

INTERNSHIP REPORT ON

Problems and Prospects of Brokerage House in Bangladesh: A study on Chowdhury Securities Ltd

Submitted to:

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To

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Subject: Submission of Internship Report

Dear Sir

I am **MD. MAHMUD SIDDQUE** a student of BBA program, have completed my internship at Chowdhury Securities Ltd and prepared a report titled **problems and prospect of brokerage house: A study on Chowdhury Securities Ltd** under the supervision of **Mr. Mahbub Parvez**, Assistant Professor, Daffodil International University.

I therefore pray and hope that you will consider my position and oblige thereby.

Sincerely Yours,

Md. Mahmud Siddque

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Certificate of Approval

This is to certify that **MD. MAHMUD SIDDQUE ID NO- 111-11-1771**, student of Bachelor of Business Administration Program, Daffodil International University, has completed the internship report under my supervision. He has worked at Chowdhury securities Ltd as an intern and completed the report entitled “Problems and Prospects of brokerage house in Bangladesh: A Study on Chowdhury Securities Ltd” as a partial requirement for obtaining Bachelor of Business Administration Degree. He has completed the report by himself. The data and findings presented in the report seem to be authentic. He has been permitted to submit the report.

Md. Mahmud Siddque bears a strong moral character and a very pleasing responsibility. It has indeed been a great pleasure working with him. I wish him all success in life.

.....

Mahbub Parvez

Assistant Professor

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Acknowledgement

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I wish to express my indebted gratitude and special thanks to **Md. Iftekharul Haque** In charge **Chowdhury Securities Ltd** who in spite of being extraordinarily busy with his duties, took time out to hear, guide and keep me on the correct path and allowing me to carry out my industrial project work at their esteemed organization and extending during the training. I do not know where I would have been without him.

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Executive Summary

In Dhaka Stock Exchange many of the brokerage houses are run their business, but many of them don't help their investors as well as they don't follow the proper rules of the business. As a result the investors have faced a lot of problems and lose their capital. Last 2 years the stocks are overpriced and this is a serious risk factor for the inexperienced new investors. Here many share prices are fluctuating for various reasons. Entry of new companies in the market can help to reduce gap between demand and supply and help bring stability in the market. New companies need to be encouraged to come to the market through market friendly policy. But recent policy interventions do not seem to be moving towards that end. The state-owned companies are not coming forward for listing despite repeated assurances given by the authorities. Immediate entry of at least two or three large companies could be extremely helpful for a balanced growth of the market. The central idea is that the stock price is determined by some weighted average of investment acts from investors applying informational diversified investment strategies. The dynamics behind the price fluctuation is as follows: The higher the share of uninformed investors, the more uncertain the market price is relative to the fundamental stock value. In any stock market, there will be bullish and bearish trends. Regulatory policies should be framed with long term vision. In recent months, some policy decisions are being taken to address current problems at the cost of long term market interest. These policy changes include fixation of minimum size of new public issue, imposing restriction on private placements, disqualifying private sector companies under direct listing and discouraging new mutual funds. Determinants which directly and indirectly affect the stock prices in Bangladesh especially in the Dhaka Stock Exchange & “Problems and prospect of Brokerage houses in Bangladesh are discussed in this report.”

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Chapter: ONE

Introduction

A stock market / share market is a public market for the trading of company stock and derivatives at an agreed price; these are securities listed on a stock exchange as well as those only traded privately. Usually, a stock market is the reflector of its countries economy. And the broker houses are like the reflector of the stock market of the country. A broker house is an entity that has the polish permission of Securities and Exchange, among others, to offer securities in public trading acquire and sell securities, and offer portfolio management and investment advice services to its clients. As a member of DSE the broker house does this service for their clients in return of commission on each transaction. That means more transaction more commission for houses and more wealth for it.

Before 1998 broker houses were not so active because people used to sell and buy there paper share direct to buyer or seller hand to hand. This hand to hand transaction was really a slow process and full of hustle. But after the establishment of CDBL (Central Depository of Bangladesh Limited), the trade becomes just a matter of click. Since then the investors in the share market has been increasing tremendously day by day. And the brokerage houses of the country have been facing huge challenges with the increasing number of investors in the market. It is really remarkable that the stock market of like Bangladesh has got above 3 million BO (Beneficiary Owners) accounts which was less than 1.5 million last two years ago and now Depository participants 408 and ISIN 283. Every day the brokerage houses of DSE are completing approximately 3 to 3.5 lack trades. It is not only like that more the transaction more the commission for the broker, the brokerage houses has to follow all the rules and regulations given by the SEC. These rules and regulations of SEC sometimes bring huge hassle for the brokerage houses. It is clear that the brokerage houses are playing a vital role in the country's stock market. So in the interim of my internship I have tried to find out the prospect and problems of brokerage firm on the perspective of Chowdhury Securities Ltd.

Scope of the study

This report is on the overall progress and problems of brokerage houses in Bangladesh. It is obvious that this report cannot include all the aspects of brokerage houses because the basis of this report is only one company. Since the Chowdhury Securities Ltd is one of the leading brokerage firms in Bangladesh, anyway it can give us an understanding of how the brokerage houses are performing in Bangladesh. This report can also help us to identify the different prospects and problems that are facing by the brokerage houses of the country.

Objectives of the study

The main objective of the study is to develop an understanding about the problems of Brokerage house in Bangladesh and their activities. Besides main objective, below are the specific objectives.

- * To identify the problems and prospect of brokerage house in Bangladesh.
- * To know about the actual problems related to capital and financial market investment.
- * To know how the capital market expand fast.
- * To indentify the supervision policy of Bangladesh Securities Exchange Commission
- * To provide some recommendations on the basis of the findings.

Methodology

During this study I have followed some research methodologies to find out fact and features related to the problems and prospects of Brokerage house in Bangladesh. I used qualitative research method in collecting the data. The information of this report was collected from two sources.

A) Primary source of Data

- * Employee Of Chowdhury Securities Ltd
- * Customers of Chowdhury Securities Ltd

B) Secondary source of Data

- * Websites and newsletters as major sources of information

- * Internet used as a theoretical source of information
- * Dhaka Stock Exchange for Brokerage house Information

C) Target Population

Target population has been selected from various customers of Chowdhury Securities Ltd and their employee by considering both Dhaka and Chittagong stock Exchange. Stock market investors of different brokerage house BO account holder.

D) Sample

- * Officers: 3
- * Customers: 15

E) Method of Data Collection:

Personal Interview: Face to face conversation was held with the various employee and their customers during my internship at Chowdhury securities Ltd

Personal Observation: Observation on Brokerage house activities and DSE operations during my internship at Chwdhury Securities Ltd.

Limitation

It is observable that almost all studies have some boundaries. During performing my work, I had to face some unavoidable limitations.

There were some confidential issues like financial issues, for which they were very strict and careful in revealing those information. Although they have provided all the possible information but there were some inadequacy of information.

Lack of enough materials like books, journals and other papers capture me for severe brainstorming during working this report.

Chapter: TWO

Company Information

CHOWDHURY SECURITIES LIMITED (CSL) is a Private Company, Limited by shares, which has been incorporated on 13th January 1997, with the Registrar of Joint Stock Companies and Firms of Bangladesh under the Companies Act, 1994.

