

## Present Situation of Capital Market and the Role of Brokerage House: A Study on IDLC Securities Limited

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### Abstract:

The capital market plays various roles for strengthening the economy of a country. It acts as an intermediary between surplus units and deficit units of the economy and facilitates savings into investments. Also providing liquidity of these investments, the capital market ensures optimum allocation of resources. All these activities make it the engine for the growth of the economy. When asked about their expectation about GDP growth of Bangladesh in fiscal year 2012-2013, 69% of the participants believe that growth stays roughly same and 80% said local political instability is the biggest risk to Bangladesh economy in 2013. Majority answered that central bank will keep the monetary policy tools at current level but liquidity situation will improved in 2013 relative to that of 2012. When asked to identify the reason for bearish capital market in 2012, 47% attributed the reason to lack of investors trust and poor corporate governance of listed companies. Also highest 49% participants caution the local political instability is the biggest risk to local capital market in 2013 followed by the lack of confidence of investors. Despite that, 53% and 43% survey participants respectively show their optimism that market will remain moderately bullish or remain at current level. And the expectation about average market turnover is to hover around BDT 4000 to 5000 million (41% responses). When asked why big business conglomerates are not interested to raise funds from primary market, almost half of the participants believe that fear of sharing the true financials with public is the reason. A majority of those surveyed (57%) also attributes the lack of corporate governance of listed companies is the main reason of poor foreign portfolio investment in capital market. But in 2013, overwhelming (86%) consensus is that demutualization of stock exchanges will bring more transparency and increase confidence of investors. Survey participants are bullish for equity in 2013 and 43% has said that equity will outperform other asset classes. Real estate and saving instruments received both 18% answers respectively. 51% respondent said that their expectation about employment opportunities for professional in financial market remains about the same like 2012 and 41% is optimistic about relative improvement of employment situation.

**Keywords:** GDP, Growth, Demutualization of stock exchange, Corporate Governance.

### Introduction

Development of a country is highly depend on the development of capital market, has been receiving heightened attention from the policy-makers in recent years. One explanation lies in the fundamental shift of development strategy reflected in the nearly universal embrace of the private sector as an engine of economic growth. The governments in both developed and developing countries, the international financial institutions which exert tremendous influence on the policy-making apparatus of developing countries and, to a great extent, the intelligentsia have all joined together as ardent advocates of private entrepreneurship. Capital market can play an important role in accelerating economic development through efficient intermediation of savings into productive investments and in fostering the growth of public, private entrepreneurship.

### Objectives of the Report

The present study aims to find out the carbon image of presence and contribution of the capital market in the economy and prospect of the capital market. Furthermore, the orientation is very useful to detect whether the theoretical knowledge matches with real life scenario or not. Though the title "**Present Situation of Capital Market and the role of Brokerage House: A study on IDLC Securities Limited**" very lengthy area, the specific objectives is to know the present situation & growth of the capital market.

### Methodology of the Study

Every research needs methodology which reveals how the researcher is going to achieve his/her objectives of the stipulated study. Social Research states, as a systematic study, research methodology deals primarily with the approaches and techniques as how to undertake a research without being biased and prejudiced. It offers a bunch of tactical approaches and logical skills to observe, record, interpret and infer on matters under study. According to **Kothari**, research methodology is a way to solve the research problem systematically and scientifically. The objectives of the study are to explore the "**Present Situation of Capital Market and the role of Brokerage House: A study on IDLC Securities Limited.**" Three research methods- content analysis, questionnaire and interview are used in this study. Content analysis is used for the descriptive part of the study. Interview and questionnaire methods have been used for collecting data for the study. Use of these three methods is supposed

to reduce biasness and work as a reliable tool for research. For analyzing the collected data I used Microsoft office (Excel) tools.

## **Literature Review**

### **Terminology**

To establish the conceptual framework for the research, it is important to provide definitions of key terminologies that are given below:

### **Capital Market**

A capital market is a market for both debt and equity securities, where business enterprises and governments can raise long-term funds. It is defined as a market in which money is provided for periods longer than a year (Sullivan et. al., 2003)

### **Stock Market Bubble**

A stock market bubble is one kind of economic bubble that takes place in stock markets when market participants drive stock prices above their value in relation to some system of stock valuation. (Smith et.al. 1988)

### **Moral Hazard**

Moral hazard is the prospect that a party insulated from risk may behave differently from the way it would behave if it were fully exposed to the risk. A person's belief that they are responsible for the consequences of their own actions is an important aspect of rational behavior. An investor must balance the possibility of making a return on their investment with the risk of making a loss - the risk-return relationship

### **Liquidity**

One of the possible causes of bubbles is the presence of excessive liquidity in the financial system that induces aggressive lending banks that make asset markets vulnerable. Economic bubbles often occur when too much money is chasing too few assets, causing both good and bad assets to appreciate excessively beyond their intrinsic value to an unacceptable level.

