Impact of Financial Performance on Stock Price Volatility: A Case of Nepalese Microfinance Companies

Tek Bahadur Madai
Kailali Multiple Campus, Dhangadhi, (FWU, Nepal)

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Abstract

With the explanatory variables of ROE, ROA, D/P ratio, P/E ratio, and BVPS, this study investigates the impact of financial performance on the stock price instability of microfinance companies listed on the Nepal Stock Exchange (NEPSE). The age and size of microfinance companies have been used as control variables. It has also observed the investor's behavior toward these variables. The study follows a quantitative approach with descriptive, causal-comparative, and survey research design. Multiple regression analysis is used to examine the causal relation between stock price volatility and the profitability of microfinance companies.

This study has analyzed the annual report of 31 microfinance companies with 183 observations and 121 responses to a questionnaire received from the investors. According to this study, microfinance organizations' capacity to produce profits has a considerable impact on share price volatility. The survey result of the study reveals that the investors of microfinance companies are more sensible towards earning ability and past performance of the companies. The results of this investigation may be beneficial to the investors of microfinance companies to select the companies for investment. Acknowledging the limitation of data used in this study, further study can be conducted by taking other industries like banking, insurance, hotel, and manufacturing companies listed in the NEPSE. Besides this, a behavioral study about investors' responses toward market factors can be conducted by taking a large sample of investors.

Keywords: *Market value ratios, microfinance companies, profitability, and stock price volatility.*

1. Introduction

The efficient market hypothesis (EMH) has grown to be a significant research field in the specialist literature of finance. In the current theory of finance, the idea of efficiency has been applied to the capital market. Fama (1970) stated that a market is efficient if prices always accurately represent all available information. Efficiency refers to the lack of a chance for investors to gain excessive profits from the capital market. Therefore, a financial asset with a high level of risk is the only one where an investor may make a significant return. Malkiel (2003) stated that a market with prices that accurately represent all available information qualifies as an efficient capital market.

Regarding the EMH, there are several points of view, some of which support the theory and others which do not. No investor can consistently outperform the market if the capital market is efficient since arbitrage opportunities are almost immediately removed. However, it has been discovered that many stock markets throughout the world do not effectively adhere to the EMH rule. When the stock markets stray from the EMH's guidelines; these stray behaviors are referred to as market anomalies. Anomalies in the financial markets are instances where securities behave in ways that are inconsistent with the theory of efficient markets. Three commonly acknowledged anomalies that are mentioned in the theory of EMH are fundamental anomalies, calendar anomalies, and technical abnormalities.

One of the irregularities that has an impact on a company's financial stability is a fundamental abnormality. According to Karz (2010), fundamental anomalies show that the prices of assets do not accurately represent their inherent values. A fundamental abnormality arises when share market prices deviate from the law of supply and demand.

Compared to firms with a high P/E ratio, Basu (1977) discovered that stocks with a low P/E ratio had a higher average return. According to the author, a security's price-earnings ratio may accurately indicate how successful an investment will be in the future. Also, a similar study by Goodman and Peavey (1983) demonstrated that stocks with low price-to-earnings (P/E) ratios are more likely to generate higher earnings and outperform the market. This happens because of the price-to-earnings anomaly, which asserts that businesses with greater P/E ratios would often underperform the market index.

Similar findings were made by Fama (1991), who discovered that equities with a low price-to-book (P/B) ratio provide higher returns than those with a high P/B ratio. Michaely et al. (1995) examined the idea that firms that pay dividends have favorable

abnormal stock returns and those that don't have unfavorable abnormal returns. High dividend-yield companies outperform the market more than low dividend-yield stocks, according to research like Yao et al. (2006) and De Bondt and Thaler (1985). The EMH hypothesis does not hold true in any setting, according to all available empirical evidence. According to Dangol and Bhandari (2019), Nepal's stock market is inefficient while being at a semi-strong level. This study's findings indicate that there must be fundamental market irregularities. Determining how profitability and market value ratios affect the stock price volatility of microfinance enterprises in Nepal was the focus of the present study.

