

# Share Market in Bangladesh; Its Impulsive Attitude towards Investors and the Reasons behind These Spontaneous Changes

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**Abstract:** Financial Markets are absolutely vital for the proper functioning of economic activities as they serve to control funds from servers to borrowers. They play an important role by controlling the funds by those who can make productive and proper use of it. The financial market permits both business and government to raise the needed funds by selling securities. Simultaneously, the surplus units of the economy are able to invest and earn and return. Financial markets include primary markets where new securities are sold and secondary markets where existing securities are traded. Investors invested money in share market by getting secret information, Investors are interested to purchase low price's share all the time, Most of the investors invested money after taking loan from bank in share market, Much black money has been invested in share market, people instigate to new investors to enter the share market, the investors entered the share market to get the highest profit instead of other investing options. Investors collected money from various sources. . Bangladesh economy has grown at around 6% over the past 5 years, despite natural shocks and external volatility, and we believe that the best years for the country are ahead of us. The economy has the potential to grow by around 8% during the coming years and for that the investment must grow faster than the present rate. The investment climate in Bangladesh is quite attractive with policies for foreign investment that are among the most permissive in the region. Bangladesh is open for foreign direct investment in all industrial sectors excepting for 4 reserve sectors (defense equipments, reserve forestry, atomic energy, currency printing and minting) mentioned in the Industrial policy. The Public Private Partnership (PPP) initiative in infrastructure investment announced by the government offer attractive long term investment opportunities for foreign investors. Stock markets in Bangladesh are open for foreign portfolio investment by non-resident individual or institutional investors. But in the year 1996 and 2011 Share Market of Bangladesh feces a terrible crisis. The share market collapsed due to the presence of syndicates. The government could not take initiative to stable the market. Above all, the people have become very pessimistic to invest in Stock Exchange of Bangladesh. This paper is all about share market analysis and the reason behind the crash in share market in these mentioned years. I try to cover up all possible ways to stable this unpredictable market.

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## I. INTRODUCTION

Bangladesh stock markets have grown significantly during the last decade. Still, the size of the market is relatively small compared to other Asian Markets. Size and liquidity of the companies provide some distinguishing features of developing markets. The market capitalization ratio, defined as the value of listed stocks divided by GDP, is used as a measure of stock market size. It has got economic significance because market size is positively correlated with the ability to mobilize capital and diversify risk. A stock market crash is a sudden dramatic decline of stock prices across a significant cross-section of a stock market, resulting in a significant loss of paper wealth. Crashes are driven by panic as much as by underlying economic factors. They often follow speculative stock market bubbles. Stock market is one of the most important financial institutions of any economy as well as Bangladesh. It opens door for companies to raise huge amount

of capital from a lot of individual investors inside & outside of a country. Investors participate voluntarily to buy ownership of a company in the public market. It is said that stock market is an intermediary institution to adjust a gap between surplus units and deficit units of an economy. In these days for millions of middle class educated people in Bangladesh investing in stocks is more popular than investing in any other investment sectors. For an investor, stocks are more liquid than any other investment sources as it gives ability to sell and buy ownership anytime without any hassle.

#### **Objective of the study:**

The main objective of the study is to identify the factors which significantly affect the share market. However the study covers the following supportive objects:

- To identify the factors which are important to influence the share market.
- To identify some variable for which share market was collapsed.
- To give some recommendation to stable the share market.
- The study tries to examine the reasons that led the "Bull Run" for dramatic increase of different instruments in Bangladesh stock market and the fundamental factors of the collapse
- Tap few guidelines to recover the recent crisis.

## **II. METHODOLOGY**

The report is both descriptive & calculative by nature. The report is based on information collected from primary as well secondary sources. The indicators which are responsible for recent crash are measured by calculation. The trend of those indicators has also been measured for last three years. Statistical approach has also been used in the report.

To find out the critical issues of this sudden drama, we have collected secondary information from various sources. We have emphasized on quantitative and qualitative data to analyze the recent share market crash and its prevail crisis in Bangladesh stock market. All the quantitative data are extracted from Dhaka Stock Exchange website and qualitative data are collected from published research journals, newspapers, websites etc.

#### **Data Collection:**

In order to make the report more meaningful and presentable, two sources of data and information has been used.

The Primary Sources are as follows-

- Practical work exposure
- Discussion with the respective executives & officers of the bank.

