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AN EXPLORATORY STUDY ON IMPORTANCE OF CAPITAL MARKET, OBSTACLES AND FUTURE PROSPECT OF DSE IN CONTEXT OF BANGLADESH

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by

Sadna Ahmed
ID: 0420060

An Internship Report Presented in Partial Fulfillment
of the Requirements for the Degree
Bachelor of Business Administration

Independent University, Bangladesh
May 2008

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has been approved
May, 2008

Sylvana Maheen Ahmed
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Independent University, Bangladesh

May 12, 2008

Sylvana Maheen Ahmed
Lecturer,
School of Business
Independent University, Bangladesh

Sub: Submission of Internship Report.

Dear Madam,

With great pleasure I submit the internship report on “An exploratory study on importance of capital market, obstacles and future prospect of DSE.” I am submitting this report in order to fulfill the requirement of the course (BBA 499).

This is an exploratory study in a complete form and I have tried my best to complete the study in proper format given by IUB authority. There were a few limitations while doing the report. But even though, I tried my best to consider all the possible factors in order to conduct my research properly.

I would like to express my sincere gratitude to you for your guidance and suggestions in preparing the report and I would appreciate if you asses my report considering the limitations of the study. Your kind advice will encourage me to do further research in future.

Sincerely yours,

Sadna Ahmed

ID: 0420060

Acknowledgement

I would like to take this opportunity to express my sincere gratitude to those without their blessings and cooperation this report would not have been possible.

I would like to thank my supervisor of the internship program Miss Sylvana Maheen Ahmed Lecturer, School of Business, Independent University, Bangladesh for her guidance, constant and impulsive support, competent supervision and constructive suggestions. Without her help this report could not have been a comprehensive one.

I would also like to express my humble gratitude to my organizational supervisor, Mr. Sabbir Ahmed, Internal Auditor, Berger Paints Bangladesh Limited, Corporate Office. His guidance, advice and cooperation allowed me to complete this report successfully.

I would also like to state my reticent appreciation to the members of DSE and SEC who helped me a lot by giving me their precious time for interviewing without whom the report could not have been completed in a superior manner.

Last but not least I also acknowledge my family and friends for their support and encouragement through out my internship period and also while preparing this report.

Executive Summary

Capital market and financial institutions are investment intermediaries linking the savers and users of capital. Improved capital markets can enhance a country’s growth. Bangladesh has a small capital market relative to its neighboring countries. Due to some barriers and inefficiencies people are mostly depended on the banks rather than depending on capital market. Therefore the size of the stock market is still small. The importance of capital market is indispensable for a country’s future expansion. This study will try to explore the ways to develop the current stock market. Due to lacking of experts, not having enough knowledge about stock market and shortage of bonds are some major blockage for which capital market is still underdeveloped. Market can be developed by more supply of securities and bonds with good fundamental to help bring in depth and strength. This study also explores how more Seminars and trainings can help to the development of DSE. If the entrepreneurs are aware of the obstacles and have the knowledge about the stock market then it will be more developed. This research will try to explore the importance of capital market, obstacles mainly faced by DSE and the future prospect of it.

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Introduction

Development of industry especially in a developing country like Bangladesh depends on Government and also on private sector. Stock exchange plays a vital role to boost the economy. Financial markets contribute to economic development through enhancing physical capital accumulation. The most efficient allocation of capital is achieved by liberalizing financial markets and letting the market allocate the capital (Caporale, Howells, and. Soliman, 2004). Capital is one of the most sensitive factors of production, which plays critical role in business decisions of the entrepreneurs. The securities market of a country represents the capital market in any country (Salahuddin Ahmed Khan, 2007). Capital market plays a vital role in an economy and it is considered as the barometer of any countries economy (Ahmed Rashid Lali, 2008). In developed economies, abundance of capital makes it one of the cheapest factors of production while labor forces become one of the costlier factors. As a result cost of capital tends to be lower in developed economies while wages rates remain higher. The scenario is opposite in countries like Bangladesh. The capital market or more specifically the securities market of Bangladesh is almost uni-dimentional as almost all the traded securities are stocks. Presently more than 260 companies are listed with Dhaka stock exchange (DSE) of which only one is a corporate bond, although a few are listed as debentures, which are reminiscence of some defaulting debt instrument issued during late eighties and early nineties without proper regulatory frame work (Salahuddin Ahmed Khan,2007).

DSE at a glance

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.

The major functions of DSE are-

-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 grievance Cell (Disposal of complaint bye laws 1997).

- Investors Protection Fund (As per investor protection fund Regulations 1999)

-Announcement of Price sensitive or other information about listed companies through online

There are four types of market at DSE.They are:

Public Market: In this market instruments are traded in normal volume.

Spot Market: Instruments are traded in normal volumes under corporate action if any.

Odd lot Market: Odd lots of all Instruments are trade in this market.