ADDRESS:

5/F, Chowdhury Centre,
23/ka Rashed Khan Menon Road (Old New Eskaton Road),

Dhaka-1000, Bangladesh

Tel : +(880-2) 831-6860; 934-1278

Fax : + (880-2) 831-9396; 933-5894

E-mail : csl@chowdhurygroup.com

Website: <https://www.chowdhurygroup.com/se>

It is a sister concern of CHOWDHURY GROUP. The company has obtained its registration certificate from Bangladesh Securities and Exchange Commission (BSEC) on 10/06/2001 for Stock Dealer operation which is: Nibondon-3.2/073/98-050. The company has also obtained its Stock Broker operation registration certificate from BSEC on 10/09/2008 which is: Nibondon-3.2/CSE-073/2008/162. CSL is the member of CHITTAGONG STOCK EXCHANGE LIMITED and the membership number is: 121073. The registered office of the company is situated at 5/F, Chowdhury Centre, 23/ka Rashed Khan Menon Road (Old New Eskaton Road), Dhaka-1000, Bangladesh. CSL is also the PANEL BROKER of MTB Unit Fund which is managed by Alliance Capital Asset Management Ltd.

Company Structure: The Company consists of a CHAIRMAN OF THE BOARD, a MANAGING DIRECTOR, and a DIRECTOR. Currently CSL has six employees of which, four

of them are AUTHORIZED REPRESENTATIVE OF CHITTAGONG STOCK EXCHANGE LIMITED.

Nature of Business: The main objective of the company is to carry out the business of a Stock Broker and Stock Dealer that is, to buy/sell and deal in shares, debentures, bonds and other securities, and to carry on any business as permissible for stock broker and dealer house duly licensed by the Bangladesh Securities and Exchange Commission (BSEC).

Service

CSL provides the following services:

- » Opening of new B.O. account and maintenance
- » Opening of link account
- » Full Service Depository Participant
- » Dematerialization of Re-materialization of Shares
- » Transfer and Transmission of Shares
- » Internet and Telephonic Buy/Sell of Shares
- » Special arrangement for Female Clients
- » Minimum B.O. maintenance fee
- » Minimum Brokerage Commission

The company strongly believes to extend its co-operation and value added services to our respected clients. We also believe that CSL will play a vital role in the capital market for its development and future growth.

Background of the DSE

History of Dhaka Stock Exchange

The stock market history of Bangladesh refers back to 28 April, 1954 when the East Pakistan Stock Exchange Association Ltd. was established. Formal trading began on the bourse in 1956. The trading was suspended during the liberation war of Bangladesh in 1971. Operation resumed again in the 1976 with the change in government policy. During 1976, there were only 9 listed companies with total paid up capital of Tk.0 .138 billion and market capitalization of Tk. 0 .147 billion which was 0.138 % of GDP (1992). Since then the stock exchange continued its journey of growth. The second stock exchange of the country, the Chittagong Stock Exchange(CSE) was established in December 1995. In order to control operation of the stock exchanges and trading of stocks of listed companies, the government of Bangladesh established the Securities and Exchange Commission of Bangladesh on 8th June, 1993 under the Securities and Exchange Commission Act, 1993 .The mission of the SEC is to protect the interests of securities investors, develop and maintain fair, transparent and efficient securities markets, ensure proper issuance of securities and compliance with securities laws.

From the inception the stock market of the country was growing in a slow pace. There was a large surge in the stock market in the summer and fall of 1996 evidenced by a 197.43%, 372.30% and 370.51% increase in the market capitalization, total annual turnover and daily average turnover respectively in DSE and 506.63%, 210.2% and 615.15% increase in the market capitalization, total annual turnover and daily average turnover in CSE. DSE general index grew from 832 in January 1 1996 to 3567 in November 14, 1996 while that of CSE grew from 409.4 in 1995 to 1157.9 in 1996. The market, however, crashed in December of 1996 and the index started to decline significantly since then with the index assuming a value of 507.33 as of November of 1999, a cumulative decline of 83.44% from 1996 to 1999 with the annual rate of 27.82%, and has yet to fully recover. Investors' confidence was significantly damaged because of excessive speculations, allegedly aggravated by widespread irregular activities. The government of Bangladesh undertook the Capital Market Development Program (CMDP) supported by the ADB on 20 November 1997. The CMDP aimed at

- (i) Strengthening market regulation and supervision,
- (ii) Developing the stock market infrastructure,
- iii) Modernizing stock market support facilities,
- (iv) Increasing the limited supply of securities in the market,
- (v) Developing institutional sources of demand for securities in the market, and
- (vi) Improving policy coordination.

The policy matrix of the CMDP included 95 program measures. Central Depository Bangladesh Limited (CDBL) was incorporated as a public limited company on 20th August 2000 to operate and maintain the Central Depository System (CDS) of Electronic Book Entry, recording and maintaining securities accounts and registering transfer of securities; changing the ownership without any physical movement or endorsement of certificates and execution of transfer instruments, as well as various other investor services including providing a platform for the secondary market trading of Treasury Bills and Government Bonds issued by the Bangladesh Bank. CDBL went live with the Electronic Treasury Bills registry of Bangladesh Bank on 20th October, 2003 and thereafter started equity market operations on 24th January, 2004. It was set up to facilitate the computerized delivery and settlement of securities and eliminate to the extent possible, the paper work involved in handling the transactions and that would ensure risk-free and cost-effective settlement. Before establishment of CDBL, the delivery, settlement and transfer procedures were handled manually and were plagued by lengthy delays, risks of damage, loss, forgeries, duplication and considerable investment in time and capital. Besides, both the CSE (July 1998) and the DSE (August 1998) have automatic trading services. By having automated trading system and a central depository in place, the credibility of the country's Stock Exchanges in the eyes of the prospective foreign investors are expected to grow stronger and boost investment activities in the country's stock markets. Contrastingly, foreign portfolio investment, never more than \$200 million, has virtually disappeared from the stock market of Bangladesh.

Formation of Dhaka Stock Exchange

Dhaka Stock Exchange (DSE) is a public limited company. It is formed and managed under Company Act 1994, Security and Exchange Commission Act 1993, Security and Exchange Commission Regulation 1994, and Security Exchange (Inside Trading) regulation 1994. The

issued capital of this company is Tk. 500,000 which is divided up to 250 shares each pricing Tk. 2000. No individual or firm can buy more than one share. According to stock market rule only members can participate in the floor and can buy shares for himself or his clients. At present it has 230 members. Market capitalization of the Dhaka Stock Exchange reached nearly \$9 billion in September 2007 and \$27.4 billion in Dec 9, 2009. As of 18 August 2010, The Dhaka Stock Exchange had over 750 listed companies with a combined market capitalization of \$ 50.28 billion.

Legal Control of DSE

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 bye-laws along with the Securities and Exchange Ordinance, 1969, Companies Act 1994 & Securities & Exchange Commission Act, 1993.

Function of DSE

Listing of Companies.(As per Listing Regulations).

Providing the screen based automated trading of listed Securities.

Settlement of trading.(As per Settlement of Transaction Regulations)

Gifting of share / granting approval to the transaction/transfer of share outside the trading system of the exchange (As per Listing Regulations 42)

Market Administration & Control.

Market Surveillance.

Publication of Monthly Review.

Monitoring the activities of listed companies. (As per Listing Regulations).

Investors Protection Fund (As per investor protection fund Regulations 1999)Announcement of Price sensitive or other information about listed companies through online.

