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A Study on Indian Stock Market

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Abstract: *Stock Market is one of the most versatile sectors in the financial system, and Stock Market plays an important role in economic development. Stock Market is a hub where facilities are provided to the investors to purchase and sell their Shares, Bonds and Debenture etc. In other words, Stock Market is a platform for trading various securities and derivatives without any barriers. In Stock Market various companies are listed to their business venture through public issues. In the current scenario, long term investors are investing in the companies through Stock Market to attain. In India listed Stock Market are Bombay Stock Exchange (BSE), the National Stock Exchange (NSE) and the Calcutta Stock Exchange (CSE). These three are largest Indian Stock Market. Volatility is a statistical measure of the dispersion of returns for a given security or Market Index. Commonly, the higher the volatility greater the risk associated with the security. Volatility estimation is important for several reasons associated with different people in the market. Developed markets continue to provide over long period of time with higher returns constituting low volatility. Indian market has started becoming informational more efficient compared to developed countries. The study would facilitate the reader to understand the past, current and future aspects of Indian Stock Market. The lure of creating huge money in a short time has always attracted investors into investing money in stock markets. However, there is no sure-shot formula for success in stock markets. In India, gradually all capital market investment avenues are perceived by the investors.*

Keywords: Stock, market, SEBI, investment avenues

I. INTRODUCTION

As a part of the process of economic liberalization, the stock market has been assigned an important place in financing the Indian corporate sector. Besides enabling mobilizing resources for investment directly from the investors, providing liquidity for the investors and monitoring and disciplining company managements are the principal functions of the stock markets. The main attraction of the stock markets is that they provide entrepreneurs and governments a means of mobilizing resources directly from the investors, and to the investors they offer liquidity. It has also been suggested that liquid markets improve the allocation of resources and enhance prospects of long-term economic growth. Stock markets are also expected to play a major role in disciplining company's managements. In India, Equity market development received emphasis since the very first phase of liberalization in the early 'eighties. Additional emphasis followed after the liberalization process got deepened and widened in 1991 as development of capital markets was made an integral part of the restructuring strategy. Today, Indian markets conform to international standards both in terms of structure and in terms of operating efficiency.

Stock Market - At Indian Perspective The concept of stock markets came to India in 1875, when Bombay Stock Exchange (BSE) was established as 'The Native Share and Stockbrokers Association' a voluntary making association a stock market as a place where stocks shares are bought and sold. The stock market determines the day's price for a stock through a process of bid and offer. You have right to bid and buy a stock shares and offer to sell the stock shares at a valuable price. Buyers compete with each other for the best bid and got their highest price quoted to purchase a particular Stock Market Shares. Similarly, sellers compete with each other for the lowest price quoted to sell the stock. When a match is made between the best bid and the best offer a trade is executed. In automated exchanges highspeed computers do this entire job. Stocks of various companies are listed on stock exchanges. Presently there are 23 stock markets In India. The Bombay Stock Exchange (BSE), the National Stock Exchange (NSE) and the Calcutta Stock

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Exchange (CSE) are the three large stock exchanges. There are many small regional exchanges located in state capitals and other major cities.

Indian Stock markets are real and electronic exchanges that enable the buying and selling of company shares. Indian Stock market is powered by the Hopes and Dreams of millions of people of India that bring India with potential on global market. It catalyses India's growth by creating investment, access and empowering the stockholders. We work harder, smarter and faster to deliver impact across the investment ecosystem. Indian stock market Committed to improve the financial well-being of people and to continue to be a leader, establish global presence, facilitate the financial well-being of people. The Securities and Exchange Board of India was established on April 12, 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992. In exercise of the powers conferred by clause of section 2 of the Securities Contracts (Regulation) Act, 1956, (42 of 1956), the Central Government in consultation with the Securities and Exchange Board of India established under section 3 of the Securities and Exchange Board of India Act, 1992 (15 of 1992). "The government has on 25th January, 1995 promulgated an ordinance to amend the SEBI Act 1992, so as to arm the SEBI with additional powers for ensuring the orderly development of the capital market and enhance its ability to protect the interest of the investors." The Indian stock market support Indian economy by generating much capital needed. The Indian stock market is one of the most developed markets in the world. There are two main stock exchanges in India:-

1. Bombay Stock Exchange (BSE)
2. National Stock Exchange (NSE)

As already stated, the Indian Stock markets have played a significant role in the early attempts at industrialization in India in the late nineteenth and early twentieth century's. The early textile mills and the first steel plants were funded in the stock market. Some of these capital raising exercises were large in relation to the size of the financial sector in those days. Beginning in the late fifties, the country embarked on an inward looking socialistic model of development that sought to put the commanding heights of the economy in the hands of the public sector. The state took control of the allocation of resources in the economy as the banks and insurance companies were nationalized and development financial institutions grew in importance. A regime of financial repression came into being and the stock market stagnated. The period from 1984 to 1992 was in some ways the high-water mark of the Indian capital markets. As the markets responded enthusiastically to the first whiff of reforms in the mid-1980s and to the major reform initiative of 1991, the stock market soared through the roof. From October 1984 to September 1992, the stock market index went up more than ten times representing an annual compound return of 34per cent.