Block Market: Instruments are traded in bulk volume.

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)

Table 1:Some historical information of DSE:

information	Date
Incorporated as East Pakistan Stock Exchange Association Ltd	28th April 1954
Start of Formal Trading	1956
Renamed as East Pakistan Stock Exchange Ltd.	23rd June 1962
Renamed as Dacca Stock Exchange Ltd.	13th May 1964
Trading Suspended under new State Policy	16th December 1971
Trading Resumed in Bangladesh	16 August 1976
Starting Of All Share price Index calculation	16th September 1986
Share price Indices calculation on basis of IFC Designed	1st November 1993

formula	
Starting of Automated trading	10th August 1998
Starting Of DSE-20 Index calculation	January 2001
Starting Of DSE General Index calculation	27th November 2001
Start of CDS through CDBL	24th January 2004
DSE All share price Index (DSI) re introduced	28th March 2005

Securities and Exchange Commission

The Securities and Exchange Commission (SEC) was established on 8th June, 1993 under the Securities and Exchange Commission Act, 1993. The Chairman and Members of the Commission are appointed by the government and have overall responsibility to administer securities legislation. The Commission, at present has three full time members, excluding the Chairman. The Commission is a statutory body and attached to the Ministry of Finance.

Members perform the following functions:

- Serve as the members of the Commission and supervise its management
- Provide policy direction to industry and staff and promulgate legally binding rules
- Act as an administrative tribunal for decisions on the capital market

Mission of SEC:

- 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
- Regulation of the capital and securities markets in Bangladesh.

Commission's Functions:

- Regulating the business of the Stock Exchanges or any other securities market.
- Registering and regulating the business of stock-brokers, sub-brokers, share transfer agents, merchant bankers and managers of issues, trustee of trust deeds, registrar of an issue, underwriters, portfolio managers, investment advisers and other intermediaries in the securities market.
- Registering, monitoring and regulating of collective investment scheme including all forms of mutual funds.
- Monitoring and regulating all authorized self regulatory organizations in the securities market.
- Prohibiting fraudulent and unfair trade practices relating to securities trading in any securities market.
- Promoting investors' education and providing training for intermediaries of the securities market.
- Prohibiting insider trading in securities.
- Regulating the substantial acquisition of shares and take-over of companies.
- Undertaking investigation and inspection, inquiries and audit of any issuer or dealer of securities, the Stock Exchanges and intermediaries and any self regulatory organization in the securities market.
- Conducting research and publishing information.

Problem Statement

Capital market and financial institutions are investment intermediaries linking the savers and the users of capital. The existence of capital market facilitates exchange of resources. The function of capital market in a country is to assist in the allocation of a nation's limited capital resources among numerous competitors. Bangladesh is a developing country with an underdeveloped capital market.Neighbouring country has developing capital market in comparison with our country. People of our country mostly depend on financial institution for financing and investing so there exists a very small share in the capital market. There is lacking of risk takers in comparison of risk averse in our country along with quality shares. Thus this research is going to explore the importance of capital market in Bangladesh economy, the obstacles faced by DSE and future prospect of DSE.

Purpose of the Study

Developed capital market is a paramount object for an economy's progress. Bangladesh has an underdeveloped capital market, through this research assessing and analyzing will be done to explore the importance of the development of the capital market in BD, and the obstacles faced by DSE and its future prospect.

Research Questions

1. What is the importance of the development of Capital market?
2. What are the obstacles faced by DSE?
3. What is the future prospect of DSE?

Significance of the Study

Capital market of our country is very small in contrast with the neighboring countries. People mainly depend on the banking sector for financing. This research might help the investors understand the importance about the capital market and the advantage of issuing shares rather than taking loans from banks. Some of the obstacles of DSE are identified here which might help the members and entrepreneurs to think before investing and making more profit and help the country's capital market grow more.

Research Timeline

2008 February	Writing Research Proposal
2008 March	Developing Literature Review
2008 March	Collecting Data
2008 April	Data Analysis and Interpretation of the Findings.
2008 April	Preparing Draft and Finalizing the Research Paper.
2008 May	Submission of Research Paper.

Limitations of the study

There were a few limitations while conducting the research. The research time was very short. Three months is a very short time to research about the capital market of a country. The interviewed persons were very busy so the interview was not able to extend to more than 30-40 minutes. All the data is not given as up to date for they were not available. As this research has been done by me for the first time so there could be some inefficiency.

Literature Review

Bangladesh is considered as middle economy country since it has more than 60 billion dollar GDP.It has maintained more than 5% GDP growth rate for last one and a half decade. The capital market is growing significantly and yet there is room for growth as

GDP to market capitalization ratio is significantly lower than comparable countries as major economic sectors are outside the market (Khan, 2007).

