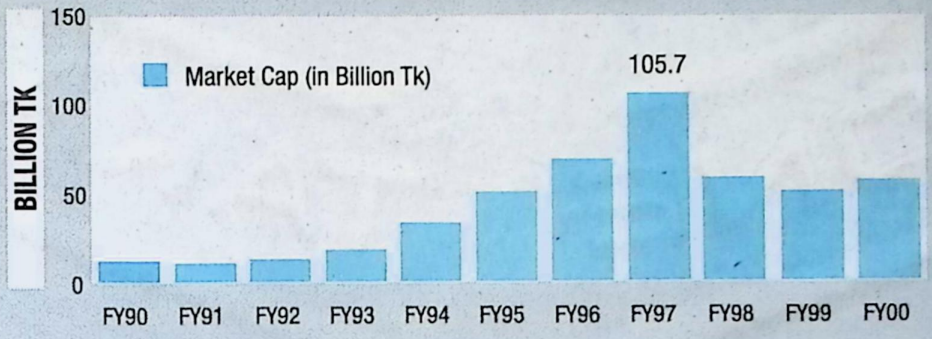
FIG 5. Surge in the Market cap. during 1996/97



The 1996 bubble was very short-lived:
Table 5 exhibits formations and demises (longevity) of the bubbles in various stock markets around the world. Using normalized data, by assuming peak values of all indeces equal to 100, we notice DGEN index rose and fell most sharply and the bubble of 1996 was much short lived compared to other stock markets bubbles.This presentation also explains the severity of the losses to ordinary stock holders in the bubble episodes in various stock markets. Data clearly reveals that stock holders at the DSE suffered most compared to other countries since prices changed radically and too quickly in the DSE during the 2nd half of 1996.

The reasons behind the bubble and the debacle of 1996:
With a very small number of newly listed securities, the bubble that formed in 1996 was because of excessive pressure from the demand side. Investor confidence was initially boosted by the restoration of political stability, but later they became highly speculative. According to a Bangladesh Bank analysis, the prevalence of a big kerb market (number of small investors reached over 25,000) provided wider scope for rumors to affect share prices through infiltration into the kerb market by the agents of the sponsors and member-brokers. Inadequate infrastructure, such as lack of appropriate settlement system, information inefficiency and weak regulations provided scope for some groups to manipulate demand and the market. Moreover, there were questions about the transparency of the stock market members, especially brokers and sellers.

counterparts, in some cases holding more than 90 per cent of their assets in cash, waiting for a market correction before coming back to the market. However, the portfolio size of institutional investors in Bangladesh, at well below 2 per cent of the market capitalisation despite impressive gains of recent years, is still very small and thus could not have played the kind of stabilising role that institutional investors like mutual funds could have played (see Table 3).

The strong demand from the retail investors, not matched by a corresponding increase in supply of stocks, has caused the price earnings (P/E) ratio to rise beyond rational levels in many cases. The P/E ratio, defined as the ratio of price per share to the annual earnings per share, is a widely used and time-tested indicator to measure share valuation. In simple terms, the P/E ratio can be interpreted as "the number of years of earnings to pay back purchase price," ignoring the time value of money. It is also true that a high P/E ratio may also imply higher growth potential for a company's share, justifying higher investor interest to hold that share in their portfolio. The high P/E ratio for Bangladesh market may accordingly reflect, at least in part, a higher growth potential for the Bangladesh economy.

These considerations notwithstanding, P/E ratios of many non-bank DSE listed companies have become overvalued. The weighted average market P/E ratio has risen to almost 30 in recent weeks from 17.5 in August 2009, meaning it will take 30 years on average for an average share to give back (through dividends) its purchase price to the investor. It is widely known that some companies that are not even properly managed are being traded at P/E ratios well above 75!

The example of Grameen Phone (GP) is also worth mentioning. The company was listed in