(NIMS)

NUST Institute of Management Sciences
Rawalpindi

WORKING & PERFORMANCE
OF
CAPITAL MARKETS IN PAKISTAN

Submitted to:
Ms Fauzia Janjua.

Submitted by:

Muhammad Ali Habib
MBA-2k2
140

Acknowledgements

I have the only pearls of my eyes to admire the blessing of the compassionate and the omnipotent because the words are bound, knowledge is limited and knowledge is short to express his dignity. It is one of the infinite blessings of Allah that HE bestowed me with the potential to complete the present research program in time and make material contribution to the deep oceans of knowledge already exiting.

My special praise is for the Holy Prophet (PBUH) who is for ever alight of guidance for humanity as a whole.

I feel my pleasure to express my deep sense of devotion and sincerest feeling of gratitude to my worthy supervisor, **Ms Fauzia Janjua**, Associate Professor, Head Department of Finance for enthusiastic guidance and inexhaustible inspiration. I express my profound gratitude for her inspiring guidance and keen interest in finalizing the thesis assignment.

Words are lacking to express my humble obligations to my parents those inspiration have ever been a tower of light for me, my lovely father Malik Habib ur Rehman to whom I owe a lot and my sweet mother, whose lap is my refuge from harsh faces of life. I must mention my sisters Dr Hifza and Ms Amna, whose smile makes me smile(May Allah keep them smiling) and whose hands are always raised for my success.

I am thankful to my friends who helped me during my rear arch work . My special thanks Miss Abida, Office Assistant who helped my during my research work.

TABLE OF CONTENTS

TABLE OF TABLES & GRAPH

CHAPTER # 1

INTRODUCTION OF STUDY

1.0-Introduction of study

1.1-Background

Stock Market is an index of the economy of a country. It reveals a brief and rapid picture of the state of the economy. A stable and well-regulated stock market, therefore, enables those in need of capital to more conveniently raise their finances from small savers with the expectations that the latter can make attractive gains by selling their securities in the stock exchange. In this report I will be discussing the state of affairs of the Karachi Stock Exchange with special reference to the security of small investors in the prevailing volatile atmosphere.

1.2 -Objective

The main objective of this study is to:

1. Get more knowledge about Capital Market of Pakistan in general and Stock Market in Particular;
2. Find out how can the investors secure their investment and what are the things they have to keep in mind before investing their money;
3. Know about the efficiency of Stock Market;
4. Throw light on the volatility of this emerging market and the reasons behind the abrupt fluctuations in the market; and
5. To recommend policy measures that the government should take for the efficient working of the stock market.

1.3- Scope

The present study is restricted to the Karachi Stock Exchange (KSE). Although there are stock exchanges at Lahore and Islamabad too, the KSE is selected, as it is the biggest in the country. Stock Market is considered to be the barometer of the country's economy. In fact what holds true for KSE, holds true also for the country as whole. Hence the focus is on KSE.

1.4-Research Methodology

Data was collected for this research by using different sources and techniques.

- **Secondary data collection**

  For Secondary data collection different sources were used including Newspapers, Economic Journals, Magazines, Internet, and Television

- **Primary data collection:**

  For Primary data collection open-ended questionnaires were drawn and interviews were conducted with the investors and available experts in the concerned field. The respondents were:

- Brokers
- Investors registered with Brokers
- Officers in SECP
- Experts of the relevant field.

CHAPTER # 2

CAPITAL MARKET

2.0- Capital Market

The Capital Market deals with long-term (greater than one year original maturity) debt and equity instruments (e.g. bonds and stocks).

The funds which flow into capital market come from commercial banks, investment banks, non-bank financial intermediaries such as insurance companies, finance houses, units trusts, investment trusts, various types of funds and individual who have savings to invest. The demand for fund is generated from government, individuals, industry, trade etc. for working and fixed capital.

Capital market is the heart and soul of the financial sector. It is a vehicle whereby capital is deployed from sources where it is in excess to the sources where it is in short supply. The capital market facilitates; (i) mobilization and intermediation of private savings, and (ii) allocation of medium and long-term financial resources for investment through a variety of debt and equity instruments of both private and public sectors. It plays a crucial role in mobilizing domestic resources and in channeling them efficiently to the most productive investments. The level of capital market development is thus an important determinant of a country's level of savings, efficiency of investment, and ultimately of its rate of economic growth. An efficient capital market can also provide a wide range of attractive opportunities for both the domestic and foreign investors. [1]

Within money and capital markets there exists both Primary and Secondary markets:
A *Primary Market* is a "new issues" market. Where companies can raise long-term funds for their operations by issuing shares (and other securities) to investors.
In *Secondary Market*, existing securities are bought and sold. Transactions in these already existing securities do not provide additional funds to finance capital investment.

[1] Ali, Qasir. (2003) Study of KSE. IMS. University of Peshawar. P3.

However, the presence of a viable secondary market increases the liquidity of securities already outstanding. A Company that wishes to set up a new business or expand its existing business can raise the capital it requires either by borrowing money or by issuing shares to investors.

The capital market can be analogized to any other market in the world that operates on a supply and demand basis. Supply refers to the financial instruments being offered to potential buyers (called investors). Demand refers to the degree of interest that potential buyers have in purchasing the financial instruments. As with all other goods, if supply exceeds demand, the prices at which the financial instruments are sold will go down. If investor demand exceeds supply, prices will rise.

Analysis of differing economic models in recent years indicates the importance of Capital Market Development to the domestic economy. Adam Smith's theory of the "invisible hand" that shapes economic growth is reflected in the growth of those economies that rely principally on private investment and business ownership. This is in contrast to the loss or stagnation of economies that rely principally on government ownership of the means of production and distribution of goods and services.

Capital markets foster investment in small and developing enterprises. These enterprises cannot grow without capital infusions. Bank loans are often either not available or impose heavy interest obligations that sap much needed working capital. Interest rates exceed 20% in some countries, which makes it very difficult for companies to meet repayment obligations and provide funds for business growth. Moreover, banks often require that loans be secured with company assets, a requirement that further limits the ability of the company to utilize those assets as best they see fit. The capital market should be a major alternative source of financing for small and developing companies. Large companies also need capital, especially in these days of global competition. But the greatest source of growth within a domestic economy is in the smaller companies. It is there that the government policy-makers should devote their attention to maximize opportunities for capital raising while not sacrificing investor protection. Despite economic problems, money exists in every developing nation for investment purposes.

However, it is quite common for persons who are capable of making investments to seek opportunities elsewhere, in more developed markets. Others keep their money locally but tie it up in the purchase of gold, land, or other physical assets. These economic investments add little to domestic economic growth. A major goal should be to convince potential investors (a) that investing in their own country will lead to improved economic growth (b) local investments are of good quality and safety, and (c) some potion of savings should be moved from low-paying bank accounts to equity interests that are admittedly more risky but offer much greater opportunity for economic return. Recognizing this, government policy-makers must develop answers that address the three P's:

1. Principles for development of an efficient capital market
2. Policies that promote business growth, and
3. Programs that encourage investors to provide needed capital.

2.1- Functions of Capital Market

By performing two main functions of mobilization of savings and the channeling of investment into productive enterprises, capital market helps to accelerate the rate of economic development, hereby increasing the production of goods and services together with the increase in the per capita income. However, broadly speaking, following are the main functions of the capital market:[2]

- It provides funds to commercial banks to meet their long-term liquidity requirements.

[2] Ali, Qasir. (2003) Study of KSE. IMS. University of Peshawar. P4

- It provides long-term loans to government to finance development projects undertaken by it. The savings of the people are allocated to the investment.
- It is the capital market through which different instruments of investment are circulated and traded; hence, mobilization of savings takes place.
- They facilitate government debt management, the conduct of monetary policy and provide a channel for privatization

2.2- Capital Markets in Pakistan

When Pakistan came into being there were only few industries in the areas comprising Pakistan due to which the related institutional framework could not develop. As the country made noticeable achievement in the field of industrialization, the capital market has been expanded to cater to the financial needs of industrial sector.[3]

2.2.1 Components of Capital Market in Pakistan

Capital Market is a market for long-term funds used in the financing of business and government. These funds are collected by such financial intermediaries as commercial banks, development finance institutions, insurance companies, stock exchanges, specialized banks/institutions for industry, agriculture, housing and small business, and a variety of other non-bank financial institutions, which channel funds to the users.

The Capital Market in Pakistan may be divided broadly into the following two components:

A) Securities Market
B) Non-Securities Market

[3] Capital Market (on-line) Available (Nov 16, 1996). http://www.pakistaneconomist.com

A. Securities market

The securities market or stock market is a market for corporate securities where the rights of ownership are marketable and transferable. Each individual share certificate represents a legal claim on the future earnings of the company. The more efficient a stock market, the more easily these claims or rights can be negotiated and transferred and the more effective the prices of individual stocks are accurately disseminating information about the company's expected future performance to potential investors.

The owners of share certificates or shareholders are entitled to certain privileges defined in the Memorandum and Articles of Association of a company. Typically, these includes the rights to dividends, right to elect directors and approve fundamental corporate changes, inspection of books of the company and less-frequently the pre-emptive right to subscribe to new issues of shares.

Stock exchange is an organized market that provides the facility of centralized trading in securities. The investor in this market can earn or loss capital gains on their purchase securities in addition to dividend paid by the issuing companies. The stock exchanges form an integral part of a company's capital market. They are important from the viewpoint of capital formation as they create marketability for the initially issued securities by providing a secondary market for trading.

A stable and well-regulated stock market, therefore, enables those in need of capital to more conveniently raise their finances from small savers with the expectations that the latter can make attractive gains by selling their securities in the stock exchanges. So, in simple words, securities market comprises of stock exchanges.[4]

[4] Ali, Qasir. (2003) Study of KSE. IMS. University of Peshawar. P6.

The securities market in Pakistan consist of the following three stock exchanges:

- Karachi Stock Exchange (KSE)
- Lahore Stock Exchange (LSE)
- Islamabad Stock Exchange (ISE)

2.2.2 Instruments of Capital Market

A number of different instruments exist in the capital market of Pakistan. Each instrument has different maturity rates of returns.

(a). Participation Term Certificates.

Participation term certificates (PTC's) were introduced in 1980 for providing medium and long-term local currency finances. They are negotiable instruments used by a company in considerations of any funds, money or accommodation received or to be received by it whether in cash or in any kind, or against any promise, guarantee, undertaking or indemnity issued for its benefits. In simple words, it is a financial arrangement between a financial institution and the business entity on the basis of profit and loss sharing over the maturity period of the certificate.[5]

(b). Term Finance Certificates

TFCs were innovated in 1984-85 and afterwards became a major mode of term finance. A Term Finance Certificate is a corporate debt instrument issued by companies in Pakistan to generate short and medium-term funds.

Some bonds or TFCs have embedded options that give certain rights to the issuers or to the holders. These are:

---

[5] Kanwal, Zufa. 2003. *The Investor's guide to personal investment.* P41

Call Option – gives the right to the issuer to call back the outstanding bond issued at specified dates and price on or before maturity.

Put Option – gives the rights to the bond holder to sell back the bond to the issuer on or before the maturity date.

(c). Modaraba Certificates

Technically, in Modaraba one party provides the necessary capital and the other party provides human capital that is needed for the economic activity to be undertaken. In this type of contract, the bank supplies full financing to an agent manager (Modaraba) for trading and industrial purposes, whereas the Modaraba contributes in the form of his skills and experience. In considerations, he gets an agreed percentage of the profit actually realized. In case, no profit or loss occurs, the bank bears all the loss and the Modaraba receives no reward.

Conceptually, a Modaraba is an investment fund for which resources are obtained through sale of certificate to subscribers. A Modaraba certificate is of definite denomination issued to the subscriber acknowledging receipt of money subscribed by him. A Modaraba can be multipurpose or it can either be fixed or for an indefinite period of time.

(d). Mutual Funds Certificates

Mutual fund is a pool of money belonging to a group of investors entrusted to a Fund Manager (investment specialist) hired by the group. The Fund Manager invests the money on behalf of the investors. The Fund Manager is paid a management fee normally in the range of 1% to 3% of the amount of funds under management.

If there is a profit or gain on the investment, it belongs to the mutual fund owners (investors) because they mutually own the pool. On the other hand if there is a loss, it is the loss suffered by the mutual owners of the pool.

There are two types of mutual funds:[6]

(i) Open-end Mutual Fund:

As open-end mutual fund is always willing to add more investor's money to its pool of funds and which is then primarily invested in the stock market. Similarly, if an investor wants to liquidate his/her share in the fund, it can be done at a pre-defined redemption price. This fund is set up as a Trust. Each share of the of the trust is called a Unit and the fund itself is called "Unit Trust". The portfolio of investment of the Unit Trust is evaluated daily by the Fund Manager on the basis of prevailing market prices of the securities in the portfolio.

(ii) Closed-end Mutual Fund:

A closed-end mutual fund is one which open for subscription, collects the amount committed by investors and then closes to further investments in that particular fund. The shares are priced according to demand and supply.

The "Closed-end" funds once pool the money and close the funds; the investors can only get into the fund or out of it by buying or selling the shares on a stock exchange.

(f). Foreign Currency Bearer Certificates

- Foreign Currency Bearer Certificates (FCBCs) were introduced on March 12, 1992 with the view to providing better investment opportunities.

[6] Kanwal, Zufa. 2003. *The Investor's guide to personal investment.* P17

- These certificates are issued in US Dollar, Deutsche Mark, Pound Sterling and Japanese Yen.
- These certificates are issued for five years and will bear fixed rates of profit, which will be notified by the State Bank of Pakistan (Securities Department) from time to time.
- The profit shall be paid on half yearly basis. No profit will, however, be paid for the period the certificates are held beyond the maturity date. These certificates may be encashed after minimum holding period of two years. A penalty of 1.5% per annum shall be charge for the expired period.

(g). WAPDA Bearer Bonds (WBBs)

The Government of Pakistan issues WBBs. The fund created by such instrument in mainly used for funding new projects in the power sector to enhance its power generation and supply capabilities. Those bonds are bearer in nature and their denominations are Rs.1, 000, Rs.5, 000, Rs.10, 000, and Rs.50, 000. WBBs are of five-year maturity, guarantee a minimum return of 13.5% per annum, payable every six months. These bonds are easily encashable and are traded on Stock Exchanges.

(h). Federal Investment Bonds (FIBs)

- Government of Pakistan issues these bonds.
- These bonds are of three different maturity periods i.e. 3,5 and 10 years carrying profit at the rate of 13%, 14% and 15% respectively, payable on half-yearly basis.
- The issue price of the bond is governed by auction. The investors are required to quote price at which they will be willing to buy a bond of Rs.100 face value. For auction of the bond bids are placed with the State Bank of Pakistan through banks and development finance institutions.

(i). US Dollar Bonds

The Government of Pakistan decided to issue US Dollar Bonds to foreign currency account holders from June 30, 1998 with maturities of five, seven, and ten years. The bonds are in denominations of $100, $500, $ 1,000, $10,000, and $100,000. It will carry interest rates of 6% for five years bond, 7% for seven years bond and 8% for ten years bonds.

Interest on bonds will be tax free and paid after every six months. Interest will be paid in Rupees to resident foreign currency account holders at the official exchange rate while non-resident will be paid in foreign currency.

At maturity, the principal amount will be paid in US Dollars to both resident and non-residents. These bonds cannot be encashed into US Dollars before maturity, however, they can be converted into rupees at the prevailing official exchange rate.

(j). Jumbo Bonds

The government reportedly is negotiating with foreign banks to underwrite the issue of $500 million jumbo bonds. This is an effort to innovate new mode of financing after the conclusion of the arrangement with the International Monetary Fund next year on the one hand and to mop-up the excess liquidity in the financial market at the lowest-ever interest rate, on the other. The funds to be generated through the issuance of the Eurobond would be used for retiring some of the expensive foreign loans. It is a step forward in diversification of debt profile and to lay the foundation for the development of secondary markets in the country. The borrowing target achieved through diversification lends stability and helps insulate against external shocks and contagion.

2.2.3 Profiles of stock Markets[7]

(a) KSE

The KSE is primarily influenced by some big blue chip companies including; Hub Power, PTCL, Pakistan State Oil etc. During the first three quarters of the current fiscal year, the combined turnover of shares of ten big companies (OGDC, Hub Power, PTCL, Sui Northern Gas, FF Bin Qasim, D.G. Khan cement, Dewan Salman, PIAC, Fauji Cement and Lucy Cement) was 12.44 billion, which constituted 19.1 percent of the total turnover of the KSE. These ten companies earned a profit after taxation of Rs 55.1 billion in the current fiscal year up to March 2004. Out of Rs 55.1 billion after taxation profit, the share of PTCL and OGDC was Rs 43.8 billion representing 79.4 percent of the ten big companies. In the first nine months of 2003-04, PTCL's after taxation profit was (Rs 23.1 billion). The price-earning ratio of the ten big companies ranged from 6.62 in the case of PTCL to 325.64 in respect of Dewan Salman. This indicates that the business environment in the current fiscal year has improved appreciably.(Table-2.1)

KSE-Table – 2.1

	2000-01	2001-02	2002-03	2003-04 (July-March)
Number of Listed Companies	747	712	702	689
New Companies Listed	4	4	2	9
Fund Mobilized (Rs Billion)	3.6	15.2	23.8	61.7
Listed Capital (Rs Billion)	235.7	291.2	300.9	363.0
Turnover of Share (Billion Nos)	29.2	29.1	53.1	65.2
Average daily Turnover of Share (in million)	122.5	158.6	257.0	336.8
Aggregate Market Capitalisation (Rs Billion)	339.2	407.6	755.8	1364.8

Source: Karachi Stock Exchange.