Watanabe (2008) stated that stock price volatility is the term used to describe stock price movements in the securities markets. A variety of market dynamics affect stock prices daily. Microeconomic and macroeconomic variables have the most fundamental effects on the price of equity shares. Companies that do well financially, according to Skinner and Soltes (2011), will be more appealing to investors. Investors' investment choices are significantly influenced by a company's financial success and growth. Growing financial success will attract additional investors and broaden the trading of the company's shares. Therefore, numerous interested parties such as management, shareholders, creditors, potential investors, research academics, and the government will find it helpful to analyze the link between a company's financial performance and its share price.

Olaoye et al. (2016) claim that investors are concerned about stock price volatility since it has an impact on their investing choices. Investment risk is revealed by volatility; high volatility signals high risk, and vice versa. A stock's price will swing around a lot if the volatility is high. Stock price volatility benefits investors in the long run by providing them with possibilities for financial gains. With a stable price and no volatility, it is impossible to benefit from a stock. Investors should thus pay attention to stock price volatility.

Financial professionals, stock market participants, regulators, and scholars have recently begun to place a greater emphasis on the concerns surrounding stock price behavior and risk (Ruhani et al., 2018). Investor psychology has an impact on the evolution of the financial markets. The studies related to behavioral finance stated that investors make investment decisions based on their emotions and cognitive biases rather than being rational and calculating. The goal of behavioral finance is to enhance financial decision-making via the use of psychological and economic concepts (Olsen, 1998). The expectations and actions of investors primarily drive stock market volatility. Hence, behavioral aspects of the investors have also affected the stock price movement. Examining the impact of financial performance on the stock price volatility of Nepalese microfinance businesses and analyzing the choice of investors for

performance indicators while making purchasing and selling decisions about the stocks are the main goals of the research. Following are the specific issues of this study:-

1. What effect does financial performance have on the volatility of Nepalese microfinance enterprises' stock prices?
2. Whether the investors of microfinance companies evaluate performance variables while making buying and selling decisions about the socks?

2. Methodology

This study is based on quantitative research approach with causal comparative and survey research design. This examined the effect of profitability on stock price volatility of Nepalese microfinance companies listed in NEPSE. So, for the selection of microfinance companies, a judgmental sampling method has been implemented. There were 51 microfinance companies (NEPSE annual report 2019/020) listed in the NEPSE. The microfinance companies which have more than three years to list in the NEPSE have been selected for the study. There were 31 microfinance companies had found more than three years of listing in NEPSE. So, sample size of this study is 31 microfinance companies listed in NEPSE.

The specific secondary data required for this study were taken from the annual report published by the microfinance companies and NEPSE. The cross-sectional data have been used in the regression analysis and the study has covered the variables related data from the year 2010/011 to 2019/020. From the 31 sampled microfinance companies total no of observation of the study is 183. Average data of individual variable has been used of the study period. According to the availability and date of listing in the NEPSE, minimum 3 years to maximum 10 years data have been used for averaging. All the microfinance companies listed in the NEPSE have been the population of this study. To make assumptions about how investors will behave in light of microfinance businesses' financial success. Only 121 of the approximately 200 questionnaires that were disseminated for the study's purposes had replies (60.5 percent response rate). Five demographic multiple-choice questions and seven items with a 6-point Likert measure were included in the survey.

2.1 Method of analysis

Both descriptive and regression analytic approaches were applied in this investigation. The mean, median, and standard deviations as well as other descriptive statistics, have been utilized to analyze the features and patterns of the data that have been gathered. Regression analysis is also used to look into the nature and direction of the link between financial performance indicators and the volatility of microfinance company stock prices. The Independent Sample T-test has been used to investigate the impact of

the age and size of microfinance organizations on stock price volatility. The conclusion was reached using IBM SPSS 20 version software, and the analyst's findings were displayed in tables and graphs.