### **Previous Research on this Topic**

Keeping the objectives in mind of the present study, I had reviewed the existing literatures. The Capital Market Development in Bangladesh: problems and prospects (Mah-mood Osman Imam, October 5, 2000), Capital Market: An Overview (Md. Hasan Imam, 2005), An Overview of Bangladesh Capital Market (AZM Nazimuddin, 2007), Emerging Stock market and the Economy: The Case of Bangladesh (Ahmed, M. Farid, 2000), Equity Market Performance in Bangladesh: An Evaluation Savings and Development (Ahmed.M.Farid, 1998), The Stock market and the Economy: The Indian Experience (Mookerjee.R., R., 1981), Foreign Portfolio Investment: Return, Growth, Determinants and Monitoring- A Critical Analysis (Nafisa H., 1998), Financial deepening in Economic Development (Shaw. E., 1973), Fostering Investor Confidence in the Asian and Pacific Capital Markets (Tarumizu, K., 1993). Dhaka Stock Exchange Monthly Review, (September, 2011), Financial Markets and Institutions (Jeff Madura, 2008) are some of the studies that helped me. However, although these studies offered various insights into the dynamics of the current capital market of Bangladesh, their extent of point of discussion are different and reviewed from different aspects. In this paper I have tried to compile and explain all the relevant information to make the paper successful.

### Conceptual Frame Work

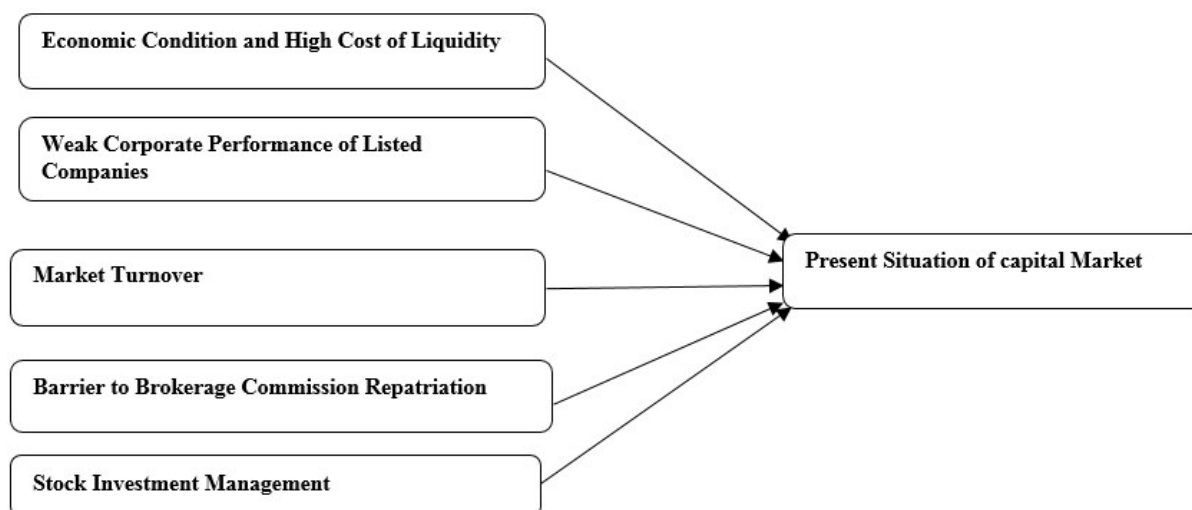


Diagram: Conceptual Frame work

### Area of the Study

Most of the Brokerage of Bangladesh is located in Dhaka and adjacent towns of Dhaka like, Gazipur and Narayangang and some are located in divisional area of Bangladesh like Chittagong, Sylhet, Comilla. For the convenience of primary data collection, I choose IDLC Securities and Trust Securities Dhaka Motijheel branch. Mine target population were Financial Analyst, Trader, Individual Investors, Journalist. I have used primary data. Primary data had collected through interview and questionnaire methods