[7] Economic Surrey 03-04, chapter 7, Capital Markets

(b) LSE

The Lahore and Islamabad Stock Exchanges also showed a record performance during the outgoing year. The turnover of shares on the Lahore Stock Exchange (LSE) during July-March 2003-04 was 34.5 billion compared to 19.5 billion shares in the same period last year. Total paid up capital with the LSE increased from Rs 280.1 billion in June 2003 to Rs 347.6 billion in March 2004. The LSE index, which was 2034.6 points in June 2003, increased to 2840.1 points in March 2004. The market capitalization of the LSE has increased from Rs 751.2 billion in June 2003 to Rs 1345.6 billion in March 2004. The amount of funds mobilized at the LSE by way of subscription was Rs 55.4 million in the first nine months of the outgoing fiscal year.(Table-2.2)

LSE-Table- 2.2

	2000-01	2001-02	2002-03	2003-04 (July-March)
Number of Listed companies	614	581	561	551
New Companies Listed	3	3	2	10
Fund Mobilized (Rs Billion)	2.5	14.2	4.1	55.4
Listed Capital (Rs Billion)	226.2	246.3	280.1	347.6
Turnover of Share (Billion Nos)	7.8	18.3	28.2	34.5
Average daily shares (in mln)	32.2	74.3	115.5	182.1
LSE Index	273.5	297.5	2034.6*	2840.1*
Market Capitalization (Rs bln)	325.7	393.3	751.2	1345.6

* The LSE Launched the new LSE-25 index in December 2002 Source: Lahore Stock Exchange

(c) ISE

The turnover of shares on the Islamabad Stock Exchange (ISE) was 1.11 billion during July-March 2003-04 as compared to 1.30 billion during the same period last year. The ISE share index has increased from 8210.6 points in June 2003 to 10840.0 points in March 2004, recording a growth of 32.0 percent. Six new companies were listed and Rs 51.9 billion was mobilized on the ISE during the first nine months of the current fiscal year. The ISE started functioning in August 1992 and within 13 years; it has developed into a vibrant, efficient and stable market. Today, the ISE is one of the premier stock exchanges of the country known for the highest standard of transparency in its operations, excellent risk management, dynamic market technology and lowest overall costs of listing. (Table 2.3)

ISE-Table-2.3

	2000-01	2001-02	2002-03	2003-04 (July-March)
Number of Listed Companies	281	267	260	251
New Companies Listed	5	3	1	6
Fund Mobilized (Rs billion)	0.8	3.7	11.5	51.9
Listed Capital (Rs billion)	183.3	199.0	233.0	287.4
Turnover of Share (In Billion Nos)	1.4	2.7	2.1	1.11
Average Daily Turnover of Share (in million)	6.0	11.0	8.4	6.8
ISE Index	4374.2	4684.0	8210.0	10840.6
Market Capitalization (bln)	249.0	292.0	547.0	1082.9

Source: Islamabad Stock Exchange

CHAPTER # 3

KARACHI STOCK EXCHANGE (KSE)

3.0- Karachi Stock Exchange:

The Karachi Stock Exchange came into existence on 18th September 1947. It was later converted and registered as a company limited by guarantee on 10th March 1949. Initially 90 members were enrolled, however, half a dozen of them were active as brokers and only 5 companies were listed with a paid up capital of Rs. 37 million. The KSE is the main center of activity where 75-80% of current trading takes place.[1]

Table 3.1- KSE-100 Index Statistics [2]

STATISTICS

	1999	2000	2001	2002	2003
Equities					
Listed Companies	765	741	747	711	700
Listed Capital Rs	223,027.9	236,458.5	235,683.2	291,240.85	309,255.10
Market Capitalization	366,669.9	382,730.4	296,143.7	595,205.63	819,909.74
New Companies Listed	-	3	3	4	4
Listed Capital	-	2,035.0	2,884.70	6,318.30	3,083.60
Bonus issue listed	4,242.92	5,210.55	4,187.49	3,273.43	4691.13
Right issues listed	6,511.50	3,387.15	1,531.45	13,639.38	6937.36
Debt Instruments					
New Debts Instruments Listed	2	3	5	16	6
Listed Capital	1,147.80	647.50	5,658.30	8,655.70	2,749.0
Fund Mobilised- Rs	7,659.30	6,069.65	10,074.44	28,613.38	12,769.96
i.e. Capital of New listings + Debt instruments + right issues					
KSE – 100 INDEX**					
High	1416.62	2,054.43	1,550.42	2701.42	4604.02
Low	852.44	1,276.05	1075.16	1322.07	2356.48
** Base Nov 01,1991					
TURNOVER					
Total Shares (In - Million)	31.329.98	46,157.66	23,069.71	41,627.20	68,050.900
Avg/Day (In Million)	127.88	186.90	96.91	167.10	325.18

* As on November 04. 2003

[1] KSE (online) Available http://www.kse.com.pk
[2] KSE (online) Available http://www.kse.com.pk

3.1- Objective & Description

The primary objective of the KSE-100 index is to have a benchmark by which the stock price performance can be compared over a period of time. In particular, the KSE-100 is designed to provide investors with a sense of how the Pakistan equity market is performing. Thus, the KSE-100 is similar to other indicators that track various sector of the Pakistan economic activity such as the gross national product, consumer price index, etc.

These averages tell you the general health of stock prices as a whole. If the economy is "doing well," then the prices of stocks as a group tend to rise in what is referred to as a "bull market." If it is "doing poorly," prices as a group tend to fall in what is called a "bear market." The averages reveal these tendencies in the market as a whole.

3.2- How Companies are listed on KSE

“Listed Company” means a company or a corporate body, which has been listed in accordance with the regulations for trading in provisionally listed companies of the Stock Exchange.[3]

- The application for listing shall be made by the Applicant Company in the prescribed form and will be accompanied by the fee, specified in the regulations.
- The board may require additional evidence declarations, affirmations and information as also other forms to be filled up and all such requisitions shall be deemed to be prescribed requisitions for the purpose of a proper application for consideration by the board of listing.

[3] Ms, Andleeb. (2003) Thesis. NIMS.

- An applicant company or security applying for listing shall furnish full and authentic information in respect thereof and such other particulars as the board or the Stock Exchange may require from time to time.
- The stock exchange shall decide the question of granting permission within a maximum period of three months from the date of receipt of listing application. In case the permission is refused, the reason thereof will be communicated to the applicant and the authority within two weeks of the decision. If approval is given the instruments gets eligible for trading.

3.3- Central Depository System

Central Depository System (CDS) is an automated system of delivery, settlement and transfer of securities transaction through computerized book entry. Book Entry means that the securities do not physically change hands. The CDS is thus a bank of securities with all the feature of a bank account and would be the official maintainer of all shareholders records. An investor interested in trading on the stock market will have an account with CDS.

3.3.1- Benefits of CDS are:[4]

- Reduced workload due to paperless settlement.
- Reduced manpower and requirements.
- Instantaneous transfer of ownership.
- No risk of damaged, lost, forged or duplicate certificates.
- No impact in case of sudden increase of settlement volumes.
- Instant credit of bonus, rights and new issues.
- Substantial reduction of paperwork during book closure.
- Substantial reduction in time in capital investments

[4] KSE (online) Available http://www.kse.net.pk

3.3.2- Procedure to Deposit Securities in the CDS

- The account holder will initiate the deposit request by entering the details of share certificates into the system and into the Securities Deposit Form (CDS).
- CDS will generate computer print out of the transactions.
- Account holder will then send the relevant share certificates, transfer deed, securities deposit form and the computer prints to relevant registrar.

3.4- Automated Trading System:

Karachi Stock Exchange has introduced a Computerized Trading System known as Karachi Automated Trading System (KATS) to provide a fair, transparent, efficient and cost effective market for the investors. The trading is divided into four distinct segments:

(i) T+3 Settlement System

In the T+3 Settlement System purchase and sale of securities is netted and the balance is settled on the third day following the day of trade.

(ii) Provisionally Listed Counter

The shares of companies, which make a minimum public offering of Rs. 100 million, are traded on this segment from the date of publication of offering documents. When the company completes the process of dispatch/credit of allotted shares to subscribers, through CDS it is officially listed and placed on T+3 counter. Trading on the provisionally listed counter then comes to an end and all the outstanding transactions are transfer to the T+3 counter with effect from the date of official listing.

(iii) Spot/T+1 Transaction

Spot transactions imply delivery upon payment. Normally in spot transactions the trade is settled within 24 hours.

(iv) Future Contracts

A futures contract involves purchase and sale of a financial or tangible asset at some future date, at a price fixed today.

3.5- Composition of the KSE-100 Index

The KSE-100 index contains a representative sample of common stock that trade on the Karachi Stock Exchange. Companies with the highest market capitalization and liquidity are selected. However, to ensure full market representation, the company with the highest market capitalization from each sector is also included.

The KSE stocks that comprise the index have a total market value of around Rs.1325.271 Billion compared to total market value of Rs.1465.431 Billion for 700 stocks listed on the Karachi Stock Exchange. This means that the KSE-100 Index represents 88.5 percent of the total market capitalization of the Karachi Stock Exchange, as of 25th February 2004. Sector representation is also enhanced to 34 as compared to 17 previously. Some of the companies with highest weightage are:

Table –3.2 KSE-100 Index Weightage (Top 10)

Serial #	Symbol	Volume	Index Weightage (%)
1	**Fauji Fert Bin**	25,539,500	***1.67***
2	**OGDCL**	14,708,700	***22.77***
3	**P.S.O.**	10,928,800	***3.57***
4	**National Bank**	9,522,700	***2.86***
5	**Sui North Gas**	3,805,500	***2.48***
6	**P.T.C.L.A**	3,254,500	***12.73***
7	**Fauji Fert.**	2,312,900	***2.68***
8	**Pak Oilfields**	2,173,600	***2.23***
9	**Sui South Gas**	2,010,000	***1.62***
10	**Hub Power**	1,934,500	***2.89***

3.6- Methods of Computation

A stock index is calculated to show an overall trend of stock prices, which is used by many as a barometer of market behavior. Generally, indices are constituted using three methods i.e. market capitalization weighted, price weighted and equally weighted.

During the last couple of decades, and currently also, stock indices have usually been market capitalization based, which are also termed as ‘Value-based Indices’. Indices developed by renowned organizations like Standard & Poor’s (S&P), Morgan Stanley Capital International (MSCI), and International Finance Corporation (IFC) are usually market capitalization weighted. USA’s NASDAQ, India’s BSE-30 and Pakistan’s KSE-100 and SBP General Index are also based on this methodology.[5]

Some of the older indices like Dow Jones Industrial Average of USA are price weighted, which means that they do not incorporate the quantum of outstanding

[5] Monthly Views. (Online) Available. (2002) http://www.investcapital.com

shares in their calculations. In this case, prices of the shares themselves are the weights rather than the market value of all listed shares as in the case of market capitalization based indices.

3.7- Criteria of KSE-100 Index Computation

To calculate the index, the market value of each firm is calculated (current market price times number of shares), and is divided by the market value of that security for the base year then it is multiplied by the weight of the stock. After that, all the stocks are added representing the index.

$$\text{KSE-100 Index} = \left(\text{Weight of Stocks} \times \frac{\text{Current Price of Stocks}}{\text{Stock's price in base year}}\right) \times 100$$

To illustrate the construction of the index, we simplify the matters by analyzing a hypothetical two-stock index. The two stocks in the index are PTCL and Hubco. The relevant data about the two stocks is presented below:

		Stock Price (Rs.)			**Market Value (Rs.)**	
Company	**Weightage**	**Base Year**	**Now**	**No. of Shares**	**Base year**	**Now**
PTCL	62%	100	210	200 million	20 billion	42 billion
Hubco	38%	50	60	100 million	5 billion	6 billion
Total	100%				25 billion	48 billion

Considering the above formula, KSE index would be:

$$\text{KSE Index} = \left(0.62 * \frac{42\text{ billion}}{20\text{ billion}} + 0.38 * \frac{6\text{ billion}}{5\text{ billion}}\right) * 100$$

$$= (1.302 + .456) * 100$$

$$= 175.8$$

3.8- How transaction takes place at stock exchange?

Transaction on stock exchange can take place only through a broker. Investor opens an account with the broker. The nature of this account is just like bank a/c. Investor deposit money in his a/c. He than buy and sell securities. His a/c is debited for any purchase and credited for sale proceeds. He can make deposits and withdrawals from his a/c. To make a transaction investor contacts his broker.[6] This contact could either be face to face or through telephone or Internet. He asks for the quote prices of stocks in which he is interested. If he is satisfied with the quote prices he can sell or buy it on market but if he wants to buy at a lower price or sell at a higher price (than the quoted prices) he will place a bid or offer.

In brokerage houses in Peshawar, personnel in operations are online with their personnel on KATS terminal in KSE through mobile phones. When a client places order, they communicate it to the personnel on KATS terminal, who in turn enters the order in the KATS. As soon as the transaction took place the personnel at KATS terminal confirm it to the personnel in operations here in Peshawar who in turn confirms it to the client. The client if desires can get a contract note of the transaction.

Transaction can either be cash basis or credit basis. In case of cash purchase if he has enough balance in his a/c to cover the purchase, his a/c will be credited, but if he does not have enough balance in his a/c he will make cash payment within the settlement date. In case of credit buying investor has to maintain a margin in his a/c. This margin could differ from investor to investor but is usually greater than 30% because the brokerage houses are also required to maintain a 25% margin. This means that if cash purchases in a brokerage house portfolio declines from 25% he is declared defaulted by the stock market and he is asked to either sell shares or make payment in order to maintain this benchmark. In order to ensure the maintenance of this benchmark, brokerage houses require its clients to maintain the agreed margin.

[6] Andaleeb (2002) *Integration and Correlation between stock markets*. NUST. P23

Against margin a credit limit is given to investors up to which they can make credit purchases. Credit transactions are known as carry over transactions or shares in badla. Credit purchases of a trader are financed by a financier (investor, bank or financial institution) in the badla market at badla rate. Thus badla rate is the interest that traders pay on use of others funds.

3.9- The Process of BADLA (COT) Market

Badla is an informal source of financing, widely used in the Pakistan's stock exchanges. This transaction is made when an investor, who lacks funds, commits himself to buy certain shares. Badla *financier* provides financing against such shares at market-determined premium (rate of interest). This short term collateralized lending is very similar to a repurchase agreement (repo) used in the inter bank market. In simple term, badla is a credit line against securities: usually brokers and financial institutions provide such badla funds.

If a client has an account balance of Rs.100, 000, he buys 10,000 shares of Engro-Chemicals at prevailing price of Rs.17.00. The total amount will be Rs.17, 0000. It means that the client owes Rs.70, 000 to his stockbroker. He must deposit the required in his account or sells shares worth Rs.70, 000 before settlement. In case he fails to make his account nil either by sale of shares or depositing money, he must accept another way of financing his transaction. He will request the Manager Operations to do Badla for his shares. The Manager Operations will request the Head Office at Karachi to enter the order of Badla of Engro Stocks.

The financier will lend the amount Rs.70, 000 at an agreed rate say 13%, 15%, etc. The shares will be transferred to the financier account and money to client account. The CDC (Central Depository Company) performs this function of transferring. The financier may be a client of any brokerage house.

The process of Badla is Mathematically expressed as:[6]

Client Purchases Shares	*Balance*
+10000 Engro @ 17.00 = Rs.170, 000	-70,000
Client Sells from the Purchase Shares	*Balance*
-4117 Engro @ 17.00 = Rs.70, 000	0
Financier Purchases Shares	
+4117 Engro @ 17.00 = Rs.70, 000	
Financier Sells the Shares	
-4117 Engro @ 17.008 = Rs.70, 022	

Profit of the financier will be Rs.22. In percentage terms return to the financier can be calculated as $\frac{.008 \times 365}{17} = 17.17\%$

3.10- Circuit Breaker

3.10.1- Background

Most of the stock exchanges throughout the world use circuit breakers for management of systemic risk. Circuit breakers are extensively used because of the following benefits:[7]

- They protect clearing-house from large defaults caused by extreme market movements
- They protect brokers and investors from defaults due to extreme price fluctuations, even when these individual defaults do not endanger the clearing-house

[6] Mr, Moshin, Millennium Securities. Islamabad.
[7] Circuit Breaker Review Committee (Nov 30, 2002). *The Circuit Breaker Review*. SECP

- They provide time-outs to the market when they get overheated and investors are unlikely to act rationally

The benefits offered by circuit breakers come at the following costs:

  - They obstruct investors who wish to exit their positions
  - They obstruct entry of bargain hunters, who play a key role in reviving the market

In view of the importance of circuit breakers for risk management and the differences between local and international designs, SECP constituted a three-member committee on Nov 11, 2002 to review the local design.

3.10.2- Local Design of Circuit Breakers

Currently, the following design is being used in all three local exchanges:

- For downward circuit breakers, during a day price of scrip cannot fall below 5% or Rs 1.5 whichever is higher, from the closing price of the previous day.
- For upward circuit breakers, during a day price of a scrip cannot rise more than 7.5% or Rs 1.5, whichever is higher, from the closing price of the previous day.
- In most of the markets, circuit breakers are based on an index while our circuit breakers are based on individual securities.

The downward circuit breaker was reduced in the May 2002 crisis when the market plummeted due to the threat of Indo-Pak war. Prior to Dec 3, 2001 a stock was turned spot if its price moved by 25% or Rs 5, whichever is higher.