Market capitalization represents the aggregate value of a company or stock. It is calculated by multiplying the number of shares outstanding by the current price on each share. The ratio of market capitalization to GDP is used as a tool to estimate the overall stock market returns. The ratio also gives an indication of flow of liquidity, size and depth of the market. The market experts said although the ratio of market capitalization to GDP jumped to around 16 percent, the ratio is still much lower compared to the neighboring countries India and Pakistan. At the end of 2007, the ratio of market capitalization of Mumbai Stock Exchange to GDP for India stood at around 130 percent with a total market capitalization of US$ 1.61 trillion. Market capitalization of National Stock Exchange of India stood at $ 1.48 trillion at the end of 2007.Presently, such ratio to GDP for Pakistan is around 75 percent (The Daily Star, 2008).

Presently in Bangladesh the ratio of market capitalization ratio of stock exchange to GDP is 17%, Pakistan has 75%, Thailand 180% and in India 147 %.It is increasing day by day which is a good sign for the future growth (Lali, 2008).

Experts said entry of a good number of new issues and surge in prices of shares contributed to the sharp rise in the market capitalization.

According to the President of DSE - Md.Abdullah Bokhari, Bangladesh Capital market is gradually taking its desired shape.

As the demand for investment in securities market is growing fast, average price level of most of the securities (Price/Earning Ratio and Price/NAV Ratio) are also growing making these securities riskier than the expected return potentials. More new investors are entering the markets that are naturally not much aware of the basics of investment and thus the risk of wrong strategy in investment may endanger their investment. As the branches of brokerage houses are spreading pretty fast all around the country, the infrastructure, both market monitoring (and compliance) provisions and physical facilities may not be able to support the growth (Khan ,2007).

The explosive growth of the stock market in Bangladesh over the past few years until the middle of November 1996 has been the result of a combination of the government economic reforms and political stability (Mazhar M. Islam, 2004).

Well performing private limited companies will go public when there is incentive for the same. Similarly, public limited companies will go for public offering if there are adequate fiscal benefits (Latifur Rahman – President, SEC, 2008).

According to the Chairman of SEC-Faruq Ahmad Siddiqi, the leaders of Business Chambers should find out the reasons of entrepreneurs unwillingness to invest in the capital markets. According to him they are not coming due to –lack of awareness, problems due to family ownership, and want of IPO facilities and proper disclosure. Government is trying to float quality share in the market to encourage the entrepreneurs. Entrepreneurs will make more profit due to cheaper cost if they invest in the capital market instead of taking it from bank. The local investors are not interested to invest so the foreign investors are also not showing interest.

Government’s role should not be limited to the banking system, but applies to other segments of the financial system, such as capital markets and the micro-finance sector, and should be seen as an essential element in the governance reform agenda and in the movement from a relationship-based economy to a market and arms-length economy. (Beck and Rahman, 2006) World Bank - Development Research Group (DECRG)

Research Methodology

Research Design

When a researcher has a limited amount of experience or knowledge about a research issue, exploratory research is a preliminary step to take in that situation. For this topic exploratory research is taken as the research design. . The purpose of exploratory research is to explore a precise and clear idea of the topic. This research aimed to explore the importance and future growth of Capital Market in context of Bangladesh.

Research Instrument

Primary and secondary data both is used for conducting the research. For collecting primary data in-depth interviews and expert survey has done. Besides for secondary data websites, articles, journals etc. has been used.

Data collection

Various books, journals, newspaper articles, publications of DSE and SEC library have been used as secondary data. Thus for primary data in-depth interview and expert survey has been accomplished for this research. Each of the people was interviewed for approximately 30-40 minutes while taking break from office hour. The interviewed persons were: Sharif Ataur Rahman – Vice President (DSE) and M D (SAR Securities limited), Ahmad Rashid Lali – Senior Vice president (DSE), Kamrun Nahar – R&D, Information Department (DSE), A.K.M. Humayun Kabir-member of DSE and director of Razzak securities, Farhad Ahmed (Executive Director) – SEC, Anwarul Kabir Bhuiyan-

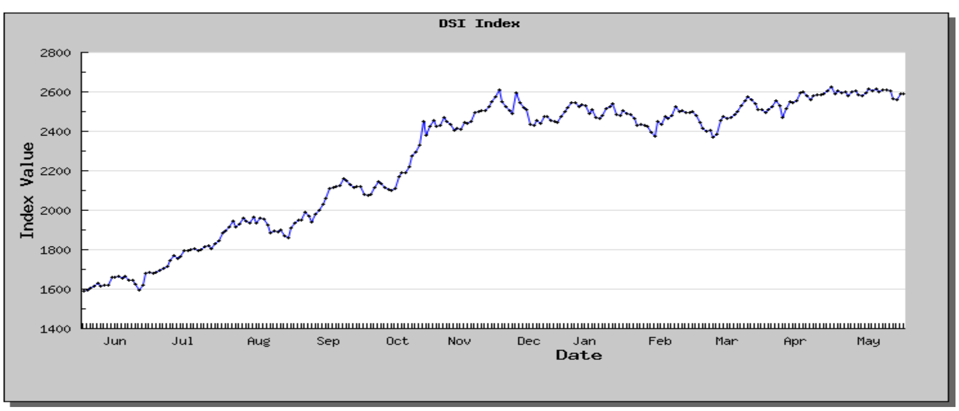
(Executive Director) – SEC.Some of the essential questions which were asked are as follows:

- What is the role of capital market in an economy?
- Why do you think it is important for an economy's growth?
- How it can contribute to an economy's growth?
- What is the Current scenario of Bangladesh's capital market?
- What do you think about the future prospect of DSE?
- What are the obstacles faced by DSE?
- How the growth of DSE can be improved?

Discussion

DSE had been maintaining three different indices of different method to reflect market behavior. Three major indices to reflect market behavior are namely DSE All Share Price Index, DSE General Index and DSE 20 (Monthly Review, 2008).

DSI is determined on the basis of price movement of individual stocks of all categories (A, B, G, N and Z).The index 'DSI' is now considered as the benchmark price barometer for DSE. A graph of last one year is shown below of DSI index.



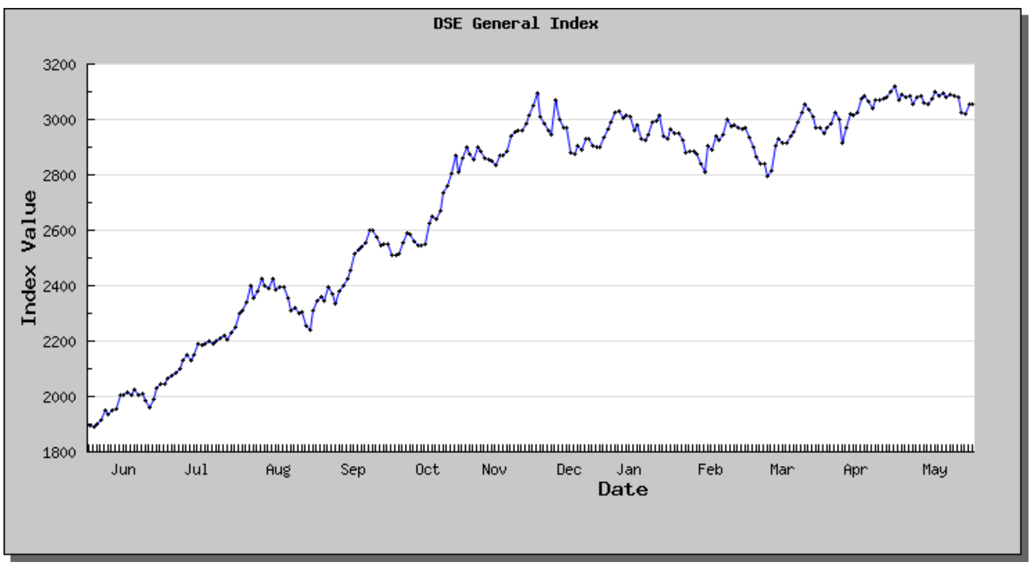
Source: http://web.dsebd.org/graph-real/test/year/companygraph.php?graph_id=dsi

Figure 1: Index Graph of Last 1 Year from 20-05-2007 to 2008-05-19

From the graph it is seen that the curve gradually increased towards upward. The highest value over the last year was 2622.63748 points and the lowest value was 1591.03278.The price movement of the shares is increasing.

DSE General Index Graph:

DSE general Index is an index comprising of A, B, G and N categories of securities. It is constructed excluding debentures and bonds. A graph of last one year is shown below of DSE General Index.



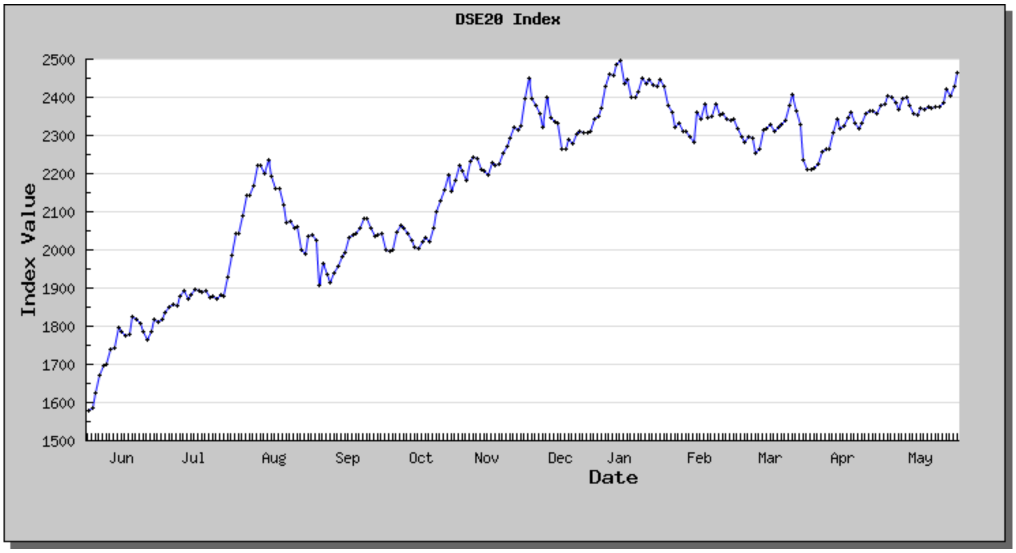
Source: http://web.dsebd.org/graph-real/test/year/companygraph.php?graph_id=gen

