



# INDIAN STOCK MARKETS

Group No:13

# What is a Stock?

- **An instrument-** that signifies an ownership position (called equity) in a corporation, and represents a claim on its proportional share in the corporation's assets and profits.
- **For example,** if a company has 1000 shares of stock outstanding and a person owns 50 of them, then he/she owns 5% of the company.
- Most stock also provides voting rights, which give shareholders a proportional vote in certain corporate decisions

# What is Stock market?

- A stock market is a place where the stocks and securities of various companies are traded.
- **“Stock exchange”** - means anybody of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities.

# History of Stock Market

- **11th century, *courratiers de change*** of France, managed and regulated the debts of agricultural communities on behalf of the banks. As these men traded in debts, they were known as "brokers".
- **13th century commodity** traders in Bruges gathered inside the house of a man called Van der Burse, and they institutionalized this until now informal meeting and became **the "Bruges Bourse"**. -Belgium



# History of Stock Market (Cont..)

- 1602, Dutch East India company established Amsterdam Stock Exchange and they were the first company to issue stocks and bonds.
- The first shares on the **Amsterdam Stock Exchange** . It was the **first company** to issue stocks and bonds.

# History of Stock Market (Cont..)

- **London Stock Exchange:** This is one of the oldest stock exchanges in the world and was established in 1698. The founder of London Stock Exchange was John Castaing. Today, London Stock Exchange lists 3,500 companies, representing 84 countries.
- **New York Exchange:** The New York Exchange is the oldest and the most well-known of all American stock markets. This was established in 1792. NYSE has a total capitalization of nearly \$20 trillion and lists 2,800 companies.
- **American Stock Exchange:** The American Stock Exchange is also known as Amex (**Established in 1849**). The American Stock Exchange was associated with the mining industry. In 1921, American Stock Exchange enlisted companies, which did not meet the standards of the New York Stock Exchange.

# History of Stock Market (Cont..)

- **Bombay Stock Exchange:** One of the oldest stock exchange markets in Asia is Bombay Stock Exchange and it was established in 1875. Today, around 2,000,000 shares of stock are traded daily
- **NASDAQ:** National Association of Securities Dealers Automated Quotation or NASDAQ was established in 1971. This was the first stock exchange to introduce the concept of electronics in stock trading. (America)

# TWO MAJOR STOCK MARKETS

■ BSE

(BOMBAY STOCK EXCHANGE)



■ NSE

(NATIONAL STOCK EXCHANGE)





- Is the oldest Stock Exchange in Asia with a rich heritage.
- BSE was established in 1875 as “The Native Share & Stock Brokers”.
- First Stock Exchange in the country to obtain permanent recognition in 1956 from GOI.
- Around 4700 Indian companies listed with Stock Exchange.
- As of 2005, it is among the five biggest Stock Exchanges in the world in terms of transactions volume.

# BOMBAY STOCK EXCHANGE (Cont..)



- The BSE or Bombay stock exchange sensitive Index (Sensex) is a value weighted index. Composed of 30 stocks with the base April 1979=100.
- The abbreviated form Sensex was coined by Deepak Mohoni around 1990 while writing market analysis columns for some business newspaper.
- The index has increased by over 13 times from June 1990 to today. Using information from April 1979 onwards the long run rate of return on the BSE Sensex can be estimated to be 0.52% per week (continuously compounded) with a standard deviation of 3.67%. This translates to 27% per annum, which translates to roughly 18% pa after compensating for inflation.

# National Stock Exchange (NSE)



- In the year 1991 Pherwani Committee recommended to establish **National Stock Exchange (NSE)** in India.
- In **National Stock Exchange** there is trading of equity shares, bonds and government securities.
- The **NSE** India ranked **3<sup>rd</sup>** position since last 4 years in terms of total number of trading per calendar year.
- Presently there are 24 stock exchanges in India, out of which 20 have exchanges **National Stock Exchange (NSE)**

# Cont..

## ***The NSE operates in:***

- Wholesale Debt market
- Capital Market.

## ■ ***Objectives:***

- To establish nation wide trading facility for all types of securities.
- Ensuring equal access to investors all over the country through an appropriate telecommunication network
- Providing fair, efficient & transparent securities market using electronic trading system
- Enabling shorter settlement cycles and book entry settlements
- Meeting International benchmarks and standards

# Securities and Exchange Board of India(SEBI)



The SEBI was constituted in 1988 by a resolution of GOI and it was made a statutory body by the Securities and Exchange Board of India Act, 1992.

- The Act empowers the Central Government to supersede SEBI if on account of emergency, SEBI is unable to perform the functions and duties under any provision of the ACT.

## **Objective:**

- To protect the interests of investors in securities and to promote the development of and to regulate the securities market for matters connected therewith.