CHAPTER # 4

TRADING HISTORY OF KSE

4.0 – Trading History of KSE

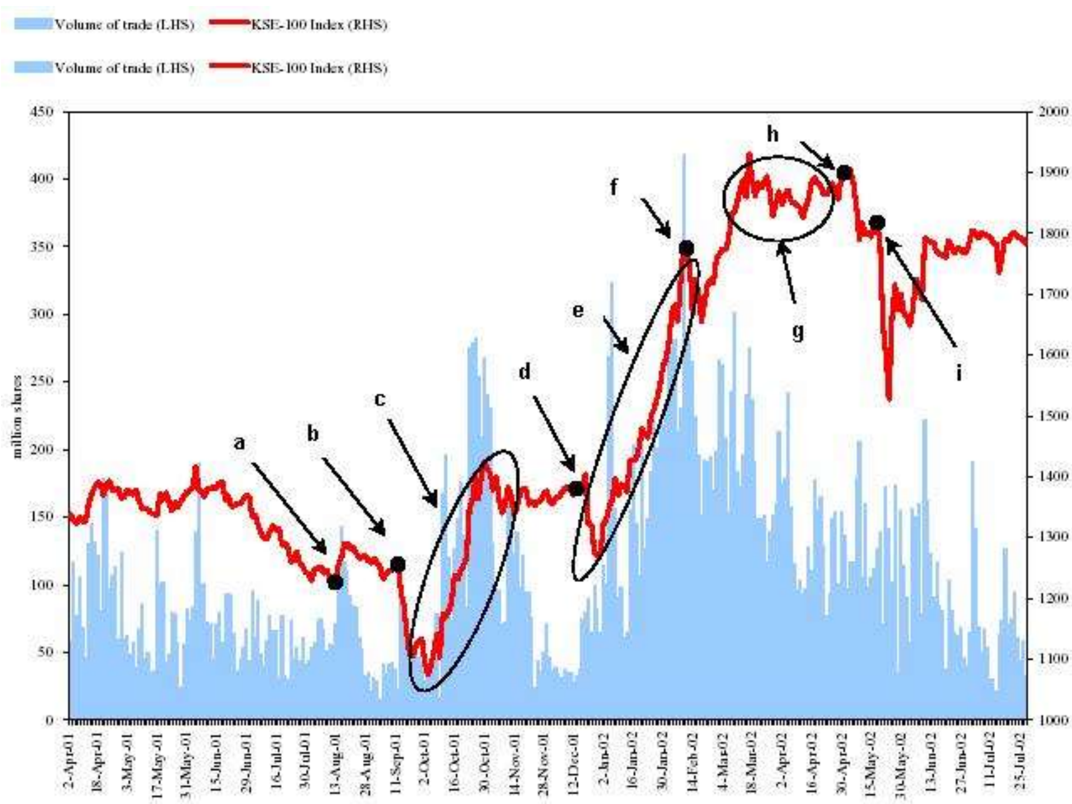
4.1- FY 2002

FY02 was a relatively good year for the Karachi stock market, with the benchmark KSE-100 index recording a 29.5 percent rise, in sharp contrast to the 10.1 percent drop witnessed during the preceding fiscal year.

This performance, which appears to be underpinned by a steady improvement in economic fundamentals during the course of the year, is more impressive when viewed in the context of the various e1conomic and non economic shocks suffered by the country, as well as a number of disruptive market developments

In fact the year began on a negative note, as the downtrend evident during the concluding weeks of FY01 continued in early FY02 with the KSE-100 index shedding 60 points in the first week of July 2001. Factors instrumental to this fall included the continuing uncertainty regarding T+3 settlement system1, and the crack down by National Accountability Bureau (NAB) on certain elements of the market in end-June 2001. While the market staged a partial recovery amidst misconceived hopes of a government-sponsored market fund, the uncertainty persisted, and from August till September 10, 2001 the index moved in a narrow range of 51 points with low volumes. Thus, not surprisingly the September 11 attacks in New York and Washington pushed the market over edge for a 181-point (14.4 percent) collapse to reach the lowest for the year at 1075.2 by October 2, 2001. This collapse in turn sparked yet another crisis. Due to the decline in market value of their leveraged equity purchases, many market players were trapped by the rising cost of badla finance. A decision/reminder by KSE management that it would not recognize any deal involving badla charges exceeding 24 % per annum worsened the crisis by discouraging badla financiers, who remained on the sidelines. Hence, to avoid a further decline in the market due to panic selling amidst the non-availability of badla financing, the bourses were closed down for a week (from September 17 to 21).

Graph 4.1- KSE-100 Index Fluctuations[1]



a. Short recovery on the news that GoP was creating an equity market support fund.

b. September 11 terrorist attacks created jitters in the market. Settlement crisis erupted. Market remained closed from Sep 17-21 to prevent cross defaults and further collapse.

c. Market recovered on anticipation that Pakistan will reap economic benefits like debt re-profiling etc., from joining the coalition. Also due to fear of crack down on informal channels of money transfer, kerb premium fell, thus making equity investment attractive.

d. December 13 terrorist attack on Indian Parliament. Market sustained the shock initially, but fell in last 10 days of the month due to extreme measures taken by Indian government.

e. Market rebounded strongly on the basis of strong economic fundamentals. Also risk of war subsided due to international diplomatic efforts.

---

[1] Capital Markets: Operations at KSE (online) Available (2002). http://www.sbp.org.pk

f. KSE-100 fell due to enforcement of minimum capital adequacy requirements.

g. Investors remained cautious in anticipation of April 30 referendum.

h. May 8 terrorist attack in Karachi.

I. The KSE-100 index shed 8.28 percent in last 15 days of May due to escalation in tension with India.

This helped the market by overcoming the liquidity shortage that had manifested following the September 11 events and avoided the possible systemic threat.
As a result of these measures, and with the comfort that Pakistan had assumed an important role in US led coalition; market started the second quarter on a positive note. In addition, market was anticipating that the country would reap significant economic benefits including debt rescheduling from this move.

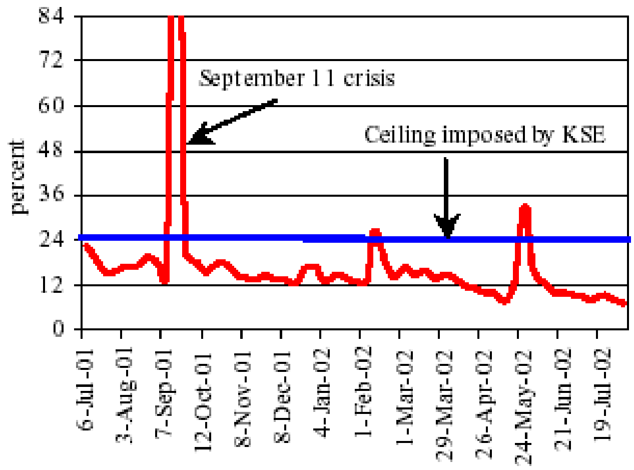
The terrorist attack on Indian parliament on December 13, 2001 caused edginess among investors, as Indian government accused Pakistan of involvement in the attack. Nonetheless, market absorbed this shock initially and stabilized. But it was after December 21, when Indian government took strict steps by withdrawing its high commissioner from Pakistan and deploying its troops on the international borders. Resultantly, market went into a tailspin with the KSE-100 index shedding 130.95 points in next 10 days of the month. Even though the Indian government continued with its rhetoric of blaming Pakistan together with its troop buildup on border, market rebounded strongly by the start of January 2002.

The market's exceptional gains of January 2002, when the index gained 347 points (27.3 percent) were underlined by its ranking as the top performing emerging market for the month by MSCI. However, this upward momentum was broken in mid-February by the KSE circular**,** prudently reminding members of the strict minimum capital adequacy rules introduced by Karachi Stock Exchange. As a result, the index fell by 119 points in three trading days before recovering on the back of strong performance reported by Hubco, MCB and Askari Bank. Thereafter, sentiments on oil marketing company stocks dominated the market, taking the market to its FY02 peak of 1930.5 on March 14, 2002 as the government announced a much-awaited increase in their margins (this was also taken by the market as a sign to the privatization of PSO).

The KSE-100 index gains resilience from the overall improvement in economic fundamentals, consequent improvement in corporate profitability prospects, and the financial market liquidity (that boosted asset prices) to overcome political concerns.

Badla rates, which averaged around 18 percent at the start of FY02, ebbed as low as 9 percent during July 2002 (Graph 4.2).

Graph 4.2- Badla Rates:



4.2- FY 2003

Pakistan's equity market was one of the best performing equity markets in the world during FY03. Not only did the benchmark KSE-100 Index continue its FY02 up trend into the succeeding year, its growth rate accelerated, the Index broke its previous all-time high to reach as high as 3402.5 points by the close FY03, up a stunning 92.2 percent for the year. (Table 4.1)

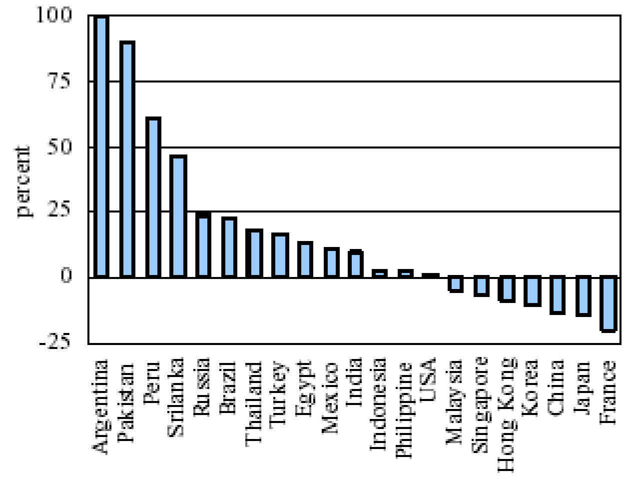
Table 4.1- Key Indicators of the Stock Market (KSE)

(Rupees and Stocks in billions)

Indicators	*FY 02*	*FY03*
Price indices		
KSE-100 index	1,770.1	3,402.5
Year on year change in KSE-100 index (%)	29.5	92.2
SBP General index of share prices	106.7	204.9
SBP General index of share prices	106.7	204.9
Market size		
Market capitalization	407.6	746.0
Market capitalization as a percentage of GDP	11.2	18.6
Number of listed companies	725	706
Market liquidity		
Value traded	805.6	2246.9
Total turnover of shares traded	29.0	52.7
Value traded as a percentage of GDP	22.2	55.9
Turnover ratio	1.98	3.01
Average daily value traded	3.3	9.1
Average daily turnover of shares	0.121	0.214
Paid-up capital at KSE	**260.6**	**300.9**

In terms of the comparative regional performance too, the KSE emerged better than most other equity markets in the world during FY03 (Graph 4.4).

Graph 4.4- FY 03 Performance of Selected Markets[3]



This exceptional FY03 performance of the KSE-100 was aided by the convergence of a number of positive factors, spread though the year, including expectations of a significant increase in corporate profitability, growing market liquidity & associated decline in interest rates, hopes for the early privatization of large profitable public sector companies (e.g. PSO, OGDC, etc.), and the general increase in optimism based on hopes of a broader recovery in the economy. Of these, the first three arguably had the dominant influence.

4.2.1- Market Developments in FY03

Initially during FY03, the KSE-100 traded in narrow range around the 1850-point levels, probably reflecting the residual concerns over the tensions with India as well as the uncertainty over the forthcoming October 2002 elections.

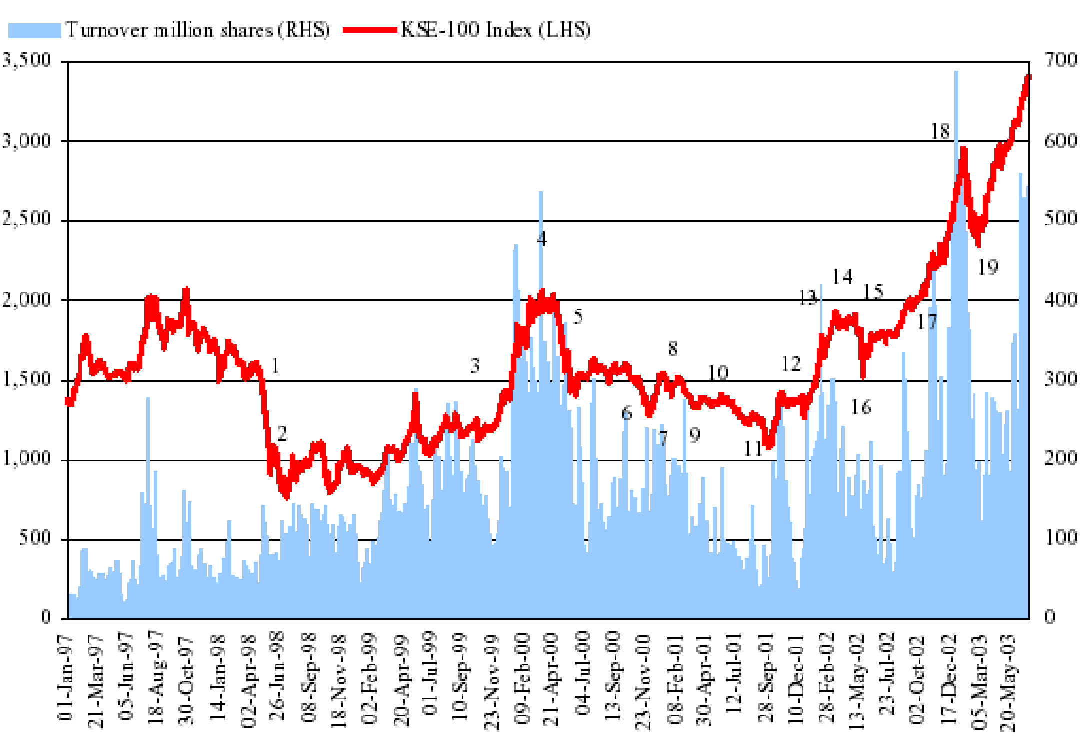
[3] Capital Markets: Overview (online) Available (2003). http://www.sbp.org.pk

However, buying re-surfaced in August 2002 with the announcement of strong corporate results by the market leaders.

Unilever, Shell Pakistan, PSO, Adamjee Insurance, Hubco and PTCL announced strong corporate results during August and September 2002. The dividend announced by the Pakistan State Oil (PSO) on August 22, 2002 (80 percent cash divided and 20 percent bonus shares) was particularly important in propelling the Index upwards. PSO last announced such bonus payouts in FY99.

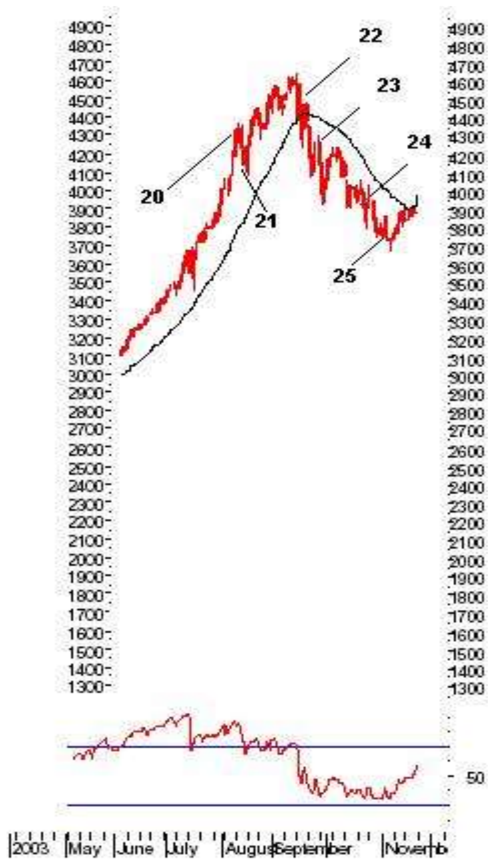
This upsurge persisted for the rest of the first quarter with the KSE-100 index breaking the psychological barrier of 2000 points on Sep 6, 2002.
(Graph 4.5a .

Graph 4.5a- KSE-100 Index Fluctuations[4]



[4] Capital Markets: Overview (online) Available (2003). http://www.sbp.org.pk

Graph 4.5b- KSE-100 Index Fluctuations[5]



1. India detonated nuclear device, May 11, 1998

2. Pakistan went nuclear, May 28, 1998

3. Change of Government, October 12, 1999

4. KSE-100 Index at 29 month high of 2054.43

5. Trading remained suspended because of settlement problems by some of KSE members on May 30, 2000

6. SEC prohibited blank selling, November 2000

7. Pakistan managed to secure SBA with IMF, end-November 2000

8. SEC ordered change in Article of Association of KSE on December 31, 2000. This was to improve the corporate governance of the stock exchanges and reorganize them to improve their management and operational efficiency.

---

[5] AKD Trade. (Online) Review available on. www.akdtrade.com

9. T+3 settlement system was initially introduced in two scrips (Telecard and Ibrahim Fibre) on April 2, 2001.

10. Decision to defer the implementation of T+3 settlement system for couple of months in mid-May 2001

11. Terrorist attacks in New York created jitters in the market, September 11, 2001

12. Terrorist attack on Indian Parliament. Market sustained the shock initially but fell afterwards due to extreme measures taken by Indian government

13. KSE-100 Index fell due to enforcement of minimum capital adequacy requirement for brokers

14. Presidential referendum, April 30, 2002

15. Terrorist attack in Karachi, May 8, 2002

16. The KSE-100 shed 8.28 percent in last 15 days of May 2002 due to escalation in tension with India

17. Start of rally driven by good corporate performance and unprecedented liquidity in the market.

18. The up trend, driven by excessive liquidity, was broken due hike in badla financing rates (as brokers faced capital adequacy limits) forcing weak holders to sell.

19. However, market fundamentals (good corporate results, attractive market valuations) and liquidity forced start another rally.

20. Index went up showing all time high turnover due to the high liquid market and record level decrease in interest rates.

21. Market shocked with the collapse of Government – MMA talks over LFO.

22. Market shed 176 points in a week after deadlock between political parties persisted. On the other hand relations between Pakistan and India got a severe blow when Prime Minister Vajpayee refused to meet President Musharraf at UN General Assembly session.

23. Index broke all time single day trading record on September 19, when it rose 182 points after the news of possible agreement between Govt. and MMA over LFO.

24. News about new regulation pertaining Margin Financing – forced investors to profit taking resulted in market collapse.

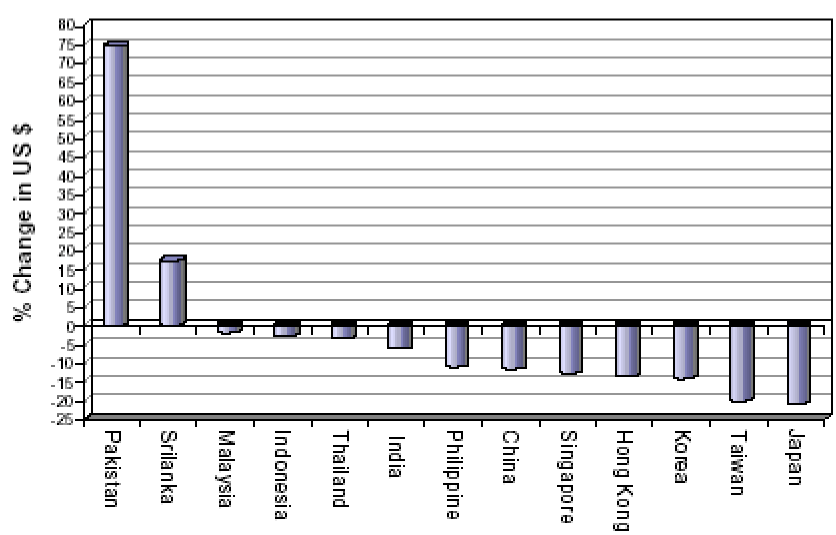
25. Fear of possible impact on PTCL's earning after 33% relief given by the company to its customers forced market to decline.