The Secondary Sources of data and information are-

- Annual Reports of DSE and CSE.
- Various publications regarding DSE and CSE.

## **III. TWO SHARE MARKET IN BANGLADESH**

#### **Dhaka Stock Exchange:**

The necessity of establishing a stock exchange in the then East Pakistan was first decided by the government when, early in 1952, it was learnt that the Calcutta Stock Exchange had prohibited the transactions in Pakistani shares and securities. The Provincial Industrial Advisory Council of Pakistan soon thereafter set up an organizing committee for the formation of a stock exchange in East Pakistan. The promoters incorporated the formation as the East Pakistan Stock Exchange Association Ltd. on April 28, 1954 (28.04.1954). As public limited company the name was revised to East Pakistan Stock Exchange Ltd on June 23, 1962 (23.06.1962). Again on 14.05.1964 the name of East Pakistan Stock Exchange Limited was changed to "Dhaka Stock Exchange Ltd."

At the time of incorporation the authorized capital of the exchange was RS. 300000 divided into 150 shares. Of Rs. 2000 each and by an extra ordinary general meeting held on 22.02.1964 the authorized capital of the exchange was increased to TK. 500000 divided into 250 shares of TK. 2000 each. The paid up capital of the exchange now stood at TK.460000 divided into 230 shares of TK. 2000 each. However 35 shares out of 230 shares were issued at TK. 80, 00,000 only per share of TK. 2000 with a premium of TK. 79, 98,000. Although incorporated in 1954, the formal trading was started in 1956 at Narayanganj after obtaining the certificates of commencement of business. But in 1958 it was shifted to Dhaka and started functioning at the Narayanganj Chamber Building in Motijheel C/A. On the 1<sup>st</sup> October 1957, the stock exchange purchases a land measuring 8.75 kattah at 9F Motijheel C/A from the government and shifted the stock exchange to its own location in 1959. The Dhaka Stock Exchange (DSE) is registered as a Public Limited Company and its activities are regulated by its Articles of Association rules & regulations and by-laws along with the Securities and Exchange Ordinance - 1969, Companies Act - 1994 & Securities & Exchange Commission Act - 1993.

### **Chittagong Stock Exchange:**

CSE is a stock exchange based in the port city of Chittagong, Bangladesh. It is one of the twin financial hubs of the country, alongside the Dhaka Stock Exchange. Established in 1991, the exchange is located in the Agrabad business district in downtown Chittagong. Founder members of the proposed Chittagong Stock Exchange approached the Bangladesh Government in January 1995 and obtained the permission of the Securities and Exchange Commission on February 12, 1995 for establishing the country's second stock exchange. The Exchange comprised of twelve Board members, presided by Mr. Amir Khosru Mahmud Chowdhury (MP) and run by an independent secretariat from the very first day of its inception. It has a combined market capitalization of US\$ 30 billion as of 2013. 1 April 1995 CSE incorporated as a company. 10 October Floor trading started in cry out system. 4 November 1995 formally opened by then former Prime Minister Begum Khaleda Zia. 30 May 2004 Internet based Trading system opened.

### **Financial Market Scenario in Bangladesh:**

The capital market in Bangladesh is one of the smallest in Asia but third largest in the South Asia. Many of the brokerage is now operating in our country to help the investors. One condition of being a healthy investment climate in the economy is the availability of financing facility for the existing and potential borrowers. The two major sources of financing any country is bank and capital market. The private sector financing of this country is depend on banks. Capital market is the source of long term financing for the business and industries, way of mobilizing savings to investment, and provider of price discovery and liquidity generation through organized stock exchanges. While the primary market directly provides financing to the business and industries, the secondary market keeps continuation of price discovery and liquidity generation for the investors keeping the whole system active. But the investors should take the investment decision based on proper knowledge, judgment and risk tolerance. Bangladesh Securities and Exchange Commission is continuing its efforts to develop a more enabled capital market in Bangladesh where investors, businesses and industries, government and all market participants may find it more worthy, and can contribute more significantly to the development of our national economy. All concerned have to play their due role towards developing a more vibrant capital market in Bangladesh in the years to come

### **Share Market crash in 2011:**

An abrupt crash of the share market in 2011 had sparked violent protests from the investors. It was the biggest one-day fall in the Bangladesh stock market's 55-year history. It is estimated that over 3.5 million (35 lakh) people - many of them small-scale individual investors - had lost their money because of the sharp plunge in share prices.

