

## PERFORMANCE EVALUATION OF THE STOCK MARKET OF BANGLADESH- A NEW RISING CAPITAL MARKET OF SOUTH ASIA

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### **Keywords:**

*DSE; Bangladesh; Stock Exchange; South Asia; Performance; Evaluation;*

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### **ABSTRACT**

The context of the Paper is about the capital market of Bangladesh, one of the South Asian Countries with a growing economy. There are basically two stock markets of Bangladesh. These are: Dhaka Stock Exchange (DSE) and another one is Chittagong Stock Exchange (CSE). Dhaka Stock Exchange (DSE) is the leading capital market of Bangladesh which plays a vital role in the country's economy. The purpose of the analysis is to analyze the performance of the market by analyzing the indexes and the turnovers of the market over the years and observe how the market managed to hold the stable position during nation-wide other crisis. Based on the results, the study will give a general idea to the investors and financial market analysts of all around the world about the performance of the market. It will also help the potential investors to make decision about whether to invest in Bangladeshi capital market or not and investors will be able to minimize the risk of investment and to get the maximum return.

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## **INTRODUCTION**

The stock markets of Bangladesh have been undergoing a critical condition since early 2000s where these supposed to be the key drivers of the economic growth of Bangladesh. Starting from the initial stage of economic growth, Stock markets of Bangladesh have been contending and trying to establish their position on the global platform of financial market. Although Stock markets of Bangladesh have been going through a critical stage by experiencing a lot of ups and downs, these markets still attract the investors by maintaining itself in a stable position during the economic crisis of South Asia in early 2000s which has given the markets strong capabilities to become the prestigious stock market in South Asia.

## **BACKGROUND OF THE STUDY**

In a seminar conducted by Jegadeesh and Titman (1993), on Returns to Buying Winners and Selling Losers: The market efficiency of stock market, its implications and investigations of its presence have been steered from different viewpoints. There are different levels of studies related to the field of accounting. It can be related to the banking, it can be related to the administration of a company and also it can be also related to the investing in a capital market.

The study is about the critical analysis of Dhaka stock exchange's (capital market of Bangladesh, one of the South Asian Countries with a growing economy) performance over the years that can still attract the investors. Dhaka Stock Exchange (DSE) is the leading capital market of Bangladesh which plays a vital role in the country's economy. There are basically two stock markets in Bangladesh; Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). Stock market which is the basic foundation of a capital market of an economy, can largely contribute to the nation and to fulfill the investors' expectations if it is monitored and analyzed properly. A well-trained accountant as well as a financial analyst can easily analyze the movement of the stock market. A well designed research can figure out the actual underlying facts about the performance of the stock market. So that the investors will get a confidence to invest and can minimize the risk of losing their money.

## **LITERATURE REVIEW**

According to Hasan, Kamil et al. (2013), a stock market with developed or developing characteristics plays a significant role in the economy country. They added that a stock market can develop an economy of a country by contributing to its Gross Domestic Product (GDP) growth, its investment and creating a common market place for all the investors. The capital market of a country boosts knowledge and gaining besides the distribution of information, by reducing the cost of organising investments and smoothing speculation (Greenwood and Smith 1997). The connections of the steadiness between the accounting firms and financial market has become a rising major concerns of accounting just after the major crisis in

2000s (Biondi 2015). Although according to Noman, Humayun Kabir et al. (2012), there have been experiencing a visible no casualty between the stock market and the foreign exchange in the Bangladesh. According to Rezina, Jahan et al. (2017), Bangladesh economy has sustained and average GDP growth of 6% over the one and half decades where stock markets of Bangladesh experienced some crucial ups and downs apart from the major crash in the year of 1996. According to Mobarek, Mollah et al. (2008), the market Dhaka stock exchange has been experiencing the volatility since the beginning. It was in its historical highest point of indexes in the 1996 and suddenly crashed. In an empirical investigation of the arbitrage pricing theory in a frontier stock market by Faruque (2011), Dhaka Stock Exchange is a borderline stock market of Bangladesh which had a amounts to USD19020.18 million which approximately had a ratio of 1:0.21 in 2009 as GDP to Market Capitalisation- which is easily to the other emerging markets.