Figure 2: Index Graph of Last 1 Year from 20-05-2007 to 2008-05-19

From the graph it is seen that the curve gradually increased towards upward. The highest value over the last year was 3120.51352points and the lowest value was 1891.51957 points.

DSE 20 Index:

DSE 20 indexes are made up of 20 listed companies of DSE according to 30th June. A graph of last one year is shown below of DSI index.



Source: http://web.dsebd.org/graph-real/test/year/companygraph.php?graph_id=ds20

Figure 3: Index Graph of Last 1 Year from 20-05-2007 to 2008-05-19

From the graph it is seen that the curve gradually increased towards upward The Highest value was 2495.65217 points and the lowest value was 1577.47498points over the year.

A Survey conducted by “Japan External Trade Organization (JETRO)”, reported The Financial Times that Bangladesh labeled as ‘cheapest place’ for investment in Asia. (Bangladesh Journal, 2008). In addition, the survey report said that the government would have to take care of the existing foreign investors to attract more investment. If the existing investors are not satisfied, then the probability of getting new FDI will gradually decrease in course of time and the prospective investors will go to other countries, the report warned.

The most efficient allocation of capital is achieved by liberalizing financial markets and letting the market allocate the capital. But if the financial market is composed of banks only, the market will fail to achieve efficient allocation of capital because of the shortcoming of debt finance in the presence of asymmetric information. Thus, the development of stock markets is necessary to achieve full efficiency of capital allocation if the government is to liberalize the financial system. Banks finance only well-established, safe borrowers, stock markets can finance risky, productive and innovative investment projects. The primary benefit of a stock market is that it constitutes a liquid trading and price determining mechanism for a diverse range of financial instruments. This allows risk spreading by capital raisers and investors and matching of the maturity preferences of capital raisers (generally long-term) and investors (short-term). This in turn stimulates investment and lowers the cost of capital, contributing in the long term to economic growth. Well-functioning stock markets can play in promoting long-run economic growth. (Caporale, Howells, and. Soliman, 2004)