Models Used

This study used cross-sectional data on microfinance companies listed in the NEPSE. The models of the study are as follows:-

Model: 1
This model includes the control variables under study. The age of microfinance companies and their size (market capitalization) are the control variables. So, this is the model with control variables and presented as follows:

$$SPV_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 ROE_{it} + \beta_3 BVPS_{it} + \beta_4 PER_{it} + \beta_5 DPR_{it} + \varepsilon_{it} \quad \text{.....(i)}$$

Model: 2
This model includes the control variables under the study. The age of microfinance companies and size (market capitalization) has been taken as the control variables. So, this is the model with control variables and presented as follows:

$$SPV_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 ROE_{it} + \beta_3 BVPS_{it} + \beta_4 PER_{it} + \beta_5 DPR_{it} + \beta_6 AGE_{it} + \beta_7 MCAP_{it} + \varepsilon_{it} \quad \text{.....(ii)}$$

Where,
i = Microfinance companies
t = Time
SPV = Stock price volatility
ROA = Return on assets
ROE = Return on equity
PER = Price earnings ratio
DPR = Dividend payout ratio
AGE = Age of microfinance companies
MCAP = Market capitalization of microfinance companies
ε_i = Disturbance or error term

2.2 Test of Significance

This study applied a coefficient of determination (R^2) to examine the impact of independent variables on the dependent variable. In addition F-test and t-test were used

to ascertain the goodness of fit the regression model and significance of testing variables.

3 Analysis and Results

This study looks at how microfinance firms' financial health affects the movements of their NEPSE-listed stock prices. In this part, descriptive and regression models that were used to analyze the obtained data are shown.

3.1 Descriptive Analysis

Table 1
Descriptive Statistics

Variables	Units	Mean	Median	Std. Deviation	Skewness	Kurtosis	Minimum	Maximum	N
SPV	%	0.84	0.83	0.14	-0.56	1.24	0.39	1.093	31
ROA	%	0.019	0.01	0.01	-0.50	-0.59	0.00	0.03	31
DPR	%	0.21	0.22	0.11	0.18	0.33	0.00	0.46	31
PER	Times	48.20	43.69	24.79	1.13	1.33	15.65	119.34	31
BVPS	Rs.	166.43	162.82	53.74	0.93	0.19	87.98	301.50	31
ROE	%	0.21	0.20	0.10	0.81	2.27	0.00	0.54	31
AGE	Years	10.64	9.00	5.03	1.22	0.25	5.00	22.00	31
MCAP	Rs.	2785.5	1849.0	2515.40	1.41	1.50	302.44	9903.49	31

Table 1 presents the characteristics of the data related to the variables in the study based on cross-sectional data of 31 microfinance company's 183 observations from the year 2010/ 011 to 2019/020. The table presents the mean of stock price volatility (SPV) and return on assets (ROA) of the microfinance companies for the period under

study is 84.3 and 1.9 percent respectively which are greater than median; it shows that the data of these variables have been negatively skewed. Whereas the mean of the variables DPR, PER, BVPS, ROE, AGE and MCAP have been greater than the median and data of these variables are positively skewed, which indicates the higher values than the sample mean. The negative value of kurtosis of the variable ROA indicates the flatted-curve and shows lower values than mean. All the variables except ROA have positive kurtosis indicates the peaked curve and more higher values than the mean value.

This study has encompassed the 5 years to 22 years old microfinance companies. The mean statistics of the market capitalization of the sampled microfinance is Rs. 2785.59 million ranged from Rs 302.44 to Rs 9903.49 million, it shows that the study has covered very small to large size microfinance companies to measure the size effect on dependent variable

Correlation analysis

Table 2
Correlation between Dependent and Independent Variables

	SPV	LOG_PER	LOG_BVPS	LOG_ROA	DPR	ROE
SPV	1					
LOG_PER	-0.191	1				
LOG_BVPS	0.438*	-0.532**	1			
LOG_ROA	-0.233	0.222	-0.105	1		
DPR	0.115	-0.481**	0.621**	-0.460**	1	
ROE	-0.390*	-0.310	0.048	-0.293	0.484**	1

Significant at ** (1%) and * (5%) level, respectively (2-tailed).