The market rally continued into Q2-FY03, fueled not only by additional good corporate results, positive political developments and rating actions on Pakistan's sovereign ratings, but also the easier monetary stance of the SBP. Specifically, the slide in lending rates (and consequently deposits rates) following the November 2002 discount rate cut by the SBP, significantly raised investor appetite for equity investment.

In fact, the continual rise in the market and the relatively easy availability of cheap credit led to a gradual build-up of speculative positions in the market, leaving it vulnerable to a shock.

The KSE-100 thus closed the year on a high note, at 3402.5 points.

Graph 4.6. Regional Market Index (% Change) during July – May 12 2002-03[6]



[6] Capital Markets: Overview (online) Available (2003). http://www.sbp.org.pk

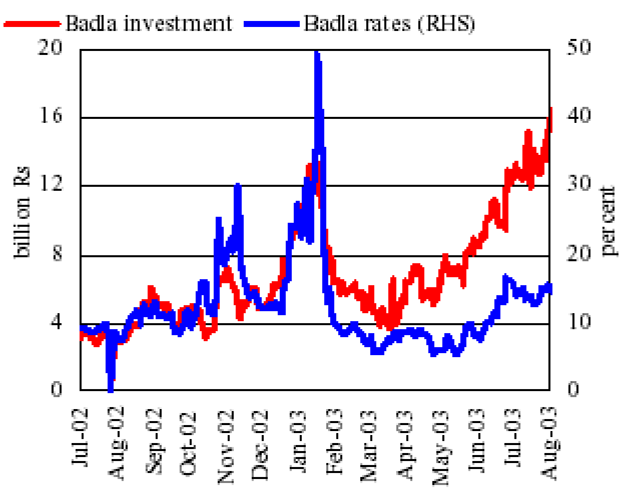
4.2.2- The COT (Badla) Market

During FY03, the heavy liquidity in the COT market meant that, on average, COT rates were relatively low even despite significant increases in the COT volumes. Specifically, the COT rates typically ranged between 8 % to 10 % for much of the year. For the first half of FY03, the COT market witnessed a gradual rise in the COT volumes, roughly paralleling the rise in the index. However, the rise in COT volumes then accelerated sharply in November 2002, probably reflecting:

(1) The fall in interest rates rendered speculative investments less risky; and
(2) A change in the COT rules that lowered the risk of a sudden squeeze in the availability of COT financing.

As mentioned earlier, the resulting increase in speculative positions largely based on the availability of cheap financing left the market quite vulnerable (Graph 4.7) to a jump in the COT rate.

Graph 4.7- Badla Rates and Investments[7]



[7] Capital Markets: Overview (online) Available (2003). http://www.sbp.org.pk

Not surprisingly therefore, the KSE-100 lost its momentum abruptly with the emergence of problems in the availability of COT financing. Specifically, a number of brokers providing COT had almost consumed their exposure limits as the market rose, and the resulting shortage in financing led to a decline in the COT rate, forcing the closure of speculative positions and a sharp market correction.

4.3 FY-2004

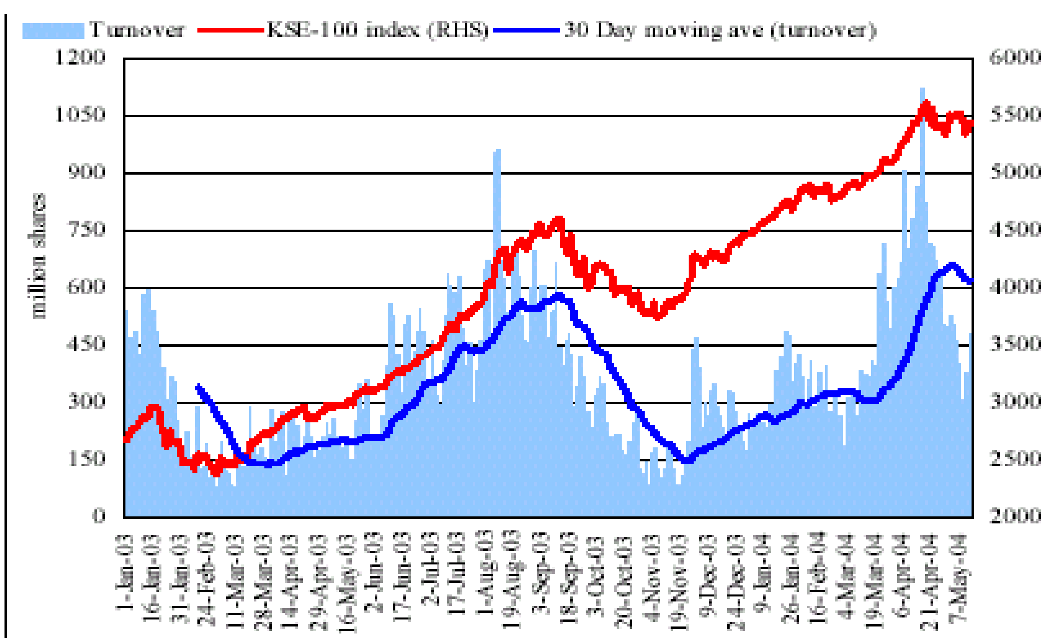
The first quarter of FY04 witnessed an acceleration in the extended market rally (that took the KSE-100 to a new all-time high before suffering a large correction), a rise in speculative equity investments, and a slowdown in issuance of listed corporate debt. Of these, the developments in the equity market were arguably the most significant.

In particular, the KSE-100 gained momentum until mid- September 2003 amidst considerable liquidity and sustained investor interest in energy stocks. The leading contribution of the energy stocks in the rally, under the lead of scrip such as Pakistan Oil Fields (amid expectations of an exceptional result announcement), PSO (with hopes of early progress towards its privatization) and HubCo, is evident The index rapidly pushed past the 3500, 4000 and 4500 psychological barriers to peak at a new all-time high of 4606 points by September 12, 2003 (a 35 percent increase since June 30, 2003). This performance of the market is also reflected in market size as well as liquidity indicators.

Importantly, part of the reason for the market's rise was on the surge in speculative investments. The average daily badla volumes rose to 331.3 million shares during Q1-FY04, more than twice the 139.1 million shares figure for the same period last year; similarly, the average daily badla value witnessed a very substantial increase of Rs 11.7 billion. Not surprisingly therefore, despite a drop in interest rates, the average badla rate of 14.6 percent during Q1-FY04 was higher than the 9.9 percent in the comparable quarter of FY03 and 8.9 percent in the immediately preceding quarter. The Q1-FY04 market rally was therefore increasingly vulnerable, particularly to adverse developments in the COT (badla market). In fact, this vulnerability played an important role in the significant market correction witnessed during the later half of September 2003. More specifically, the lack of substantial progress towards the privatization of PSO soured investor sentiment, compounded by a trend reversal in interest rates that contributed (together with high badla volumes), to an increase in the badla financing rates.

As a result, the KSE-100 index fell from its 4606 point peak to close the quarter at4027.3 points. Nonetheless, despite the correction, on aggregate the KSE-100 witnessed an 18.4 percent increase from the end-June 2003 level that raised the market capitalization of the Karachi Stock Exchange to Rs 876.1 billion.

Graph-4.8 KSE-100 Index Fluctuations[8]



The key indicators of market activity of KSE, the leading stock exchange of the country, showed marked improvement during the first 11 months of FY04, with the

[8] Capital Markets: Overview (online) Available (2004). http://www.sbp.org.pk

period witnessing new all-time highs for the KSE-100 index, market turnover and capitalization.

The increase in the market capitalization is particularly significant. Not only has it jumped to 27.0 percent of GDP at end-May 2004 (from 9.5 percent at end-June 2003. The market liquidity indicators also improved reflected by an enhancement in almost all indicators. The resulting increase in investor confidence and market depth is also reflected in shape of 10 floatation during the Jan- May 2004 compared to 13 in the preceding three years.

Graph-4.9 KSE-Market capitalization[9]

Importantly, most of the public offerings were heavily oversubscribed. Despite visible improvement in equity markets the corporate debt market remained almost inactive during Jan-May 2004 period with only one issue of Rs 0.8 million compared with seven listed issues worth Rs 2.7 billion in Q3-FY03. The lower activity in corporate debt market largely reflects the availability of cheaper finance from commercial banks. A significant development was the re-composition of the benchmark KSE-100 Index on the basis of Re-composition Rules and Procedure on

[9] Quarterly review of Capital Markets, Available at: www.sbp.org.pk

March 29, 2004 (the revised index is applicable since April 1, 2004). The number of listed companies declined during the period, as a number were merged into other listed entities, and others were de-listed. However, the period also saw a few new listings including some large government owned companies. As a result, the market capitalization increased significantly. increased diversity of companies listed at the KSE, the listed companies were divided into 34 sectors instead of the 17 sectors earlier, and the re-composed index includes a selection of companies from each these 34 sectors (excluding Open-End Mutual Funds). Based on the prices of February 27, 2004, the recomposed KSE- 100 index captures approximately 88.0 percent of the total KSE market capitalization.

The market witnessed greater volatility after reaching its peak in mid-April 2004. The higher volatility and market correction market primarily resulted from large leveraged positions and rising badla rates. The beginning of Q3-FY04, witnessed further momentum in November 2003 rally (see Section 8.1 in SBP Second Quarterly Report)[10] as investors gained confidence from the positive news on the political front (President's vote of confidence, a successful SAARC summit in Islamabad) and growing expectations of good corporate results.

However, during February 2004 the KSE-100 index witnessed subdued activity primarily due to:

(1) A rise in badla volumes and rates,

(2) Weaker than expected results of corporate such PAKO and the gas utilities (SSGC and SNGPL) which had attracted strong investor interest; and,

(3) Expectations of a rise in interest rates Nonetheless, the overall market optimism is reflected the in the fact that out of 89 days trading (during Jan-Apr 2004), the KSE-100 index saw an increase from the preceding day on 61 occasions and declined on only 28.

[10] Section 8.1 in SBP Second Quarterly Report)

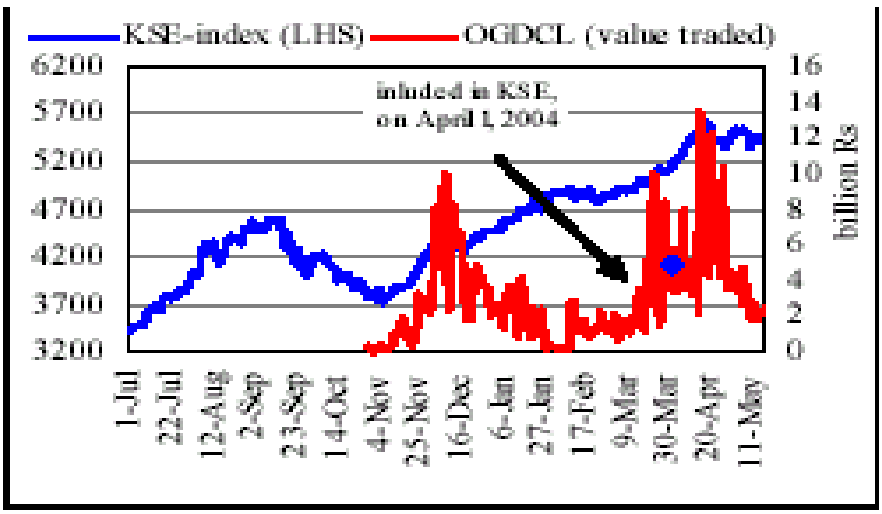
Nonetheless, post-February 24, 2004 events such as an increase in cement production quotas amidst rising demand, good results by market leader PTCL, decline in badla rates, good results of banks such as MCB and NBP, etc. helped drive a strong rally until the late-April 2004 market correction. The average level of index and turnover of shares during Jan- Apr 2004 period compared favorably with the preceding two quarters (only the average turnover is less than the corresponding Q1-FY04 value). This reflects the overall bullish trend in the market, which allowed the market to post new records for the KSE-100 index and turnover of shares on April 19, 2004. However, the market witnessed higher volatility (measured by trading range, standard deviation, as well as the coefficient of variation) in the period Jan-Apr 2004. Plausible explanation for this include: (1) technical corrections due profit taking and higher levels of badla activity, (2) inclusion of OGDCL in KSE in April 2004 as the largest cap stock, which led to portfolio rebalancing (generating very high turnover in the scrip).

4.3.1 Market Movers

The inclusion of OGDCL almost doubled the turnover in the top ten scrip during April 200, taking their share of total turnover from 51.8 percent in January 2004 to 64.3 in April 2004. Energy stocks remained the major market movers during Jan-Apr 2004. However, the contribution of energy stocks excluding OGDCL fell in April 2004; primarily due to inclusion of the new market heavy weight. The historic peak of KSE-100 index in April 2004 coincided with heavy investments in OGDCL – highest volume in a scrip. Furthermore, OGDCL was also very active in the badla market.

Apart from energy sector, the cement stocks also performed very well during Jan-Apr 2004, especially getting a boost in Mar-Apr 2004 on the back of positive developments in the sector in the shape of enhanced production quota, expectation of higher cement demand for the future and expansion plans unveiled by some companies and more importantly, the fact that the cement sector showed substantial growth in profitability in Jan-Mar 2004 compared to the corresponding period last year. Cement together with the energy stocks, help propel the KSE-100 index to a new all-time high on April 19, 2004.

Graph-4.10 KSE-100 Index & OGDCL Fluctuations[11]



4.3.2 COT (Badla) Financing

The carry over (Badla) market again played an important role in building an aggressive market rally during in Mar- Apr 2004, and a small technical correction occurred only when the weak holders were forced to liquidate holdings amidst very high badla rates. The decline in badla rates and volumes in Jan-Feb 2004 may probably reflect the decline in speculative interest after a small market correction. However, as speculative interest revived amidst continuing positive developments, the badla-financed volumes began rising again resulting in a steep rise in badla rates during Mar-Apr 2004. This

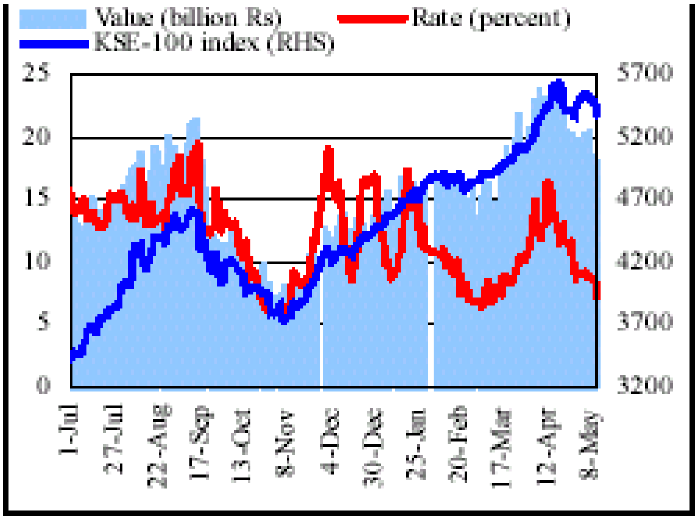
[11] Report on OGDCL, From KASB Securities, www.kasb.com.pk

eventually led to a sharp technical correction as the KSE-100 breached the 5600 mark.

The average badla rate during Jan-Apr 2004 was lower than the preceding two quarters, despite a sharp rise in average badla volume and value (reflecting the initial higher liquidity and lower volume). Moreover, the volatility shows a decline compared with the preceding quarter; though it was still much higher than in Q1-FY04, probably reflecting;

(1) Investors' mixed sentiments regarding market movements amidst high level of weak holding at very high rates during Mar-Apr 2004, and
(2) Announcement of PIB jumbo issue in April 2004. The strengthening expectation of interest rates increases appear be constraining a strong rally in the equity market.

Graph4.11- Badla Rates and Investments[12]



[12] Capital Markets: Overview (online) Available (2004). http://www.sbp.org.pk

Table – 4.2 KSE Index & Turnover[13]

shares in million

	Index	Turnover
Q1-FY04		
Average	4,099.3	492.4
Max	4,606.0	960.8
Range	1,173.5	821.2
St-dev	361.0	148.6
Variation	0.1	0.3
Q2-FY04		
Average	4,081.3	212.3
Max	4,471.6	469.3
Range	739.3	406.2
St-dev	215.4	92.6
Variation	0.1	0.4
Jan-Apr 2004		
Average	4,979.5	436.4
Max	5,620.7	1,122.5
Range	1,147.6	973.0
St-dev	306.3	207.2
Variation	0.1	0.5

[13] Capital Markets: Overview (online) Available (2004). http://www.sbp.org.pk

CHAPTER # 5

CURRENT SCENARIO

5.0- Current Scenario

5.1- Developments and Trends in Mature Capital Markets

The bursting of the equity bubble, geopolitical developments, and corporate governance scandals has severely tested the global financial system in recent years. In the fall of last year, these developments contributed to high levels of risk aversion, increased market volatility, widening credit spreads, and limited access to external financing for many emerging market countries. Even in the face of these strong headwinds, however, financial markets have remained remarkably resilient. Indeed, markets strengthened in the first half of 2004, notwithstanding continued lackluster economic growth.