Management

The management and operation of Dhaka Stock Exchange is entrusted on a 25 members Board of Director. Among them 12 are elected from DSE members, another 12 are selected from different trade bodies and relevant organizations. The CEO is the 25th ex-officio member of the board. The following organizations are currently holding positions in DSE Board:

- Bangladesh Bank

- ICB
- President of Institute of Chartered Accountants of Bangladesh
- President of Federation of Bangladesh Chambers of Commerce and Industries
- President of Metropolitan Chambers of Commerce and Industries
- Professor of Finance Department of Dhaka University
- President of DCCI (Dhaka Chamber of Commerce and Industry)

Mr. Md. Shakil Rizvi is the current president of DSE.

Trading

The Dhaka Stock Exchange is open for trading Sunday through Thursday between 11:00am – 3:00pm BST, with the exception of holidays declared by the Exchange in advance.

Chapter: THREE

Current status of DSE

The Dhaka Stock Exchange (DSE) is one of the best performing stock markets in the world in recent years. During the 4-year period since January 2006, the DSE general index has increased by more than four-fold to more than 5,800 in recent weeks.

The DSE gained further momentum with the Grameen Phone IPO in November 2009. Along with the price index, the market capitalization has also increased rapidly, from \$3.4 billion in January 2006 to \$34.2 billion and August 2011 \$50.28.

The strong market performance also attracted an increasing number of small investors to the market, with the number of new Beneficiary Owners' (BO) accounts surging to high levels.

All these positive developments have opened up the potential for the stock market to become a real alternative to mobilize funds for investment, moving away from the traditional dependence on the banking system. However, while welcoming these developments, we also observe a number of disturbing phenomena, which, if unattended, may seriously undermine the sustainability of this positive trend.

Significance of Healthy Stock Market

It is generally well accepted in economic and financial literature that both banking and stock market developments play important roles in output expansion, capital formation, and productivity gains, even after controlling for many other factors associated with long-run economic performance of an economy. Beyond the macro-economic relationship, even micro-economic studies of finance and growth, and firm-level data also find that financial development disproportionately boosts the growth performance of industries that are naturally heavy users external finance.

The banking sector, which dominates the financial sector in Bangladesh, has served the economy very well, and its coverage is broadly comparable with other developing countries. However, equity markets which generally serve as the second most important pillar of the

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financial sector, have significantly lagged behind in Bangladesh. The recent increase in investor interest in the Bangladesh capital market, as reflected in terms of market capitalization and turnover, has significantly changed this situation; the capital market is gaining its position

as a sizable source of investment financing after the banking sector, which is a welcome development.

Market developments and sustainability depend on market fundamentals, and the fundamental strength of the market essentially comes from financial strength of the listed enterprises. Strong regulatory environment created and maintained by the regulatory bodies (like the SEC) and participation of institutional investors and professional market analysts help orderly market operations.

The problem comes when market prices overshoot fundamentals in a big way, transactions become speculative, and market becomes unstable in terms of prices, turnover, and volatility. Such developments are not new in Bangladesh; we experienced it in the boom and bust of 1996 and 2011.

The global landscape is also littered with such boom and bust episodes, the recent ones being: the crash of the US stock markets in 2000 (NASDAQ tumbling from 5,100 to less than 1,600); Japanese stock market crash of 1989 with Nikkei tumbling from 31,000 to less than 10,000; the crash of GCC (Saudi Arabia, UAE, Kuwait, and Qatar in particular) stock markets in 2005; and more recently the crash of Chinese stock markets in 2007.

We must keep in mind that a sharp rise in stock prices does not necessarily mean formation of a bubble. Sometimes stock prices may rise sharply across the board when some things change fundamentally in the economy or in the economic outlook, as happened in the case of Spanish and Irish stock markets on the eve of their joining the EU. Several East European (former Soviet Bloc) countries also experienced surges in their stock markets because of their anticipated integration with the EU. Furthermore, no two bubble episodes are exactly the same across countries or across time. Each episode had its own features and unique background.

Uncertainties of Stock market

While we do not necessarily view Bangladesh markets as having reached a bubble stage at this point, if the rise in stock prices continues at the same pace as it has been during August 2009 through February 2010, the market valuations may reach bubble proportions within a short time.

The common characteristics that are generally associated with a stock market bubble episode are also visible in several ways in Bangladesh today. Some of these characteristics include: exuberant demand manifested through weak correlation between economic values and prices, high price volatility, acceleration in margin lending for stock market investment, narrow market leadership, and structural weaknesses like weak and sometimes inconsistent signals from the regulatory regimes.

Existence of exuberant demand has been quite visible during the August-February period, although a bit tempered by some regulatory measures in recent weeks. Record high levels of market turnover and new records of the DSE general index week after week are certainly pointing to market exuberance. Only time can tell whether the exuberant market conditions are/were irrational or not. The DSE index grew by 98 per cent during this period from 2,941 in August 2009 to more than 5,800 in February 2010. Even after correcting for the error in the index, which was made by the DSE at the time Grameen Phone IPO was launched due to its inappropriate/ incorrect reflection on the index at its launching date, the increase was in excess of 4,700 or 60 per cent (Figure 1). It is certainly difficult to rationalize this surge, coming on the back of a steady increase in the index since April 2004, in terms of economic fundamentals. Reflecting the increase in the price index, market capitalization (total market value) of all companies listed in the DSE increased to Tk 2,366 billion (equivalent to \$34.2 billion) at its recent peak in February, compared with Tk. 1,307 billion (\$18.9 billion) in August 2009. To put this increase in market capitalization in proper perspective, DSE market capitalization was only Tk 97 billion (\$1.7 billion) in December 2003, immediately before the beginning of the current bull-run (Figure 2).

Stock market activity in terms of turnover, which measures the total amount of sales of all stocks during a day, also recorded a remarkable upward trend. The daily average turnover increased from only Tk. 140 million in December 2003 to Tk. 12 billion in January 2014 and further to Tk 13.2 billion in February: A 100-fold (10,000%) increase in a six-year period! The surge is certainly impressive, but also a matter of concern.

The increase in market turnover happened in an environment where supply of stocks, as reflected through the number of listed companies, remained almost unchanged except for the launching of the Grameen Phone IPO in November 2009. The pressures in stock prices and the rapid increase in turnover are obviously coming from the demand side. An army of new retail

investors armed with fresh funds is primarily responsible for this price pressure and market turnover.

The number of new Beneficiary Owners' (BO) accounts increased by 115,000 in January from 58,000 in December 2009. In February, the number of new BO accounts increased further by 180,000. To put the increase in proper perspective, during the 1996 episode, the total number of small/retail investors was reported to be 25,000, one-seventh of the additions to BO accounts in the month of February! New investors have been pouring in huge amounts of money into the stock market through these BO accounts. About 10,000 new investors, bringing on average Tk 100,000 (an assumption) would add Tk 10,000,000 into the market every day when the market is open. Foreign investors on the other hand, are rapidly withdrawing from the capital market in order to realize their capital gains, as happened during the 1996 episode. Domestic institutional investors like mutual funds are also reported to be following their foreign counterparts, in some cases holding more than 90 per cent of their assets in cash, waiting for a market correction before coming back to the market. However, the portfolio size of institutional investors in Bangladesh, at well below 2 per cent of the market capitalization despite impressive gains of recent years, is still very small and thus could not have played the kind of stabilizing role that institutional investors like mutual funds could have played.