Table 2 reveals the insignificant inverse relationship between the PER and SPV, which indicates that the greater the PER, the SPV go down of Nepalese microfinance companies. This result is consistent with Gautam (2017). Similarly, there is a significant positive connection between SPV and BVPS which shows that if the BVPS increase, the SPV would go up. There is an insignificant negative association between ROA and SPV which indicates that the higher the ROA, the lower would be the SPV of the firms. Similarly, there exists insignificant positive relation of DPR and SPV, which reveals that higher the dividend payout, greater will be the SPV.

The result shows negative relation between ROE and SPV showing that higher the ROE lower would be the SPV. Among independent variables, the highest correlation coefficient is accounted to be 0.621 which is statistically significant between book value per share and dividend payout ratio. Very low correlations have been observed among depended variable stock price volatility and explanatory variables dividend payout ratio and price earnings ratio which have the correlation less than 0.20.

There has not been the correlation greater than 0.80 between the independent variables, so there is not problem of multi-collinearity in the data set.

Table 3

Correlations of Coefficients for Dependent and Controlling Variables

	SPV	AGE	MCAP
SPV	1		
AGE	-0.506**	1	
MCAP	-0.437*	0.744**	1

Significant at ** (1%) and * (5%) level, respectively (2-tailed).

Table 3 presents the relationship between dependent and control variables. The result shows significant negative relation between AGE with the SPV, which shows the inverse association between age of microfinance companies with the SPV. This result is consistent to Glancey (1998). Likewise, there is a negative significant relation between MCAP and SPV showing increment of the MCAP would be lower the SPV and vice versa and the relationship is consistent with the finding of Baskin (1989).

3.2 Regression analysis

Multi-collinearity Test

When independent variables explain one another, an issue known as multi-collinearity arises; this can lead to erroneous OLS estimates. Inflation factors (VIF) are used to look for multi-collinearity variance. This test shows that multi-collinearity exists when the VIF is larger than 10 and the 1/VIF is less than 0.1. The test's outcomes are displayed in Table 4 of the report.

Table 4
Result of VIF Test

Variables	Tolerance	VIF	1/VIF
ROE	0.59	1.71	0.59
DPR	0.30	3.33	0.30
LOG_ROA	0.70	1.43	0.70
LOG_BVPS	0.39	2.57	0.39
LOG_PER	0.48	2.09	0.48
LOG_AGE	0.54	1.87	0.54
LOG_MCAP	0.28	3.60	0.28
Average VIF 2.37			

Table 4 shows that the OLS model is free of the multi-collinearity issue. This is so because the 1/VIF number is more than 0.10. The analysis came to the conclusion that the model did not have the multi-collinearity issue, and the predicted coefficients are accurate as a result.

Table 5
Regression Results of Stock Price Volatility (SPV) and All Test Variables

	Coefficient	Std. Error	t-ratio	p-value
Const	−0.002	0.649	−0.003	0.998
ROE	−0.668	0.264	−2.521	0.018*
DPR	−0.227	0.325	−0.696	0.493
LOG_PER	−0.050	0.124	−0.405	0.689
LOG_BVPS	0.549	0.252	2.175	0.039*
LOG_ROA	−12.179	5.41	−2.251	0.033*
R-squared	0.478			
F(5, 25)	4.578			
P-value(F)	0.004**			

Significant at ** (1%) and * (5%) level, respectively (2-tailed).

