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INDIAN STOCK MARKET – A ROAD MAP

Dr.V.Santhi*

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Abstract

There are 22 stock exchanges in India, the first being the Bombay Stock Exchange (BSE), which began formal trading in 1875, making it one of the oldest in Asia. Over the last few years, there has been a rapid change in the Indian securities market, especially in the secondary market. Advanced technology and online-based transactions have modernized the stock exchanges. In terms of the number of companies listed and total market capitalization, the Indian equity market is considered large relative to the country's stage of economic development. The number of listed companies increased and market capitalization has grown almost 11 times. This paper focuses different stages of capital market in India like, initial stage, early challenges, various scams, growth of the stock market, current stages of stock market, various reasons for up and downward trend in Indian stock market.

Authors Correspondence :

Dr.V.Santhi*
Associate professor
Department of Humanities
PSG Institute of Technology
Peelamedu, Coimbatore – 641 004
Tamilnadu

INTRODUCTION:

The Indian capital market still faces many challenges if it is to promote more efficient allocation and mobilization of capital in the economy. First, market infrastructure has to be improved as it hinders the efficient flow of information and effective corporate governance. Accounting standards will have to adapt to internationally accept accounting practices. The court system and legal mechanism should be enhanced to better protect small shareholders' rights and their capacity to monitor corporate activities. Second, the trading system has to be made more transparent. Market information is a crucial public good that should be disclosed or made available to all participants to achieve market efficiency.

SEBI should also monitor more closely cases of insider trading. Third, India may need further integration of the national capital market through consolidation of stock exchanges. The trend all over the world is to consolidate and merge existing stock exchanges. Not all of India's 22 stock exchanges may be able to justify their existence. There is a pressing need to develop a uniform settlement cycle and common clearing system that will bring an end to unnecessary speculation based on arbitrage opportunities. Fourth, the payment system has to be improved to better link the banking and securities industries. India's banking system has yet to come up with good Electronic Funds Transfer (EFT) solutions. EFT is important for problems such as direct payments of dividends through bank accounts, eliminating counterparty risk, and facilitating foreign institutional investment. The capital market cannot thrive alone; it has to be integrated with the other segments of the financial system. The global trend is for the elimination of the traditional wall between banks and the securities market. Securities market development has to be supported by overall macroeconomic and financial sector environments. Further liberalization of interest rates, reduced fiscal deficits, fully market-based issuance of Government securities and a more competitive banking sector will help in the development of a sounder and a more efficient capital market in India.

HISTORY:

Bombay Stock Exchange is known to be the oldest stock exchange in the entire Asian region. It had taken roots in 1830, under a banyan tree (now in Horniman Circle) opposite the town hall in Mumbai. That year, six people, calling themselves brokers, started trading in the stocks of East India Company and a few commodities such as jute, tea and cotton.It started functioning in 1875 with the name 'The Native Share and Stock Broker's Association'.

EARLY CHALLENGES:

Under the Securities Contracts (Regulation) Act, 1956, the association got its recognition as a stock exchange in 1956. When it started, it was just an association of persons but with the recognition it got transferred to a corporate and demutualised entity.

In 1957, there were less than 200 listed companies, with a combined market capitalization of about Rs 432 crore. "Only 40-50 scrips were actively traded". BSE had grown out of the banyan tree into concrete buildings. Trading took ground floor of the main building and the second on the fourth floor of the adjacent building. Trading was conducted through the open outcry system. It would start at 12 noon and go on till 2.30 PM. Marwaris and Gujaratis dominated the crowded trading room. It was difficult to catch the order when everybody was shouting. Trading in stocks flourished despite several challenges.

