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Q How do you evaluate the current capital market scenario?

A If I have to evaluate the current market scenario, I consider it to be bearish at this moment. Throughout the whole year, especially at the end of this year, the index was in downtrend. So, in that sense, the trend is downward now and I do not expect it to improve much in 2013 also.

Q What are your recommendations for the holistic development of stock market? What are the regulatory bottlenecks that you identify in our stock market?

A Two issues are very important for the market to consider: more surveillance and how we can raise the turnover.

Reforms are always made after there is a need raised. It's good that the Bangladesh Securities Exchange Commission is getting strengthened. BSEC has been empowered by the power of recruiting their own human resource and preparing their own budget, etc. What they should do now is to recruit more skilled people and get them trained. They should work for improvement of surveillance and inspection. Only transparency and fairness can attract true investors in our market.

What I feel is regulators should not have any role to intervene in the stock market. They should keep themselves in framing rules and acting as facilitator; in fact they should work for protecting the investor interests as their foremost duty. Creating awareness among the investors regarding how to choose good avenues for making investment is very important as well.

Q How will you summarize the overall stock market in the year 2012? How has the overall economy been in 2012?

A 2011 started off with a drastic fall in the capital market which continued in 2012 as well. For last six months, financial institutions are not investing in the market. A huge amount of money is not coming to the market due to private placement. This whole amount of money (stuck due to private placement) should be regained from the market.

Economic indicators of 2012 say that economy was in a better state than 2011; electricity is still the issue that is to be taken care of. Government is still on the process of taking short term measures to solve power issues. If you can not provide electricity, growth will always be hampered.

Q Bad liquidity position has been a reason for poor capital market performance. However, with the present money market being good why do you think that the capital market is still not performing well?

A Though we are feeling we are having better liquidity now but having liquidity does not mean growth. For example, you can see a bearish sentiment is going on in the real estate market. If you look at their last quarter, you will see prices have fallen a bit; but they are restricting the price in a sense that if you pay cash, they will give you discount; otherwise they will not sell.

The reason behind the last bubble in the capital market was excess liquidity in the capital market which prompted banks and financial institutions to come to the market and get exposed. Despite the improvement in liquidity at this moment, there is not much provision for them to participate in the market. For example, by last September, they had 3.43 percent exposure of their liability which is around 33.43 percent of equity. Now if banks are forced to bring their investment to 25 percent of equity then they will have to liquidate some of their positions.

There were two propositions placed to the government for approval of the amendment of the Bank Companies' Act put forth by IMF and ADB who suggested that 25 percent of the equity should be exposed while Ministry of Finance has said it to be 40 percent. If it turns out to be 25 percent, then there will be at best 2900 crore BDT worth fund that will be de-invested; however, if it is 40 percent, then at least BDT 2200 crore will be invested. Earlier we saw that as potential avenues to invest were very rare, banks invested in the capital market when they were having excess liquidity; but now, banks might not go for excess capital market investments.

Q Internationally we see that academicians take the hold when there is turmoil in any economy. Why the scene is different in our country? Why aren't we getting strong research from the academicians? Do you think that there is a gulf difference being created between the pedagogy and practitioners?

A We are attending numbers of meetings but the way practitioners look at the academicians to come forward to invite a prescribed suggestion is not good enough. In many countries, researchers and academicians get involved in providing solutions which they consider to be adaptable. But here, it is used to be thought the other way round. Corporate practitioners are not actively coming to us for suggestions. Let me give you an

idea. A while back one of my students and I conducted research on what kind of under pricing behavior does exist in Bangladesh (1991-2007, an 18 years time). It was a population data; not a sample mean. We saw that book-building method, which lies on the prudence of the institutional investors, was abused by the practitioners. For more institutional prudence, the book building method needs to be reformed. Our findings can be taken into consideration when forming policies.

Q “I would seriously like to see how the demutualization process impacts the market during 2012” was what you said in our year-end issue last year. Now what’s your thought about the demutualization process? According to you, how is demutualization going to affect the stock market? What is the current update of the demutualization process?

A Principle of restructuring demutualization is that 40 percent will be reserved for current members; from the rest 60 percent, 40 percent would be strategic holding. This is a prime rule that would be reflected for initiating demutualization. As we know, demutualization addresses two issues- separation of ownership from management and separation of ownership right from trading right. Now, members have the right to trade only but we are talking about those who can trade; they will be required to take license from the BSEC whether they are member or not; it’s not a question of membership- one has to fulfill the criteria of doing trade and only then they can take the license and go for trading.

After demutualization, we have to see whether it affects the market positively or negatively. I feel demutualization will bring investor confidence again in the market which will help the market avoid any kind of disastrous situation in future.

Q In a down-market like this, many IPOs are coming to the market. How they are going to provide good support?

A Despite the fact, there were a number of IPOs and right issues that took place in last two years; to my evaluation, it is around 34 billion worth BDT raised from IPO and right share. The situation is likely to continue in the next year. But what I feel is that IPOs must come in sequential order; not in cluster.

Q Recently, a new rule called the Research Analyst Rule has been introduced for the research analysts of the brokerage firms. How do you see the implication of this? Last year you said, “I believe the best alternative to recalculate the index is to reintroduce it in a way that keeps a normal year, say 2008, as base and considers only free float market capitalization as the basis

for calculation.” Do you still think index reintroduction is a good measure for stabilizing the market?

A Government is getting conflicting opinion on these issues- that’s why the directions haven’t been passed yet.

The new index will be introduced taking the base year 2008. I heard that the base index would be 1000 and keeping that in mind, the current index would be around 1300 points. We have to have an index which has all the qualities of being investable and for having less tracking error. This new index will serve that purpose.

Q How do you see the capital market expectation in 2013?

A Liquidity in the money market does not mean these funds will be available for institutions to invest in the capital market. But in January-February, there will be some investments in the capital market by the banks as they will be getting opportunity to adjust that throughout the year. But a few will do so as they won’t be interested in taking that much risk. A lot of foreign institutional investors ask about the demutualization progress, how we are dealing with the bubble burst, etc; they are curious about the risks; until and unless the market is organized, they won’t feel secure enough to divert more of their investments to the Bangladesh capital market. Uncertainty in the political arena will also make them come at a slower pace.

Turnover has slowed down a great deal. When turnover is low in the capital market, the market becomes more aggressive. This is a natural outcome of the behavior of the market. In a turnover of BDT 200 crores, injection of BDT 5 crores is sufficient enough to impact a price; but in a turnover of BDT 1000 crores, even injection of BDT 15-20 crores is not sufficient.

I think the economy will be in positive trend. But the textile sector will be affected by the political crisis because of the uncertainties. Pharmaceuticals sector will perform better in 2013.

The next monetary policy will not be that much restrictive because 2013 is an election year and the ruling party might show interest in spending money in sectors which are often unproductive; this will hold the economic mobility a bit back.

Q What is your advice to our investors? How should they be making stock choices in the upcoming year?

A I feel mutual fund is the only way for the non-sophisticated investors who do not have the expertise and time to invest in the market.

Interview is taken by Md. Ashaduzzaman Riadh and Tanzina Ahmed Choudhury. All views and opinions expressed here are solely of the interviewed persons and neither represent the views of LankaBangla Securities Ltd. nor those of any of its associated institutions.