While unambiguous signs of stronger growth are still lacking, corporations—particularly in the United States—have made good progress in their financial consolidation efforts and are in a better financial position to increase investment spending. The reduction of policy interest rates to postwar lows in the major financial centers has facilitated progress in restoring financial soundness. The prospect of a protracted period of low short-term interest rates and ample liquidity sparked investors' quest for yield that proceeded progressively out along the risk spectrum. After a period in which risk-averse investors sought the safety of mature market government bonds, driving down their yields, risk aversion began to dissipate rather quickly starting in the fall of 2002.[1]

Since then, the pendulum has been swinging toward increased risk appetite. Investors moved into corporate and emerging market bonds, leading to a swift compression of credit spreads in these sectors. Flows were also attracted to higher-yielding local emerging markets, contributing to the appreciation of their currencies. Finally, mature equity markets—shunned by investors after three successive years of steep price declines—have rebounded since mid-March 2003. Monetary stimulus, an

[1] Andaleeb (2002) *Integration and Correlation between stock markets*. NUST. P32

easing of geopolitical concerns, more attractive valuations relative to alternative asset classes, and indications of stronger growth in corporate earnings all underpinned the equity market rally. Benchmark yield curves in the major financial centers had been pushed to quite low levels, setting the stage for a snapback in mature government bond yields when signs of stronger economic growth emerged.

A return to strong growth will improve the financial conditions of firms and households, while a steeper yield curve will allow banks and other institutions to generate income through well-managed maturity mismatches. The risk lies in the transition to a higher level of bond yields, as market participants must manage the inevitable losses on bond portfolios and increased market volatility. [2]

5.2- Policy Implications for Emerging Market Countries

There is a need for emerging market countries to consistently implement sound macroeconomic policies and reforms to improve their investment climate. In the current, slightly improved external financing environment, complacency must be avoided. Emerging market countries must take advantage of the recent improvement in access to capital markets to pursue structural reform and to make progress on putting public finances on a sound footing. They also need to improve the structure of liabilities. Indeed, a number of countries—including Brazil, Mexico, and Poland—have undertaken successful liability management operations that have extended the maturity of their obligations and conducted debt swaps out of existing Brady bonds.

Brazil has also taken advantage of improved investor sentiment to reduce the share of dollar-linked liabilities in its domestic debt, thus reducing a major past source of vulnerability. South Africa has used some of the proceeds of its recent 10-year bond issue to pay down maturing short-term debt.

[2] International Finance Corporation, (2001). Emerging Market Financing. P41

Emerging markets have taken measures, to self-insure against the potential volatility of external flows, particularly private debt flows. These measures have included:

- Changes in external asset and liability management practices. In part, this has involved large-scale accumulation of foreign exchange reserves, particularly in Asia.
- Adapting exchange rate arrangements to the degree of capital account openness;
- Strengthening domestic financial institutions;
- Enhancing prudential supervision and regulation in order to increase resilience to volatility; and
- Developing more efficient and liquid local and regional securities and derivatives markets.

In recent years although some emerging markets remain dependent on borrowing from international markets, emerging markets, as a group, have become net exporters of capital since 1999, including through the accumulation of international reserves.

Table 5.1- Net Private Capital Flows to Emerging Markets[3]

(In billion of US $)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Emerging markets									
Total net private capital inflows	116.9	124.3	141.3	189.0	224.2	126.2	45.2	71.5	32.2
Bank loans and other	28.5	−14.0	−49.5	49.5	18.7	−62.1	−127.2	−135.6	−172.1
Net portfolio investment	53.0	81.6	109.9	42.6	85.0	43.3	23.8	53.7	58.3
Net foreign direct investment	35.5	56.7	80.9	96.9	120.4	144.9	148.7	153.4	146.0
Africa									
Total net private capital inflows	0.9	3.2	11.4	12.3	12.3	16.8	10.9	12.7	8.6
Bank loans and other	−2.1	0.0	5.5	6.4	4.9	1.6	0.1	−4.9	−2.4
Net portfolio investment	2.0	0.9	3.5	3.1	2.8	7.0	3.7	8.7	4.3
Net foreign direct investment	1.0	2.2	2.4	2.9	4.7	8.1	7.0	8.9	6.8
Asia									
Total net private capital inflows	15.0	41.5	67.1	74.4	113.9	18.9	−55.4	2.0	−2.6
Bank loans and other	−12.7	−9.5	3.4	6.3	31.2	−48.4	−119.1	−88.4	−97.8
Net portfolio investment	12.9	18.0	18.9	19.7	27.1	7.1	6.5	36.6	45.9
Net foreign direct investment	14.7	33.0	44.7	48.5	55.5	60.2	57.2	53.8	49.3
Europe									
Total net private capital inflows	10.5	24.2	2.2	54.4	30.1	12.4	21.3	19.6	12.8
Bank loans and other	2.9	5.2	−22.3	24.6	2.0	−13.9	2.2	−7.6	−25.1
Net portfolio investment	2.4	12.3	18.5	15.7	14.9	10.2	−1.8	5.5	12.4
Net foreign direct investment	5.2	6.7	6.1	14.1	13.2	16.1	21.0	21.8	25.5
Middle East									
Total net private capital inflows	37.9	18.1	17.7	6.3	5.0	10.1	6.7	−3.2	−25.9
Bank loans and other	25.8	12.3	6.4	−1.9	−4.9	3.4	4.1	−0.4	−24.5
Net portfolio investment	10.9	3.2	6.7	1.7	2.3	0.0	−4.6	−7.5	−9.0
Net foreign direct investment	1.2	2.6	4.6	6.5	7.7	6.7	7.2	4.7	7.6
Western Hemisphere									
Total net private capital inflows	52.7	37.3	42.8	41.6	62.8	68.1	61.8	40.4	39.2
Bank loans and other	14.6	−22.1	−42.6	14.2	−14.4	−4.7	−14.5	−34.2	−22.3
Net portfolio investment	24.7	47.2	62.4	2.5	38.0	19.0	19.9	10.4	4.7
Net foreign direct investment	13.4	12.2	23.1	24.9	39.3	53.8	56.3	64.2	56.9
Fuel exporters[1]									
Total net private capital inflows	31.5	17.2	13.7	−1.3	−4.3	−1.7	4.2	−9.5	−43.5
Bank loans and other	15.8	10.9	4.9	−5.1	−10.2	−8.3	−4.8	−10.6	−39.7
Net portfolio investment	13.9	6.2	5.1	−0.6	−2.9	−5.2	−3.2	−8.2	−14.5
Net foreign direct investment	1.7	0.1	3.7	4.3	8.8	11.7	12.3	9.2	10.7
Nonfuel exporters									
Total net private capital inflows	85.4	107.1	127.6	190.4	228.5	127.9	41.0	81.0	75.7
Bank loans and other	12.6	−24.9	−54.5	54.6	28.9	−53.8	−122.4	−125.1	−132.4
Net portfolio investment	39.0	75.5	104.9	43.3	88.0	48.5	27.0	61.9	72.8
Net foreign direct investment	33.8	56.6	77.2	92.5	111.6	133.2	136.4	144.2	136.3
Memorandum items:									
Change in reserve assets									
Emerging markets	27.2	83.1	92.6	123.7	109.1	68.8	60.6	90.1	83.8
Africa	−3.2	1.4	5.1	1.8	5.1	11.2	−1.9	4.4	6.5
Asia	7.7	43.7	79.4	48.2	61.7	23.8	63.7	79.7	47.1
Europe	−1.0	13.4	9.8	40.9	3.0	8.3	5.0	7.0	15.2
Middle East	1.0	4.3	2.6	7.8	12.8	11.7	2.5	6.3	12.5
Western Hemisphere	22.7	20.3	−4.1	24.9	26.5	13.7	−8.8	−7.2	2.6
Fuel exporters	−8.0	−0.5	0.2	−0.4	17.6	10.8	−4.1	−0.7	21.0
Nonfuel exporters	35.2	83.6	92.4	124.1	91.5	58.0	64.6	90.8	62.9
Current account									
Emerging markets	−73.7	−108.2	−71.9	−98.0	−98.6	−71.7	−55.5	42.7	121.8
Africa	−11.3	−12.3	−12.3	−16.9	−6.3	−8.0	−20.5	−15.5	1.3
Asia	3.1	−12.1	−2.8	−36.5	−39.8	25.7	114.2	111.7	87.5
Europe	−7.4	−14.5	5.9	−3.0	−20.6	−27.3	−27.7	−3.6	16.1
Middle East	−23.4	−23.4	−10.7	−4.7	6.9	4.7	−31.3	5.7	64.8
Western Hemisphere	−34.7	−45.9	−52.0	−36.9	−38.9	−66.8	−90.2	−55.7	−47.9
Fuel exporters	−28.2	−22.0	−4.0	2.1	30.0	19.2	−35.2	10.1	93.8
Nonfuel exporters	−45.5	−86.1	−67.9	−100.1	−128.7	−90.9	−20.3	32.6	28.0

Sources: IMF, *International Financial Statistics;* and IMF, *World Economic Outlook.*

[3] International Finance Corporation, (2001). Emerging Market Financing. P43

5.3- The Internationalization of the Pakistani Stock Market:

A recent major development in international finance has been the growing interest of the portfolio managers in emerging stock markets. The interest in the emerging markets has been accelerated by global trends towards the opening up of the economies and financial markets, the free flow of the capital and the privatization of financial institutions. The integration of the emerging markets globally has been hindered so far as, besides other several other factors, participating in emerging securities has posed serious problems for international investors. The emerging markets lack the depth, regulatory framework and structural safe guards that characterize equity markets in the United States and in a few industrial countries. A peculiar risk of investing in the emerging markets, besides the currency, political and investment risk is, is the risk arising out of the development stage of the emerging markets.

Practitioners have been investigating the benefits of international diversification and the related issue of the integration of the global equity markets. The major attraction of forming international portfolios lies in the potential for risk reduction through diversification of unsystematic risk. The lower the correlation among the asset returns internationally the higher is the reduction in the risk. Emerging markets offer the assets with relatively low levels of correlation reflecting the low levels economic integration and substantially low different socio-economic structures. The correlation in asset returns depend on the degree of the integration of capital markets and reflects the extent to which the price changes and volatility spill over across international markets. The main equity market in Pakistan, the Karachi stock exchange, attracted international attention for the first time in 1991 by registering a gain of 160 percent, ranking third among the emerging markets tracked by the IFC. The market was bullish following the measures taken to liberalize the economy, relaxation of foreign exchange controls and easing of regulations on repatriation of profits, investment and operation of financial institutions.[4] The main equity market in Pakistan, the Karachi stock exchange (KSE) has been in operation for more than half a century. However it has not been an active market until the beginning of 1991 when liberalization measures, particularly the opening of the market to the international investors, were announced. Since then the market has made considerable progress and improved in size and depth and in 2002 KSE was declared the best stock market in the world.

The modern portfolio theory, pioneered by Markowitz (1952, 1959) suggests that the investor should hold a well-diversified portfolio of several securities, which should not be highly correlated with one another. Moreover, the lower the correlation among the securities, the higher will be the benefits of diversification. These benefits, achieved by investing in only one can further be increased by investing in many markets, i.e. by diversifying internationally where the benefits will be higher if the correlation among stock returns in invested market is lower. The dependence of the benefits of international diversification on the extent correlation among markets has placed stock markets of the developing economies commonly known as emerging stock markets, in favorable position.[5]

The potential benefits of international diversification have also motivated the financial circles to investigate the interrelationship among stock markets in different regions of the world. Investigation regarding the linkages of the Pakistani equity market with international equity market is very important. These linkages are important to both the Pakistani government who wants to attract the foreign investment, and to international investors which are interested in emerging markets which provide new investment opportunities with higher returns and a possibility of risk diversification.

---

[4] Uppal, Jamshed Y. (Winter 1993). *Internationalization of Pakistani stock market; an empirical investigation.* The Pakistan development review 32:4 (PP. 605-618)

[5] The Integration of the Pakistani equity market with international equity markets: An investigation by Dr.Fazal Husain and Reza Zaidi Pakistan institute of developmental economics. Journal of international development (J.Int. Dev. 12, 207- 218 (2000)

CHAPTER # 6

FINDINGS OF STUDY

6.0- Finding of the Study

Pakistan has now a capital market with high degree of integrity and transparency in terms of price discovery and trade settlement. The observance of enhanced accounting standards, reliable audits, institutional strengthening and capacity building of the Securities and Exchange Commission of Pakistan (SEC) have been the hallmark of the capital market reform program. Pakistan is today largely compliant with International Organization of Securities Commission's (IOSCO) 30 principles of securities regulation. The market friendly measures introduced during the last three and half years had a significant impact on investor confidence. The structural changes brought about by the government have been quite successful in restoring investors' confidence in the equity market. The market has clearly attracted genuine investment as is evidenced by the fact that actual settlement has risen from about 1 to 2 percent of trades in the early part of year 2000 to around 10 to 15 percent now. In Pakistan, the Karachi Stock Exchange is playing a central and critical role in shaping the savings and investment climate, as it is the main window to ensure that the market continues to grow and generate interest of investors both within the country and abroad.

6.1- SECP Findings

Over the past three and half years, the Securities and Exchange Commission of Pakistan has been taking measures to restore confidence of the investor – both foreign and domestic in the capital market of Pakistan. The SECP ensures that the market functions in a smooth and transparent manner and is also vigilantly observing the market. Its regulatory mechanisms aims to minimize elements of systematic risk and other possible defaults on the one hand and promotes institutional strengthening building of various segments of the capital market on the other. The SECP has been actively pursuing a reform agenda since 2001 for the capital market.

6.1.1- Assessment of the Local Designed Circuit Breaker

Following strengths and weaknesses of the local design have been noted:

Strengths of Local Design

- It is appropriate to have circuit breakers in individual securities. Index based circuit breakers are used by wide and deep markets with strong risk management. Radical price movements in individual scrip do not pose a threat to them.

- A price limit suits our markets better than a trading halt. Trading halts are based on the index and they come in a series. Since we need to have circuit breakers in individual securities, we cannot have trading halts because a single transaction at the circuit breaker threshold can suspend trading in a scrip. Practically, a price limit acts like a trading halt because very little activity is witnessed once a scrip hits its circuit breaker.

- Upward Circuit breakers are rightly kept wider than downward circuit breakers. Upward movements create risk for the outstanding blank and short positions and not for a genuine seller who has securities to deliver. Outstanding long positions are bound to be more than outstanding short or blank positions particularly because in the Carry Over Market, only a long position can be financed. At the same time upwards circuit breakers cannot be done away with because they help avoid bubbles and large Carried Over values caused by over-buying by speculators.

- It is simple to understand and use. It uses an ingenious mix of both absolute (Rs) and relative (%) thresholds that caters for both very low price and very high price stocks.

Weaknesses of Local Design

- The current thresholds are proving very narrow for illiquid stocks that are subject to wider price fluctuations compared to the liquid stocks. A few illiquid stocks hit the circuit breakers everyday. Since their turnover is minimal and they do not pose a threat to the clearing-house or to the members, having narrow thresholds for such stocks is not justified.

- Because of constant percentage thresholds, the current circuit breakers become linearly wider as the price of a stock goes up and linearly narrower when the price of a stock goes down. For instance, when a stock is trading at Rs 100, 7.5% upward circuit breaker is Rs 7.5 but when it reaches 200, 7.5% of 200 becomes Rs 15. Since all payments are absolute (Rs) and not relative (%), it is important that circuit breakers should increase at a decreasing rate and vice-versa.

6.1.2- Central Depository Company

The Central Depository Company of Pakistan (CDC) is now an integral part of the stock market in Pakistan and has completed six years of its operations. Over the years, the depository has been providing state-of-the-art settlement system. This has tremendously helped in promoting efficiency and transparency in the capital market. The National Clearing and Settlement System (NCSS) was launched on December 24, 2001 and the number of securities trades at NCSS is being gradually increased.

The implementation of T+3 settlement system has resulted in increased settlement volume, despite a 20 percent reduction in transaction fee effective from November 2001.1

[1] CDC (online) Available. http://www.kse.com.pk

6.1.3- Policy Measures and Progress[2]

(a). Improvements in Governance

In March 2002, the Security and Exchange Commission of Pakistan (SEC) introduced the first Code of Corporate Governance for Pakistan, which was subsequently made part of the listing regulations of the three stock exchanges (Karachi, Lahore & Islamabad).

- In order to further improve the governance of the stock exchanges, the SEC has directed the stock exchanges to reconstitute their Boards such that five directors are elected from amongst the members by the general body of the exchange, four non-member directors to be appointed by the SEC and the Chairman to be elected by the Board from amongst the non-member directors.
- For the expeditious resolution of investor complaints, the SEC has approved a two-tier arbitration procedure for the Karachi Stock Exchange (KSE), under which all claims and disputes exceeding Rs 0.5 million, which are not amicably settled otherwise, should be referred to the Advisory and Arbitration Committee (AAC). Further, as a priority, the Wing seeks to eliminate basic anomalies within the systems, procedures and relevant regulations of the stock exchanges to achieve more efficient remediation of investors' complaints.
- The Commission promulgated the Brokers and Agents Registration Rules in May 2001 to establish a direct regulatory nexus with brokers and agents for protection of investors' interest. Section 5A of the Securities and Exchange Ordinance, 1969 provides that no person can act as a broker or agent to deal with transactions in the securities market, unless registered with the Commission. The registration of brokers and agents under the Brokers and Agents Registration Rules 2001 started on November 1, 2001. Registration of

[2] SECP, (2002*). Securities Market Division*. Karachi.

brokers and agents has had a positive impact on stock market dealings owing to the enhanced level of awareness created amongst brokers and agents regarding the level of integrity and care required of them in the conduct of their business.

(b). Risk Management Measures

In order to minimize market manipulation and ensuring a healthier and more transparent capital market, the SEC, in February 2002, approved the Regulations for Short Selling under Ready Market, 2002, in February 2002. Introduction of these Regulations is a significant step towards minimizing market manipulation and ensuring a healthier and more transparent capital market.

In order to further strengthen risk management at the exchanges, the Commission directed the stock exchanges to make some changes in the carry over transactions.

- SEC ordered some amendments in the Article of Association of the stock exchanges to address the sensitive issues, such as, conflict of interest in the management of bourses.
- Another important development in the stock market is the implementation of “Undisclosed Trading System”. On October 7, 2002, the KSE launched this trading system where the identity of the buyers and sellers is not disclosed.
- The SEC introduced an amendment in the Companies Ordinance 1984, under which the companies are now required to present their quarterly accounts to shareholders within one month of the respective quarter-end. Moreover, the penalty for the non-compliance of the provisions relating to auditing was increased from Rs 2,000 to Rs 100,000.
- Another significant reform was introduced in the Badla market. Badla providers were required to commit their funds to the market for 10 days. This

is aimed at preventing an artificial liquidity crunch due to an abrupt withdrawal of financing from the market.