### Composition of Respondents

For questionnaire:

Location	No. of Brokerage House	Respondents	Female	Male
Dhaka	02	30	8	22

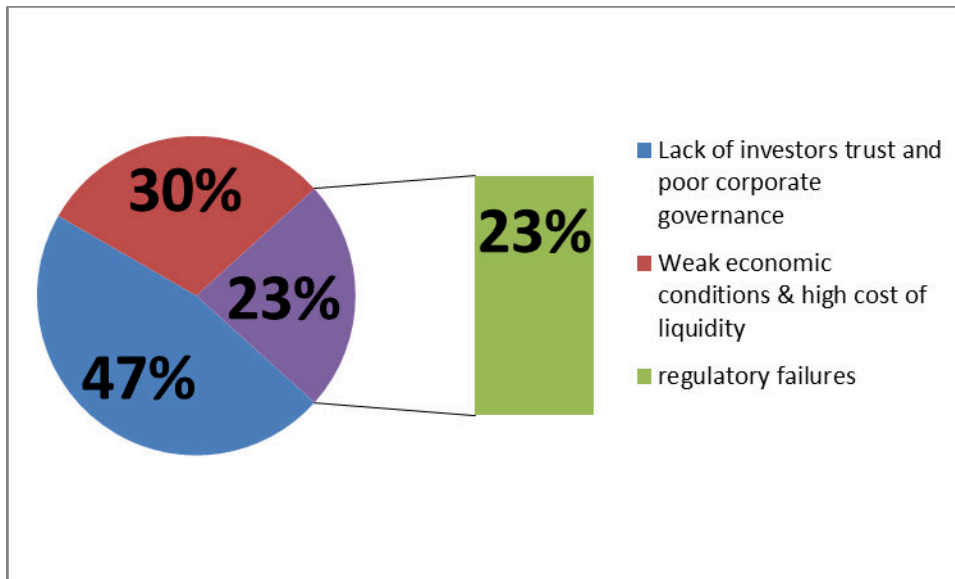
For interview:

Respondent	No.
Financial Analyst	04
Trader	09
Journalist	03
Individual Investor	14
Total	30

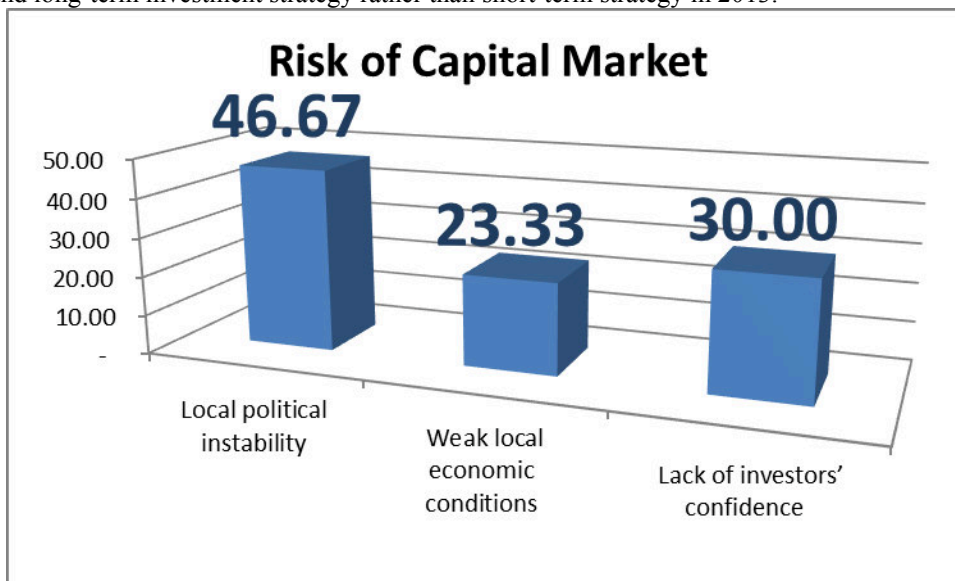
### Analysis of Collected Data

A semi-structured questionnaire carrying 16 questions has been developed for knowing the current market situation. Besides, 30 respondents comprising of representatives from Financial Analyst, Trader, Individual Investor and Journalist are interviewed on the same issues. Data collected from both questionnaire and interview are combined for analysis. A mixed (qualitative + quantitative) method is followed to analyze the data.

