INDIAN STOCK MARKET

What is a stock market?

- **Stock Market -** is a market for the trading of publicly held company stocks or shares and associated financial instruments (including stock options, convertibles and stock index futures). Traditionally such markets were open-outcry where trading occurred on the floor of an exchange. These days increasingly the markets are cyber-markets with buying and selling occurring via online real-time matching of orders placed by buyers and sellers.

STOCK MARKET

- ***WORKING***
- ***REGULATORY FRAMEWORK***
- ***WHY DO PEOPLE BUY SHARES?***
- ***WHY STOCK MARKET IS SO VOLATILE?***
- ***HOW TO MAKE MONEY IN STOCK MARKET?***
- ***ROLE OF STOCK MARKET IN ECONOMY***

INTRODUCTION:

The market for long term securities like bonds, equity stocks is divided into PRIMARY MARKET and SECONDARY MARKET.

- *PRIMARY MARKET*

  Deals with the new issues of securities.

- *SECONDARY MARKET*

  Deals with outstanding securities.

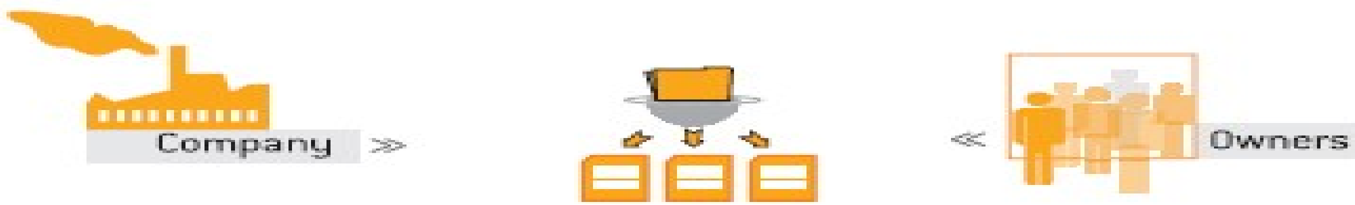
  Also known as “STOCK MARKET”.

DIFFERENCE BETWEEN PRIMARY AND SECONDARY MARKETS

In the *primary market* securities are issued to the public and the proceeds go to the issuing company. *Secondary market* is a term used for stock exchanges, where stocks are bought and sold after they are issued to the public.

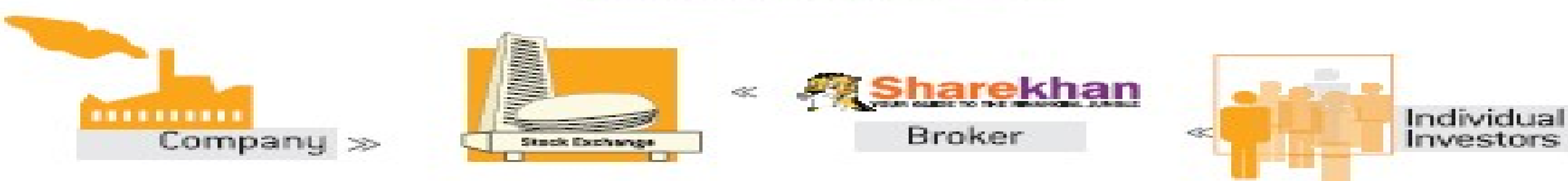
PRIMARY MARKET

Companies share ownership by issuing shares



Companies allocate shares to individuals and those who get the shares become part owners of the company

SECONDARY MARKET



Companies get themselves listed on popular stock exchanges like BSE and NSE

How does the stock market function?

- ✓Stock exchanges
- ✓Brokers
- ✓ Registrars
- ✓Depositories and their participants
- ✓Securities and Exchange Board of India (SEBI)

MARKET INDICES:

- *Stock market indices are the barometer of the stock market.*
- *BSE SENSEX,NSE-50 etc are some of the market indices.*

Their usefulness:

- ✓ *Indices help to recognize broad trends in the market.*
- ✓ *The investor can use the indices to allocate the funds rationally among the stocks.*
- ✓ *Technical analysts use these indices to predict the future market.*
- ✓ *Indices function as a status report on the general economy.*

JOB OF THESE INDICES:

These indices have just one job: To capture the price movement. So a stock index will reflect the price movements of shares while a bond index captures the manner in which bond prices go up or down.