In the discussion on the impact of monetary policy on post crashed Dhaka stock market performance evidence, Al Mukit and Shafiullah (2012) concluded that it would not be possible for an economy to sustain growth without the convenience or presence of the stocks and other financial markets. Although there is a link between the money market and the capital market, as a part of the capital market, stock market of a country plays significant role to shape the economy of a country. According to Hassan and Chowdhury (2008), an efficiency of Bangladeshi Stock Market is largely dependent on the collection of both the domestic and foreign funds. They added, it needs to finance the rapid growth of industrialisation and to make the market more dynamic to ensure the supply the capital for the developments of the industries. Due to the globalisation and the economic integration among the economies of the world, it has become more significant to the investors and the other academicians to emphasis more in the capital markets all around the world (Al Asad Bin Hoque 2007). Where the interest based economy is being highlighted to run the capital flow of the countries by deregulating the market measures, improving the technical aspects and different financial product's innovation. Although there are many literatures those address the world wide different issues related to the stock markets, there are few researches have been done related to the issues on Bangladesh Stock market.

Mollah (2011) investigated in his paper of the pre and post- reform dividend policy and behaviour of Dhaka Stock Exchange listed firms, in the year 1997-1998; during the financial crisis in South Asia, too much emphasis were given on the allocative aspects of the financial system compared to the practical and structural financial regulations. The efficiency of Bangladesh capital market is totally dependent on the participants the number and the capital value of the market, the related organisational environment and the regulations of the country and the efficient market information can guide the capital concerning its best possible economic use. (Joarder, Ahmed et al. 2014). Therefore, the

current stock market of Bangladesh reflects all the available information on the underlying assets present value and there is a less chance to get additional returns by using all the available information. In addition, security prices change on the subject of newly changeable information. In terms of processing new information, Bangladesh is slightly weak and which may result from determinedly a huge number of non-actively trading share in the market and the restricted scope for the mutual funds(Basher, Hassan et al. 2007). According to Banerjee, Ahmed et al. (2017), a rapid initiative is required to fix the equity and debt market as those are the main sources of real economy of Bangladesh. It means smoothing market by creating the information awareness among the investors in the perspective to smooth the primary and secondary markets of the country

Mollik and Bepari (2015) in the paper of risk and return trade-off in emerging market showed that Bangladesh stock market has experiencing statistically a positive movement portfolio risk and return relationships are also positive where portfolio beta value is significant statistically. They showed that highest beta is not always associated with the highest return where the companies are group based on beta and it was considered that high beta high return and low beta low return. They also found that the efficient market hypothesis of Dhaka stock exchange is general which can contribute to the investors to take a better decision.

On the other hand, according to Islam, Ali et al. (2012), although rapid growth of industrialisation has given a new speed to the economy of Bangladesh, capital market has failed to attract the investors as they are the main sources of capital. Therefore, there are some mix of opinions and reviews about the situation of stock market of Bangladesh.

### **RESEARCH OBJECTIVE**

The key purpose of the research is to analyse the performance of the Dhaka Stock Exchange by analyzing the indexes and the turnovers of the market over the years. The aim is also to give a general idea to the investors all around the world about the performance of Dhaka Stock Exchange and whether to invest in Bangladeshi capital market or not. The basic objective of the research is to find the changes of the indexes and whether they are positive or not. Investors will be able to check the changes of yearly turnovers and can evaluate the performance. Investors will be able to observe the movements of the stock market over the years in a single time frame. Finally, they will get an overall idea about the market and the recommendations for the future investors.

### **RESEARCH METHODOLOGY**

The main purpose of the project is to classify and detect the movement of the indexes of Dhaka Stock Exchange over the years and to analyse the general trend of the share price.