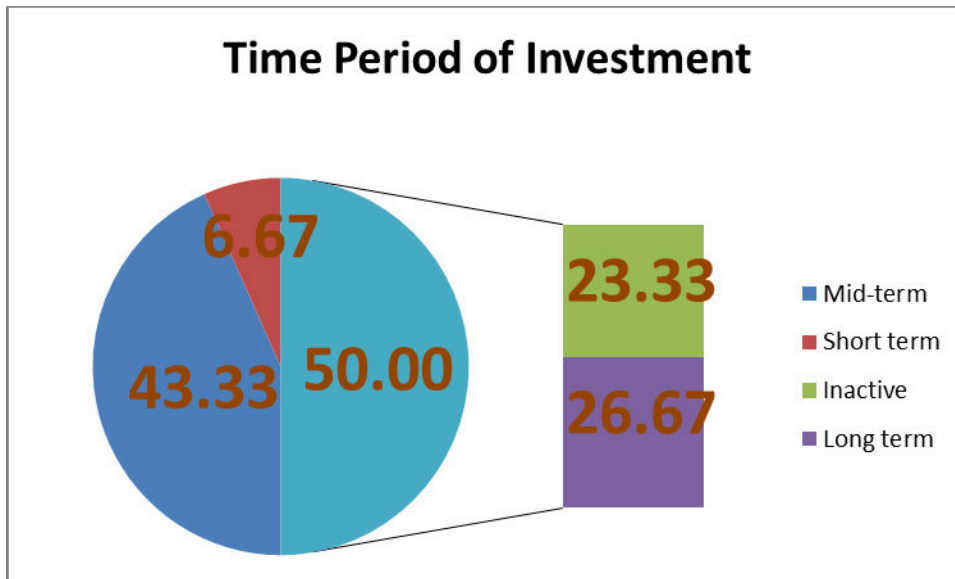
Lack of investors trust and poor corporate governance of listed companies are held responsible for drab capital market performance in 2012 by almost 47% respondents. Weak economic conditions & high cost of liquidity and regulatory failures also contributed to the bearishness of capital market in 2012; about 30% and 23% respondents believe so respectively.



Almost 47% respondents expressed their concern about local political instability and ranked it as the biggest risk to local capital market in 2013. Additionally, a higher proportion of respondents 30% believe that lack of investors' confidence would pose risk to local capital market in 2013. Respondents want to focus more on mid-term and long-term investment strategy rather than short-term strategy in 2013.

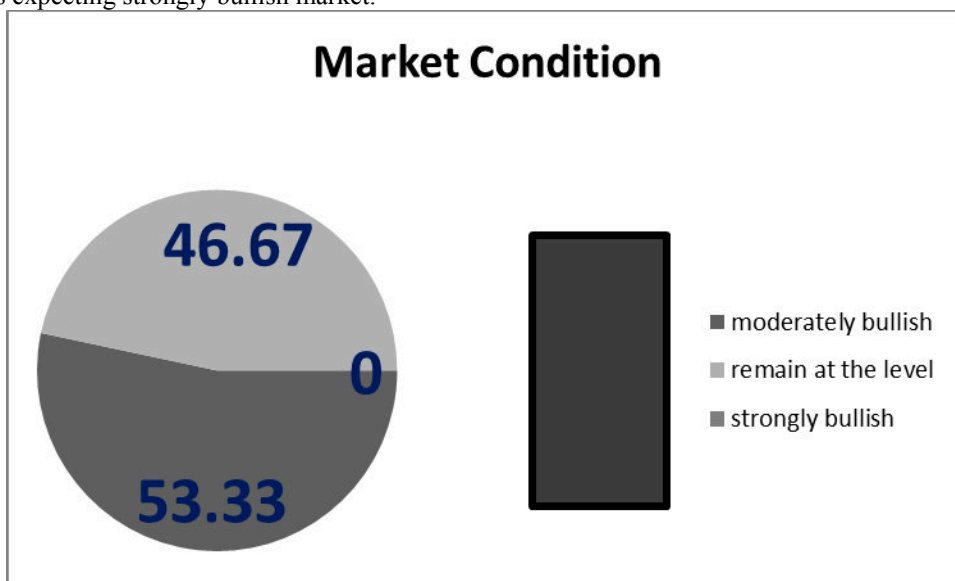


A higher proportion of respondents 43% would pursue mid-term investment strategy in 2013. The interesting finding is that 27% respondents would still want to pursue long-term investment strategy in 2013 same as like 2012. Most of the respondents prefer to be active in the market in 2013 as well.