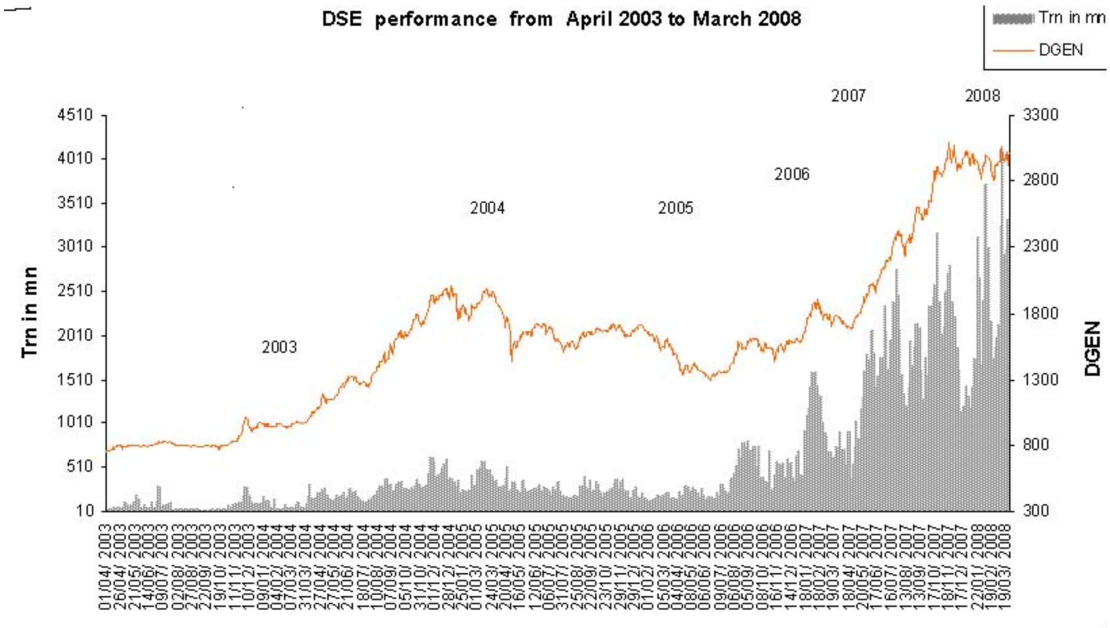
Current Scenario

The securities market passed a vintage year in 2007 raising the total market capitalization to the GDP ratio to 15.88 percent against 7.59 percent of 2006.The total market capitalization crossed US dollar 10-Billion -mark in 2007.DSE market capitalization stood at TK 74,220 crore on December 30, 2007 while it was Tk 31,066 crore on January 3, 2007.The securities market however faced some turmoil due to lack of adequate shares, for which some of the issues marked unusual rise. Presently in Bangladesh the ratio of market capitalization ratio of stock exchange to GDP is 17 percent. A market capitalization for the last five years is shown in a graph below:

Source: http://www.thedailystar.net/story.php?nid=17585

Figure 4: Market Capitalization in last five years

DSE hopes that a big number of big issues under power and telecommunication sectors will float shares. Heavy inflow of liquidity and entry of fresh investors pulled the stock market to its record height in 2007.DSE however, feels that the confidence of the investors in the market that grew significantly in the year should be sustained with flotation of fresh securities from the teecommunications, power, gas, energy and other infrastructure sectors. In this regard DSE has already formed a strong committee titled ‘Capital Market Promotion Committee’ comprising distinguished persons from different chambers and associations.DSE is working on introduction of book-building process of IPO’s and bringing new issues under power,telecommunication,energy and other infrastructure sectors.DSE sees investors awareness as a cornerstone of the country’s growing securities market(Pictorial Review- DSE, 2008).



Source: http://www.dsebd.org/gr_Mar08.php#top

Figure 5: DSE performance from April 2003 –March 2008

The performance of DSE is growing upward day by day which can be seen from the graph. The market is in Growth stage now (Rahman, 2008).

The DSE has completed its up-gradation Project, which is a milestone in the country's growing securities market as big issues are set to float their shares in the market. The upgraded system will provide more flexibility to brokers and traders complementing their trade execution which will expedite the economical growth of the country. The up gradation is a testimony to DSE's strong commitment to provide state-of-the-art technology to its members available with other bourses of the developed market. (Monthly Review, 2008).

DSE has arranged workshop in Moulovibazar in March, 2008 for growing more awareness among the entrepreneurs and as a step for expanding the capital market. (New Age: 30.03.08).

Table 2: Comparison of stock markets in SAARC countries

Name of the Capital MArkets	Indices Name	Listed cOmpanies	Market cap in US$(2007)	yield % (2007)	% of GDP(2007)	turnover in US$ (2007)
Colombo Stock exchange	CSE Milanka	235	7553.20	2.67	24.32	952.20
Dhaka Stock Exchange	DSE GEN	269	10822.34	2.08	15.87	4707.89
Karachi	KSE 100	654	68794.25	-	47.85	350.00
Bombay Stock Exchange	SENSEX	4887	1819100.5	.97	166.9	347681.80

Source: http://www.dsebd.org/markets.php

From the above table it can be easily understood that Bangladesh is lacking behind from its neighboring countries in many issues which have to be taken care of by understanding the stock business and knowing the obstacles before coming to the market.

Importance of Capital Market

Capital market plays a vital role in the economy. Financial markets could extend a borrower's financial capacity and improve the efficiency of trade. With well-developed financial markets investors can be provided with the necessary funds for their projects. The most efficient allocation of capital is achieved by liberalizing financial markets and letting the market allocate the capital. But if the financial market is composed of banks only, the market will fail to achieve efficient allocation of capital because of the shortcoming of debt finance in the presence of asymmetric information. Thus, the development of stock markets is necessary to achieve full efficiency of capital allocation if the government is to liberalize the financial system. While banks finance only well-established, safe borrowers, stock markets can finance risky, productive and innovative investment projects. The primary benefit of a stock market is that it constitutes a liquid trading and price determining mechanism for a diverse range of financial instruments. This allows risk spreading by capital raisers and investors and matching of the maturity preferences of capital raisers (generally long-term) and investors (short-term). This in turn stimulates investment and lowers the cost of capital, contributing in the long term to economic growth (Caporale, Howells, andSoliman, 2004).Capital market can produce cheap capital. It can boost the economy. It is the main wheel of the economy (Lali, 2008). According to Sharif Ataur Rahman (2008), Japan has established themselves by their growth in capital market.

