement of cash dividend". The other statements such as "Announcement of right issuances" and "Announcement of government policies" factors are placed forth and fifth in rank for affecting the share prices. With respect to other statements such as "Announcement of present macro-economic report by government," "Changes in capital gain tax", "Announcement of changes in cabinet (government)"; and "Announcement of changes in corporate tax rates" are gave the least influencing factor to set market price of share.

The "Announcement of new public information and market reaction on stock price" is arranged in Table 11 in order of their significance as viewed by the 35 plus investors group.

The mean values of 'observation statements' in Table 12 varied from 2.91 to 4.24. Among them, 35 plus investors gave the first priority to "Announcement of stock dividend" the second importance to "Announcement of cash dividend", and the third importance to "Announcement of merger and acquisition of firm. The other statements such as "Announcement of right issuances" and "Announcement of government policies" factors are placed forth and fifth in rank for affecting the share prices. With respect to other statements such as "Changes in capital gain tax", "Announcement of changes in cabinet (government)"; and "Announcement of changes in corporate tax rates" are gave the least influencing factor to set market price of share.

Table 12: Announcement of new public information and market reactionon share prices as viewed by 35 plus investor respondents

This table reports mean weightage of the responses on the given statements. The mean values are calculated by assigning scores 1 through 5 for rankings from 'strongly disagree' to 'strongly agree' respectively and by multiplying each score by the fraction of responses within each rank. A score of 0 is assigned when a statement is not ranked.

		Percentage of responses*						
		Strongly Agree 5	Agree 4	Neutral 3	Disagree 2	Strongly Disagree 1		
1	Market price of the stock is affected by the announcement of stock dividends.	40.5	45.2	11.9	2.4	0.0	4.24	1
2	Stock price is affected by the announcement of cash dividend.	20.9	72.1	7.0	0.0	0.0	4.14	2
3	Announcement of merger or acquisition of firms affects market price of shares.	25.6	48.8	23.3	2.3	0.0	3.98	3
4	Stock price in market is affected by the announcement of rights share issuance.	23.3	53.5	18.6	4.7	0.0	3.95	4
5	Market price of the stock is affected by the announcement of government's policies.	21.4	45.2	26.2	4.8	2.4	3.79	5
6	Share price is affected by the announcement of additional business expansion.	7.0	37.2	44.2	11.6	0.0	3.40	6
7	Announcement of present macro-economic report by government affects share price.	4.7	37.2	39.5	16.3	2.3	3.26	7
8	Stock price is affected by the announcement of accounting information.	7.1	31.0	42.9	16.7	2.4	3.24	8
9	Announcement of changes in cabinet (government) affects market price of the stocks	7.0	27.9	46.5	11.6	7.0	3.16	9
10	Changes in capital gain tax affects share prices.	2.3	32.6	32.6	32.6	0.0	3.05	10
11	Market price of the stock is affected by the announcement of new corporate management leader/team.	2.3	23.3	53.5	11.6	9.3	2.98	11
12	Stock price is affected by the announcement of changes in corporate tax rates.	2.3	27.9	37.2	23.3	9.3	2.91	12

* These estimates are based on 43 responses.

Source: Survey 2007

The majority of the respondents from the adult investors agree that "Announcement of merger and acquisition of firm" is the most important public information to determine the stock prices. On the contrary, the majority of the respondents from the 35 plus investors agree that "Announcement of stock dividend" is the most important public information to determine the stock prices. Thus, the adult investor and 35 plus investor group do not have similar views with respect to effect of announcement of new public information on stock price.

In case of the cash dividend, 35 plus investors give higher priority than adult investor group. An important point to be noted here is that the findings of this aspect is similar to the findings of the studies carried out by Pettit (1977) and Graham and Kumar (2006), who- identify a preference for dividend yield that increases with age. However, the Spearman's rank correlation coefficient between the adult investor (equal to or lesser than 35 years old) and 35 plus investor (greater than 35 years old) group is equal to +0.895 (p-value = 0.000, i.e., significant at 1 per cent level of significance). This indicates that the degree of relationship between the responding groups is very high and statistically significant with respect to the views on announcement of new public information and market reaction on stock prices.

V. Conclusion

The majority of respondents were holding securities of commercial banks, development banks and finance companies, as their shares are more popular. Insurance companies, manufacturing and processing, hotel and trading companies are less popular categories of shares in Nepalese stock market.

The majority of the respondents are not satisfied with the information disseminated by the corporate firms. Similarly, the majority of the respondents argued that the management does not protect the shareholders' interest. The majority also believe that legal provisions are not adequate in protecting shareholders' interest.