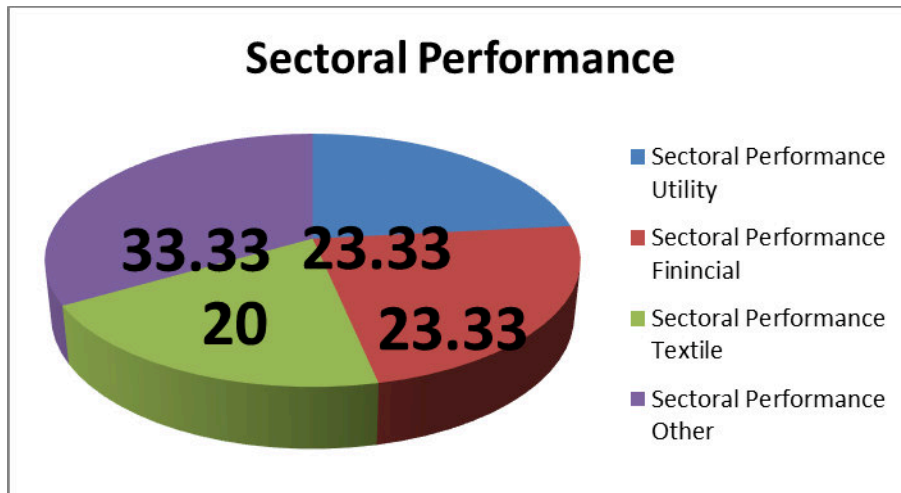


39% respondents strongly believe that stock market will react to one-way movement to earnings performance of listed companies in 2013. 31% respondents believe that political development will drive the stock market to one-way movement.

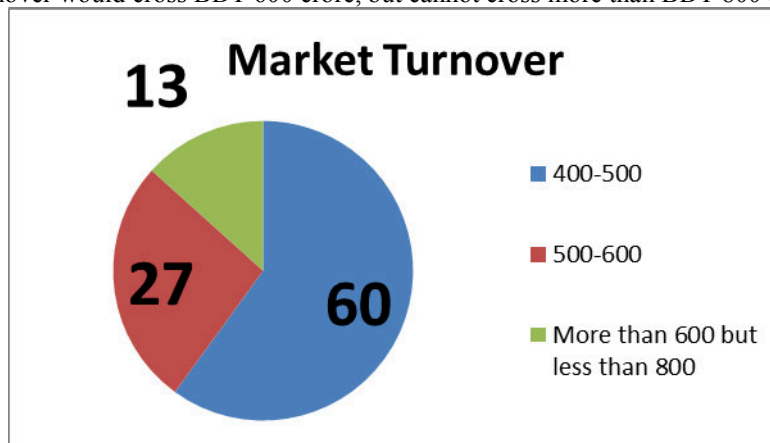
Almost 53% respondents are expecting moderately bullish capital market in 2013 while almost 47% respondents are expecting that Bangladesh capital market will remain at the level of 2012. It is important to note that none is expecting strongly bullish market.



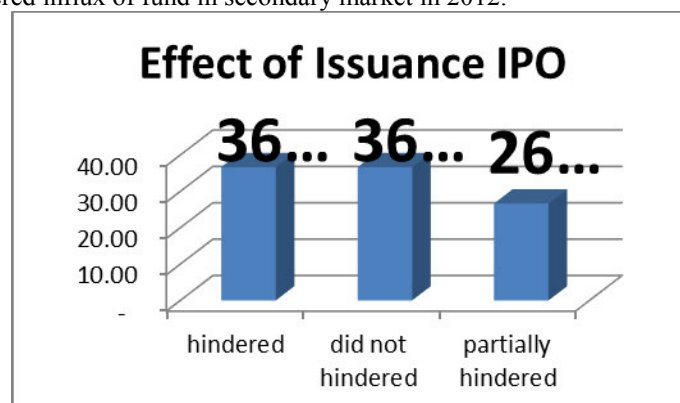
A mixed response came about which sector will outperform in 2013. 23.33% respondents believe that financial sector will outperform in 2013 whereas another 20% respondents believe that textile sector will outperform in 2013. 23.33% respondents strongly believe that utilities sector will outperform in 2013.