- The Commission has directed the stock exchanges to ensure that the Investor Protection Fund and the Clearing House Protection Fund are fully funded by June 30, 2007.
- The Market Monitoring & Surveillance Wing (MSW) has been set up within the Commission to facilitate initiatives in risk management. The MSW has two specific functions - monitoring the systematic risk at exchanges, and surveillance to detect general or specific instances of market abuse.
- Brokers capital adequacy and exposures are monitored strictly. SECP has once again become more stringent about the exposure and capital adequacy requirement for the brokers. In the buying euphoria, several brokers had taken positions beyond their financial capability (over trading) to control. This was increasing the risks of defaults on the part of brokers.

(c). New Products/Developments

- In terms of fundamentals reforms, the implementation of T+3 trading system in the stock exchange has made transactions smoother. This system will curb a number of malpractices, like speculative buying and blank selling. It has considerably reduced the risk by reducing the time period between trading and settlement by 3 days.
- In order to regulate futures trading in the provisionally listed securities, in February 2002, the Commission approved the Regulations for Futures Trading in provisionally Listed Companies, 2002, for the KSE.
- The Commission has approved the establishment of National Commodities Exchange Limited (NCEL), for trading in future contract in commodities.
- The Commission has established a Vigilance Cell, which serves as a forum for protection of the small investors. The Cell’s priority is to eliminate basic anomalies in the stock exchanges’ business systems, procedures and relevant

laws. During July-March 2002-03, 348 complaints were received out of which 177 have been resolved.

- The legal and supervisory infrastructure of the market has improved. Both the Stock Market and SECP is vigilant and progressive.

(d). Monitoring and Surveillance

The Market Monitoring and Surveillance Wing (MSW) was set up within the Commission in October 2000 to facilitate initiatives in risk management. The MSW has two specific functions:

(i) Monitoring of systemic risk at the exchanges; and

(ii) Surveillance to detect general or specific instances of market abuse.

The MSW monitors the market by using on-line data available on the websites of the exchanges. It takes cognizance of price and turnover aberrations to determine possible market malpractices, such as blank selling, insider trading, etc.

The MSW issues a comprehensive market report at the end of every day, which focuses on the latest market information and risk parameters. In view of the importance of risk management in the COT market, a daily report specific to the COT market is also prepared and distributed within the Commission.

In May 2002, when the market witnessed a sharp decline, the MSW played a key role in collection and analysis of the COT market data. Based on the conclusions drawn in that study, a number of important risk management practices have been proposed by the Commission for the COT market.

6.1.4- Quarterly Accounts

There is a marked improvement in the quality of audits of listed companies, which are also required to publish quarterly financial reports. Annual General Meetings are now held on schedule and dividend is dispatched on time.3

6.1.5- Replacing Blank Selling

On the securities side blank selling has replaced with monitored short selling and undisclosed trading was recently introduced to improve transparency.4

6.2- High Price Volatility

Price volatility is an inevitable and, to a large extent, desirable feature of markets as it represents the price discovery mechanism at work. It is noted that only the equity market has experienced persistently high volatility in recent years and identifies four episodes of extreme volatility in equity and other markets.

The stock market is driven by two emotions: ***greed and fear***. People are caught up in the boom fever and pay beyond the worth of shares this is the greed that drives bull markets. In bear markets, people get carried away with the ruling pessimism and are eager to sell their investments believing in the worst rumors this is the fear that dominates bear markets.

KSE-100 witnessed many abrupt and sharp ups and downs in the last few years. These changes are the outcome of different circumstances, both good and bad on the face of the earth. There are many reasons of this volatility. Some of them are discussed here.

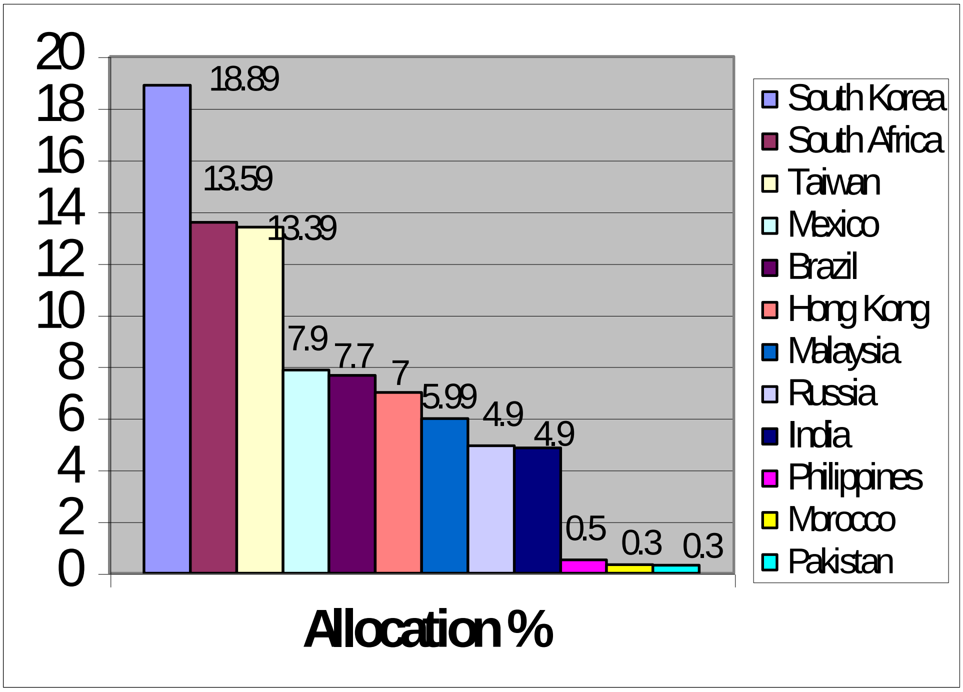
---

[3] Mahmood, Tariq. (Personal Communication, November 22, 2003)

[4] Hameed. (Online Communication, November 4, 2003)

For such a small allocation, fund managers do not find it worthwhile to spend time and resources on research. They would rather avoid such markets.

Graph 6.1- Index Holdings by Country[5]



In 1999 total companies listed on KSE-100 index were 765, which reduced, with every coming year and total companies now on KSE are 700. (Table 6.1)

A lengthy and cumbersome process is one of the reasons of companies de-listing.

If we look on the index holding of emerging markets, we come to know the portion Pakistani market holds is 0.30%, which is negligible.

[5] Mahmood, Farhan. (June 23, 2003) Pakistan's Stock Market, The News International. Islamabad: p19

Table 6.1- KSE Outlook on November 4, 2003[6]

	1999	2000	2001	2002	2003
Equities					
Listed Companies	765	741	747	711	700
Listed Capital Rs	223,027.9	236,458.5	235,683.2	291,240.85	309,255.10
Market Capitalization	366,669.9	382,730.4	296,143.7	595,205.63	819,909.74
New Companies Listed	-	3	3	4	4
Listed Capital	-	2,035.0	2,884.70	6,318.30	3,083.60
KSE – 100 INDEX**					
High	1416.62	2,054.43	1,550.42	2701.42	4604.02
Low	852.44	1,276.05	1075.16	1322.07	2356.48

** Base Nov 01,1991

6.2.1 Badla (Carry-over Transaction / COT)

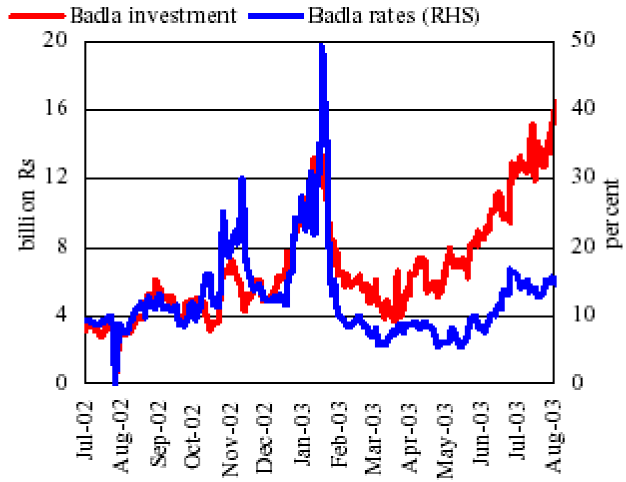
Badla is an informal source of financing, widely used in the Pakistan's stock exchanges. This transaction is made when an investor, who lacks funds, commits himself to buy certain shares. Badla *financier* provides financing against such shares at market-determined premium (rate of interest). This short term collateralized lending is very similar to a repurchase agreement (repo) used in the inter bank market. In simple term, badla is a credit line against securities: usually brokers and financial institutions provide such badla funds.

Badla has been the major reason of triggering market fall. Greedy investors, who always want to be rich overnight, burn their fingers during this process of over-stretching. Exchange has recently started taking margins from brokers for all the badla transactions. LSE has gone a step further than other Exchanges and limited the Badla to only 35 of the most liquid scrips. In September 2003 market shed 300 points in just two sessions, is one glaring example of Badla's adverse affects on the trading.

[6] Capital Markets: Operations at KSE (online) Available (2002). http://www.kse.com.pk

Its all game of demand and supply, as the market flourishes the investors make a buying rally on the basis of Badla, which eventually augment the Badla rate. As the Badla rate swells to an unnatural position small investors get panicky and start selling the stock, resulting in a market collapse. The figure below shows the level of Badla financing in our trading activities. In January 2003, Badla triggered a market collapse after SECP intervened and imposed capital adequacy limits on brokers.

Graph 6.2- Badla Rates[6]



6.2.2- Economic Stability

The economic improvement of the country has played a major role in lifting the values of equities to where they are today. It has been observed globally in bond markets that when economic performance of a country improves, the spread between risk-free bonds and riskier bonds tends to decrease. This is caused by a decrease in the yields of the risk-free bonds, which then compels the investors to take bets on riskier securities offering higher returns.

---

[6] Capital Markets: Overview (online) Available (2003). http://www.sbp.org.pk

Pakistan has made considerable improvements on its economic front. Market is recovering on anticipation that Pakistan will reap economic benefits like debt re-profiling etc., from joining the coalition. Also due to fear of crack down on informal channels of money transfer, premium fell, thus making equity investment attractive. Other major Positive Economic indicators are:

- Increased GDP growth rate
- Increased per capita income
- Reduced fiscal weakness
- Stability in rate of exchange
- Reduced deficit of balance of trade
- Low inflation

6.2.3 Foreign Exchange Reserves are high

Foreign exchange reserves continue to build-up due to the sustained rise in the remittance and inflows and better monetary management. These reserves could contribute a long way towards restoring the investor’s confidence, improving the country credit rating and attracting foreign investment. (Table 6.2) What Pakistan has actually gained in material terms from the September 11 event is the increased inflow of dollars.

Table 6.2- Remittances Inflow in the Country[7] (million $)

Country	2000-01	2001-02	2002-03
Bahrain	23.87	39.58	71.46
Canada	4.90	20.52	15.19
Germany	9.20	13.44	26.87
Japan	3.93	5.97	8.14
Kuwait	123.39	89.66	221.23
Norway	5.74	6.55	8.89
Qatar	13.38	31.87	87.68
Saudi Arabia	304.43	376.34	580.76
Sultanat-e-Oman	38.11	63.18	93.65
U.A.E.	190.04	469.49	837.87
U.K.	81.39	151.93	273.83
U.S.A.	134.81	778.98	1,237.52
Other Countries	88.40	293.28	727.64
Encashment & profit of FEBCs & FCBCs	64.98	48.26	46.12
Total (Including Hajj & War compensation)	**1,086.57**	**2,389.05**	**4,236.85**
Total (Excluding Hajj & War compensation)	**915.49**	**2,299.62**	**4,107.88**

6.2.4 Low interest rates

It is for the first time under the market-based mechanism of interest rate determination that interest rates have dipped so low. Lower lending rates caused by easy monetary policy coupled with improvement in macro-economic fundamentals resulted in increased economic activity and hence escalated the demand for private sector credit.

6.2.5 Investment Policies

Government has pursued Investment friendly policies for the revival of the national economy and restoring the investor’s confidence.

6.2.6 Rescheduling of Debt

Rescheduling / write off of debts by some big donor companies especially the USA, European countries and Paris club has provided much needed fiscal

[7] Home Remittances : Statistics Department (online) Available (2003). http://www.sbp.org.pk

gap to the government to start different development activities. International economic support is being provided for the compensation of the losses incurred during the war against terrorism.

The further bullish trend is attributable to number of factors; few of them are listed below:

- Removal of economic sanctions
- Trade concessions
- Economic assistance extended by number of countries.
- Restoration of Pakistan’s relation with international financial institution
- Successful completion of stand by arrangement and a new three-year poverty reduction and growth facility program with IMF

6.2.7 Political Stability

On the political front, the market welcomed the outcome of the October 2002 elections in favor of parties supportive of the Gen Musharraf government. Which saw in this development an increased likelihood of political stability and the continuation of the economic policies started by the military regime. In particular, equity investors expected the continuation of the capital market reforms and, more importantly, prompt divesture of the government’s holdings, as well as the listing of some large profitable public enterprises.

6.2.8 International Rating

In November 2002, Moody’s changed its outlook on Pakistan’s ‘B3’ sovereign rating from stable to positive, and later, in December 2002, S&P upgraded its Pakistan long term foreign currency sovereign rating from ‘B minus’ to ‘B’.

6.2.9 Privatization

The government has planned to offer 5 percent shares in Sui Southern Gas, totaling to 33.56 million shares. Similarly, out of 410.34 million issued shares of the National Bank of Pakistan, the divestment of 3.2 percent shares held by the government will amount to an induction of 13.1 million shares in the market. Besides, there is a plan to sell all the shares of Pakistan Petroleum Limited, Oil and Gas Development Corporation, Pakistan International Airlines and Attock Refinery, which might yield Rs 4 billion, helping the government in achieving around 40 percent of the target. All these transactions would be routed through the stock exchange, which would enhance the market capitalization, and deepen the market base.

Recent IPO of OGDCL and PPL shares were highly oversubscribed, showing enormous investor interest. Any news about delaying privatization of these major players especially PSO mostly has adverse effects on trading and market has witnessed many falls on such negative news.

6.2.10 Deteriorating Condition of Law and Order

Condition of law and order with in a country has a very prominent impact on market sentiments. Foreign Investors shy away from a country where the condition of law and order is deteriorating. That is why KSE experiences an immediate fall with any news about bomb blast or other terrorism activity in the country.

6.2.11 Impact of USA

In today's integrated global economy, any negative impact on any large economy ripples systematically through the rest of the economies. And as the economy of Pakistan is driven mostly by the US policies (sanctions, aids, debts etc) so, the effect of war or any world crisis on the US economy will ultimately flows in to the stock market of Pakistan.

6.2.12 Effect of world crisis on the stock market

- **Effect of September 11 on stock markets.**

World markets registered statistically significant negative returns immediately and one month after the attacks. Moreover, it seems that this transmission of volatility increases when the bad news come from developed countries, or more specifically, from the United States.

Financial markets worldwide were shaken by the news of terrorist attack. Many stock exchanges abruptly closed that day and reopened after several days. This heinous event hit not only the U.S. stock market but also international stock markets around the world. A sudden market drop was a frightening event for many investors. When the crisis is sudden and the future is unknown, a long-term focus is paramount. Settlement crisis erupted in our market. Market remained closed from Sep 17-21 to prevent cross defaults and further collapse.

Even before September 11, 2001, KSE-100 index was touching 1200 lows with a forecast for a downward plunge to 1100 level. While the market declined, initially after the attack on World Trade Center, it bounced back sharply. This behavior can be attributed to a number of` factors, the top most being, investors have learnt that they have to live, work, invest, earn and spend in Pakistan. Though, there are signs of upward movement of KSE-100 index after few weeks of the attack, regulators worked more vigilantly to keep the market moving normally.

There had been advantages and disadvantages of September 11, 2001 terror attack on America but generally Pakistan received a lot of favors that are greatly helping to improve the economy of the country. The early reaction of the KSE-100 to the terrorist attack on the World Trade was terrible and led virtually to an imminent collapse of the market as the KSE-100-share index fell sharply. The stock market could hardly ignore the changing financial world around it and reflected buoyancy as liquid funds started pouring in from all sides including a steady inflow of foreign buying in selected shares.

Mainly the negative point of 9/11 is that Pakistan lost its $1 billion exports but the positive points are that it received substantial foreign remittances, achieved $600 million cash budgetary support and the US allowed market access to Pakistan exports", Investors in shares at the Karachi Stock Exchange reacted as they would anywhere in the world: first by a sense of panic, which saw the index dip by over 100 points in three sessions. The KSE index has now crossed the 4000 level.

- **Effect on stock market after US attack on Afghanistan**

The stock market greeted news of U.S. military attacks on the Taliban in Afghanistan quietly, with prices falling moderately as investors tried to discern what the action would mean for the country and the economy. The confidences of the investors fall down after the attack. The market was worried that the United States will suffer more terrorism as American and British forces conducted attacks in Afghanistan, retaliating for the Sept. 11 terrorist assaults in New York and Washington. Investors are also concerned about how long and how much the weakened economy will suffer following the attacks.

- **Effect of Iraq War on stocks**

On Pakistani market, Iraqi war didn’t make a big impact. From an early downturn market stabilized, as Pakistan remained the major ally in war-against-terrorism, and American financial support continued to pour in.

- **Crises with India**

After the 13th December terrorist attack on Indian Parliament, Market sustained the shock initially, but fell in last 10 days of the month due to extreme measures taken by Indian government. The KSE-100 index shed 8.28 percent in last 15 days of May due to escalation in tension with India.

6.2.13 Speculators

Investors frequently trade on information they believe to be superior and relevant, when in fact it is not and is fully discounted by the market. An investors background and past experiences can play a significant role in the decisions an individual makes during the investment process.

