Importance of Stock market in India: A Review

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Shubham Godbole

Research Scholar, Department of Management and Business Administration, Vidhik Institute of Management, Bhopal

Abstract

Volatility in the stock market refers to the fluctuation of stock prices over time. Mergers and acquisitions are often used by Indian firms to broaden their worldwide reach. Shareholders benefited from the growth of businesses by receiving excellent dividends and seeing their investment increase in value. As more initial public offerings (IPOs) enter the market, the number of businesses that are listed on the stock exchanges (BSE and NSE) grows. The Indian stock market is a diverse marketplace where investors may find many opportunities to make money. The focus of this article is on what makes the Indian stock market so significant. Many additional aspects are also included in this study.

Keyword: Stock market, trading, financial integration, IPOs, stock exchange

Introduction

As a result of globalisation, deregulation, and improvements in information technology, national stock markets have become the primary route for financial incorporation of developing market economies. Because of the desire of investors to diversify their holdings and earn higher rates of return, private capital movements across borders are increasing, which puts more dependence on the savings of other nations and causes companies to choose equity financing over debt financing. Financial integration is widely believed to have many advantages, including the formation of markets and institutions and the effective discovery of prices, resulting in more savings, investment, and advancement in the economic realm. [1]

Investing in the stock market may be risky because of the volatility, but it also contributes to economic growth and a healthy balance sheet. It is possible to trade securities or engage in transactions that are linked to securities on the securities market. The stock market's function is critical in driving a country's economic development. For investors, the Indian stock market offers a helping hand in mobilising their modest savings. [2] These resources may then be used to meet the varied requirements in different sectors of the country's economy. Investors purchase securities or stocks in the stock market from businesses that have issued them as initial public offerings (IPOs), where the company first offers the shares known as first public offer. The shares are then traded on the secondary market amongst the investors. The secondary market transaction causes price variations in the company's shares, causing the stock exchange indexes to fluctuate. [3] Vulnerability refers to how much the price of a stock fluctuates over time. Today, the NSE handles 66% of equities spot trading and 100% of equity derivatives transaction. Buyers and sellers may meet at the stock exchange to trade in securities. There are more stock exchanges in India besides BSE and NSE. There are 23 stock exchanges in India now, not counting the "Bombay Stock Exchange (BSE)". [4]

Figure 1: Stock exchange

History of Stock Market

"A location where stocks, bonds, or other securities are purchased and sold" is the definition of a stock market. The term "stock" refers to ownership in a company, whereas "stock" is a more formal term. Owners of common stock have voting rights on the company's board of directors. If a company is financially successful and there is a high demand for its shares, the price of its stock will rise or fall. As a result of investing in a bond, you are making a commitment to the issuer that you will return the principal as well as accrued interest on the bond's principal amount. [5]

The "New York Stock Exchange (NYSE)" was the country's first stock exchange when it opened in 1792. Aside from its market capitalization, the NYSE is the largest stock exchange in the world. As of May 2009, the total market capitalization of all NYSE-listed firms was $10.4 trillion. Every year, more than 419 billion shares are exchanged at an average price of $24.87 per share. American financial health is often assessed by looking at the performance of the "New York Stock Exchange". [6]

Because of their importance in early Indian industrialisation, the "Indian stock markets" played a major role in the 19th century and early 20th centuries. The stock market financed the first textile factories and steel mills. While the financial industry has grown much since those days, some of these capital raising initiatives were massive. [7]

Beginning in the late 1950s, the nation adopted an inward-looking socialist development strategy that aimed to give the government control over the economy. Since nationalization of banks and insurance firms, the government has taken control of economic resource allocation, and development financial institutions have grown in significance. The stock market went into decline as a result of the establishment of a financial repression system. [8]