The strong demand from the retail investors, not matched by a corresponding increase in supply of stocks, has caused the price earnings (P/E) ratio to rise beyond rational levels in many cases. The P/E ratio, defined as the ratio of price per share to the annual earnings per share, is a widely used and time-tested indicator to measure share valuation. In simple terms, the P/E ratio can be interpreted as "the number of years of earnings to pay back purchase price," ignoring the time value of money. It is also true that a high P/E ratio may also imply higher growth potential for a company's share, justifying higher investor interest to hold that share in their portfolio. The high P/E ratio for Bangladesh market may accordingly reflect, at least in part, a higher growth potential for the Bangladesh economy.

These considerations notwithstanding, P/E ratios of many non-bank DSE listed companies have become overvalued. The weighted average market P/E ratio has risen to almost 30 in recent weeks from 17.5 in August 2009, meaning it will take 30 years on average for an average share to give back (through dividends) its purchase price to the investor. It is widely known that some companies that are not even properly managed are being traded at P/E ratios well above 75

The example of Grameen Phone (GP) is also worth mentioning. The company was listed in the DSE only 5 months ago, and its Tk. 10 shares (face value) are currently trading at Tk. 340 and rising further! The day after GP announced a Tk 6 dividend per share, newspapers and press releases issued loudly announced that as a 60 per cent cash dividend. The next day, GP shares were jumped by 8 per cent. In reality, the amount of dividend at current market value (of more than Tk. 340) was less than 2 per cent, but an illusion was created that it was 60 per cent. By announcing a dividend of Tk. 6, GP has de facto got more than Tk. 24 increase in its share price.

At P/E ratio of more than 135, is it not insane to invest in the company? I agree that GP is the largest listed company at the DSE, and is a fairly well managed one with significant growth potential. However, its track record of profitability is not that good and more importantly, with the coming of Bharti Airtel in Bangladesh (with Warid), it will be facing much tougher competition in the domestic telecom market in the coming years. Certainly it is not a good outlook for justifying a P/E ratio of more than 135.

Role of the Policy-Makers

The SEC has been sending mixed signals about market developments. Until early March, SEC had taken a number of steps to contain inflow of funds into the over-heated market and help it calm down, including tightening of conditions for margin loans. First, SEC set a limit on the equity-to-loan ratio at 1:1.5 and restricted such lending only for stocks with P/E ratio not exceeding 75. Subsequently, SEC further tightened the criteria by lowering the loan ratio to 1:1 in shares which have P/E ratios lower than 50. This policy directive essentially required investors to pay 50% of the share price in cash and shares with P/E ratio over 50 can be purchased only with cash.

These were right moves and the market started to respond to such actions: the DSE index declined from its peak of 5,828.4 on February 17 to a low of 5,338 on March 15; daily market turnover also slowed down from a high of Tk. 13.2 billion in February to Tk. 8 billion in March (Figure 3); and the DSE index became range bound moving within a relatively moderate band of 5,300-5,800.

However, as some demonstrators started agitating against the market correction, in a surprise move the SEC eased the margin lending condition by increasing the equity-to-debt limit 1:1.5

on March 15. Yielding to pressures from demonstrating investors definitely sent a wrong signal to the market.

The stock price development is also a manifestation of the general inflationary trend visible across the economy. As the economy has been passing through a liquidity overhang in recent months, inflationary pressures are building up all across the economy: general inflation as measured by the consumer price index (CPI) increased to 9 per cent in January from a low of 2.25 per cent in June 2009; real estate prices are all time high; land prices are high across the country; and the surge in the stock price index is the topic of discussion in this paper. With broad money expanding by more than 20 per cent last fiscal year and once again this year, fueled by inflow of worker remittances, there is enough liquidity to create the general inflationary environment. The budgetary provision to allow whitening of undisclosed money through investment in the stock market and real estate has also contributed to the asset market inflation in Bangladesh.

Increased investment by commercial banks, and bank lending for investment in stocks, lured by high return on such investments, have also greatly contributed to the high market valuation and volatility. It is widely reported that a sizable part of the increased bank profitability is attributable to the gains from such investments. Measures should be taken by Bangladesh Bank to minimize the exposure of banks to the stock market in order to safeguard depositors' interest.

Increasing supply of stocks would surely help meet the growing market demand for stocks. Recently introduced book building method (BBM) for new IPOs is certainly a positive development and should encourage private corporations to consider floating of IPOs as part of their expansion program, since IPO pricing under the BBM would reflect issuer and investors expectations. This new method would also allow institutional investors to carry out due diligence since they would have to take up shares at prices they bid in the bidding process. High price earnings ratios would certainly be a big incentive for established companies to consider public floating of their shares. While we do not believe that bringing loss-making public entities to the stock market should be the right solution, if the government can bring the profitable enterprises to the market with scope for management change, that would help increase supply of quality stock.

Mutual Funds (MFs) can also play an important role in institutionalization of capital markets of Bangladesh by increasing supply of professionally managed funds, providing liquidity,

reducing the scope for market manipulation, and increasing institutional investor market depth. Although the MF sector has gained some momentum in Bangladesh, the size of MF industry in Bangladesh at less than 1 per cent of GDP and less than 2 per cent of market capitalization is very small.

In contrast, the size of the thriving MF industry in India is 12.5 per cent of GDP. Certainly the MF industry has a long way to go from its current state of infancy. The strong interest among the private sector investors and sponsors to launch new MFs, as reflected in the pipeline of about Tk. 40 billion (0.65% of GDP), if allowed to materialize in a phased manner, will be a positive move toward institutionalization of the capital market in Bangladesh. A broader and deeper MF industry should be able to play an important role in price discovery and valuations, and reduce scope for market manipulation.

Observations

Current unsettled market environment is certainly not conducive for market development and for small investors. All indicators are pointing to the conclusion that the stock prices are generally over valued and a market correction to bring prices in line with economic fundamentals of the companies would be desirable for future market development. When foreign and domestic institutional investors are pulling out of the market and holding large cash reserves for future investments, it is not the time for new and uninformed investors to join the market.

The investment guru Warren Buffet has rightly characterized stock market frenzy in the following manner in 2000: “The line separating investment and speculation is never bright and clear ... becomes blurred still further when most market participants have recently enjoyed triumphs. Nothing sedates rationality like large doses of effortless money.” It is thus imperative on the part of policy-makers to send clear warning signals highlighting the heightened risks in order to protect ordinary investors.

Today’s stock market is not as immature as it was in 1996. Nevertheless, when we see small investors erecting road blocks and burning tires whenever stock prices come down marginally, we have to believe that this market is being driven by mob frenzy.

When the great scientist Sir Isaac Newton lost a bundle with the bursting of the South Sea Bubble, he observed that: “I can calculate the movements of stars, but not the madness of men.” If the madness in Bangladesh stock market continues for a few more months, the bubble

would become much bigger and it would explode like it did in 1996. We may still have time, but the policy-makers would have to act now and in a concerted manner.

Capital market at a glance

In its 57 years journey the stock exchange has made significant contribution to the Economy of Bangladesh. Presently DSE has 238 outstanding shares (Members) having present market value of Tk. 830 mn. (appx), equal to \$ 11.95 mn.

Central Depository Bangladesh Limited (CDBL) has been registered as a Depository by the Securities and Exchange Commission under section 4 of The Depositories Ac1999.