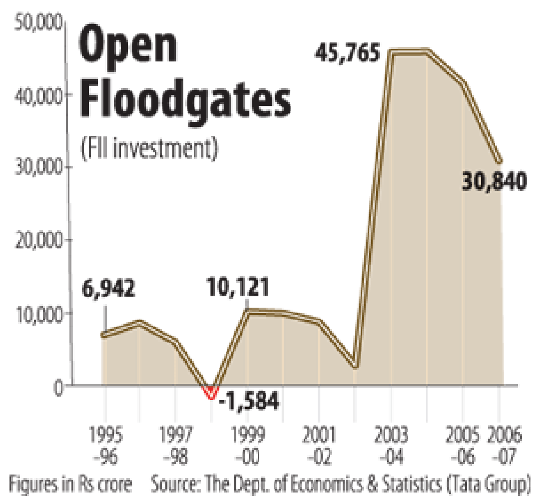
Each member would record transactions made in the trading ring in a book provided by the exchange. "The first column covered purchases and second column, sales with no spaces between two consecutive deals," says Dinesh Thakkar, Chairman and Managing Director of Angel Broking and a market participant for 21 years. There would be frequent disputes, as these transactions were not legal binding. Everything worked on trust.

In those days, companies were not obliged to provide information to investors. However, some well traded companies such as Century, Tata Ordinary (the earlier avtar of Tata Steel), Tata Engineering, Tata Power, ACC, Bombay Dyeing, GE Shipping, Indian Hotels, ITC, Mukand, Berger Paints and Phillips did provide information to investors through stock exchanges. Many companies hardly even released annual results. It was difficult even to gauge the direction in which the market was moving, as there was no stock market index. The Sensex was constituted only in 1979. A few scrips, such as Century and later Tata Ordinary, acted as a proxy for the market.

Though The Capital Issues (Control) Act was cleared in 1947, it provided little protection to investors. The Act made it compulsory for every company set up in India to seek permission to issue fresh shares to the public or make rights issues. According to the Act, permission also had to be obtained for fixing the value of the shares to be issued.Over the next few years, individual pieces of legislation like The Chartered Accountants Act 1949 and the Companies Act of 1956 helped improve the state of the market.

INITIAL SCAMS:

Given the general tax regulatory environment of the initial years, unscrupulous elements made their way into the markets. Post-independence, the first big stock market scam happened in 1955-56. Industrialist Hari Mundra engineered it. He is said to have won the favour of the then Finance Minister TT Krishnamachari (TTK) in getting the Life Insurance Corporation of India (LIC) to invest in the corporate sector and also in his companies. Sagarmal, analysts remembers some details of the scam. Share prices of several companies that Mundra had invested in crashed. LIC is reported to have lost Rs 1 crore. The finance minister was forced to resign, though he was later reappointed.



The '50s were a turbulent period for the markets. TTK struck back with the imposition of wealth and expenditure tax that put pressure on share prices. The economy was sluggish and the finance minister came under pressure for the way he implemented the Five-Year Plan. In 1959, companies were barred from paying out dividends. A tax on bonus issues was also introduced. "The market fell terribly and had to be closed for around one month," says Sagarmal. In those days, periodic shutdowns of the stock market were fairly common—sometimes there would be no trading for a month. This happened again in 1962 during the Indo-China war and in 1965 and 1971 during the Indo-Pak wars. In the period following these wars, high inflation crippled the economy further.

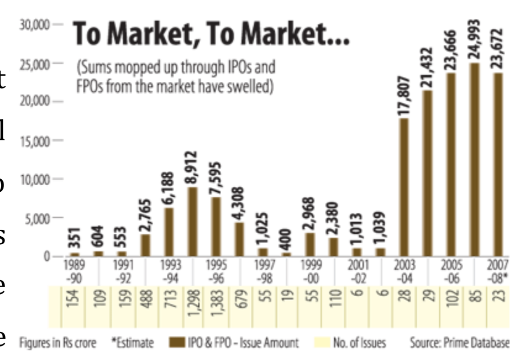
THE FIRST ACTION HERO:

It was during this crisis that Sir Phiroze Jamshedji Jeejeebhoy came to the fore. He became Chairman of the Bombay Stock Exchange in 1966. "PJ himself was an institution and a very honest man". "He was respected by all. As there were no law or regulations governing brokers, he would step in to settle disputes amicably."

In 1966, BSE was rocked by twin crises. First, the government banned forward trading in commodities. Two, it devalued the rupee by 36.5%—from Rs 4.75 to a dollar to Rs 7.50. PJ helped manage the resultant volatility in the exchange by introducing margins and other measures. He also worked on many stock exchange related reforms and helped transform BSE into a modern exchange. He initiated the new BSE building. Unfortunately, he died in 1980, just before the building was completed. It is named after him.