Capital market is a key part of financing the industrial sector. Bank loans alone are very poor instruments to rely on for such projects, as there is so much risk in industrial projects particularly in developing countries, where there is little experience and the policy environment is uncertain compounding the regular difficulties of markets and costs. Excess reliance on loans leads to substantial volumes of bad debt as can be seen in Bangladesh's experience. On the other hand it is difficult to mobilize the required equity from ones own funds. Hence as economic growth gets underway access to equity market becomes of great importance. In addition this is a particularly easy way to attract foreign investment into the country without having to go through the very difficult process of encouraging direct foreign investment. Developing a capital market is not simple and when successful, results in a certain type of market economy needed to make this market work.

The distinction between loan and share investment must be clear. A loan places the enterprise under a liability to repay and if the borrower is unable to do so then normally the assets of the company become the basis for recovery of the amount due. The owners would receive only what is left after the loan is paid off. In contrast the share holders have no rights to anything except the residual capital after all of the liabilities of the company have been met. While everyone understands this idea, its power is sometimes misunderstood: If the enterprise goes through a difficult period then the equity investors simply do not receive any dividend and actually may lose if the stock value declines below its price at the time of purchase of the stock. Investors win and investors lose!

After a company gets started with its owners' initial equity and bank loans, expansion takes place through bringing new capital through an IPO. The capital market is essential for expanding investments of existing companies.

According to Mark Renton, head of Citi's Asia Pacific Investment Banking Division.

Bangladesh currently stands at the cusp of strong economic growth where a sound local capital market can be just the fuel that accelerates realization of this potential.

Finally, it can be said that Capital Markets Efficiently Direct Capital to Productive Uses and it is Important because they Promote Efficiency and Productive Investments

Obstacles of DSE

Capital market of our country is small relative to neighboring countries. There are some reasons for this small proportion of investors. According to Salahuddin Ahmed Khan there are some risk factors for DSE.The market lacks professional analyst who can give better investment insight to the investor's community. As new investors are entering the market, corresponding growth of institutional investment (in the form of mutual and pension funds , professional portfolio manager funds) are not growing, consequently non institutional or retail investors are dominating the market who are always sentiment driven and causes more pains for themselves for lack of technical skills. There is some lacking in the capital market, lack of mutual fund, securities with depth, shortage of bond. Over pricing of new securities. There are companies in the market price of which are quite high if compared with the fundamental base. This carries high risk for the investors. Market is small in our country and supply is very less (Nahar, Ahmed& Bhuiyan 2008). No government has given importance to capital market and there is lack of communication between Central Bank, Ministry and Government. Entrepreneur does not understand the share business (Lali, 2008).Private sector is very reluctant because they are family owned. They think that listing means loosing family ownership. They don't want to answer questions which they have to do because of the annual or half-yearly report .There is another major problem which is balancing factor is not there between IPO pricing and Market based pricing. Most of the investors depend on the banking sector. (Ahmed, 2008).Foreign investors are loosing interest because of some lacking in the market. (Rahman, 2008).Investors confidence in the capital market has yet not recovered since the stock market crash in 1996.The main reason for the crash was the manipulation by a section of stock brokers in collaboration with some other market participants.

Future Prospect of DSE

DSE is in its growth stage now. Some initiatives have been taken for its future growth. Some of them are given below:

As said by Salahuddin Ahmed Khan there is some Capital Market programs for Infrastructure Development:

- DSE TOWER, The 14-storied+ 3 basement building at DSE's own land of 1.33 acres: A Training Academy is created to develop professionals for the market where local and foreign trainers are invited to improve quality.
- Expansion of offices outside Dhaka.
- Continuous up-gradation of trading system.
- Creation of clearing company in addition to central depository.

Market Development:

- The Commissions and Exchange are working to introduce Book Building Process for IPO to ensure attractive IPO options for large and successful companies very soon.
- Introduction of index based Futures and stock based futures to bring a greater degree of market flexibility, stability, hedging capability and stronger basis for liquidity within 2010 and thus ensuring greater degree of diversification of capital market instruments.
- Formation of credible market structure based on financial analysis and advisory capacity. Ensuring greater degree of transparency in financial disclosure for better corporate governance.
- Bringing all securities under CDS within 2009.

The future growth of DSE is fabulous .Different gas companies are coming to capital market which is attracting the entrepreneurs to invest in the stock market. Telecom companies like Grameen phone has already came into the capital market and Bangla link will be coming soon to the market. (Rahman, 2008).

According to Ahmed Rashid Lali (Senior Vice President of DSE) the Growth of DSE is bright. Within 2 years market will be trading 1000 crore every day.

The Government took a number of measures to encourage foreign and domestic investors to invest in the securities market. These initiatives might increase the growth of DSE. These measures include:

* free repatriation of capital and fully abolishing capital gains tax.