Total Issued Capital of all listed securities – US \$ 9.05 billion

Market Capitalization of all listed securities US \$ 42.89 billion

Listed Securities

Total Listed Securities	:	466
Companies	:	248
Mutual Funds	:	28
Corporate Bond	:	02
Treasury Bonds	:	179

Highest Records

Particulars	Values	Date
Total Number of Trades	2389310	05-12-2013

Total Trade Volume	242856735	21-07-2013												
	<table border="1"> <tr> <td>Companies</td> <td>:</td> <td>246</td> </tr> <tr> <td>Mutual Funds</td> <td>:</td> <td>26</td> </tr> <tr> <td>Corporate Bond</td> <td>:</td> <td>02</td> </tr> <tr> <td>Treasury Bonds</td> <td>:</td> <td>179</td> </tr> </table>	Companies	:	246	Mutual Funds	:	26	Corporate Bond	:	02	Treasury Bonds	:	179	
Companies	:	246												
Mutual Funds	:	26												
Corporate Bond	:	02												
Treasury Bonds	:	179												
	13.24													
Total Traded Value (Taka mm)	32495.756	05-12-2013												
Total Market Capital (Taka mm)	3680714.195	05-12-2010												
DSE General Index	8918.51346	05-05-2010												

Beneficiary Owners Accounts (BO)

Milestone

January 2009	BO Accounts setup in CDBL surpass 2 million
February 2007	BO accounts setup in CDBL surpass 1million
August 2005	BO accounts setup in CDBL surpass500,000

Highlights of progress of CDS

Period	June '09	June '10	June '11	June '12	Aug'13	May'14
BO Account s	792,463	1,385,144	1,777,334	2,124,976	2,842,819	2,810,934

Foreign Trade Turnover

Indicators	2008	2009	2010	2011	2012	2013*
Total (US\$. Millions)	5.1	26.4	290.0	198.0	208.0	186.4
% of total Value	0.53	2.80	6.16	2.04	0.97	0.5

Market Turnover

Year	2008	2009	2010	2011	2012	2013*
Turnover US\$ (Bn.)	0.97	0.94	4.71	9.71	21.33	34.11

Daily Average Turnover:

The Daily Average Turnover has risen to Tk. 1,420 Crore (appx).

Power Companies	SecFor	Growth:	Avg. Offloading Price (Tk.)	Current Price (Tk.)	Mkt.
DESCO			257.11	2411.00	
Power Grid			179.86	1068.00	
Jamuna Oil			328.64	424.10	
Meghna			324.96	261.80	
Titas Gas			455.28	1079.00	

Status Government Owned companies through Direct Listing

Face Value of Total offloaded shares Tk. 351 crore Market Value of Total Offloaded Shares Tk. 2,028 crore Over Times 5.77

Current Status of Government Owned Companies through Direct Listing

Face Value of 22.43% shares will be Tk. 353 core

At 10% less market value of Offloaded Shares will be Tk. 4,284 core

At 20% less market value of Offloaded Shares will be Tk. 3,808 core

Prospect of Brokerage houses in Bangladesh

Interest among the industries to raise capital

There is an intense interest among the industries to raise a huge amount of capital from the capital market. They are not going for traditional capital raising method like banks or the borrowers. From every industries companies are enlisting there names in the DSE and CSE to get money from general investors. It we can see in the list of DSE there were 236 companies listed till December 2009 and 254 in August 2011 but this number becomes 445 in January 2014. So in last five months huge number of new company came to the market for raising there capital. Among them Grameen phone was the largest one.

Categorization of Listed Company

Category: A, B, G, N and Z

Category	DSE	CSE
A	155	130
B	18	13
N	13	14
Z	98	72
Debenture (A category)	08	02
Treasury Bond	75	-

Criteria of the share Category

“A” Category Companies: Companies which are regular in holding the Annual General Meeting(AGM) and have declared dividend at the rate of 10 percent or more in a calendar year.(Mutual fund, debentures and bond are being traded in this category).

“B” Category Companies: Companies which are regular in holding the AGM but have failed to declare dividend at least at the rate of 10 percent in a calendar year.

“G’ Category Companies: Greenfield companies.

“N’ Category Companies: All newly listed companies except Greenfield companies will be placed in this category and their settlement system would be like B-Category companies.

“Z’ Category Companies: Companies which have failed to hold the AGM or failed to declare any dividend or which are not in operation continuously for more than six months or whose accumulated loss after adjustment of revenue reserve, if any is negative and exceeded its paid up capital.

More investors in capital market

The number of new investor is rising day by day. In June 2013 CDBL had 1,076,252 Bo account registered. In June 2014 the account increases almost 30.8% the amount stands in 1,401,165. In the last published news in December10, 2013 the number of Bo account increased to approximately 3300000 which is almost above of 100%. These increasing numbers of investors are coming from every section of economy. Small business to big corporate giant everyone is investing money in this sector.

More stability in the market

The capital market has become more stable for couple of years. People have become more aware on their investment. They are now more concern about the performance of the company in the business instead of running behind rumors. On the other hand rules and regulation of DSE and CSE is helping to keep the market stable. SEC is closely monitoring the activities of the companies as well as the investor to ensure a smooth and clear capital market.

Constant growth on GDP

From 2008-2013 the GDP growth rate shows that it is growing every year constantly from 5.5% to 6.5%. That means that there is an upward trend in the economy of Bangladesh. So it is also found that there is no such huge ups and downs in the capital market of country. For that reason investors are feeling safe to use their money in the capital market.

Change in Bank deposit rate

Since the last decade deposit rate of the banks were quite high. It was actually more than the actual growth rate of GDP. So it was really a safe investment for general people just deposit a healthy amount in the banks and have a good amount from interest. But recently BB has taken initiative to lower the deposit rate to lower the interest rate of borrowing. So nowadays, people are not interested to put their money in the banks. They are now going for investment by either starting a new business or for the capital market investment.

More foreign investment in DSE

Stability of economy and capital market has attracted the foreign investors in Bangladesh capital market. And Establishment of CDBL has given a new opportunity for foreign investors. Now people from outside of country can also invest directly to DSE or CSE if they want by opening corporate account on any of the member of them. According to the DSE, in 2012, net foreign or portfolio investment on the Dhaka Stock Exchange surged 8.3 to \$129 million. The banking sector, followed by the power, pharmaceutical and cement sectors, received the most foreign investment. In may 2014, net foreign or portfolio investment at DSE received about Tk3.4bn in foreign investments in June; the highest in the last fiscal year. It rose more than 7% from the previous month's Tk3bn and was the highest in 12 months, according to net position of portfolio investment recorded by Dhaka Stock Exchange.

Investor from different region of Bangladesh

People from outside of the Dhaka division also showing their interest to invest in the capital market. That is why brokerage houses are opening branches in the major cities in different division of Bangladesh. After Dhaka and Chittagong brokerage houses are focusing in barishal, sylhet, Khulna and many more.

Demand of new brokerage houses

Demand of new brokerage houses are increasing now. There are already 238 members under Dhaka stock Exchange and 136 members under Chittagong stock exchange. The existing brokerage houses are maintaining a huge number of investors so it will be tuff for them to enlist more and more investors in the house. Almost all of the firms have several offices in Dhaka city as well as other cities but still they are opening 12000 Bo account in an average which is a big number.

Demand of financial advisors

Financial advisor is the single most important thing for capital market. Nowadays Investors are always looking for an advisor where they can go to understand which share will be good for their portfolio, how to maintain a healthy portfolio, and where to invest. Now the brokerage houses providing the expert advises on investment to their clients as a part of their business.

Initiatives of DSE for market expansion

Market expansion

Now DSE has offices in four divisional cities (Chittagong, Sylhet, Rajshahi and Khulna) and steps have also been taken to introduce offices in other district level towns to reach the securities trading facilities to the door of investors. Member of the country's prime bourse has expanded in the 17 districts in the country and gradually it will reach to the door of people bring all the people under the trading network.