## **Powers and Functions:**

- Regulates the business in stock exchanges and any other securities market.
- Registering and regulating the working of stock brokers, sub-brokers etc.
- Registering and regulating the working of collective investment schemes
- Promoting and regulating self regulatory organizations
- Prohibiting fraudulent and unfair trade practices in securities market
- Promoting investor education and training of intermediaries in securities market
- Prohibiting insider trading in securities.
- Regulating substantial acquisition of shares and take-over by companies
- Conducting inspection and inquiries
- Levying fees or other charges
- Conducting research

# Sensex



- It consists of the 30 largest and most actively traded stocks, representative of various sectors, on the Bombay Stock Exchange.
- These companies account for around one-fifth of the market capitalization of the BSE.
- The base value of the Sensex is 100 on April 1, 1979, and the base year of BSE-SENSEX is 1978-79

# Sensex (Cont..)

- Launched on full market capitalization method and from September 01, 2003, calculation method shifted to free-float market capitalization.
- The free-float method, therefore, does not include restricted stocks, such as those held by promoters, government and institutional investors

# Dematerialization

- Dematerialization in short called as '**demat**' is the process by which an investor can get physical certificates converted into electronic form maintained in an account with the Depository Participant. The investors can dematerialize only those share certificates that are already registered in their name and belong to the list of securities admitted for dematerialization at the depositories.



# Market Timings

Trading on the equities segment takes place on all days of the week (except Saturdays and Sundays and holidays declared by the exchange in advance)

The market timings of the equities segment are:

Normal market open : 9:00 am hours

Normal market close : 3:30 pm hours

The closing session is held between 15.50 hours and 16.00 hours in NSE and 15.40 hours and 16.00 hours in BSE

# Trading Required

Step 1 PAN Card

Step 2 (Demat a/c)

Subscribe to a trading account with one of the major online broking houses.

Step 3

Now major challenge starts is to learn trading. You can read books, join online charting communities, blogs, membership site or get into a mentorship program.

Step 4

Apply your knowledge and start trading.

# Offline trading

In offline trading the investor places orders with the stockbroker either verbally (personally or telephonically) or in a written form (fax). This may be because he is not comfortable in accessing the Internet.



## Highlights

- Trading over the phone
- No access to live market watch
- Absence of online Fund transfer

# Online trading

Online trading means trading/investing in equities, derivatives, commodities etc through the Internet. It enables the investor to electronically connect (through Internet) to buy or sell stocks, derivatives etc with the other investors. In online trading, one can access a stockbroker's website through an Internet-enabled PC and can place orders.

Online trading started in February 2000 when a couple of brokers started offering an online trading platform for their customers.

## Highlights

- Streaming quotes
- Self-execution and instant confirmation
- Complete control over their trading decisions
- Can access accounts Online
- Convenience of trade
- Wide access to historical charts and past data



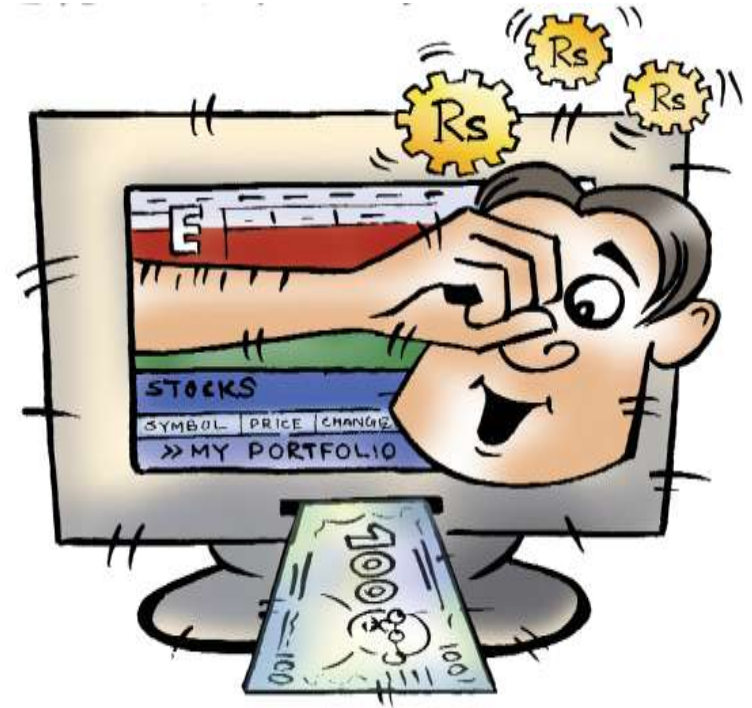
# Why Stock Prices Rises ?

- News about company
- News about the Country
- Exchange rate regime
- Demand & Supply



# Benefits of investing in shares

- Possibility of high returns
- Easy liquidity
- Unbeatable tax benefits
- Income from dividends



# Market Segments

- Primary market
  - Channel for creation of new securities
- Secondary market
  - The new securities issued in the primary market are traded the secondary market

# Methods of issuing securities in the Primary Market

- 1. Initial Public Offer;
- 2. Rights Issue (For existing Companies); and
- 3. Preferential Issue.