For instance, women tend to be more risk averse than men and passive investors have typically became wealthy without much risk while active investors have typically become wealthy by earning it themselves. Speculation objects, rules and technological methods will always be changing. But, what has happened before will most likely happen again. Speculating, trading and investing on stock prices have become an essential part of our lives and economy. Trading is just another word for speculating, and investing is nothing more than speculating, except that it supposedly encompasses a longer time horizon and for some reasons it implies less risk.

Speculation and gambling are similar, with a few important differences. One major difference is that sometimes, successful speculators profit due to their skill, while gamblers prospect due to their luck.

Market activities controlled by a few well-connected insiders: The most critical bottleneck in the way of enhancing governance standards in capital market is the widely held perception that a few well-connected insiders control market activities. Improper broker activities, including front running and no separation of proprietary and client trading as well as insider trading are believed to be widespread. As a result, trading is largely opportunistic and short term, and there is little genuine investor interest. The market is heavily discounted, and companies with solid fundamentals and high dividend yields, often as high as 12 percent, and low price earnings ratios, often as low as 5 or 6, are left without buyers. To address this situation, transparency in trading of shares must be increased, and the members of the stock exchange must be required to meet a strict set of professional standards.

6.2.14 Lack of Investing Sense

Most of the investors of our area lack the investing sense. Some of them invest just to reap short-term gains, while some are totally dependent on their broker's investing expertise. Greedy investors mostly do excessive trading beyond their financial capabilities. They want to see their money multiplying. In this way they even lose their original invested capital.

Lack of knowledge about stock markets, trading activities, rules and regulations and trading criteria is another source of their downfall that eventually leads to market collapse.

6.2.15- Over Reactive Market

We have a very over-reactive market; small investors behave exaggeratedly on small developments. I.e. on December 1, 2003 KSE-Index raised 195.75 points (highest in a day) showing a lack of investment sense and over excitement on the part of investor.)

Similarly, same over reaction is visible when the market sentiments are negative.

6.3- Findings about KSE-100 index

Among all types of the markets, the stock markets are the most sensitive to external as well as the internal news. This is because stock markets work on spot and potential and for instant profit (and losses) makes hem a platform for intense speculative activities. There is sizeable negative correlation between the indices and it is attributed to following factors.

6.3.1 Sector Representation

KSE-100 uses the procedure of sector representation for the stock selection. The sectors whose contribution in the economy is fairly large are included in the index sectors. KSE-100 index there are 34 sectors. Companies with large market capitalization in their sectors are included in the index. If the market capitalization companies in best performing sectors of KSE-100 index are compared to the least best performing companies of S & P 500 it is found that the capitalization of the KSE-100 index companies are less.

6.3.2 Market Capitalization

Both KSE-100 index is a market capitalization weighted index. Market capitalization is calculated by multiplying the share price with the number of shares outstanding.

It means that market capitalization is used as measure to gauge the performance of the index. More the market capitalization of the index better will be the performance of the index.

6.3.3 Size of the market

Stock market in Pakistan is very small, concentrated and speculative. KSE-100 is subject to artificial volatility easily manipulated through insider trading by the large brokers and the steps taken by the members to show that market is performing well. Few large players in the market can be easily manipulated where as S&P 500 index cannot be manipulated easily because it is difficult to manipulate the big companies.

6.3.4 Cross Border Listing

Cross border-listing means that the companies at the same time are part of more than one index (companies of KSE-100 index are also listed on S&P 500 index or vice versa). American companies are also listed in other stock exchanges. So influence of the external events was more on S&P as compares to KSE-100. As in Germany, trading in all US stocks was suspended, the main stock markets after September 11,2001 event.[8]

6.3.5 Foreign investors

There is no significant presence of foreign investors in Pakistan. Pakistan stock market is ideal for investment these days for its high returns but there are certain direct and indirect barriers, which negatively affect the foreign flow of capital inside Pakistan. Direct barriers like exchange and capital control effect the investment in Pakistani stock market. Some of the indirect barriers on the investment are: available information, accounting standards, and investor's protection. Investors might not have the adequate information on our local market and on the financial conditions of the companies, the settlement system is inefficient and slow, accounting standard are not up to the standard and investors' protection is minimal. These factors play an important role in the investment decisions of the international investors.

[8] Andaleeb (2002) *Integration and Correlation between stock markets*. NUST. P45

6.3.6 Size of free float

Free float represents the portion outs of the total subscribed capital that is allowed to the general public. There is less free float in Pakistan stock market as the major share holding lies with the sponsors. In developed stock markets the general public takes up major share holding. So the market manipulation is more in KSE-100 index.

6.3.7 Liquidity Analysis

KSE includes too many companies. As the liquidity is so concentrated at KSE, there is no need for the index with 100 stocks. So the index is subject to artificial volatility and can be easily manipulated. Large cap illiquid stocks include Unilever, Shell, Nestle, Pak Oilfields, etc. On June 28, 2002, six illiquid stocks accounted for 74% of index impact while their share of turnover was 0.4%. From the table it is obvious that the Only 30 companies trade 99.5 % of the total value and remaining 70 companies have small contribution.

Table 6.3- Liquidity Analysis of Companies

Liquidity analysis[9]		
Companies	% Of value Traded	% Of Market Cap
Top – 5	74.8%	31.2%
Top –10	89.9%	40.3%
Top –15	96.4%	46.5%
Top –20	98.2%	48.0%
Top –25	99.2%	50.2%
Top –30	99.5%	53.4%

[9] SECP presentation of the performance of KSE-100 index

6.3.8 Total Return Index:

KSE-100 tends to exaggerate the market performance because it is a total return index and another capital gains only index is not available for comparison. It means if the stocks keep giving dividends the index would continue to rise while the market cap stays the same. When a KSE-100 stock goes X-D (price change after paying dividends) X-B (price change after giving bonus), its price falls but the KSE-100 doesn't change. The reason is that after paying the dividends or bonuses the price declined and this effect should be reflected in the KSE-100 index but the changed price is not used to calculate the index value rather it is calculated on the previous prices. So this does not give a fair idea of how the index is performing.

6.3.9 Company Performances

Most of the companies especially blue chips declared good results with high dividends. This has a positive impact on the investors, which direct the market sentiments bullish. But the sectors that have seen the most gains e.g., cement, auto, and mutual funds comprises of stocks, fall into the second and third-tier categories owing to their lower capitalization.

Table 6.4- Second and Third Tier Stocks Outperformed[10]

	2003	**2004**	**2003 & 2004**
1ST tier	88pc	28pc	142pc
2nd tier	89pc	60pc	203pc
3rd tier	32pc	68pc	121pc
2nd + 3rd tier	69pc	62pc	174pc

[10] Iqbal, Khalid. (September 2003). Smaller cos outperformed bigger ones. DAWN. Karachi: p V

After the detailed analysis, it has been observed that the second and third tier stocks combined have posted capital gains of 174 % in this bull run compared to 142% increase posted by large caps, the first tier stocks.

6.3.10 Stock market re-rating

On the political front, the military backed technocrat government is likely to continue operating for the foreseeable future. From an investor perspective, the relative stability on the political front is likely to reduce uncertainty. The GOP credibility over the coming months is critically dependent on delivering on the promises of good governance, accountability of corrupt elements and sustained economic revival through reforms.

The re-rating of the Pakistan Stock Market has been driven by several factors:

1. Expectation of political stability in the foreseeable future.
2. Expectation of policy transparency and consistency, with hopes for a better investment environment.
3. Rising domestic liquidity, both within and outside the banking system. After the ending of deposit lottery schemes small savers are looking at equities again especially because dollar deposits are no longer attractive. Real estate also remains unattractive.
4. The reduction in return on risk-free National Savings Scheme within the last twelve months.
5. Potential for sustained increase in GDP growth led by agriculture due to bumper cotton and wheat crops. The sharp fall in interest rates will be translated into higher margins and profits over the next twelve months. As earnings momentum rises, individual sectors and stocks become poised for upward re-rating.

6. Increasing signs of serious moves towards implementing long-postponed economic reforms that focus on better governance, higher tax collection, greater accountability of public servants, accelerated restructuring of the banking system and revitalization of the privatization process.

6.3.11 Capital Value Tax

The Karachi stock market plunged 166.91 points or 3.1 percent in share trade on Monday as violent protests broke out at all three stock exchanges against the imposition of a 0.1 percent capital value tax (CVT) on the purchase of shares.

Later in the evening Finance Minister Shaukat Aziz released a statement assuring that the government will continue its full support for the development of the capital markets. "He hoped the issue will be resolved at the earliest," the statement said. It also quoted Mr Aziz as saying that meaningful discussion had been held with the stock exchanges to discuss and identify alternatives to the tax. Calculations done by analysts show how the tax works: If an investor purchases a share for say Rs 290 on which he pays a commission of 4 paisas. Capital value tax will now be levied on that purchase calculated at 0.1 percent, i.e. 29 paisas. Therefore, the cost of purchasing the share will rise from 4 paisas per share to 33 paisas per share. This way, the CBR had estimated it would raise Rs 4.5 billion per year through the levy of this tax

But analysts pointed out that the tax would have the immediate effect of drying up volumes – as was seen in Monday's session – and since the tax is imposed on volume, the CBR collection would decline correspondingly. The GOP should take concrete steps in implementing this and negotiate it with the concerned authorities.

CHAPTER # 7

RECOMMENDATIONS

7.1- Helping Hand to Investors

7.1.1 Realistic Expectations from your Investment:

It is important that you have realistic expectations from your investments. The amount you are putting away as savings is what you are not consuming now but will consume later (or pass on to your heirs), By investing the savings you primarily hope to retain the purchasing power of your saving and to some extent see a real increase in the purchasing value of accumulated capital. You are not likely to make a killing with your investment. If you invest in bank deposits or government bonds/schemes you will just about stay ahead of inflation; if you invest in TFCs (bonds) issued by business concerns you will get a little more; and if you invest in shares of companies you are likely to do even better in the long run but with each level of improved return you take a relatively higher risk too.

It is important to remember that share prices are sensitive to market sentiment and are very volatile. Thus shares are not a suitable investment unless you invest funds that will be disinvested only when market conditions are favorable and not funds that might be needed in an emergency forcing a distress sale when the market might happen to be down.

7.1.2 Establishing your Investment Objectives

Before starting out on what is the best-suited investment for you, you have to establish your investment objectives. These are likely to change through one's life cycle, e.g. to younger person it may be saving towards buying a house, putting away money for one's old age or saving towards children's education or marriages etc.

For a widow or a retired person it would most likely be getting an income form one's investment. Certain investments such as shares of listed companies are too risky investment for a retired person but may be highly suitable for a younger person. The allocation of one's saving to different classes of investments will vary according to different circumstances.

The two crucial factors affecting the asset allocation are:

1. **The age group:**

If you are a young energetic person, just at the beginning of your career horizon then it's more likely to have greater risk digesting capacity, to make long-term investments like in stocks and can adopt the strategy to "wait and see" the ups and downs of the market.
For middle aged person and a retired individual, the time horizon and shock absorbing capacity decreases. For this reason, it is not good to make very long-term and risky investment.

2. **The responsibility level**

Like the age group to which a person belongs to affects the investment decisions and asset allocation, similarly the levels of responsibility in family unit do. If a person is single, drawing a handsome salary and enjoying full freedom with least responsibilities then he/she has more of a disposable income, more savings and in turn more investment opportunities.

On the other hand, a family person with loads of responsibilities has to think a hundred times before investing. Normally, in our country people of this category are the single bread earners and usually have expenses exceeding their incomes; so for them it becomes more crucial to invest wisely. They have to invest in a way that fulfills their current needs and future upcoming ones as well. For this purpose we can divide the investors in three groups of Age group 25-40, 40-60, 60 and above.

Age group 25-40

A young person, as described earlier, has more risk taking capacity, longer time horizon for market watch and staying in the market and usually low responsibility level. These factors make it possible for him to try for what he has dreamed of.

Taking long-term perspective in mind should make this investment decision. It would be one where, he can wait and see the depressions to pass by and look forward for the progressions. For this purpose investment in the Equities is the best. He can opt for long term TFCs and mutual fund investment as well. But it is always good to have a reasonable amount in banks to ensure required liquidity.

Age group 40-60

For this middle-aged group, the risk aversion increases, time horizon decreases and responsibilities are at their peak.
This results in a more conservative but tactful investment decision. For this group it is wise to have bank deposit for short and long-term both for safety purposes. Beside this, a person with young kids can opt for investment in real estate and watch it grow as his kids grow up. Also buying TFCs, investing in blue chip stocks and mutual funds can be another option.

These all investments can help him to accumulate a handsome amount for the suitable time of expenditure over his children's higher education and marriages etc.

7.1.3 Equity Investment:

I.E.C. Haramis says that IF: [1]

1) You don't invest... You will lose!
2) You don't manage risks... You will lose!
3) You follow tips... You will lose!
4) You don't investigate before you invest... You will lose!
5) You panic... You will lose!
6) You want to speculate... You will lose!
7) You don't understand your finances... You will lose!
8) You don't use cost averaging... You will lose!
9) You want to play... You will lose!
10) You are greedy... You will lose!
11) You place all your eggs in the same basket... You will lose!
12) You don't know when not to invest... You will lose!
13) You can't afford to lose... You can't afford to make a profit!
14) You follow what your broker says... You will make a profit!

7.1.4 Learn the ABC of trading

"There is nothing more frightful than ignorance in action!"
Johann Wolfgang von Goethe (1749 - 1832)

The investor must learn the basics of stock trading. In most of the cases people simply don't know what they're doing. They're bound to lose, unless they have a strong broker to guide them and keep them out of trouble.

[1] Harmis, I.E.C. The Stock Markets – How it works? (online) Available. http://www.greekshares.com

7.1.5 Plan your Investment

Whether you are trading real investment capital or simply paper trading, it is important to stay organized and disciplined. To emphasize, preservation of capital and equity growth is the single most important aspect of trading. In this regard, following suggestions may help.

Plan your trade then trade the plan. Decide on your entry price, your risk level, or stop loss, and your profit objective
If you're trying to make money without a plan--forget it. Trade with a plan--not with hope, greed, or fear.

7.1.6 Avoid putting all your Eggs in One Basket (Diversification)

The best way to minimize risk is to diversify your investments across various investment products. If equities are your sole investments, it makes sense to diversify between different companies and sectors. In this way, loss made on some investments can be absorbed by gains made in others, keeping the overall return on investments positive.

You can also diversify your investment by investing in open-end funds managed under various unit trust schemes. While investing in mutual funds check the rating of the instruments. Similarly while investing in any security please check the rating if any available.

7.1.7 Ignore Rumors

Don't base your trades on spur of the moment hunches, rumors or stories you hear. Many times the news has already been discounted in the market. Take a position only when you know where your profit goal is and where you are going to get out if the market goes against you.

7.1.8 Broker's Advice

Brokers who give you advice to buy and sell shares make money (brokerage commission) each time you buy and sell. A good broker will want long-term customer and will try to advise you on proper investing. But a broker, who offers hot tips, should, if he is so sure of the tips, use these exclusives for himself and make more money then he would by spreading the news around to his clients and earn only commission from them.

Client and broker must have rapport. Chemistry between agent and client is very important; the odds of picking the right Agent the first time are remote. Pick a broker who will protect you from yourself...greed, ego, fear, subconscious desire to lose (actually true with some traders). Ask someone who trades if they know a good stockbroker. If you find one who has room for you, give him your account.

Most people do not have the time or the experience to trade stock profitably, so choosing a broker is the most important step to profitable futures trading.

7.1.9 Thrill seekers usually lose

If you're in stocks simply for the thrill of gambling, you'll probably lose because, chances are, the money does not mean as much to you as the excitement. Just knowing this about yourself may cause you to be more prudent, which could improve your trading record. Have a business-like approach to the markets.

Always remember that investing in the equity (shares) of a company should be understood as becoming a partner in the business. It must not be seen as taking a punt in the market with the expectation of making a killing. You may get lucky sometimes but, on an average, you cannot expect to do better then the business of the company you invest in.

Anyone who is inclined to speculate in stocks should look at speculation as a business, and treat it as such. Do not regard it as a pure gamble, as so many people do. If speculation is a business, anyone in that business should learn and understand it to the best of his/her ability.

7.1.10 Loser's expensive lessons

Stay out of trouble, your first loss is your smallest loss. Analyze your losses. Learn from your losses. They're expensive lessons; you paid for them.
Survive! In stock trading, the ones who stay around long enough to be there when those "big moves" come along are often successful. If you're just getting into the markets, be a small trader for at least a year, then analyze your good trades and your bad ones. You can really learn more from your bad ones. More importantly, learn from other's experiences, they are cost-free!

7.1.11 who runs the business?

One should become a partner in a business if, first and foremost, one is happy with the managing partners of the business. Who are the Directors of the company? Are they people known in the market place? What sort of reputation do they have? Do they have a track record of running successful business? Are they known to be fair to the ordinary shareholders? Do they have a good dividend paying record?

Please note that although you have a vote attached to each share you own, it is most unlikely that you have any real say in the affairs of the company – you are akin to be a silent partner but you don't have to be deaf and blind.

7.1.12 Prospects of the Business

After satisfying yourself with the credentials of who manages the business, you have to look at the future prospects of the business. You want to invest in a business only if you believe it to have good prospects (likelihood to be profitable and have the ability to pay good dividends). There is no easy formula for asserting this – you have to use your commonsense and base your judgment on proper verifiable information (i.e. how its products fair in the market) and not on non-verifiable tips.

7.1.13 Share Price and Volatility

The price of a company's share in the market should normally be such that it justifies what one is acquiring. In other words, the amount you invest should make sense in light of the future expected dividends.

In practice the market prices are determined taking into account the earning of the company and not only the dividends that may be paid out of such earnings. However, market prices are always justifiable by supply and demand, at times there is a surge in demand and at times a loss of confidence – the price of the share is normally quite volatile.

Apart from market sentiments, which impact prices, there will always be general economic conditions and company specific reasons affecting prices.

7.1.14 Technical Analysis

Buying a share of a company is like becoming a partner in a business. Proper valuation is thus extremely necessary for the Investors.

- **Market Price vs Book Value**

It is reasonable to expect that the market price of the share of a company will normally be at least equal to the book value per share.