**Data Collection:**

The quantitative data analysis will be suitable for this exploratory research. The appropriate and the related figures are gathered from the useful sources like; the official web site of Dhaka Stock Exchange. The annual reports published on the website of the Dhaka Stock Exchange along with the related sources of information such as; peer reviewed journal articles and the other professional projects on the relevant topic to conduct a time – series analysis.

**Population of the study**

The main population of the study is included all the stock exchanges of Bangladesh.

**Sample**

As it is project based on a secondary research, Dhaka Stock Exchange has been considered as the sample. Because it appears to be the most influential stock market and is able to reflect the whole population.

**Data Period**

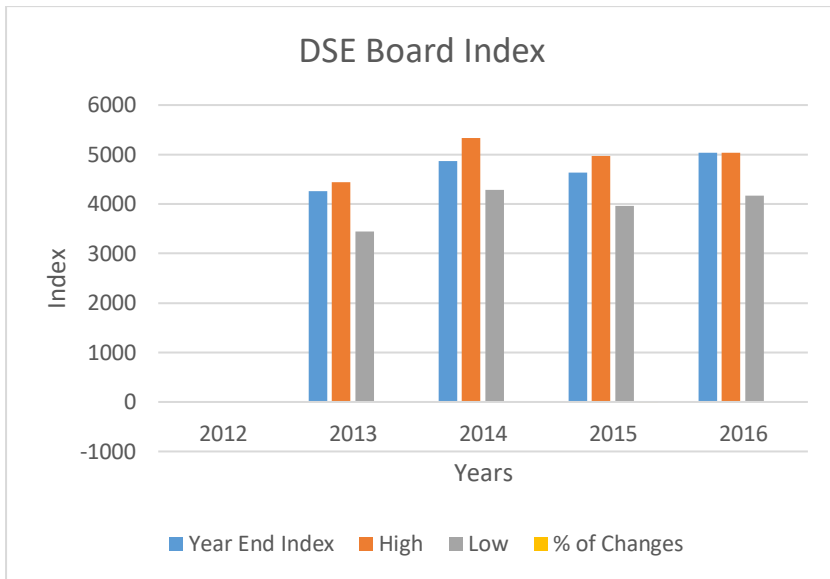
Dhaka Stock Exchange's latest four years' general price indexes are taken from the website to make the research more precise and exact to get an accurate result from the analysis. The indexes of the year ended from the year 2013 to 2016 are collected to get the most recent results.

**DATA ANALYSIS**

After collecting the data from the secondary sources, a time series analysis has been used to show the performance of the stock market over the specific time period.

Year	Year End Index	High	Low	% of Changes
2013	4266.55	4439.60	3438.90	5.19
2014	4864.96	5334.04	4286.15	14.03
2015	4629.64	4969.73	3959.74	(4.84)
2016	5036.05	5036.05	4171.41	8.78

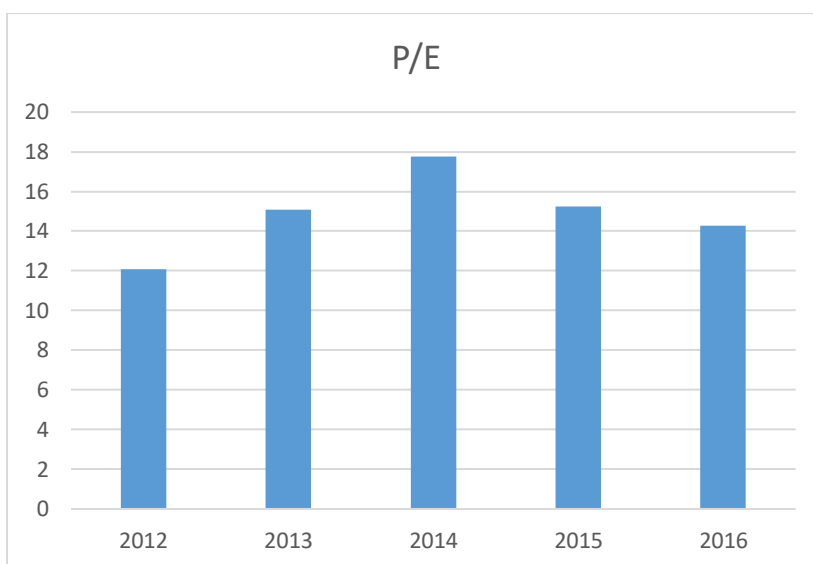
**Figure: 1**(DSE Board Index, Source : [www.dsebd.com](http://www.dsebd.com))