A common theme running through the first four decades after Independence was controls. For instance, from 1947 the Controller of Capital Issues (CCI) controlled the primary market. All initial public offerings (IPOs) had to be cleared by CCI. An IPO always had to be at par. Premium for subsequent issues would be based on a CCI formula. Bonus issues were also restricted. No company was allowed to make more than two bonus issues within a span of five years.

In that era, share prices were governed mostly by news of licenses being issued by the government. Prices would go up if companies were given licenses to manufacture something or allowed to expand their capacity. "Fortunes of companies rarely changed," says Sagarmal. Everything was controlled. There were very few pleasant surprises for investors.



Perhaps the first event that sparked widespread interest among retail investors was the Foreign Exchange Regulations Act (FERA) Act 1973. Government forced multinational corporations (MNCs) to limit foreign ownership to 40% (51% in some high technology areas.) MNCs were asked to offload the balance shares at the price fixed by CCI. Indian investors took advantage of this law and got MNC shares cheap. The next inflection point came in 1977 when Reliance Industries floated its IPO. Then came liberalization in 1991.

LIFE AFTER HARSHAD MEHTA:

But the stock market did not have much time to contemplate the impact of the economy being opened up. It was rocked by a big crisis. Harshad Mehta, a New India Assurance clerk turned Big Bull, found cracks in the banking system through which he sucked out money to drive share prices up. Clearly, lessons from the Hari Mundra episode had not been learnt.

More than liberalisation, it was Harshad Mehta who drove the stock exchanges towards reforms. The scam forced the government to set up the Securities and Exchange Board of India (SEBI) in 1993. The same year Foreign Institutional Investors (FIIs) were allowed to invest in the stock market. In 1994, the government approved setting up the National Stock Exchange (NSE). The mutual fund industry also took wings at this time.

In 1995, online trading was opened to brokers. The open outcry system was abandoned. This brought about a seachange in the culture of investing. When Kisan Ratilal Choksey, Chairman of KR Choksey Shares & Securities started trading in the market in 1961, Kolkata was still an active trading centre. "Exchange of information between Mumbai and Kolkata was very difficult as the phones mostly did not work," he recalls. "But screen-based trading has helped investors outside Mumbai," Choksey adds. This made trading accessible to many investors, even in small towns.

Simultaneously, the National Securities Depository (NSD) opened in 1996. Companies with licences were allowed to open depository services. "Dematerialisation has made our life extremely simple," says Soumil Bhansali of Bhogilal Bhansali Firms, a firm started by his grandfather in 1945.

The trading cycle was shortened from T+14 to T+2. This also reduced the transaction time dramatically from 15-21 days to two days. Transaction costs, too, nose-dived. The high commission charged by brokers about a decade ago (up to 2-3% of the deal price) was brought down to 0.02%. Trading in derivatives like stock index futures, stock index options and futures and options in individual stocks were introduced to provide hedging options and improve the price discovery mechanism.

MOVEMENT OF INDIAN STOCK MARKET BEFORE FOREGIN INVESTMENTS:

During 1830's Business on corporate stocks and shares in Bank and Cotton presses started in Bombay. 1860-1865 Cotton price bubble as a result of the American Civil War. 1870 - 90's sharp increase in share prices of jute industries followed by a boom in tea stocks and coal. 1978-79 Base year of Sensex, defined to be 100. 1986 Sensex first compiled using a market Capitalization-Weighted methodology for 30 component stocks representing well-established companies across key sectors. On July 25, 1990, the Sensex touched the four-digit figure for the first time and closed at 1001 in the wake of a good monsoon and excellent corporate results. On January 15, 1992, the Sensex crossed the 2000-mark and closed at 2020 followed by the liberal economic policy initiatives undertaken by the then finance minister and current Prime Minister Dr Manmohan Singh. On February 29, 1992, the Sensex surged past the 3000 mark in the wake of the market-friendly Budget announced by Dr Manmohan Singh. On March 30, 1992, the Sensex crossed the 4,000-mark and closed at 4091 on the expectations of a liberal export-import policy. It was then that the Harshad Mehta scam hit the markets and Sensex witnessed unabated selling.