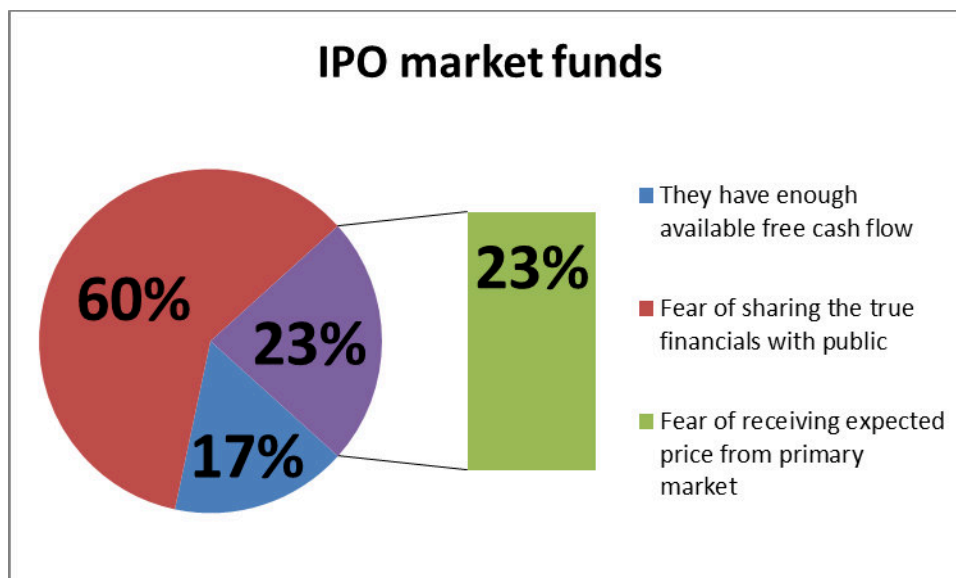
According to a higher proportion of respondents (61%), it is expected that average market turnover would lie between BDT 400 to BDT 500 crore in 2013. Only 25% respondents believe that average market turnover would lie between BDT 500 to BDT 600 crore in 2013 and meager 14% respondents believe that average market turnover would cross BDT 600 crore, but cannot cross more than BDT 800 crore in 2013.



Mixed reactions came from respondents about excess issuance of IPOs within shortest intervals that hindered influx of fund in secondary market in 2012. Almost 37% of respondents believe that excess issuance of IPOs within shortest intervals hindered influx of fund in secondary market in 2012 and again Almost 37% of respondents believe that excess issuance of IPOs within shortest intervals did not hindered influx of fund in secondary market in 2012. Additionally, 27% respondents believe that excess issuance of IPOs within shortest intervals partially hindered influx of fund in secondary market in 2012.



It is crucial that quality companies are interested to raise funds through IPO (Initial Public Offering) for smooth functioning of primary market. When asked why the large conglomerates are not interested to come to IPO to raise funds, a higher proportion of respondents 23% express that fear of sharing the true financials with public is the key reason. 60% of respondents think that Fear of sharing the true financial with public and rest 17% respondents think that They do not have enough available cash.



It is presumed that a complete demutualization will help detect manipulation in the stock market and ensure transparency and accountability. Generally, it ensures good corporate governance, introduces alternative business models, increase operational efficiency and reduces conflicts of interest. A demutualized exchange can also freely trade on the market like any other public company. The flow of foreign portfolio investment in bourses will increase after completing the demutualization process. According to the survey result, 86% respondents believe that demutualization would make the market more transparent and vibrant.

### Conclusion

Capital market has been experiencing a bullish trend over the last few months in Bangladesh. The DSE index crosses 4439 landmark on November 20, 2013 and also the average daily market turnover crossed over Tk. 400 million. The market capitalization has been growing tremendously up which is now over US\$ 35 billion level on November, 2013, ever highest in the history of Bangladesh. According to DSE source, the market basically trends to bullish due to active participation of the institutions, which is, 60% of the total trade; 20% of it comes from the foreign investors and the rest 20% comes from the retail investors. This is indeed a very good sign for the capital market of Bangladesh and we are also looking to more general, institutional and the foreign participants to come in this market.

One of the main reasons why the market is growing up can be identified due to sustaining warm political stability in the country. Political and administrative reformation as well as the insurgent against the corruption also has brought the good confidence in the market. Investors are feeling more comfortable in such environment and they keep continuing their investment in the market.

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