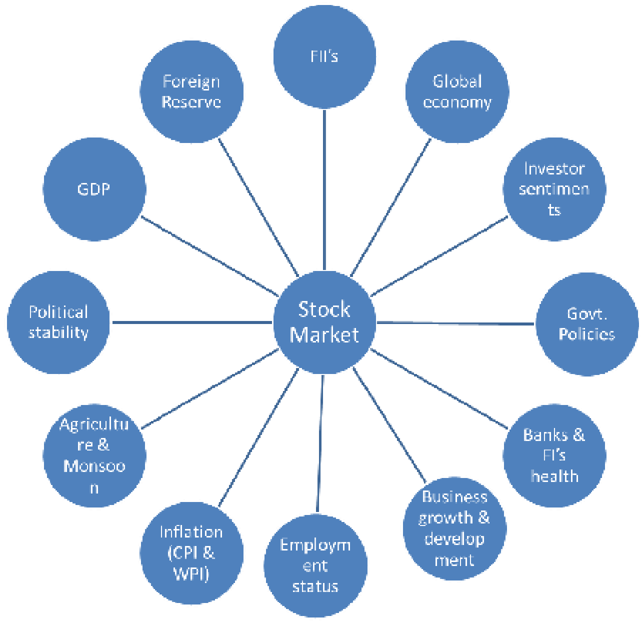

Figure 2: Factors affecting Stock market

"Indian capital markets" reached their zenith between 1984 and 1992, when they were at their most prosperous. During the mid-1980s and 1991's big reform effort, the stock market surged to new heights as investors reacted enthusiastically. The stock market index increased tenfold between October 1984 and September 1992, a compound yearly return of 34%. [9]

Literature Review

(Shah et al., 2019) [1] Many analysts and scholars have long been interested in stock market forecasting. According to widely held beliefs, stock markets are basically a game of chance, and attempting to forecast them is a waste of time. Predicting stock prices is a difficult task in and of itself due to the many factors at play. As a voting machine works in the short term, so does the market; but, as a weighing machine operates over the long term, it is feasible to predict market changes. There is a lot of potential in using machine learning and other algorithms to analyse and predict stock prices. Prior to delving into the methodology, we provide a brief overview of stock markets and techniques of stock market forecasting. On to some of the latest developments in stock analysis and forecasting research are discussed. It also discusses about how to analyse stocks using technical, structural, short-term, and long-term methods. Eventually, researchers discuss some of the field's difficulties and untapped research potential.

(Rawal, 2018) [2] According to the findings of this study, individuals in the city of Faridabad have mixed feelings about the Indian Stock Exchange's online trading system. The Indian stock market is a diverse marketplace where investors may find many opportunities to make money. There were no high-profile scandals that tarnished society's trust in the electronic commerce in the past. As technology improves, it contributes to more recognition and treasonous actions. A questionnaire was used to gather data from a sample of 300 retail investors in Faridabad for this study. The researcher looked at the connection between stock market growth as well as the availability of online trading facilities using the correlation method and also the Anova technique to identify significant differences in respondents' demographic profiles such as age, gender, profession, and yearly income.

(Yadav, 2017) [3] Economic growth depends on the Stock Market, one of the financial system's most flexible areas. When it comes to investing, the stock market is a central hub where investors may buy and sell stocks, bonds, and other financial instruments. To put it another way, the Stock Market is a place where investors and traders may freely trade a wide range of assets and derivatives. Public issues are used to list different businesses on the stock market for their varied commercial ventures. “Long-term investors” are now investing in businesses on the stock market in order to make money. The “Bombay Stock Exchange (BSE), the National Stock Exchange (NSE), and the Calcutta Stock Exchange” are the three primary stock exchanges in India with publicly traded stocks. India's stock market has three major indices. For a particular investment or Market Index, volatility serves as a statistical measure of how widely returns vary. As a general rule, more volatile stocks have higher associated risks. Volatility estimate is critical for a variety of reasons involving many market participants. High-return markets with minimal volatility continue to offer stable returns for a long time. In comparison to industrialised nations, the Indian market has begun to become more informational efficient in the recent years. The research will help the reader comprehend the Indian stock market's history, present, as well as future.

(Drakopoulou, 2016) [4] With this technical paper, everyday equity traders will be able to learn about the top fundamental research and stock valuation methods utilised by active equities portfolio managers when making stock selections. In order to identify patterns that may promote future activity without evaluating the fundamental worth of a company, daily equity traders mainly utilise technical charts and other tools. With the use of chart analysis, traders may identify trades with high chance of success by establishing precise price objectives. This technical paper's goal is to show how important fundamental analysis is to day traders' investing choices. It is based on comparing the “intrinsic value of a stock” to the current market price that fundamental analysis is performed. For a fundamental investor/trader, buying a stock when its intrinsic value surpasses the market price makes sense. This study backs up the notion that stock traders may make better investment choices by combining both investment methods.