Employment Generation

Nearly 578 branch offices of brokerage houses have been opened where employment has been generated for nearly 25,000 people. From the realistic standpoint it may be dully mentioned that DSE has been a centre-stage of employment for the skilled, semi-skilled and less-skilled people. Actually a corporate culture has been growing among the youths who have been associated with the country's capital market.

Book Building Method

Book Building, modern pricing mechanism of price discovery of shares, which ensures fair prices of securities in the capital market, has been introduced in 2010. With the introduction of Book Building Method it has been expected that many potential entrepreneurs will bring their business ventures into the country's capital market.

Website Development

Many glorious changes have been made in the DSE website. DSE Website has been provided with many issues such as P/E: at a glance, Interim Financial Performance, Recent SEC and DSE Circulars and also up gradation of Daily, Weekly, Fortnightly and Monthly Publications of DSE.

ICT Development

The robust structured LAN setup is distributed to the DSE building and its vicinity. Member houses, which are located in those buildings, are connected to the Trading Engine through this LAN setup.

Approximately 2200 workstations along with 213 Members Servers are connected to DSE Central Network through DSE LAN & expanded WAN setup (using RADIO LINK / Fiber Optics / ADSL connectivity / Dialup) within Dhaka City.

Among them minimum 160 Members are running their Branch from 650 locations of 17 districts. DSE is regularly holding investor awareness program in all the major cities. DSE held International Conferences/ Road shows DSE also holding various workshop, seminars, training program on different issues of securities market.

DSE Training Academy is holding different types of programs for the interest of the stakeholders of Capital Market. DSE is regularly publishing Monthly Market review and Fortnightly to disseminate market information. DSE has a highly informative web site that disseminates online trading data and market information to the investors.

Problems of Brokerage houses in Bangladesh

Cost of opening a new brokerage house

The cost of opening a new brokerage is huge. To become a member of DSE now cost almost Tk. 500 mn excluding the other cost, Deposit to CDBL is 5mn. So despite of the increasing demand of new brokerage houses it is not possible to investor just start one. There is another problem that DSE is not willing to give membership license in near future. Despite of the membership cost it contains a huge portion of money on its setup. So to start a new brokerage one should have Tk. 600mn-650mn which is not easy for a person or company.

Rules and regulations of DSE

Brokerage houses are always under close monitoring of DSE and SEC. If DSE sees any unusual activity they directly punished the brokerage houses, they don't see who made the mistake is it the trader or client it just fine the house.

Rules and Regulation of CDBL

Central Depository of Bangladesh has its own rules and regulation. Every day brokerage have to report to their daily transaction of their clients. Every day after reviewing the transaction a check has to be written and send CDBL as the howla and laga charge. If there is any problem in the number it will straight fine or close the transaction for several days which will conquer a huge loss for the firm and can create tension among the clients.

Opening a new BO account

To open new BO account a person has to go over few requirements but for a brokerage house it is not a hustle. Cause if there is any information missed by that particular person the brokerage house has to go for the same procedure again, and the pressure is from both sides. CDBL will charge them that why there is information in the form and client will complain why the firm did not tell them about the mistake in the first place.

To involve yourself into share business in Bangladesh you need to have a BO Account or Beneficiary Owner Account. To open a BO A/C please follow the steps below:

1. First, open an account at a bank if you don't have one already.
2. Select a suitable Stockbroker or Brokerage House with whom you would do your share business. You need to make sure that the Stockbroker you are going to select is a registered member of DSE and CSE.
3. Collect a BO Account Opening Form from the Brokerage House and fill it up.
4. Documents needed to open a BO Account: need following documents to submit along with the filled up form.

Individual Applicant

1. Two copies of Passport size photograph.
2. National ID Card. Or, Photocopy of Passport/Bank Statement/Driving License/Nationality Certificate.
3. Two copies of passport size Photograph of nominees.

Joint Applicant

1. Two copies of passport size photographs.
2. National ID Card. Or, Photocopy of Passport/ Bank Statement/ Nationality Certificate.

Sole Trader/Proprietor

1. Trade License.
2. Partnership Agreement/ Resolution of Partners to operate the BO account.

Corporate Accounts

1. Photographs of the Directors.
2. Photocopy National ID Card. Or, Photocopy of the Passport/Driving License/Nationality Certificate.
3. Board Resolution
4. Memorandum and Articles of Association certified by RJSC
5. Signature and Photograph of the authorized persons (if any)

6. Now you need to pay the brokerage house an account opening fee (different brokerage house charges different amount from Tk. 600 – Tk. 1000) and submit your documents to them.

Your account will be opened within 3 days to 1 month. (How long it will take depends on the brokerage house).

Requirements for NRBs & Foreign Investors to invest in Bangladesh

- * Foreign Currency (FC) Account is needed for inward and outward remittance.
- * A Non-resident Investor's Taka Account (NITA) is required for converting foreign currency into Taka.
- * All Capital Market investors are required to conduct trading through a Stock Broking Account
- * maintained with any Stock Broker/Member of the respective Stock Exchange.
- * In order to trade dematerialized shares listed with the Stock Exchanges, investors must have a Beneficiary Owners (BO) Account with CDBL.
- * NRB & Foreign Investors may choose to appoint a Custodian to ensure trade execution and safe custody of shares

BO account maintenance

Bo account maintenance is a great responsibility for the brokerage houses. Every financial years end CDBL will charge the houses for the clients account. And after that they have to raise the amount from every individual client. It is a very slow and long process. After collecting the money the firms find that not everyone has paid for their account because some clients have no transaction at all they will not going to have the renewal amount against that account, Which is ultimately a loss for the brokerage firms.

Categorical difference of securities

Every day clients buy sale different category. There are four category in DSE most common A, B, N, and Z category. A,B and N category share matures in T + Three days and Z category matures in T + Nine working days. Some time clients sell a Z category share and buys an A category share which has a 6 days gap between maturity. So ultimately happens that brokerage houses end up paying for the client and they can't event charge anything as loan or some other criteria. Some time trader prevents the client not to do this but if traders don't pay much attention they end up to this kind of situation.

Lack of knowledge among the new investors

Lack of knowledge among the investor is a common problem for the brokerage houses. New investors has no place to learn about market they learn from other investors or they run on it like a wild goose chase and end up with losing money. There is no proper place where they can have the actual idea what is going on the capital market so they are always running behind the rumors. So if investor loss money for some period he or she withdraws their money from market and firms lost another client. To overcome this situation the trader who places order in computer helps the new investors. But it's not sufficient because a trader is a busy person who has to stick there in the keyboard placing order.

Overpriced securities

Over the last couple of year the market size is growing intensively. Everyday new people are investing in the capital market. But no of securities are not increasing to much the growing demand, result over pricing of the current securities. If this growth of supply increases in this rate can lead to another disaster like 1996, and brokerage houses will found them bankrupted.

Market manipulation

Market manipulation is a common term in the capital market. There is a group of people who are the big fishes of capital market some time flooded up the market with liquidity raising the prices of securities and then leave with profits and the small investors end up with losing money. Although DSE and SEC is monitoring this kind of situation but still if the capital market dose not increases no of securities there is always a fear of market manipulations

Lack of experienced manpower

Brokerage houses have a common problem on recruiting employ for their firms. Very few people have chances to learn to work related to brokerage houses. Most the employee doesn't had any knowledge before entering a house. The firms has to recruit a new person then train them by their old employee and make them eligible to work for their client which is a really long and slow process. Most of the employee enters a house to be a trader so that he or she can run his own business. They have no extreme idea about this market. As a result some people get the corrupted opportunity, which we learnt last December 2010 to till now.