WHY STOCK PRICE RISES?

The price of every stock increases or decreases for the following possible reasons:

- ✓ *News about company.*
- ✓ *News about the country.*
- ✓ *Exchange rate regime.*
- ✓ *Depends on demand and supply for that stock.*

WHO SELECTS THESE STOCKS?

They are selected by the Index committee.

Some of the criteria they follow include :

1)Market capitalization.

2)Liquidity.

3)Continuity.

4)Industry representation.

5)Listed history.

Why must I Invest in Shares?

- ✓Why need I invest?
- ✓So what are the various investment options?
- ✓Why *shares***?**

Other benefits of investing in shares?

Because they can make big money on it. Compared to your investments in fixed deposits in banks it makes more profits ,but the bad news is that you are also expected to bear the losses ,if any.

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- ✓ 1) Possibility of high returns
- ✓ 2) Easy liquidity
- ✓ 3) Unbeatable tax benefits
- ✓ 4) Income from dividends

What are the expenses during a transaction?

- ✓ Capital gains tax
- ✓ Securities transaction tax
- ✓ Brokerage
- ✓ Depository fees

SO HOW DOES ONE BUY SHARES?

There are basically two ways in which you can invest in shares:

- ✓ Purchase shares from the primary market (i.e. IPO's)
- ✓ Trade in the secondary market, i.e. stock exchanges.

COMPUTATION OF STOCK INDEX:

A stock market may either be a price index or a wealth index. In India most of the indices are using wealth index for computation of stock market.

Company	No. of shares	Market Price on 09/02/06	Market cap (Rs.)	Market Price on 18/02/06	Market cap (Rs.)
TATA	10	20/-	200/-	30/-	300/-
INFOSYS	20	30/-	600/-	40/-	800/-
IBM	20	100/-	2000/-	150/-	3000/-
TOTAL MARKET CAP			2800/-		4100/-

Face value=Rs.10/-

Base value=100/-

Index present value=

(100*4100)/2800=

146.428

WHY STOCK MARKET IS SO VOLATILE?

- ✓ *Acceptance of globalisation,internationalisation and integration of the Indian market with the world markets.*
- ✓ *Introduction of flexible exchange rate regime.*
- ✓ *Intro of new, innovative ,hybrid financial instruments.*
- ✓ *Human element.*
- ✓ *Technological changes.*

HOW TO MAKE MONEY IN STOCK MARKET?

- ✓ *patience, profound knowledge.*
- ✓ *Best guess.*
- ✓ *Diversification .*
- ✓ *Portfolio management.*

ROLE OF MARKET ACTIVITIES IN ECONOMY:

- ✓ *In theory they are required to facilitate, support, enable the healthy growth and functioning of primary markets but in practice they are not .*
- ✓ *The current focus of thinking on the SENSEX, market capitalization etc.reflects an excessive preoccupation with the secondary market activity.*
- ✓ *Beyond a point, the expansion of the secondary markets may reduce the volume of activity not only on the new issue market but also in the banks, other financial institutions, gold, real estate and commodities.*
- ✓ *The multiple serious problems visiting the stock market caution us against too much optimism and enthusiasm about the stock market.*

DRAWBACKS OF INDIAN STOCK MARKET:

- *Unethical practices.*
- *Big irrational greed, excessive speculation.*
- *Lack of protection to interests of the genuine and small investors .*
- *Trading is extremely thin and restricted.*
- *Structural and organisational imbalance in the growth of the stock market.*
- *Volatility of the market has increased over the years.*

REMEDY:

So in order to make it flawless system authorities should initiate certain measures such as

- ✓ *Single authority*
- ✓ *Demutualization.*
- ✓ *Prescribing capital adequacy norms.*
- ✓ *Stricter registeration of brokers*
- ✓ *Margin requirements .*