Indian stock market is one of the oldest stock markets in Asia. It dates back to the close of 18th century when the East India Company used to transact loan securities. In the 1830s, trading on corporate stocks and shares in Bank and Cotton presses took place in Bombay. The arriving of the institution of stock exchange can be traced with the birth of joint stock companies, which form the organization and coupled with the real existence of the personal identity of the organisation and bring front the concept of negotiability of capital mechanism. Records reveal that there existed a market for "dealing in stocks of Amsterdam as far back as 1585" From 17th century the business of share and dealing of stocks starts in England. In 1674 British internal and overseas trade expending rapidly and business men formed the joint stock companies. On the date of 14th July, 1773, a meeting of stock-brokers held in London and outside a hired building the word "Stock Exchange" was engraved first time. The stock exchange of today is the result of a slow process of evolution. India also has the same immature history as it had in western countries. The early records of Indian security trading are scanty and unclear. Those days the stockbrokers used together and do business under the Neem tree of Dalhousie square of Kolkata. But according to history, during the end of the 18th century in Kolkata the transactions in government securities and loan securities of the East India Company took place. By 1830, there was increase in the volume of business of loan and corporate stocks and shares.

II. REVIEW OF LITERATURE

According to "Debjit Chakraborty" (1997) in his study attempts to establish a relationship between major economic indicators and stock market behaviour. It also analyses the stock market reactions to changes in the economic climate. The factors considered are inflation, money supply, and growth in GDP, fiscal deficit and credit deposit ratio. To find the trend in the stock markets, the BSE National Index of Equity Prices (Natex) which comprises 100 companies was taken as the index. The study shows that stock market movements are largely influenced by, broad money supply, inflation, C/D ratio and fiscal deficit apart from political stability. According to “Redel” (1997) concentrated on the capital market integration in developing Asia during the period 1970 to 1994 taking into variables such as net capital flows, FDI, portfolio equity flows and bond flows. He observed that capital market integration in Asian developing countries in the 1990s was a consequence of broad-based economic reforms, especially in the trade and financial sectors, which is the critical reason for economic crises which followed the increased capital market integration in the 1970s in many countries will not be repeated in the 1990s. He concluded that deepening and strengthening the process of economic liberalization in the Asian developing countries is essential for minimizing the risks and maximizing the benefits from increased international capital market integration.

According to “Avijit Banerjee” (1998) reviewed Fundamental Analysis and Technical Analysis to analyse the worthiness of the individual securities needed to be acquired for portfolio construction. Technical Analysis detects the most appropriate time to buy or sell the stock. It aims to avoid the pitfalls of wrong timing in the investment decisions. He also stated that the modern portfolio literature suggests 'beta' value Pas the most acceptable measure of risk of scrip. The securities having low P should be selected for constructing a portfolio in order to minimize the risks. According to “Madhusudan” (1998) found that BSE sensitivity and national indices did not follow random walk by using correlation analysis on monthly stock returns data over the period January 1981 to December 1992. According to “Arun Jethmalani” (1999) reviewed the existence and measurement of risk involved in investing in corporate securities of shares and debentures. He commended that risk is usually determined, based on the likely variance of returns. It is more difficult to compare 80 risks within the same class of investments. He is of the opinion that the investors accept the risk measurement made by the credit rating agencies, but it was questioned after the Asian crisis. He concluded his article by commenting that risk is not measurable or quantifiable. But risk is calculated on the basis of historic volatility. Returns are proportional to the risks, and investments should be based on the investors' ability to bear the risks, he advised. According to “Suresh G Lalwani” (1999) emphasized the need for risk management in the securities market with particular emphasis on the price risk. He commented that the securities market is a 'vicious animal' and there is more than a fair chance that far from improving, the situation could deteriorate. According to “Nath and Verma” (2003) examine the interdependence of the three major stock markets in south Asia stock market indices namely India (NSE-Nifty) Taiwan (Taiex) and Singapore (STI) by employing bivariate and multivariate co integration analysis to model the linkages among the stock markets, No co -integration was found for the entire period (daily data from January 1994 to November 2002). They concluded that there is no long run equilibrium. According to “Bhanu Pant and Dr. T.R.Bishnoy” (2001) analysed the behaviour of the daily and weekly returns of five Indian stock market indices for random walk during April 1996 to June 2001.They found that Indian Stock Market Indices did not follow random walk.