The market price of a well-established company should normally be higher then the book value; this can be expressed mathematically – if we divide the market price of the share by the book value the answer should be greater then one. How much greater will depend upon Franchise Value (future profitability) of the business. But if the market price divide by the book value is one or below one for a well-established business, the price would indicate value for money provided there are no serious threats to the future of the business.

- **Franchise Value**

The Franchise Value is the strength a business entity builds, which results in its profitability. The expected profitability of a company is the key factor that will determine the price that we should be willing to pay for the share of the company.

- **Earning per share**

For determining the earning per share, we have to divide the total profit earned by the number of the shares of the company. EPS is forecasted to determine a fair value of the company. For this both the past track record and future estimates are consulted. With the help of this estimated EPS an investor can try to predict as to how much of the earnings the company may retain in the business and how much it may pay out as dividend.

- **Price Earning Ratio (P/E ratio)**

  Price Earning Ratio shows how much the investors are willing to pay per dollar of reported profits.

  P/E ratio is higher for the companies with higher growth prospects and lower for the riskier firms. So think twice for the stock with low P/E ratio.

- **Price Book Ratio (P/B ratio)**

  P/B ratio is calculated by dividing Market Price per Share with Book Value per Share. Where Book Value per Share is the Book Value divided by Total Outstanding Shares.

  So, P/B ratio = Mkt. Price per share / Book Value per Share
  For the stock you are investing in, this ratio should be greater then 1. How much greater will depend on the future profitability of the business. This ratio depicts how much investor is willing to pay for a dollar of the company.
  For example, if Arcade Spinning Co. Ltd has P/B ratio = 1.3 and the industry spinning average is 1.7, means that investors are willing to pay less for a 1$ of Arcade Spinning Co. Ltd
  Microsoft had Book Value per share of $12.5 in 1996 while its market price was $103. It means that its P/B ratio was 8.2 times.

7.1.15 Fundamental Analysis

Fundamental analysis simply means conducting basic research on a company. When analyzing a company, you may want to choose companies that have the following qualities:

- A competitive advantage (such as key patents, a dominant share of the market or the fastest growth of new customers in a growing industry).

- A record of consistent earnings growth or a strong indication of future growth.
- A healthy balance sheet (low debt, strong cash flow) Substantial ownership by management and, perhaps, recent insider buying. Strong minority stakes by outside investors.

Conversely, you may want to be wary of companies with:

- Substantial and growing competition and low barriers to entry.
- A shortfall in earnings, or a possible future impediment to growth, such as new regulations or tax changes.
- A weak balance sheet (high debt, declining cash flow)
- Low ownership by management and/or insider selling.
- Recent resignations of key officers.

Fundamental analysis is a lot more work. As a smart investor, you've got to stay constantly alert for when the herd reverses direction!
Fundamental analysis definitely takes time, effort and hard work. But properly done, it will allow you to identify strong companies!

- **Cash Flow Growth**

  The value of an asset is determined by the cash flow it generates. Cash flows are very important in a business because dividend is generally paid in cash. A stock's value is based on the present value of its cash flows which investor expects it to provide in the future. This information is necessary for both managers and investors.
  A stock with negative cash flows shows that the asset is not producing what it is supposed to produce.

- **Debt to Equity Ratio**

  This ratio shows the extent to which a firm is using borrowed money (debt) and shareholder's equity.

  Debt to Equity Ratio = Total Debt / Shareholder's Equity

  The lower the ratio the higher the level of the firm's financing through Shareholders. This ratio varies according to the nature of the business and the variability of cash flows showing the financial risk of the business.
  If the Debt to Equity ratio is 0.75, it means that creditors finance 75 cents in the business.

- **Dividend Yield**

  It is the anticipated annual dividend divided by the market price of the stock. It's the dividend expressed as the percentage of current market price per share.
  For Example, If Company X declares a dividend of $1 per ordinary share for an accounting period and the current market price of one ordinary share is $5, the dividend yield would be:
  Dividend per Share * 100 / Price per Share = $1 * 100 / $5 = **20 %**
  Increasing dividend yield means the business is making profits and management is declaring more dividends.

- **Earning Growth**

  Growth in earning of a company will affect the price of its shares. If two companies in a similar business starts with the same earning but the earning of one remain constant while the other's has 10% growth, difference in valuation of the companies will be observed.

For Example, EPS at the first year of both the companies is $2 and P/E ratio is 5 times:

	Year 1	**Year 2**	**Year 3**	**Year 4**
A Company EPS	$2	$2	$2	$2
A Company Price	$10	$10	$10	$10
B Company EPS	$2	$2.2	$2.42	$2.66
B Company Price	$10	$11	$12.10	$13.30

- **Return on Equity**

This ratio compares net profit after taxes to the equity the shareholders have invested in the business.

ROE = Net Profit after Taxes / Shareholder's Equity

This ratio tells us the earning power on shareholder's investment. A high return on equity often reflects the firm's acceptance of strong investment opportunities.

- **Sales Growth in 1 year**

Sales growth can give an obvious picture about the state of affairs of the business. The upward growth in sales shows that the business is flourishing and might be getting profits as well. Investors should give a close look to the income statement of the business and closely follow its sales trend.

7.2- Recommendations for SECP

7.2.1 T+1 Settlement System

Systemic risk refers to the likelihood that the failure of one participant to meet its settlement obligations will cause other participants to be unable to meet theirs. This risk is present in the system because of the time lag between transaction and settlement, which is three days in a T+3 settlement cycle. Settlement cycle on T+3 basis should be further brought down to T+ 1 settlement procedure for all stocks. That system will make the trading more swift. Bangladesh has already implemented this system in their stock markets.

7.2.2 Recommendations for Circuit Breaker

Following are the recommendations for the development of alternative models of Circuit Breaker:

- Circuit breaker for scrip should take into account both price and turnover. Risk is best measured as exposures and the losses incurred on the outstanding positions vis-à-vis the ability to pay of the trading member. Both the size of exposures and losses depends on (i) Volume outstanding, not settled or squared & (ii) Scrip prices.

  Circuit Breakers should be dynamic. They should get automatically adjusted with the changing price and/or volume of a scrip.

- Circuit Breakers should only cause as much disruption to market activity as is necessary.
- Circuit Breakers should not create undue complexity for the traders.

- In view of dual or triplicate listings and simultaneous trading across KSE, LSE, & ISE, the same threshold should be used at all three exchanges, as practiced now.
- To improve transparency, KSE should display the circuit breakers for every scrip on its website and also provide a daily time-wise circuit breaker report highlighting all scrips that hit their circuit breakers during a day.
- Circuit Breaker should only be for the lower limit and not for the upper one.
- The circuit breakers shall be displayed on the trading terminal, making them user friendly.
- Circuit Breakers shall be automatically calculated every day after the closure of the market.

7.2.3 Undisclosed Trading System

Undisclosed trading system where the identity of the buyer and the seller are not disclosed should be ensured in order to discouraging a herd culture where small investors try to mirror the activities of large players in the hope of speculative gains rather than investing on the basis of stock fundamentals.

7.2.4 Vigilant Regulatory Mechanism

Regulatory mechanism of the stock market should vigilantly observe the market movements and try to minimize the systematic risk and other possible defaults and also ensure that there is no abnormal activity in the market due to any international shock or crisis. And prevent the market to crash or show unusual up and down turn movement.

7.2.5 Enforcing Security Regulations

Bold steps should be taken for the regulatory framework, institutional strengthening, infrastructure building of capital markets as well as proposals for substantially enhancing financial reporting and corporate governance etc. It is only a question of the seriousness and will to implement many of these measures.

Surveillance Department at the stock exchanges should be professionally staffed. This department should carefully and efficiently monitor scrip-wise price movement, turnover, and deliveries and carry over trade on each clearing.

7.2.6- Index Re-composition

Number of companies in the index should be reduced to 50, because the many stocks are highly illiquid. More liquid stock should be added and illiquid stocks should not be the part of index.

Stock selection criteria should be changed and companies with large market capitalization and turn over should be included on the basis of current performance, and should not be compared with the past performance.

7.2.7 Replacement of Badla (COT)

The Badla market is identified as a potential risk factor and Exchange has to take measures to nullify its effect. For this purpose recently KSE has restricted Badla on only 30 most liquid stocks of KSE.

The other option available to replace Badla is “Margin Financing”. SECP Chief Tariq Hassan during a meeting with stockbrokers and investors hinted that his organization is working on these lines. The CoT financing is nowhere in the world but the local equity markets, where speculation is rampant. Speculation is healthy in any market but become a curse when investors do not cut coats according to their clothes.

The new mode of share financing should not be available at more then 10 % rate as the privileged and favored investors of high net worth are getting CoT financing at 5% from banking system, particularly thee commercial banks.

This should be available to all with 20% security deposit as the stock market can understandably go down by 5% a day while settlement is done on the forth day. A phased program should be developed for the replacement of Badla by margin financing.

7.2.8-Computerization

There should be more investment in information technology as well in order to constantly upgrade the infrastructure available of trade. More efforts should be made to place necessary hardware. Internet based trading should be promoted.

Another necessary condition for capital market development is to aggressively incorporate innovation in information technology. The development and popularity of computer and Internet technology have promoted efficiency and diversification in every area of the economy. The financial area is no exception.

The rapid progress in calculation techniques by computers has enabled a massive amount of statistical data to be handled instantaneously. For example, calculations to obtain default probability and various risks, which are critical when dealing with financial products, are now done in a very short period of time. In addition, due to the progress in telecommunication technology, including the Internet, massive data collection has become far easier than in the past.

7.2.9 Promoting Financial Stability and Investment Spending

The favorable performance of financial markets has anticipated, and improved the prospects for, a stronger recovery in the real economy. Policies must continue to boost consumer and business confidence. Confidence is important to help spark renewed investment spending—so far the missing key ingredient in the recovery—as corporations have improved their balance sheets.

In a range of areas, the authorities must persist in implementing reforms to strengthen market foundations:

- Corporate governance must be strengthened further to restore investor confidence, including through the full implementation of recent measures to enhance the independence of corporate boards. At the same time, corporate executives must not feel constrained from undertaking profitable investments.

- The regulation and supervision of the financial activities of companies must improve further.

- Excessive leverage often turns volatility into instability. Supervisors must continually improve the sophistication of their leverage measurement—both on- and off-balance sheet—to keep up with market innovations.

- Adequate transparency both from financial intermediaries and the corporate sector is needed to permit risk assessment and management. But the information disclosed must be meaningful and put within an appropriate long-term context. Measures such as fair-value accounting illustrate the difficulty of achieving this for institutions with long-term investment goals. There may be scope for a middle ground to smooth the more extreme effects of using mark-to-market snapshots of balance sheets.

7.3- Recommendations for Government

7.3.1 Increase in listing of government-owned enterprises on the local exchanges

The depth of the stock market in Pakistan is very shallow and the investment opportunities are very less. Just few stock command 95% of the total traded volume. So, even if money is willing to come to Pakistan equities there are no new stories. It is estimated that listing of government-owned banks, insurance companies, energy sector entities and fertilizer plants would potentially raise Pakistan's market capitalization. For this the process of listing should be made easier and complications should be removed.
Make the listing process easier; so that more and more companies could enter into the market and its base could be strengthen

Currently an estimated 85-87 % of the borrowing is through bank, 10% through corporate debts (TFCs) and 3.5 % funding is from equity. In developed countries like USA, the ratio is one third for each." [2]

Firms avoid cumbersome process of listing at stock exchanges prescribed by bourses and the SECP. So they consider it wise to avoid a plethora of legal and other formalities for listing.

7.3.2 Commitment from the Government

Investment Policy should be transparent and on long-term basis. Frequent policy changes have a wrong impact on the investors and they shy from investing in the country.
Dispute with IPPs (HUBCO) is a good example of this. Previous govt. gave lavish contracts to this foreign company and reportedly accepted kickbacks in

[2] Bukhari, Javaid. (September 15, 2003) Changing Trends in the Capital Markets. DAWN. Karachi

this deal. The next govt. cancelled the contracts, giving a wrong signal to other investors.

Similarly, freezing of foreign currency accounts by the Nawaz Government after conducting the nuclear tests was another blunder committed by the government.

7.3.3 Peace in the region

One of the reasons for market volatility is the continued confrontation with India, danger of increased fundamentalism and acts of terrorism in the region. Government should continue to promote peace with India – as war is not the solution to any problem. Recent confidence building measures by both the governments have made a positive impact on the market sentiments. It is believed that if the core issue between the two South Asians Countries is solved amicably it will restore the investor confidence, trade will also boost up. So peace is in the interest of both the countries.

7.3.4 Privatization

Declared best performing stock market in the world and with all the indicators positive, yet the fact remains that with more then US $12 billion of market capitalization, Karachi Stock Market remains one of the smallest among the emerging markets. Pakistan has a very small weight on the emerging market portfolio.

Government should boost privatization and try to make the investment climate friendlier so that more firms should come and get listed in the market. Today the market can be easily manipulated due to its narrow base. With the inclusion of big players, investors will get an open field and more horizons of investment, they will have more choices and market will flourish then.

7.3.5 Discount Rates

There is an inversely relation between present value and discount rate. The higher the discount rates the lower the present value (market price). Government should keep the rates under control otherwise it would be detrimental to investor's confidence.

7.3.6 Proficient judicial System

Effective judicial system is very important for a country. Investor will never like their cases pending in the files of the courts. They would like to have a swift outcome for any case related to their investment or trading.

Overall legal framework of the particular jurisdiction like civil and criminal legal framework since implementation of securities laws receives support from civil and criminal laws. The first is to always check the institutional infrastructure such as legal, taxation, and accounting systems, and to improve them as the environment changes.

7.3.7 Ensure better disclosure standard

Efficiency of stock exchanges should be enhanced and ensure protection of the interest of investors. Disclosure requirements should be stringent. There should be enhanced accounting standards, reliable audits, institutional strengthening and capacity building.

7.3.8 Capital Movement

Ideally, the central bank should do away with the informal capital controls that are in place at the moment through the extremely cumbersome bureaucratic procedures brought in to inspect capital repatriation. Making the system uncomplicated would substantially improve chances of attracting foreign portfolio inflows.

7.3.9 Income Tax on Salaried Class

Tax on salaried class should be rationalized. A number of tax benefits given to this class have been gradually withdrawn it is recommended that maximum rate of tax on individual should be reduced from 35% to 30% and number of slabs should be increased. Reduction in tax liability will encourage them to save and invest. Given the chronic inflation, the basic tax exemption should be enhanced to Rs.100, 000 from the present exemption level of Rs.60, 000.

7.3.10- Tax Exemption of TFCs

The income received by any person from rated and listed TFCs was exempt if issued on or after September 14, 1997. This exemption was withdrawn in relation to income received by any person other then a company w.e.f. Year 2002-2003. The decision of the government to withdraw the tax exemption status for listed TFCs would be detrimental to the small investors and would hinder investment and saving growth. Restoration of the exemption for both individual and institutional investors for all TFCs is highly recommended.

BIBLIOGRAPHY

- Van Horne, James C. (1998). *Fundamentals of Financial Management, Tenth Edition*. New Jersey: Prentice-Hall.
- Brigham, Eugene F. (1996). *Financial Management, Theory and Practice, Eighth Edition*. Florida: The Dryden Press Series.
- Sherman, James R. (1991). *Productive Plannin*g. Great Britain: Kogan Page.
- Ali, Qasir. (2003) *Study of KSE*. Institute of Management Studies, University of Peshawar.
- NUST, (2002) *Integration and Correlation between stock markets*. Rawalpindi.
- International Finance Corporation, (2001). *Emerging Market Financing*.
- The Pakistan development review (1993). *Internationalization of Pakistani stock market; an empirical investigation* 32:4
- Pakistan institute of developmental economics. Journal of international development (2000) *The Integration of the Pakistani equity market with international equity markets.*
- Circuit Breaker Review Committee (Nov 30, 2002). *The Circuit Breaker Review*. SECP
- SECP, (2002*). Securities Market Division*. Karachi.
- The News International. Islamabad (June 23, 2003) *Pakistan's Stock Market*.
- Kanwal, Zufa. 2003. *The Investor's guide to personal investment,* DAWN Karachi.
- DAWN Karachi (September 2003), *Smaller cos outperformed bigger ones*.
- DAWN Karachi (September 15, 2003) *Changing Trends in the Capital Markets.*
- Mr Moshin, Millennium Securities, ISE building Islamabad.
- Babcock, G.: "The concept of Sustainable Growth". Financial Analysis Journal, May-June 2000.
- Merrill Lynch Pakistan Strategy, Getting Better. In Depth Report by Global Securities Research & Economics Group. Locally distributed by KASB.
- Investor Guide, A Monthly Review Issued by The News.

REFERENCES:

- Karachi Stock Exchange (online) Available http://www.kse.com.pk
- Lahore Stock Exchange (online) Available http://www.lse.com.pk
- Islamabad Stock Exchange (online) Available http://www.Ise.com.pk
- CDC (online) Available. http://www.kse.com.pk
- Monthly Views. (Online) Available. (2004) http://www.investcapital.com
- Monthly Views. (Online) Available. (2003) http://www.investcapital.com
- Capital Markets. (online) Available (2004). http://www.sbp.org.pk
- Capital Markets. (online) Available (2003). http://www.sbp.org.pk
- *Home Remittances*: Statistics Department (online) Available (2003). http://www.sbp.org.pk
- Capital Market (on-line) Available (Nov 16, 1996). http://www.pakistaneconomist.com
- *State Bank Policies* (on-line) Available (2003) http://www.sbp.org.pk
- The Stock Markets – How it works? (online) Available. http://www.greekshares.com
- Toward Further Development of Capital Markets. Bank of Japan http://www.boj.or.jp/en/press/02/ko0212a.htm
- Capital Markets. (online) Available. www.imf.org
- Capital Markets. International Finance Corporation (online) Available. www.ifc.org
- Morning Shout, KASB securities Available www.kasb.com.pk
- Daily Market Review by AKD Securities, Available www.akdtrade.com.pk
- Geo TV Program, TheziMandi By Junaid Iqbal, Available www.geo.tv
- Review of Stock Markets by Arif Habib Securities, Available www.arifhabib.com.pk