MOVEMENT OF INDIAN STOCK MARKET AFTER FOREGIN INVESTMENTS:

- In the year 1993 foreign institutional investors (FIIs) were allowed to invest in the stock market.
    - On October 8, 1999, the Sensex crossed the 5000-mark as the Bharatiya Janata Party-led coalition won the majority in the 13th Lok Sabha election.
    - On February 11, 2000, the information technology boom helped the Sensex to cross the 6000-mark and hit and all time high of 6006.
    - On June 20, 2005, the news of the settlement between the Ambani brothers boosted investor sentiments and the scrips of RIL, Reliance Energy, Reliance Capital and IPCL made huge gains. This helped the Sensex crossed 7000 points for the first time.
    - On September 8, 2005, the Bombay Stock Exchange's benchmark 30-share index – the Sensex - crossed the 8000 level following brisk buying by foreign and domestic funds in early trading.
    - On November 28, 2005 the Sensex crossed 9000 to touch 9000.32 points during mid-session at the Bombay Stock Exchange on the back of frantic buying spree by foreign institutional investors and well supported by local operators as well as retail investors.

- On February 6, 2006 the Sensex touched 10003 points during mid-session. The Sensex finally closed above the 10000-mark on February 7, 2006.
- On March 21, 2006 the Sensex crossed 11000 and touched a peak of 11001 points during mid-session at the Bombay Stock Exchange for the first time. However, it was on March 27, 2006 that the Sensex first closed at over 11000 points.
- On April 20, 2006 the Sensex crossed 12000 and touched a peak of 12004 points during mid-session at the Bombay Stock Exchange for the first time.
- On October 30, 2006 the Sensex crossed the magical figure of 13000 and closed at 13024.26 points, up 117.45 points or 0.9%. It took 135 days for the Sensex to move from 12,000 to 13000 and 123 days to move from 12500 to 13000.
- On December 5, 2006 the Sensex crossed the 14000-mark to touch 14028 points. It took 36 days for the Sensex to move from 13000 to the 14000 mark.
- On July 6, 2007 the Sensex crossed the magical figure of 15000 to touch 15005 points in afternoon trade. It took seven months for the Sensex to move from 14000 to 15000 points.
- On September 19, 2007 sensex scaled yet another milestone during early morning trade on. Within minutes after trading began, the Sensex crossed 16000, rising by 450 points from the previous close. The 30-share Bombay Stock Exchange's sensitive index took 53 days to reach 16000 from 15000. Nifty also touched a new high at 4659, up 113 points. The Sensex finally ended with a gain of 654 points at 16,323. The NSE Nifty gained 186 points to close at 4732.
- On September 26, 2007 sensex scaled yet another height during early morning trade. Within minutes after trading began, the Sensex crossed the 17000-mark. Some profit taking towards the end, saw the index slip into red to 16887 - down 187 points from the day's high. The Sensex ended with a gain of 22 points at 16921.
- On October 9, 2007 the BSE Sensex crossed the 18000-mark. It took just 8 days to cross 18000 points from the 17000 mark. The index zoomed to a new all-time intra-day high of 18327. It finally gained 789 points to close at an all-time high of 18280. The market set several new records including the biggest single day gain of 789 points at close, as well as the largest intra-day gains of 993 points in absolute term backed by frenzied buying after the news of the UPA and Left meeting on October 22 put an end to the worries of an impending election.