Table 5 depicts the coefficient of determinants of the model has 0.478, which reports that if all other things remain the constant there is 47.8 percent variation explained by all the independent variables on the dependent variable stock price volatility. The coefficient of return on equity has negative -0.668 and substantial at a 5 percent level. It reveals that if other things remain the same, 1 percent increase in ROE will decrease 0.668 percent in the stock price volatility. So, the result reports that there is considerable negative impact of ROE on SPV of Nepalese microfinance companies. Therefore the result tells that higher the ROE the lower the SPV and Vice versa. Likewise, there has been statistically insignificant negative effect of DPR on SPV. The PER has also statistically insignificant negative impact on SPV. The independent variables DPR and PER have shown negative effect on SPV, so, it indicates that if other things remaining the same, higher the DPR and PER lower the stock price volatility and vice versa. The coefficient of BVPS has 0.549, and significant. The positive impact reveals that if all other things remaining the same, 1 percent increase in book value per share will increase in the stock price volatility by 0.00549 (i.e. 0.549/100) or 0.549 percent. The beta coefficient of LOG_ROA (Log transformation of ROA) has -12.126, which indicates that if a 1 percent increases in return on assets will decrease by 0.12126 (i.e. 12.126/100) or 12.126 percent. So, if other things remaining the constant, higher the ROA of the microfinance companies, lesser the SPV.

The model is significant at a 1 percent level, as indicated by the F statistics' value of 4.578 at the degree of freedom (5, 25) and its p-value of 0.004, which also demonstrates the model's strong fit.

Table 6

Regression Results of Stock Price Volatility (SPV) and All Explanatory as well as Control Variables

	Coefficient	Std. Error	t-ratio	p-value
Const	0.074	0.709	0.105	0.917
ROE	−0.673	0.275	−2.451	0.022*
LOG_PER	−0.080	0.144	−0.560	0.581
LOG_BVPS	0.566	0.263	2.156	0.042*
LOG_ROA	−12.706	5.579	−2.278	0.032*
DPR	−0.257	0.345	−0.745	0.464
LOG_AGE	−0.198	0.163	1.211	0.238
LOG_MCAP	−0.075	0.101	−0.746	0.463
R^2	0.510			
R^2 change	0.396			
F(7, 23)	3.418			
P-value(F)	0.012*			

Significant at ** (1%) and * (5%) level, respectively (2-tailed).

Table 6 depicts the regression results after including the control variable age and market capitalization in the model. The result shows the value of coefficient of determination (R^2) has 0.51, if other things remaining the same which indicates that there has been 51 percent variation on stock price volatility explained by the independent as well as control variables. The value of F statistics is 2.418 at the degree of freedom (7, 23) and which is significant at 5 percent level. It shows that the model has been best fitted in the linear regression equation. The R-squared change value of 0.396 shows the predictive strength of the independent variables excluding the control variables. In other words, this value means the tested independent variables have been explained addition 39.6 percent of variation in dependent variable stock price volatility even after controlling the effect of age and market capitalization of microfinance companies. Here the effect of control variables on stock price volatility has been 0.114 (i.e. 0.510-0.396), it shows that if other things remaining the same, there has been 11.4 percent variation on stock price volatility explained by the control variable age and market capitalization. After including the control variables in the model, the coefficient of ROE has -0.673 and which is significant at 5 percent level. It indicates that if other things remaining the same when ROE increased in 1 percent the stock price volatility

will be decreased by 0.673 percent. The variables PER and DPR has shown negative but insignificant effect on SPV. Likewise, ROA has negative and statistically significant impact on stock price volatility. Similarly, the variables PER and DPR shows the negative but statistically not significant effect on stock price volatility. The variable BVPS shows the considerable positive impact on SPV. Likewise, the variable ROA has also negative and statistically significant impact on stock price volatility. The control variables AGE and MCAP have statistically insignificant effect on the SPV. But the negative value of coefficient reveals the inverse impact of these variables on the SPV. It shows that if other things remaining the same, higher the age and market capitalization lower the stock price volatility and vice versa of Nepalese microfinance companies.