2.1 Objectives of the study

1. To study the causes of volatility in Indian Stock Market.
2. To study the various aspects of Indian Stock Market in detail.
3. To study the measures have been adopted to control volatility.

III. RESEARCH METHODOLOGY

This study is based on Secondary data. Secondary data collected from various books, journal, internet, etc.

IV. FINDINGS

- Market Volatility: The Indian stock market is known for its volatility. Researchers often find evidence of significant price fluctuations, which can be influenced by both domestic and global factors.
- Long-Term Growth: Over the long term, the Indian stock market has exhibited substantial growth, reflected the country's economic development and increasing participation of retail and institutional investors.
- Market Anomalies: Some researchers have identified anomalies in the Indian stock market, such as the January Effect (where stock prices tend to rise in January), which can present opportunities for traders.

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- Impact of Macroeconomic Events: The Indian stock market is sensitive to macroeconomic events, including interest rate changes, GDP growth, and inflation. Researchers often find correlations between these factors and market movements.
- Behavioural Biases: Behavioural finance studies in India have shown that investors often exhibit cognitive biases like overconfidence and herding behaviour, which can lead to irrational trading decisions.
- Foreign Investment: The impact of foreign institutional investors (FIIs) on the Indian stock market is a significant area of research. Studies often explore how FIIs' investments influence market performance.

It's important to note that findings in the Indian stock market can change over time due to evolving economic conditions and market dynamics. Researchers continue to explore various aspects of this market to gain insights and make informed investment decisions.

V. SUGGESTIONS

Enhanced regulatory framework:
Solution: Regularly review and update market regulations to adapt to changing market dynamics. Ensure transparency and accountability in regulatory bodies.

Investor Protection:
Solution: Establish a dedicated investor protection fund, create educational programs, and ensure stringent penalties for fraud.

Market Surveillance:
Solution: Invest in advanced surveillance technology to detect irregularities and market manipulation. Enhance coordination with law enforcement agencies.

Reducing Transaction Costs:
Solution: Lower brokerage fees, explore discounts for high-frequency traders, and reduce stamp duty or introduce a more uniform structure.

Efficient IPO Process:
Solution: Implement a simplified and faster IPO approval process. Encourage companies to go public by offering incentives.

Corporate Governance:
Solution: Implement stricter corporate governance rules, mandatory independent directorships, and regular corporate audits.

Derivatives Market Development:
Solution: Expand the range of derivatives products, provide risk management tools, and ensure robust risk management mechanisms.

Simplification of Taxation:
Solution: Streamline capital gains and dividend tax structures, and provide clarity to avoid confusion.

Retail Investor Participation:
Solution: Develop user-friendly mobile trading apps and platforms, offer educational resources, and simplify the account opening process.

Institutional Participation:
Solution: Offer incentives for institutional investments, such as tax benefits, and promote pension funds and mutual funds' involvement.

International Collaboration:
Solution: Establish partnerships with global exchanges to increase visibility and attract foreign investments.

These suggestions, when implemented effectively, can contribute to the development and efficiency of the Indian stock market, making it more attractive to both domestic and international invest

VI. CONCLUSION

Stock Market is the mitigation of risk through the spreading of investments across multiple entities, which is achieved by the pooling of a number of small investments into a large bucket. Stock Market is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed portfolio at a relatively low cost. The review of literature has brought to light that: Ÿ Enlistment of corporate securities in more than one stock exchange at the same time improves liquidity of securities and functioning of stock exchange. Ÿ There is existence of wild speculation in the Indian stock market. Risk is not measurable or quantifiable. But risk is calculated on the basis of historic volatility. Ÿ Stock market movements are largely influenced by, broad money supply, inflation, C/D ratio and fiscal deficit apart from political stability. Ÿ Low execution costs make the derivatives especially futures, very suitable for frequent and short term trading to manage risk, more effectively. The analysis of the stock market cycles shows that in general over the reference period the bull phases are longer, the amplitude of bull phases is higher and the volatility in bull phases is also higher. The gains during expansions are larger than the losses during the bear phases of the stock market cycles. The bull phase in comparison with its pre liberalization character is more stable in the post liberalization phase. The results of our analysis also show that the stock market cycles have dampened in the recent past. Volatility has declined in the post liberalization phase for both the bull and bear phase of the stock market cycle.

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