- On October 15, 2007 the Sensex crossed the 19000-mark backed by revival of funds-based buying in blue chip stocks in metal, capital goods and refinery sectors. The index gained the last 1000 points in just four trading days. The index touched a fresh all-time intra-day high of 19096, and finally ended with a smart gain of 640 points at 19059.The Nifty gained 242 points to close at 5670.
- On October 29, 2007 the Sensex crossed the 20000 mark on the back of aggressive buying by funds ahead of the US Federal Reserve meeting. The index took only 10 trading days to gain 1000 points after the index crossed the 19000-mark on October 15. The major drivers of today's rally were index heavy weights Larsen and Toubro, Reliance Industries, ICICI Bank, HDFC Bank and SBI among others. The 30-share index spurted in the last five minutes of trade to fly-past the crucial level and scaled a new intra-day peak at 20024.87 points before ending at its fresh closing high of 19977.67, a gain of 734.50 points. The NSE Nifty rose to a record high 5922.50 points before ending at 5905.90, showing a hefty gain of 203.60 points.
- On January 8, 2008 the Sensex peaks. It crossed the 21000 mark in intra-day trading after 49 trading sessions. This was backed by high market confidence of increased FII investment and strong corporate results for the third quarter. However, it later fell back due to profit booking.
- On June13, 2008 the sensex closed below 15200 marks, Indian market suffers with major downfall from January 21, 2008.
- On June 25, 2008 the sensex touched an intra day low of 13731 during the early trades, then pulled back and ended up at 14220 amidst a negative sentiment generated on the Reserve Bank of India hiking CRR by 50 bps. FII outflow continued in this week.
- On July 2, 2008 the sensex hit an intra day low of 12822.70 on July 2, 2008. This is the lowest that it has ever been in the past year. Six months ago, on January 10, 2008, the market had hit an all time high of 21206.70. This is a bad time for the Indian markets, although Reliance and Infosys continue to lead the way with mostly positive results. Bloomberg lists them as the top two gainers for the Sensex, closely followed by ICICI Bank and ITC Ltd.
- On October 6, 2008 the sensex closed at 11801.70 hitting the lowest in the past 2 years.

- On October 10, 2008 the Sensex today closed at 10527, 800.51 points down from the previous day having seen an intraday fall of as large as 1063 points. Thus, this week turned out to be the week with largest percentage fall in the Sensex.
- On Monday October 27, 2008 the bad phase for share market continued further and sensex dropped to a new low in three years. The Bombay Stock Exchange (BSE) sensex crashed below 8,000 points to 7,985.43 Monday morning. At 12.45 pm the sensex dropped by 723.13 points, as funds remained aggressive sellers. Almost all the sectoral indices moved to the negative zone.

About three years back on November 1, 2005, the Sensex witnessed this level, below 8,000 points. However, by 2 pm the sensex recovered from the day's low of 7,697 to 8229, still down by 472.50 points from the beginning of the day. But altogether the sentiment in the share market was not good and major companies saw huge fall in their share prices.

Shares of Reliance Communications and Wipro have crashed 16 per cent each to Rs 162 and Rs 198, respectively. Shares of DLF and Grasim have plunged over 14 per cent each to Rs 175 and Rs 906, respectively. Mahindra & Mahindra and Tata Steel shares dropped down 10 per cent each at Rs 259 and Rs 161, respectively. Shares of Tata Motors fell by 15 per cent to Rs 138. Jaiprakash Associates shares tumbled down by 14.6 per cent at Rs 51. Likewise, National Stock Exchange (NSE) Nifty dropped by 243.75 points to 2340.25 at the same time.

A couple of days back the sensex dropped below 9,000 points and on Monday it slipped below 8,000. If the dismal condition of the market continues for some more time, it would badly affect the small and short time investors.

- On May 18, 2009 the result of 15th Indian general election Sensex gained 2110.79 points from the previous close of 12173.42, a record one-day gain. In the opening trade itself the Sensex evinced a 15% gain over the previous close which led to a two-hour suspension in trading. After trading resumed, the Sensex surged again, leading to a full day suspension of trading.
- After that many strategic investors as well as short term traders entered into the Indian stock market as the share values of many companies where low. On March 31, the sensex was 17602.39.
- On Jan 2010 Market time has been changed from 10 a.m. to 9.00 a.m.