Table 7
Individual Effect of All Explanatory Variables on Stock Price Volatility

Variables	Coefficient	P-value	F (1,29)	P-value	R^2
ROE	−0.562	0.029*	5.215	0.029*	0.152
DPR	−0.703	0.001**	12.0823	0.001**	0.294
GOG_PER	0.332	0.005**	9.055	0.005**	0.238
GLO_BVPS	−0.558	0.004**	9.528	0.004**	0.247
LOG_ROA	9.609	0.100	2.886	0.100	0.090
LOG_AGE	−0.421	0.003**	10.466	0.003**	0.265
LOG_MCAP	−0.172	0.007**	8.313	0.007**	0.223

Significant at ** (1%) and * (5%) level, respectively (2-tailed).

Note: This table reports the regression results of individual independent variable. The objective of this table is to show the effect of ROE, ROA, and DPR, PER, BVPS, AGE, and MCAP on SPV.

Table 7 shows the variable ROE has significant negative impact on SPV. This result indicates that the profit earning efficiency of microfinance companies reduce their SPV. The value of R^2 is 0.152, which reveals that there has been 15.2 percent variation on SPV explained by the ROE. Likewise the coefficient of DPR has -0.703, which reveals the negative impact of DPR on SPV. If other things remaining the constant, there will be decreased in stock price volatility by 0.703 percent with respect to 1 percent increase in the dividend payout ratio of the microfinance companies. The R^2 of the model has 0.294 indicates that the DPR only has explained 29.4 percent variation on SPV and the impact is considerable. The PER also has a positive influence on SPV,

however, it only contributed to a variance of 23.8 percent in SPV. The variable BVPS has also significant negative effect on SPV and it only explained 24.7 percent variation on SPV. If solely measure the impacts of the variable ROA on SPV, it shows the insignificant effect. The control variable AGE shows the significant effect on SPV and R^2 of the model 0.265 indicates that the variable only has explained 26.5 percent variation on SPV. Similarly, another control variable MCAP has also significant negative impact on SPV and this variable only explained 22.3 percent variation on SPV of microfinance firms.

The independent variable dividend payout ratio has the highest value of coefficient (-0.703) among all explanatory as well as control variables, so, this result reveals that D/P ratio has high impact on price instability (if taking this variable individually) with comparison to other variables.

3.3 Analysis of Primary Data

In this section, investor's opinions are collected to find the level of preferences of profitability and market value ratios while taking buying and selling decisions of the stocks of microfinance companies. Likert scale questionnaire has been used to collect the opinions about the independent variables of the study. The opinions of those who are buying initial public offering (IPO) issued by the company and stocks from the NEPSE have been collected and these opinions have been analyzed to draw inferences on investors behavior towards financial performance of microfinance companies.

Demographic position of the respondents

To take the demographic information, 5 multiple choice questions were asked related to the gender, age, marital status, trading time, and education level of the respondents. The response of the respondents has been presented in the table 9.

Table 8
Demographic Information about the Respondents

Demographic Variables	Items	No. of response	Total no of response
Gender	Male	104	121
	Female	17	
Age in Years	30 and below	21	121
	31-40	43	
	41-50	43	
	Over 50	14	
Marital Status	Married	83	121
	Single	38	
Trading Time	Under 1 year	17	121
	1 to 3 years	36	
	4 to 5 years	34	
	6 to 10 years	17	
	Over 10 years	17	
Education Level	High school and below	6	121
	Bachelors Degree	18	
	Masters Degree	57	
	MPhil and above	40	

Table 9
Level of Investors' Preference on Sampled Variables

Variables	Statement	Mean	SD	Rank	Level of Preference
ROA and ROE	I used to evaluate profitability indicators ROA and ROE before make buy and sell decision of shares of microfinance companies.	4.21	1.64	4	High
ROA and ROE	I prefer buying the shares of microfinance companies because of their high profit earning ability.	4.78	1.54	1	High
ROA and ROE	Profitability of the microfinance companies is only one attractive factor for investors.	3.42	1.94	6	Moderate
DPR	The demand of shares of microfinance companies is high in the NEPSE, because they distribute high dividends.	3.79	4.33	5	Moderate
BVPS	I usually buy the shares of microfinance companies which have high book value per share (BVPS).	3.41	1.42	7	Moderate
PER	I used to make buying and selling decisions of shares of microfinance companies on the basis of their price earnings (P/E) ratio.	4.40	0.98	3	High
Financial Performance	I buy shares based on historical performance because I think the trend will remain positive.	4.49	1.66	2	High