* Convertibility of taka on current account;

* Withdrawal of all regulatory restrictions on international portfolio investors for investing in the secondary securities market;

* Withdrawal of ceiling on holding of international portfolio investors;

* fixing of quota for private placement to foreign investors to the extent of one-third of IPO and right issue subject to a lock- in period of the year;

* underwriting by foreign investors up to one-third of IPO and right issue;

* allowing foreign investors to participate in IPO and right issue without any regulatory restrictions;

* Withholding tax on dividends at 10% for individual and 15% for companies. In case of individuals, no tax is withheld if dividend does not exceed Tk. 10,000;

* Exemption of dividend income up to Tk. 30,000 from tax; and

* a gradual decline in bank rate resulting in fall in interest rate on bank deposits which is acting as an incentive to invest in securities market.

A Meeting was held in 2006 between DSE & CSE to develop capital market. The following plans have been taken into consideration:

- arranging frequent meeting
- Prior consent of the SEC before IPO permissions
- Constituting an IPO committee comprising members from SEC,DSE &CSE
- Disseminating the price-sensitive information jointly to the investors and SEC very timely.
- De-listing of companies should be common
- Direct listing of companies
- Alluring foreign investors
- Keeping market open on Saturday
- Rules should be bought to exchanges before making it a law
- Guidelines on IPO floating by Greenfield companies
- Online IPO application
- Strong Audit Committee

Conclusion

Capital market is the main wheel for a country's growth. It is the only market where the whole investment game is totally knowledge based. So, as an investor it is important to know the investment tools and techniques to manage the market trends and get benefit out of it (Mohiuddin, 2008). Looking at the great potentials of the market, the risk factors can bring some shivering effect on the prospects of the market. Therefore it is imperative on all the stakeholders in the market, the regulators, stock exchanges, brokerage companies and investor's community to practice some degree of restrain. We must not forget, while investment in securities market is the most attractive investment option, it is also the riskiest investment option if careful investment decision is not taken (Khan, 2007). Despite recent global equity market volatility, option by far is relatively stable. The so called black cloud of 'image problem' is disappearing. Members can operate their trading from 440 locations of 11 cities in Bangladesh and the market is expanding everyday. It is therefore, imperative that latest technologies have been picked up for stock transaction, and the mission is to provide the best platform for nation wide trading by connecting all corners of Bangladesh. Besides the up gradation DSE automated trading system are being facilitated online real-time trade data along with the market ticker through its official website, mobile technology, TV, media and will be through electronic billboard (Monthly Review, 2008).

We must keep a vigilant eye on risk factors and carry forward our investment drive to mobilize our domestic as well international savings through the market. We (all stakeholders) must also try our best to overcome the risk factors for the best interest of the country as well as for ourselves. Thus we can make the best use of our capital market and thus benefited (Khan, 2007).

Capital market of our country must be dynamic so that it can serve the economy at its best and if we are concern about the growth and try to know about the capital market then it will also help our economy to have a better economy like the neighboring countries.

Suggestions

Salahuddin Ahmed Khan has suggested that more Mutual funds required to be listed to ensure depth of the market. Unfortunately the mutual funds in Bangladesh comprise only 2% of market at present. Private sector companies (unlisted) are enjoying huge credit for capital investment Such long term credits for these organizations are making the banks vulnerable .All large scale private sector companies are encouraged to be enlisted to bring discipline in the banking sector. Government Securities of listed and unlisted companies must be offloaded to raise government development funds as well to relieve government from unnecessary burden. Treasury bonds can be another source of funds for government. A strong secondary market for these bonds can support government in maintaining fiscal discipline.

According to Mr. Latifur Rahman (President of SEC) for insuring fair price to the entrepreneurs who come forward with quality shares Book Building Method will strengthen the capital market. Proper training institution should be set up. Given proper capacity building, merchant banks can play a greater role in bringing savings of small investors including those of the non-resident Bangladeshis (NRB) in the investment market.

According to A.K.M. Humayun Kabir (Director of Razzak securities) new institutions should come forward to capital market to increase the size of it. Awareness of share market should be created and Merchant banking should be stronger.

Transparency should be there in Capital market. More road shows, advertisements and seminars should be organized. Regulation   should be increased more (Rahman, 2008)

Derivatives, Bond should come in the market. Government companies should be more involved (Nahar, 2008)

Senior Vice president (DSE) - Ahmad Rashid Lali urged that, Government should understand the capital market very well to help it develop more. Media coverage should be increased. Government can raise money from capital market then they will not have to take loan from foreign investors. Quarterly report should be given by the company then more accountability will be there and market will have a good growth.

Investors should make their investment decision based on company fundamentals, price level and disclosed information avoiding rumor-based speculations. There should be more flow of mutual fund in the market to ensure depth and liquidity. Market should be supplied with more securities with good fundamental to help bring in depth and strength Market should be supplied with more bonds (govt.corporate) to facilitate turning over greatly, liquidity and strength. Advertisement, Seminars should be arranged for the development of DSE. More training should be given to make the entrepreneurs understand about the capital market. Local investors should come forward to increase the capital market then the foreign investors will be also interested in investing in the capital market. Dependency only upon the banks should be decreased and capital market should come into consideration.

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