**Figure: 2**(Analysis of the DSE Board Indexes over the years)

Year	P/E
2012	12.07
2013	15.07
2014	17.77
2015	15.23
2016	14.29

**Figure: 3** (Market P/E Ratio,DSE)



**Figure: 4**(Analysis of the DSE's P/E Ratios over the years)

Year	Total turnover (mn)	% in change	Total trading days	Daily average turnover	Highest Turnover	Lowest Turnover
2012	1001084.90	(35.87)	238	4206	12884.27	1157.03
2013	952742.08	(4.83)	238	4003	12946.16	1015.72
2014	1188521.54	24.75	238	4994	12885.54	1368.93
2015	1031398.64	(13.22)	244	4227	10023.39	1666.14
2016	1191571.27	15.53	241	4944	14781.84	2095.49

**Figure 5:** (DSE Turnover)

YEAR	Market Capitalization	Number of Companies
2007	10842 Million	350
2016	3,412,441.49	750

**Figure: 6** (Comparison of market Capitalization with the number of companies over 10 years. Source: www.dsebd.com)

### **FINDINGS AND DISCUSSION OF FINDINGS IN LIGHT OF REVIEWED LITERATURE**

After considering all facts from the collected data from Dhaka Stock Exchange web site, it can be easily concluded that:

Although the market has experienced a crash in the year of 2009, the indexes of the board have been continuously increasing which can be a good indicator for the investors. From the year of 2013, it has rarely faced a negative growth of indexes except the year of 2015. Where the % change of indexes compared to the last year was 4.84. Compared to the changes of other years, it cannot be a crucial issue to make any negative about the market.

In figure 4, the market P/E was started to increase in the year of 2012 and continued until 2014 and then it has started to settle and it has been decreasing. So it also can be a good indicator to make a positive decision about the investment.

In figure 5, the turnover of Dhaka Stock exchange has been facing a fluctuations of turnovers over the years. It has faced only a positive turnover in the year of 2014 and 2016. To keep in mind, the investors' capital turnover rates are sometimes positive and it sometimes negative which can confuse the investors

And the figure 6, the market capitalisation and the number of enlisted companies are shown using a table. Both the indicators are shown by using two (2) different time frame. In 2007, the market capitalisation amount was 10842 million where the number of enlisted firm was 350. After a ten (10) years gap, in 2016, the market capitalisation amount was 3412441.49 million where the number of enlisted firm was 750. So although the number of firms has increased by 2 times, the market capitalisation amount was increased by around 315 times. So no doubt, the market is now can be a worthy place to invest.

After analysing all the facts using the data analysis, it can be easily concluded that Dhaka stock Exchange is a perfect example of a stock market of an emerging economy. Although there is some inefficiency, it has been operating by holding its unique characteristics as a market of a developing economy. During the financial crisis in South Asia, it also experienced a downward trend but it still able to attract the investors by its booming nature. It has been contributing to the Bangladeshi economy by maintaining the capital market of the country and it has been continuously doing this after the major crash in 1997.

Therefore, although it has faced many negative statistics, it remains popular and the only safe and reliable place to the investors of Bangladesh.

### **CONCLUSION**

Although the stock market of Bangladesh (Dhaka Stock Exchange) has been going through a critical stage by experiencing a lot of ups and downs, the market still attracts the investors by maintaining itself in a stable position during the economic crisis of South Asia in early 2000s. It has the capabilities to become the prestigious stock market in South Asia. The



country Bangladesh can also be an economic power of South Asia if –The stock market remains efficient where investors as well as the researchers keep the positive attitudes towards the market. Finally, Government of Bangladesh strict the rules and regulations for the capital markets of the country.

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