(Tanty & Patjoshi, 2016) [5] Volatility in the stock market relates to the fluctuation of stock prices over time. From 2015-16 to 2019-20, this study looks at how volatility clustering and degree of volatility relate in India's stock markets, namely “National Stock Exchange (NSE)” and the “Bombay Stock Exchange (BSE)”. “The GARCH model is used to look for volatility clustering,” and it's discovered that both stock exchange indices and sectoral indexes have clustering. Because of this, investors investing via BSE listings face more risk than those investing through NSE listings, even though both stock exchanges have similar trends in volatility. Overall, the research compares the “Bombay Stock Exchange with the National Stock Exchange” at each stage.

(Ayoyi, 2016) [6] For the purposes of this study, financial markets will be scrutinised for their ability to affect both the size and the direction of economic development in East Africa. The results of previous studies show that the development of the economy is strongly influenced by financial market performance. Researchers look at how the money markets, corporations and governments bond markets, as well as the stock markets in East Africa affect economic development. In order to show how financial market activities, capital flows from other countries, and local market capital structures affect economic development across East Africa, we model our issue to include all of these factors. In order to draw conclusions and provide suggestions, a systematic study of financial markets literature articles was conducted using content analysis. “Foreign direct investment” can only be fully realized if governments, particularly in developing countries, strengthen and create sound financial markets. The financial markets serve as a conduit connecting the economy with the rest of the world's financial markets. If financial markets are effectively handled, the spillover effects of direct foreign investment may have a substantial influence on the economic growth of host nations.

Importance Of Stock Market

While it's important for transport and electricity networks to operate effectively, it's also critical for capital to be saved and channeled to the "most profitable investment projects" and for both households and businesses to receive assistance in dealing with financial risks and uncertainty, and also the ability to spread consumption over time. Every civilization that has progressed beyond the era of mainly domestic economies includes financial markets as an essential component of its infrastructure. The financial markets, including the stock market, serve the following purposes in a country's economy. [10]

- Raising Capital for Businesses: Companies may obtain money for growth by selling shares to the investing public on the stock market.

- Mobilizing savings for Investment: Instead of being utilised for consumption or idle bank deposits, the money is mobilised and redirected to encourage commercial activity, which helps a range of economic sectors including agriculture, trade, and industry, resulting to greater productivity and better economic development.

- Facilitate Company Growth: Many companies see acquisitions as a way to grow their company by adding new products, increasing distribution channels, reducing volatility, and gaining market share. The easiest and most frequent method for a business to expand via acquisition or fusion would be through a takeover offer or merger agreement on the stock market. [11]

- Redistribution of Wealth: When the stock market allows a wide range of people to buy shares and become part owners of successful companies, it reduces substantial wealth inequalities. Increasing stock prices and dividends give both casual & professional stock investors a stake in other people's future profits.

- Creates Investment Opportunities for Small Investors: Investment in shares, in contrast to other companies, does not need a significant initial capital investment, thus it is accessible to both large and small stock investors alike. Consequently, the stock market offers small investors with an additional revenue stream.

- Government Raise Capital for Development Projects: To fund large infrastructure projects like sewage as well as water treatment plants or housing estates, the government or even local governments may opt to issue bonds, a different kind of security. Members of the general public may purchase these bonds when they are listed on the stock market and raised in this manner. Instead of raising taxes on citizens to pay for infrastructure improvements, the government or local council may use this new source of funding. [12]

Conclusion

By distributing investments among many organisations, the market mitigates risk. This is done by combining several little investments into one big one. Because it allows investors to invest in a well-diversified, professionally managed portfolio at a reasonable cost, the stock market is the best place for the average person to put their money to work. As a result of the literature review, we've discovered:

- By listing corporate securities on several stock exchanges at the same time, liquidity of securities and stock exchange performance are both improved.

- The Indian stock market has a history of reckless speculation, and risk cannot be measured or quantified.

- Risk, on the other hand, is based on the volatility of the past.

- Stock market fluctuations are mostly determined by inflation, wide money supply and fiscal deficit in addition to political stability.

- Derivatives, particularly futures, have low execution costs, making them ideal for frequent and short-term trading to better control risk.

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