When there is more than 10 per cent loss within a few days in the market, it is called stock market crash. Stock market crash is differentiated from the stock market correction, where the loss is 10 per cent or less. "Stock market crash is a sharp and unexpected decline of the market prices for a very short period of time, usually accompanied by the decline of many other assets' prices." It causes significant capital losses to investors and speculators. The market participants become panicked which leads to more losses.

The 2010-12 Bangladesh share market scam is part of the ongoing share market turmoil in the two stock exchanges - the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE). The crash is deemed to be a scam aggravated by government failure. The stock market was in turbulence throughout much of 2009, with the long bullish trend starting

to turn grim. This was the biggest fall since the dark days of 1996, when the market saw a sudden rise and fall in a short spell of time.

The market turmoil began this time with the entrance of Grameen Phone into the capital market, when the index rose by 22 per cent in a single day on November 16, 2009. Share prices continued to fluctuate, reaching the annual high in mid-2009 before plummeting by the end of 2009, with retail investors threatening a hunger strike. The market continued to be turbulent throughout 2010, with the DSE hitting its all-time high revenue and the largest fall in a single day since the 1996 market crash, within the space of a month.

DSE General Index soared to its highest levels from October to December 2010, with the peak on December 5, 2010 at 8,918 points. DSE's index on January 3, 2010, was at 4568.40 and went up at a staggering 4,350 points - a 95.23 per cent increase! On January 10, 2011, trading on the DSE was halted after it fell by 660 points, or 9.25 per cent, in less than an hour - the biggest one-day fall in the 55 years of the bourse. CSE also met the same fate.

An abrupt crash of the market sparked violent protest from the investors. Share prices started to fall from January 03, 2011 as investors had the information of on-going liquidity crisis in financial and non-financial institutions. The down slope of index was noticeable from January 02 to 10, 2011, as chairman of the probe committee Khondkar Ibrahim Khaled, chairman of the probe committee on share market scam, mentioned, "Due to trigger sale of shares from 2nd to 5th January 2011, the market experienced its biggest decline in share prices and market crash from 6th to 10th January 2011. On 9th January 2011, DSE General Index declined by 600 points and all indices declined nearly 7.75 per cent. On 10th January 2011, Dhaka Stock Exchange General Index lost 660 points or 9 per cent and Chittagong Stock Exchange Selective Index declined by 914 points or 6.8 per cent within 50 minutes of trading. It is estimated that three million people --- many of them small individual investors, have lost money because of the plunging share prices. The benchmark Index climbed 80 per cent in 2010, but had lost more than 27 per cent since early December 2010."

#### **Share market crash in 1996:**

The number of BO account holders in 1996 was only 300,000 and most of them were new in the market. During the crash of 1996, paper shares used to be sold in front of DSE, and it was not easy for investors to detect the fake shares from the genuine ones. There was no automated trading system, surveillance was not strong enough, and there were no circuit breakers as well as international protection. From 1991 to the end of 1995, DGEN (DSE General Index) price index gained by 139.3 per cent and reached 834 point. But in 1996, the market experienced a dramatic change and pushed the price index up by 337 per cent. DGEN Index recorded a high growth from July and stood at 3648.7 points or 280.5 per cent on 5th November 1996. Besides, Chittagong Stock Exchange experienced the same change and grew by 258 per cent. Chittagong Stock Exchange index increased from 409 to 1157 points in 1996 within a one year's time. But the steps taken by the government did not work. The index lost over 233 points on November 6, 1996. After the bubble burst, DGEN index dropped to its lowest point and stood at 957 in April 1997. It stood at around the same point, where it was 10 months before and DSE General Price Index lost almost 70 per cent from its highest point in November 1996. Then the index continued to decrease for the next 7 years until April 2004. During this long period, DGEN Index seldom crossed 1000 point.

#### **Reason behind Share market Crash in Bangladesh:**

Reasons behind share market crash: Different analysts found different factors affecting the stock market crash of 1996 through 2011. The reasons of the crashes pointed out by market analysts, economists and different organizations are summarized below.