- During 2010, BSE initiated dissemination of information via SWIFT platform, launched Fastrade on Web (FoW) - Exchange hosted platform and EUREX - SENSEX Futures, introduced Mobile-based Trading and Smart Order Routing (SOR) and commenced Shariah Index.
- During 2011, BSE had a tie up with Netmagic for co-location facilities
- Has two leading global strategic partners Reutsche Bourse and Singapore exchange.
- On April 7, 2011, BSE signed a MOU with Osaka Securities Exchange Company Ltd (OSE) to create a co-operative relationship for the development of financial markets in India and Japan

REASONS FOR HIGH MARKET CAPITALIZATION, TRANSACTIONS, GROWTH & VOLTALITY:

All these reforms could not have come at a more opportune time. The completion of the first major wave of reforms coincided with the global liquidity overflow. At about the same time, the growth of the Brazil, Russia, India, China and South Africa(BRICS) economies captured the imagination of global investors and traders. From the turn of the century, money started pouring into India. It hasn't stopped yet. Old-timers analyst like Sagarmal, Choksey and Bhansali remember that it took almost 20 years (1979-1999) for the Sensex to rise from 100 to 5000 points. They believe it was the stock market reforms, free economy and global liquidity that helped the Sensex zoomed from 5000 to 21000 over the next 9 years (1999-2008). Again from (2008-2009) the sensex unzoomed from 21000 to 8000.This is also a good thing as we can see new investors getting into the Indian share market. On March 31, 2010 the sensex was 17602.39.

LATER SCAM BY RAMALINGA RAJU:

Satyam Computer on January 07, 2009 plunged into a deep crisis, as B. Ramalinga Raju resigned as its Chairman after admitting to major financial wrong-doings and saying his last-ditch efforts to fill the "fictitious assets with real ones" through Maytas acquisition failed. Inflated (non-existent) cash and bank balances of Rs 5,040 crore (as against Rs 5,361 crore reflected in the books) it was a time when global economic melt down impacted Indian stock market.

The beleaguered IT giant, already under scanner over the aborted acquisition of firms promoted by the Chairman's family, received a rude shock days ahead of its January 10 board meeting, with Raju stepping down along with his brother and Managing Director B

Rama Raju. "It was like riding a tiger, not knowing how to get off without being eaten," Ramalinga Raju said in a letter to Satyam's board of directors, wherein he listed major financial wrong-doings over the years to inflate the profits.

While Raju recommended DSP Merrill Lynch be entrusted the task of "quickly exploring some merger opportunities," the company informed the stock exchanges that the investment banker has terminated its engagement with Satyam. Noting that every attempt to eliminate gaps in balance sheet, purely on account of inflated profits over several years, failed, Raju said: "I am now prepared to subject myself to the laws of the land and face consequences thereof."

Low percentage of promoter equity in the company, where four independent directors resigned in the last two weeks over the acquisition FIASCO, could lead to a takeover and expose the gap, he said in the letter, also sent to regulator SEBI. The promoters' share in Satyam has now dipped to just over 3 per cent that too is pledged with lenders. Shares of Satyam plunged by over 40 per cent immediately after the announcement of resignations, necessitating an overhaul of the board and management. At last Ramalinga Raju was jailed and the company was governed by the people from **NASSCOM**. In an open auction Tech Mahindra took over the Satyam computers and named as Mahindra Satyam.

CURRENT STATUS OF BOMBAY STOCK EXCHANGE (BSE):

Today, BSE is the world's number one exchange in the world in terms of the number of listed companies (over 4900). It is the world's 5th most active in terms of number of transactions handled through its electronic trading system. And it is in the top ten of global exchanges in terms of the market capitalization of its listed companies (as of December 31, 2009). The companies listed on BSE command a total market capitalization of USD Trillion 1.28 as of Feb, 2010. It is number one exchange in the world in terms of the number of company's listed. As of December 2010, BSE has over 5,034 listed companies and over

7700 scrips. The BSE Index, SENSEX, is India's first and most popular Stock Market benchmark index. Exchange Traded Funds (ETF) on SENSEX, are listed on BSE and in Hong Kong. Futures and options on the index are also traded at BSE.