"Expectation of increase in market price (capital gain)" is the main important motive behind investing in the shares and the second importance to "Expectation of bonus and rights shares". Likewise, regarding the factors affecting the share prices, majority of the respondents ranked the priority to "announcement of bonus share and right issues," "political-economic events," and "announcement of cash dividend" respectively.

While, the respondents were categorised on the basis of the respondents' age, i.e., adult investor group (equal to or lesser than 35 years old) and 35 plus investor group (greater than 35 years old), most of the respondents have expressed common views on most of the issues.

Most of the respondents have been found to have strong belief on impact of new information of price movement of the Nepalese stock market based on the flow of the new information. The Nepalese investors are found to be more aware of the new information announcements. The findings of the survey analysis have indicated that the Nepalese stock market is sensitive to new public information. The Nepalese investors believe that the stock prices are adjusted immediately after the occurrence of new events. This is the positive part of the investors as being rational and way to the efficient market as a developing stock market in the South Asian region.

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Annexure A: Survey Questionnaire

A : Respondents' personal details: Please mark √ on correct category.

Name (optional)					
Sex:	Male			Female	
Age:	≤ 35 years			> 35 years	

Education level:	Undergraduate	
	Graduate	
	Postgraduate	
	Ph.D. and/or further	

Profession:	Academician	
	Government/private service	
	Business	
	Professional (Auditors, lawyers etc.)	
	Self-employed	

B : General questions: Relating to shareholders' perception for buying equity shares and market price.

1. From which market have you purchased the stocks? (Please check below)

   (a) Primary market………. (b) Secondary market………. (c) Both………..

2. Which corporate firm's stock do you have? (Please check as many as applicable)

   (a) Commercial banks……………. (b) Finance companies………………..
   (c) Insurances companies……….. (d) Manufacturing and processing…….
   (e) Hotel………………………….. (f) Trading…………………………….
   (g) Development banks……….. (h) Others……………………………..

3. Have you attended any annual general meeting of corporate firms of which you hold shares? (Please check below)

   (a) Yes……………… (b) No………………

4. How many times have you traded stocks in the secondary stock market? (Please check below)

   (a) Frequently…….. (b) Sometimes…… (c) Seldom……. (d) Never……………..

4. How many times have you traded stocks in the secondary stock market? (Please check below)

5. (i) Do you think that the corporate firms disseminate important information to investors/market on time?

   (a) Yes……….. (b) No……………… (c) Don't know………………

   (ii) If yes, are you satisfied with the disseminated information?

   (a) Satisfied……….. (b) Not satisfied……… (c) Don't know………………

6. Do you feel the management protects shareholders' interest?

   (a) Yes……….. (b) No……………… (c) Don't know………………

7. Do you think that legal provisions are adequate in protecting shareholders' interest?

   (a) Yes……….. (b) No……………… (c) Don't know………………

8. What is your major motive behind investing in the stocks? Please rank in order of importance.

Causes of interest Lowest 1 2 3 4 5 highest

(a)	Expectation of cash dividend	
(b)	Expectation of increase in market price	
(c)	Expectation of bonus/rights shares	
(d)	Because of no opportunities to invest in other fields	
(e)	Because of less risk compared to other investments	

9. What do you think are the factors affecting the share prices? Please rank in order of importance.

Causes affecting the share prices Lowest 1 2 3 4 5 highest

(a)	Announcement of earnings	
(b)	Announcement of cash dividend	
(c)	Announcement of bonus shares and rights issue	
(d)	Political-Economic events	
(e)	Announcement of changes in management of the company	

C : Specific questions: Relating to announcement of new public information and market reaction on stock prices. Please mark √ on your choice

		Strongly agree	Agree	Neutral	Disagree	Strongly disagree
		5	4	3	2	1
1	Announcement of merger or acquisition of firms affects market price of shares.					
2	Stock price is affected by the announcement of cash dividend.					
3	Market price of the stock is affected by the announcement of stock dividends.					
4	Stock price in market is affected by the announcement of rights share issuance.					
5	Stock price is affected by the announcement of accounting information.					
6	Market price of the stock is affected by the announcement of new corporate management leader/team.					
7	Share price is affected by the announcement of additional business expansion.					
8	Stock price is affected by the announcement of changes in corporate tax rates.					
9	Changes in capital gain tax affects share prices.					
10	Announcement of present macro-economic report by government affects share price.					
11	Market price of the stock is affected by the announcement of government's policies.					
12	Announcement of changes in cabinet (government) affects market price of the stocks.					