Trouble afoot in our capital markets

After bringing uncomfortable memories of 1996 to many minds over the last few months, the Bull Run in Dhaka Stock Exchange (DSE) seems to be in abeyance, at least for now. At the time of writing, DSE had fallen by about 1 per cent since the end of February.

While there have been reports of angry reactions of retail investors expecting sharp price rises, a modest price correction is a preferable outcome than continuing froth in the market eventually ending in a more severe bust.

Of course, such a bust is still very much possible. We are by no means out of the woods yet. But with luck, we will have avoided a collapse. Either way, focus should now turn to factors that fuel these episodes, and what, if any, can policy do to avoid them.

How does the recent stock market boom compare with that of 1996?

Chart 1 explores this. In this chart, the horizontal axis shows number of months since the beginning of the Bull Run, while the vertical axis shows the DSE indexed to that beginning. Back then, DSE started rising from January 1996. In November 1996 (that is, 11th month of the run), DSE peaked at 395 per cent of its January value. Now, the market is indexed to March 2009, when the global asset markets reached the post global financial crisis trough. Since then, DSE had risen by nearly 125 per cent by February 2010 (that is, the 12th month of the Bull Run).

Chart 2 compares DSE with other regional markets. While DSE's performance was relatively modest compared to those of our neighbors for much of the past half decade, DSE far outpaced other regional markets in the closing months of 2009.

Both these charts show that while the recent bull run may have had the hallmark of bubble in its acceleration, the price rises have not been as stratospheric as those witnessed in 1996, or what Ho Chi Minh City experienced in 2006 or Shanghai went through in 2007. There are two reasons why Bangladeshi stocks might be attractive for global investors seeking emerging market bargains. First, with only a small proportion of stocks held by foreigners, Bangladesh remains a hidden opportunity for international investors. And second, Bangladesh weathered the global financial crisis relatively well, with respectable growth expected in the next half decade (Chart 3).

Regional growth outlook has been revised upward since then, but detailed country forecasts won't be available until later in April.

Industry level price-earnings ratios can provide further insight. All else equal, a high price-earnings ratio means the stock has a high growth potential. But if price-earnings ratio rises very quickly in the absence of any new information, then that might point to a bubble. Four industries — cement, information technology, services and real estate, and textiles — have seen price-earnings ratio sky-rocket during the Bull Run.

There are anecdotes of an emerging housing boom that might be driving the real estate stocks. A housing boom, along with the expectation of an infrastructure boom in the coming period, may be driving the cement stocks. Over the past decade, per capita cement consumption has trebled, further buoying the sector's medium-term outlook. One can argue that various "Digital Bangladesh" initiatives may well have been boosting IT stocks. And textiles may have benefitted from the resilience shown by the export sector.

But these positive outlooks notwithstanding, stories of price-earnings ratios reaching 70 or higher suggest nothing but "irrational exuberance."

Considering various factors, one major market commentary optimistically noted last November: "The relative resilience of the other issues in the marketplace is encouraging and DSE 5,000 from the current level of 4,169 seems a realizable target by mid-2010."

DSE crossed 5,500 in February, and was still around then at the time of writing. Returning to 5,000 by middle of the year would require a correction of 9 per cent or so over the next quarter — a modest adjustment all things considered. If we are lucky, we will avoid a bust this time round. But unless a range of regulatory, monetary, supply-side and socio-cultural issues are addressed; we will soon see another frothing episode. And we may not be lucky next time.

Are there regulatory failures here? Have there been insider trading and other such efforts to drive up the market to unrealistic heights?

The Security and Exchange Commission is the agency in charge of regulating, and preventing illicit manipulation of, the share market. The SEC has taken steps to calm the market — for example; conditions for margin loans have been tightened. However, it is vitally important that the SEC is seen as a credible and competent institution. And that credibility has been tarnished recently when this technocratic institution has been used to achieve partisan political ends in the DSE election.

While restoring the credibility of the SEC is crucial, there may well be other factors at play here. Mansur and Haque (2009) eloquently point to the excess liquidity that may be fuelling up an asset price bubble:

Obviously when there is a lot of liquidity in the system, and money being fungible, there is no way to prevent people from borrowing on one account (for the officially stated purpose of trading, housing, agriculture and other uses) and investing in the stock market. As surging flood water cannot be contained by a putting a small/weak dam downstream and water simply bypasses or overwhelms/washes away the barrier, money keeps pouring into the stock market ignoring the SEC signals lured by quick capital gains.

While much has been made of the strong remittance flows during the global recession, it is not clear whether we understand why remittance held up in 2009. Similarly, we may not fully appreciate the unintended consequence of the strong remittance inflows. Strong remittance inflow underpins capital inflow into the country that is putting upward pressure on taka. If the taka is allowed to appreciate, it may hurt the manufacturing sector (exports-oriented or imports-competing) in a classic “Dutch disease” manner. But by pegging taka to the dollar, and thus allowing it to depreciate against the Indian rupee, the Bangladesh Bank may be inadvertently fuelling food price inflation.

And the dollar peg at an undervalued rate means the central bank is accumulating foreign reserves. Unless the surplus reserve is “sterilized” by the central bank selling instruments, money supply will rise. Money supply has been rising at an annual rate of around 20 per cent for the past year and a half — the longest period of that rate of growth in the past quarter century (Chart 4). If there is excess liquidity in the economy, the impact should be visible in the goods market as well as the asset market. Indeed, non-food inflation has jumped to 6.5 per cent in the year to January, compared with a rate of 3.7 per cent six months earlier

The problem is compounded by two additional factors. First, every year budget’s provision to “recycle black money” released a large amount of cash into the economy that went into the stock market. Second, merchant banks and merchant banking divisions of non-bank financial institutions have become among the most active members of DSE.

If excess liquidity is the problem, then is a tightening in monetary condition through a modest appreciation of taka or more direct measures — the only solution?

Not necessarily, at least as far as the asset market is concerned. The underlying problem in the Bangladeshi asset market might be that there are not enough instruments for people with savings to invest in. Perhaps, instead of borrowing overseas in foreign currency to fund infrastructure projects like the Padma Bridge, the government could issue infrastructure bonds. And given high borrowing rates faced by businesses, perhaps the time is right for a corporate bond market in Bangladesh.

The lack of instruments to invest in ultimately points to a deeper problem Bangladesh faces: a relatively low invest-to-GDP ratio. Private investment accounts for less than 20 per cent of Bangladesh's GDP. It is difficult to envisage sustained 7-8 per cent economic growth unless investment rises relative to GDP. Rahman and Yusuf (2009) argue that infrastructure bottleneck and regulatory burden are the binding constraints on investment and economic growth in Bangladesh. Until these supply-side constraints are addressed, any rise in savings (such as through a remittance boom) is likely to drive up goods and asset inflation instead of adding to the economy's productive capacity.

And finally, there are socio-cultural factors that have caused asset bubbles and financial crises around the world over the past eight centuries. As a bitter investor or one such bubble is alleged to have said: More money has been lost because of four words than at the point of a gun. Those words are: This time is different.

Whether it is in tulip during 17th century Holland, American houses a few years ago, or the DSE, such bubbles seldom end well, particularly if the investors run up debts to fund their investment. The data are not available to judge whether the retail investors being hurt by the market correction are highly leveraged or not. And social scientists are only beginning to appreciate the herd mentality that drives these manic episodes that end in panics. Perhaps it is unrealistic to expect our policymakers to grapple with socio-cultural issues that bedevil authorities in advanced capitalist economies. But we can definitely aim for better regulatory, monetary, and supply-side policies.

