The need to transform the capital market

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In most market economies around the world, investors can typically choose between many financial assets to put their money in. The demand for different financial products arises from an elemental property of risky assets: uncertainty in payoffs. That is why investors are taught in Finance 101 that the recipe to avoiding financial disaster is to diversify their money. "Don't put all your eggs in one basket"—the golden rule of investing.

In our country however, investors do the exact opposite. They put all (or most) of their money in the hands of an ailing banking sector in mundane deposit schemes generating returns that cannot even outrun inflation.

To be sure, this is not really by choice. There are hardly other viable options. Herein lies the need for a modern and vibrant capital market boasting a plethora of financial assets which would allow investors to virtually insure against any future uncertainty while earning decent returns. If evidence from all across the globe is any guide, developing a capital market of such depth should rest on a three-dimensional strategy: *(i) Strengthening the stock market; (ii) Building a bond market; and (iii) Designing a derivatives market.*

STRENGTHENING THE STOCK MARKET

Sixty-three years since its inception, the day when we see a Dhaka Stock Exchange, where investors are gathering in masses to raise capital, still remains elusive. As we all know only too well, the recent and not-so-recent history is marred by two calamitous market crashes: one in 1996 and the other in 2010.

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