Editor's Note

THE Dhaka Stock Exchange has been convulsing for the past month or so, calling to mind the great stock market crash of 1996. The market has been on a bull run for the past four years, increasing four-fold since 2006, even in the absence of sound fundamentals that would justify such high share prices. Last month, predictably, the market plunged, sending many investors into a panic.

At the time of writing it still remains unclear whether the great bull run of the past four years is finally over, whether we are facing a protracted correction, whether a full on crash like in 1996 is imminent, or whether the market will continue to oscillate between highs and lows for some time to come.

The touchstone for the current concerns is 1996 when the market first exploded through the roof before crashing and taking with it billions in paper wealth from the hapless investors. It is imperative that the nation avoids a recurrence of that crisis.

The government must understand just how crucial a functional and well-regulated capital market is to the nation's economic health and to the government's own electoral fortunes. Investors must be reassured that the game is not rigged, that there will be zero tolerance for market manipulation, and that the stock market represents a safe investment.

Without this confidence, the Bangladeshi financial markets will never develop and mature and provide the economy with the ballast needed to expand. Companies need to list themselves in order to be to access expansion capital, but if the small investor has reason to fear market convulsions, then this will not happen.

But, by the same token, the Bangladeshi investor must mature as well. Investors cannot throw their money into the stock market, willy-nilly, without any understanding of the companies they are investing in.

Investors should be cautious and invest in companies with sound fundamentals whose earnings justify their stock price. More importantly, investors need to invest for the long term so that they are not caught short by the market's sudden ups and downs.

If people invest speculatively, hoping to make a quick buck on stocks they neither understand nor know anything about, it is almost certain that a large proportion they will end up out of pocket..

There is a role for the government here. For instance, stricter regulations on buying on margin, closer scrutiny of listed companies, and incentives to encourage long-term investment and to discourage short-term speculation (a Tobin Tax, perhaps) is needed.

Facilitating a robust and mature capital market and helping to develop a cadre of knowledgeable and prudent long-term investors must be the government's goal. The negative consequences of another 1996-like crash would be devastating and must be avoided at all costs.

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