Prospects of Chowdhury Securities Ltd

Growth in turnover

Stock and bonds Profit and loss account shows an instances growth in turnover from June 2013 to may 2014. The change in turnover has a percentage change of 77% in positive. That mean in one year the operating growth was positive 77%. It shows that the growth of capital and the growth of stock and bond is positively related. But now 5-6 months the turnover is slow absence of investors.

Increasing number of clients

In May 2012 Chowdhury Securities Ltd have approximately 17000 BO account enlisted, and after one year the BO account stands at approximately 31000. The percent change in BO account is 82% which is almost equal to the increasing no of BO account of CDBL. In 2013 Chowdhury Securities Ltd BO accounts has 65000 (approx).

Facility for the loyal clients

Like other big companies Chowdhury Securities Ltd gives extra facility to their loyal clients. They give them private treading facility with their own trader. If the clients face any account related problem even financial problem Chowdhury Securities Ltd take cares of them.

Introducing new technology

Chowdhury Securities Ltd is trying to introduce technological facility to their clients. Chowdhury Securities Ltd is developing software which will notify the clients about the current position of their portfolio. How many securities are matured who much money is idol etc.

Most experienced working force

Chowdhury Securities Ltd has a reputation to recruit the most experienced personal to do its job done. Dealing with enormous no of client and also dealing with DSE and CSE need dedication and skills. The brokerage houses are closely monitored by the DSE so it is the employee who has to be strict to maintain rules and regulation if there is one mistake Chowdhury Securities Ltd have to pay the price of that mistake. But Chowdhury Securities Ltd is maintaining its excellence on its work that's why it is one of the top level brokerage houses in Bangladesh.

Giving easy loan to its client

Chowdhury Securities Ltd gives investment loan to its client in really less condition with fewer requirements. Although this loans are not counted in the name of Chowdhury Securities Ltd instead of The City Bank Ltd., But the clients has to go for any procedure it tell the CDBL section about the loan amount and it gives the limit and they can buy securities. Although to get this loan the clients has to regularly tread for at least six month.

Problems for Chowdhury Securities Ltd

Rules and regulation of DSE and CDBL

Like all other brokerage firms Chowdhury Securities Ltd also face the problem regarding Rules and regulation. Maintaining a larger no of client every day is a hard job and if there's any problem occurs during the trading session it can make problem for Chowdhury Securities Ltd and its clients. So to deal with DSE and CSE the employee has to check and double check every single detail in clearing section.

Categorical difference of securities

Most of the time clients do this kind of mistake that they sell a Z category share and buys an A category share ultimately after end of the month Chowdhury Securities Ltd finds that their cash in hand is less then there account book. Then they have to adjust and re-adjust all the account again and again which slows down the work in account sections.

Check requisitions process

When the clients withdraw their money they have to put a requisition first and on the basis of the maturity period they get their money back. But some time the clients do and unusual thing which cannot be monitored by account section. After giving the requisition the clients buy securities and don't notify in accounts so what happens that the matured money was there and the check was written and provided but there was no despite left in the account. This is a really common problem for Chowdhury Securities Ltd although the accounts section closely monitors but still this problem lay on there.

No new brunches

Chowdhury Securities Ltd is currently operating their activities in CSE and DSE. But, according to the demand in some areas, they are clearly left behind to provide the service in different areas of the country.

No individual finance department

Chowdhury Securities Ltd does not have an individual finance department. So it is a disadvantage for the company that they cannot monitor their financial activities closely. All the financial decisions are taken by directors like traditional method.

Dealing with minus figures

Sometime the client buys their shares on credit to Chowdhury Securities Ltd and does not perform any transaction after. This situation hampers the financial statement because Chowdhury Securities Ltd does not give any loan to the client directly on their name. These loans are provided by The City Bank Ltd. So if the accounts are not trading any more the interest goes higher every single day. So Chowdhury Securities Ltd has to deal with it in a different way they force sell those account and block it for moments. To do that Chowdhury Securities Ltd first ask the client and then go for the procedure. Although it is a standard procedure but still they end up with losing the clients.

No awareness program for clients

Chowdhury Securities Ltd. does not arrange any awareness program. A brokerage house should educate there new clients how to create a healthy portfolio, help them to understand the ups and downs of capital market, but there is no program like that so clients end up with losing their money or take advise from the trader or other clients.

Chapter: Four

Findings

1. The lack of instruments to invest in capital market is the main barrier for economic growth in Bangladesh. Low investment in capital market shows relatively low investment to GDP.
2. Over the last couple of year the market size is growing intensively. Everyday new people are investing in capital market. But the no of securities are not increasing too much according to the going demand, result overpricing of the current securities.
3. In order to trade dematerialized shares listed with the Stock Exchanges, Investors must have a Beneficiary Owners (BO) Account with CDBL.
4. All Capital market investors are required to conduct trading through a stock broking Account.
5. Foreign Currency (FC) account is needed for inward and outward remittance and a non-resident investor's taka account (NITA) is required for converting foreign currency into taka.
6. Dhaka stock exchange Provides screen based automated trading of listed securities, as per settlement of Transactions Regulations.
7. NRB & Foreign Investors may choose to appoint a Custodian to ensure trade execution and safe custody of shares.
8. Chowdhury Securities Ltd is developing software which will notify the clients about the current position of their portfolio.

Recommendations

1. DSE should strongly monitor the overall activities of brokerage houses so that brokerage house cannot increase the share price.
2. To expand the capital market of the country fast government can take some initiatives step like the government should immediately issue its own shares lying in different organizations and companies.
3. BSEC should make an easier way for foreign investors to convert foreign currency into taka.
5. DSE should ensure training facilities for capital market investors and the brokerage houses.
6. DSE modernized their technology so that they can monitor and control the index rate and notify their investors about the current market portfolio.
7. The Security and Exchange Commission (SEC), the regulatory authority for overseeing the stock market, has been taking some steps to contain the market instability. To limit investor funds flowing into these already overvalued shares and help the market to calm down, the SEC has undertaken several initiatives, including tightening of the conditions for margin loans.
8. SEC and government should relax their rules and regulations that create obstacle in the smooth going of brokerage houses.
9. Recently country's capital market has witnessed many records but to continue the trends of current pace and progress of securities market off-loading of fundamentally sound companies shares should be done immediately.

Conclusion

Bangladesh is a third world country which is still under development. Stock market is the reflector of and countries economy system, which is also under development. So it is an obvious that it will have an enormous number of problems. But it is also true there is a lot more opportunities for stock market in Bangladesh. If we can overcome these problems it will be a great strength for this nation.

This strength will make another sector bigger which is the brokers of stock and securities. So if the broker houses can solve their problem and maintain their operation according to rules and regulation then it can become one of the largest business sectors in Bangladesh. To expand the capital market of Bangladesh there are some initiatives should be taken. The government should immediately off-load its own shares lying in different organizations and companies. Recently country's capital market has witnessed many records but to continue the trends of current pace and progress of securities market off-loading of fundamentally sound companies shares should be done immediately. The Ministry of Finance should take sophisticated and time-bound steps to attract private sector companies to get listed with the country's bourse for further increasing the depth, width and dimension of capital market. Apart from increasing the depth and width of market it will also help generate employment opportunities for the educated unemployed youths.

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