**Margin calls:** When investors pay a part of the future market contracting in cash or selected instruments in an account with a broker is called Margin. To make sure the obligations of the investor when the contract expires, more margins are necessary if value of the contract decreases. The process is called 'margin call'. On the 'Black Monday', price movement of future contracts created record amount of margin calls for firms which were about 10 times the average size. Collected payments are paid to the investors, whose position had gained. Some investors lost their ability to enter new positions due to margin calls and some needing extension of credit to make the payment. As investors were unable to pay margins, brokers placed emergency margin calls with exposed option positions, which were assumed to be liquidated due to failure of meeting margin calls. On the other hand, maximum big investors quit their investment selling their shares. As a result,

small investors panicked and they were selling their shares in spite the losses. It occurred repeatedly which possibly prompted selling pressure in the market and the markets were not able to handle these sale orders. By the end of 2010, it was well known that the capital markets of Bangladesh was overvalued and overheated.

The central bank had taken measures to cool the market down and control inflation by putting a leash on the liquidity. The conservative monetary measures adversely affected the capital market, with the market falling once on December 13, 2010 by 285 points, over 3.0 per cent of the DGEN Index, which stood at around 8,500 points. The capital markets suffered a second fall on December 19, 2010 with the index falling a further 551 points, or about 7.0 per cent. This 7.0 per cent fall in the Dhaka Stock Exchange's index on a single day was the largest fall in the 55-year history of the Exchange, surpassing the fall of the 1996 market crash. This fall was deemed 'normal' by analysts, who believed that the market was overvalued.

Investors took to the streets in protest. Immediate measures were taken by the regulatory body, Securities and Exchange Commission and Bangladesh Bank, which relaxed its conservative measures, to pacify the fall. Within December 2010 and January 2011, the DGEN index fell from 8,500 by 1,800 points, a total 21 per cent fall. The masterminds of the crash are estimated to have made about Tk 50 billion (TK 5,000 crore) out of the scam. The market fell by 5.0 per cent on June 12, 2011 before taking a 4 per cent plunge on October 11, 2011, sending the market into further turmoil. The fall finally triggered the small investors to form the Bangladesh Capital Market Investors' Council and go on a fast-unto-death on October 16, 2011. The market stood at around 5,500 index points on October 2011 from 8,900 only a year ago.

**Investigation committee finds massive manipulation in share market:** A high-powered committee investigating the stock market debacle, headed by Khondkar Ibrahim Khaled, found heavy manipulation in the stock market and has blamed the market regulator for failing to oversee the situation. The committee made a series of recommendations for a major overhaul of the regulatory SEC, including the replacement of its current chairman. "All the institutions that have anything to do with the stock market were responsible for the debacle," former central banker Khondkar Ibrahim Khaled, a former central banker, told newsmen after submitting the report to Finance Minister AMA Muhith.

Some suggestions for market improvement: Sponsor-directors' mandatory holding of 2.0 per cent shares individually and together 30 per cent shares and book building method in IPO have been developed. Adoption of software and surveillance team to monitor overall trading activities, trustworthy IPO approval process, and actual book building process should be introduced with offloading government shares. Margin loan decision should be taken by broker houses and merchant banks, not SEC. Insider trading should be strictly prohibited. Tools for regulators should be suggested that prevent this kind of crashes in future. Regulators should perform their job honestly and sincerely and SEC needs honest officials. Insider trading should be prohibited, omnibus accounts should be converted into BO accounts.

The government should announce incentives through SEC to attract companies to the capital market. The government should also take long-term actions for the market. Actions should be taken against those who were involved in the recent stock market crash. Improvement in security laws and penalty for breaking those, balancing of demand and supply of shares, and protection against any kind of manipulation should be ensured.

#### IV. PROBLEMS AND LIMITATIONS OF STOCK EXCHANGE

**Price Manipulation:** It has been observed that the share values of some profitable companies have been increased fictitiously some times that hampers the smooth operation of Bangladesh Stock Exchange. Delays of settlement Financing procedures and delivery of securities sometimes take an unusual long time for which the money is blocked for nothing. Irregular payment dividends; Some companies do not hold Annual General Meeting and eventually declare dividends that do not reflect the real or actual financial positions of the company and ultimately shareholders become confused.

**Selection of membership:** some members being the directors of listed companies of Stock Market look for their own interest using the internal information of share market. Improper Financial Statement Many companies of Share Market do not focus real position of the company as some audit firms involve in corruption while preparing financial statements. As a result the shareholders as well as investors do not have any idea about position of the company. Technical problems and political infighting the concept of centralization of securities market has not been implemented that arises technical problems and political infighting.