Table 10 presents the level of investors' preference in variables ranked on the basis of mean value of responses. The investors have given high preference to the profit earning ability of microfinance companies represented by the variable ROE and ROA. The book value per share has given last priority by the investors. The table depicts that the mean value of statements have been greater than 3 (6 point likert scale), these results indicate that the investors give preference to all sampled variables but most priority given to the profit profitability of microfinance companies.

This finding is consistent with the finding from secondary data analysis of this study. Regression analysis of the study shows that the variable ROE has highest effect on stock price volatility.

Discussion

This study's major goal is to investigate how investors' preferences for financial performance indicators and stock price volatility are affected by microfinance firms' financial performance.

The variables ROE, ROA, and BVPS have been found significant effects on stock price volatility. Whereas, the variables PER, and DPR have found insignificant effects on stock price volatility. So, it can be conclude that Nepalese investors do not care about these variables when change the profitability of the companies. Whereas, the BVPS has significant effect on stock price volatility, which shows that investors are more conscious about the net worth of the microfinance companies. The findings from the regression imply that ROA has the greater impact on stock price volatility. But individually, all independent variables have had a considerable impact on the volatility of the stock price.

There is an effect of age and size of microfinance on the share price volatility, and the study found a significant effect of age and size of companies on stock price volatility. Return on equity is found most affecting performance indicator on stock price volatility of Nepalese microfinance companies.

The survey result shows that the majority of investors evaluate the profitability indicators of microfinance companies before making buy and sell decisions about shares. Investors prefer to invest in the stock of microfinance companies because of their high-profit earnings ability. The investors not only consider the profitability of the companies but also evaluate the market value factors.

Investors in microfinance companies think that the high demand for shares in the NEPSE is due to their high dividend distribution. The BVPS is considered by the investors at the time of making an investment decision, but it is not found to be a highly preferable ratio.

The P/E ratio was found to be a highly significant indicator by the investors while making buying and selling decisions of the stocks. The investors of microfinance companies found it important to consider past performance because they believed that good performance would continue.

4 Conclusion

The financial performance in terms profitability of microfinance companies listed in the NEPSE is highly linked with their share price instability. The data analysis results of the study show that there is crucial effect of profitability of microfinance companies on stock price volatility. The profitability indicators return on equity and return on assets have shown significant detrimental influence on the volatility of the price of shares. The finding shows that the investors are more sensible towards the profitability of microfinance companies. The fluctuation of the equity price is also influenced by the age and size of the microfinance companies.

The survey result of the study is consistent with the result of secondary data analysis. The result shows that the majority of investors of microfinance companies have evaluated earnings ability of the companies. They prefer to invest in the high profit earnings companies. Investors also evaluate market value ratios like P/E ratio and BVPS at the time of buying and selling of the stocks. The result of the survey reveals that the investors of microfinance companies like to select the companies on the basis of past performance because they believe that the past performance will continue in the future.

5 Implication

The findings of the study are more interesting and informative to the different stakeholders of microfinance companies, so they can take advantage from the information provided by the study. The return on equity is identified as the most effecting financial performance indicators on the SPV of microfinance companies. So, investors can select the companies on the basis of return on equity.

There is an effect of age and size of microfinance on stock price volatility, and finding of the study shows that the companies with high age and size have lesser share price instability than young microfinance companies, this finding is also important for the investors to reduce the price risk on investment. The findings of this study are based on microfinance companies. So, further study can be done by taking other industry listed in the NEPSE.

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