BSE CONTINUES TO INNOVATE:

- Became the first national exchange to launch its website in Gujarati and Hindi and now Marathi
- Purchased of Marketplace Technologies in 2009 to enhance the in-house technology development capabilities of the BSE and allow faster time-to-market for new products
- Launched a reporting platform for corporate bonds christened the ICDM or Indian Corporate Debt Market
- Acquired a 15% stake in United Stock Exchange (USE) to drive the development and growth of the currency and interest rate derivatives markets
- Launched 'BSE STAR MF' Mutual fund trading platform, which enables exchange members to use its existing infrastructure for transaction in MF schemes.
- BSE now offers AMFI Certification for Mutual Fund Advisors through BSE Training Institute (BTI)
- Co-location facilities for Algorithmic trading
- BSE also successfully launched the BSE IPO index and PSU website
- BSE revamped its website with wide range of new features like 'Live streaming quotes for SENSEX companies', 'Advanced Stock Reach', 'SENSEX View', 'Market Galaxy', and 'Members'
- Launched 'BSE SENSEX MOBILE STREAMER'

With its tradition of serving the community, BSE has been undertaking Corporate Social Responsibility (CSR) initiatives with a focus on Education, Health and Environment. BSE has been awarded by the World Council of Corporate Governance the Golden Peacock Global CSR Award for its initiatives in Corporate Social Responsibility (CSR).

AWARDS FOR BSE:

- The Annual Reports and Accounts of BSE for the year ended March 31, 2006 and March 31, 2007 have been awarded the ICAI awards for excellence in financial reporting.

- The Human Resource Management at BSE has won the Asia - Pacific HRM awards for its efforts in employer branding through talent management at work, health management at work and excellence in HR through technology

BSE IN 2020:

Drawing from its rich past and its equally robust performance in the recent times, BSE will continue to remain an icon in the Indian capital market. One can't but help wonder to see the Sensex scale 40,000 by 2020 by increasing domestic and foreign investors & increasing number of transactions & increasing market capitalization.

FUTURE OF INDIAN STOCK MARKET IS DEPENDENT ON THESE 3 PARAMETERS:

- Future growth of the Indian economy, annual inflation, and productivity related improvements;
- The inflow and outflow of foreign institutional investment; and
- Any movement of price-earnings ratios.

HOT MONEY AND HOT SCENARIO'S:

Of course, the future rise and fall of the stock markets is almost impossible to predict especially because even seasoned investors trade as much using their emotions (and the 'momentum' in the market) as the underlying fundamentals.

Potential of a double-dip recession or stagflation during 2010-12 in some developed nations: Both recession and stagflation in these economies are likely to have a ripple effect in India with a substantial out-flow of FII money, an overall negative sentiment with respect to price/earnings ratios in the Indian stock markets, and an inability of Indian firms to export their goods and services to these developed economies.

FII money flooding the Indian stock market: The inflow of FII money during April-December 2009 was because:

- FIIs consider India, China, and other emerging markets as regions of significant growth and where wealth would be created during the next decade;
- The interest rates that central banks are charging in many developed economies (e.g., the United States) is close to zero and therefore it is cheaper for FIIs to borrow money in their home-countries and then invest in emerging countries like India; and

- The stock markets in the US and other developed countries may have already peaked at least for now.

If these reasons continue to hold for the next six to twelve months and especially if the stock markets in developed economies continue to move sideways or downwards, FII money can flood the Indian stock market again, whose inability to absorb so much money will make it extremely volatile. The fundamental trouble with this 'hot money' is that it can cause massive imbalances

MAIN REASONS FOR INDIAN STOCK MARKET UP TREND:

POLITICAL STABILITY: This is the single most major reason for stock market crash. Investors especially FIIs like political stability to invest. Even though political turmoil will have no significant impact on the growth of companies, stock markets always positively respond to political stability.

RBI DECISION: During very less inflation or deflation RBI will cut interest rate by decreasing CRR and is major positive news for markets.

POSITIVE NEWS: When markets rose too slowly with a long span, single positive news will create huge volume of money getting into stock markets.

GOVERNMENT POLICIES: Government policies rarely support companies over people, during that time we may see huge money inflow into stock markets.

FOREIGN INSTITUTIONAL INVESTORS (FII's): FII's inflow into stock market will make the country have lot of foreign cash reserve hence making the stock prices high.