**Lack of skilled manpower in Bangladesh:** Stock Exchange as well as financial and non financial institutions involved in the securities market. The lack of proper policy Absence on framework that provides incentives and protection to investors.

**Recent initiatives of DSE for securities market expansion:**

- Signing contract with Dubai-based Info-Tech Company for integrated software Book Building System has been introduced in Bangladesh Capital Market. Book Building System, modern and scientific system of price discovery, will be able to attract the entrepreneurs to get their profitable business ventures listed with the country's growing securities market.
- MSA Plus is being up-graded time to time in collaboration with India-based Cambridge Solutions to start internet-based transaction soon. After the completion of up-gradation of this work and commencement of internet-based trading transaction facilities of securities would reach the doorsteps of investors across the world.
- DSE is upgrading its automated trading system time to time to meet up the demand of the capital market. As number of transactions increases, DSE took initiatives to tune up its trading Server in December 2009. Present Trading Server has capacity to handle around 6, 00,000 trades/day and to support trader IDs up to 5,000. At present Trading activities are being operated by around 3200workstations from more than 1100 locations in 30 districts.
- In November 2009, DSE Implemented Web-based Market Data Server (MDS) for providing necessary Market Data to different electronic and print media, Cell Phone Companies, Research Institutes, and Brokerage houses etc. DSE signed an agreement with a number of TV channels to provide real time trade data for broadcasting continuously during trading hours. Besides, online Trade Data is also available
- Plans are already underway to spread trading activities across the country and to the doorsteps of investors across the world but demand and supply mismatches been halting the process.
- With the core intention of executing all the professional works and to build its existing manpower into truly efficient and highly qualified human resources DSE has been continuing its tireless efforts to send its staffs to different organizations and abroad for training.
- For smooth and time-bound supervision of all the professional jobs Chief Operating Officer and GM (Finance and Accounts) have been recruited. Recruitment at different levels has been being continued in tune with the growing volume of activities to accomplish all the activities.
- To continue the present trend of securities market growth DSE Board of Directors has been maintaining strong communication with the relevant authorities including Finance Minister, SEC, Bangladesh Bank, National Board of Revenue, Bangladesh Institute of Capital Market and other relevant institutions, organizations, personalities and concerned authorities.
- DSE Board of Directors visited USA and show-cased Bangladesh capital market to Non-Resident Bangladeshis to draw their investments in the market.
- DSE has been arranging investors' awareness program in different cities to make the investors aware of the real market situation. It has also been co-operating with Bangladesh Institute of Capital Market authority so that through this newly established institute, time-bound education and practical training on securities market related issues may be conducted
- Members of Board of Directors, members of different committees and officers of DSE have been continuously visiting different related organizations and stock exchanges and trying to utilize the experience for the better development of DSE.

**Some suggestions to improve the activities of Share Market:**

These are some suggestions which should be used to maintain a steady growing stock market:

- To force the listed companies to publish their annual reports with actual and proper information that can ensure the interests of investors.
- To introduce automated monitoring system that may control price manipulation, malpractices and inside trading.

- To introduce full computerized system for settlement of transactions.
- To force the listed companies to declare and pay regular dividends through conducting Annual General Meeting.
- To take remedial action against the issues of fake certificates, banks, insurance companies and other financial institutions should be encouraged deal in share business directly.
- To punish the member brokers for breaching of contract.
- Capital Market Development Program in Bangladesh Strengthening market regulation and supervision developing the capital market infrastructure Modernizing capital market support facilities increasing the limited supply of securities in the market developing institutional sources of demand for securities in the market and Improving policy coordination.

## V. CONCLUSION

In modern world, the stock market is the main source of corporate financing and fund raising for most of the nations. The stock market reflects the strength of the economy of a country. An active stock market may be an important mechanism for economic growth of a developing country like Bangladesh. The stock market can play a vital role to strengthen the sustainable development of this emerging economic and fast growing nation. Creating corruption free and investor friendly regulatory frameworks should have a positive impact in the long-term development in the stock market of Bangladesh. Market discipline is indispensable for long-term and sustainable development in the market. It is necessary to reform the legal frameworks to support financial development and to protect the investors.

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