NO OR LESS ECONOMIC GROWTH: The business houses and companies does not like no or less economic growth hence lead to economic growth by increasing capital and production.

NO PROFIT BOOKING: Shrewd investor always book profits just before every crash whether it is in 2000 or 2006. Greedy investors always lose money in every crash. Decide yourself whether you are greedy or not?

US MARKET: US fed rate cut created euphoria among investors but this actually showed positive impact on the stock market on short term basis & not on long term basis.

MAIN REASONS FOR INDIAN STOCK MARKET DOWN TREND:

POLITICAL INSTABILITY: This is the single most major reason for stock market crash. Investors especially FIIs never prefer political instability and they will book profits and go to another country. Even though political turmoil will have no significant impact on the growth of companies, stock markets always negatively respond to political instability.

RBI DECISION: Don't expect positive news from RBI. No government will allow raising inflation by cutting interest rate cut just before elections. RBI will definitely raise CRR and is major negative news for markets.

NEGATIVE NEWS: When markets rose too high within a short span, single negative news will create havoc in stock markets. Markets discounted negative news like crude rise, rupee appreciation, inflation concerns in U.S after fed rate cut and slow down in economic growth etc. How long investors will discount all these negative news?

GOVERNMENT POLICIES: If mid-term polls are inevitable, Government prefers people over companies. Popular policies will slow down momentum which will negatively impact investor's sentiment towards India.

FOREGIN INSTITUTIONAL INVESTORS (FII's): FIIs were major culprits for August 2009 crash and October 2009 crash. Just see and learn how they are cashing money from every rise?

ECONOMIC GROWTH: The business houses and companies does not like very high economic growth hence lead to economic down trend by decreasing capital & production.

PROFIT BOOKING: Shrewd investor always book profits just before every crash whether it is in 2000 or 2006 or 2009 Greedy investors always lose money in every crash. Decide yourself whether you are greedy or not?

US MARKETS: US fed rate cut created euphoria among investors but this will actually show negative impact on the long term on credit crisis. It treated chronic disease in acute manner. Instead of curing root causes of credit concerns, it went in superficial manner which will cause inflation pressure in America and severely impact economy.

WHY INVESTORS INVEST IN INDIAN SHARE MARKET?

- An investor does not require a lot of money to start investing in Indian share market unlike buying property and paying off a monthly mortgage.
- Time of trading involved spans from small to big. One can trade for a short period of time or even a lengthy span.
- It helps you to see 'fast' cash if the market is in robust mood and helps in fast liquidation.
- Even if the market is in negative side it will recover soon to positive side.

ESSENTIAL RULES FOR INVESTORS INVESTING IN INDIAN SHARE MARKET:

- Whenever share market is at its crest it is bound to dip at some point of time.
- If the share market is down, it will only increase if there are no external aspects influencing it.

- Unlike the common belief of investing in booming share market, it is advisable not to block your hard earned money in already flourishing Sensex and NIFTY. It is better to wait for market bottom trend and then purchase shares at lower cost in order to trade it later.
- The excellent time for investment is when the market is low keeping the basics in consideration.
- Seek the advice of professionals who will not only provide you tips on best investment options but also on favorable market conditions.
- Update yourself on the prevailing market conditions
- Whenever market witness an upward trend always purchase first and then sell the securities, and when the market dips always buy later and sell first.

TIPS ON INVESTING INTELLIGENTLY IN INDIAN SHARE MARKET:

- Consider selling the shares which you have bought long time back and are indicating gains. Even if they are not willing to offer you considerable gains then its time to get rid of them are invest your money in productive schemes.
- Diversify your shares buy investing in different sectors. Also consider investing in equity funds and to stabilize your equity investments invest a part in fixed income options like the bonds, public provident fund, National savings certificates and post office deposits. You can also consider a balanced or debt fund if you have restrained budget.
- Do not consider the shares based on layman's advice. Stride carefully and invest in shares that you are comfortable investing in. Judge the firm by its past records and assess it personally. Take the advice of the fund manager who manages that specific fund.
- If you have allocated more than half of your investments in equity, then stick to your plan. Do not surpass that pre-decided perimeter and believe in the performance of the market.

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