# Types of orders

- instructions from investors to brokers
- market order
  - buy/sell order to be executed at best price
    - get lowest price for buy order
    - get highest price for sell order
  - market orders given priority in trading
  - no guarantee of execution price
    - price could rise/fall from time order is placed to time it is executed

# limit order

- buy/sell order where investor specifies price range
- “buy at Rs.50 or less”
- “sell at Rs.52 or more”
- specialist records orders in  
    limit order book
- investor sets reservation price

BUT

- no guarantee that limit order will be executed

# short selling

- sale of borrowed stock
- profit from belief that stock price is too high will fall soon
- how?
  - borrow stock through broker
  - sell stock
  - buy and return later

# short selling (Cont..)

Short selling could further destabilize falling prices

- tick test rules on exchange
- so short sellers
  - believe price will fall and SOON
  - but price not currently falling
  - face unlimited losses if price rises

# Circuit Breakers

- An index based market-wide circuit breaker system applies at three stages of the index movement either way at 10%, 15% and 20%.
- The breakers are triggered by movement of either S&P CNX Nifty or Sensex, whichever is breached earlier

# Clearing and Settlement

- Stock Markets follow a system of settling trades on T+2 basis, which means transactions done on Monday, are to be settled by Wednesday by way of giving securities or funds.
- Providing of securities or funds to Exchange / Clearing Corporation is called 'Pay-In'.
- Receiving securities or funds from Exchange / Clearing corporation is called 'Pay-Out'.

# Clearing and Settlement

- Sometimes trades don't get settled because of short or bad delivery or company objection.
- In such cases ,trade is settled through auction of securities.
- If a trade remains unsettled even after auction,then Exchange carries 'Close Out'

# Auction

- An Auction Tender Notice is issued by the Exchange to the members informing them about the names of the scrip short or not delivered.
- The auction for the undelivered quantities is conducted on T+3 day between 11:00 a.m. and 12 noon for all the scrip under Compulsory Rolling Settlements except those in "Z" group and scrip on "trade to trade" basis which are directly closed-out.
- A member-broker who has failed to deliver the securities of a particular company on the pay-in day is not allowed to offer the same in auction. The members, who participate in the auction session, can download the Delivery Orders in respect of the auction obligations on the same day, if their offers are accepted. The members are required to deliver the shares in the Clearing House on the auction Pay-in day, i.e., T+4.
- Pay-out of auction shares and funds is also done on the same day, i.e., T+4.



# Functions of Stock Exchange

- Promotes the savings
- Provide liquidity to investors
- Profitable activities for companies
- Permits for the investor to have a political power in the companies
- Possibility of diversifying your portfolio

# The role of stock exchanges

- Raising capital for businesses
- Mobilizing savings for investment
- Facilitating company growth
- Redistribution of wealth
- Corporate governance
- Creating investment opportunities for small investors
- Government capital-raising for development projects
- Barometer of the economy



# Commonly used contracts

- **Forwards:** A forward contract is a customized contract between two entities, where settlement takes place on a specific date in the future at today's pre-agreed price.

**Futures:** A futures contract is an agreement between two parties to buy or sell an asset at a certain time in the future at a certain price. Futures contracts are special types of forward contracts in the sense that the former are standardized exchange-traded contracts.

# Commonly used contracts (Cont..)

- **Options:** Options are of two types - calls and puts. Calls give the buyer the right but not the obligation to buy a given quantity of the underlying asset, at a given price on or before a given future date. Puts give the buyer the right, but not the obligation to sell a given quantity of the underlying asset at a given price on or before a given date.

**Swaps:** Swaps are private agreements between two parties to exchange cash flows in the future according to a prearranged formula. They can be regarded as portfolios of forward contracts. The two commonly used swaps are:

# Commonly used contracts (Cont..)

- Interest rate swaps: These entail swapping only the interest related cash flows between the parties in the same currency.
- Currency swaps: These entail swapping both principal and interest between the parties, with the cash flows in one direction being in a different currency than those in the opposite direction.

# Commonly used contracts (Cont..)

- **Warrants:** Options generally have lives of upto one year, the majority of options traded on options exchanges having a maximum maturity of nine months. Longer-dated options are called warrants and are generally traded over-the-counter.

**LEAPS:** The acronym LEAPS means Long-Term Equity Anticipation Securities. These are options having a maturity of upto three years.

# Commonly used contracts (Cont..)

- **Baskets:** Basket options are options on portfolios of underlying assets. The underlying asset is usually a moving average or a basket of assets. Equity index options are a form of basket options.

**Swaptions:** Swaptions are options to buy or sell a swap that will become operative at the expiry of the options. Thus a swaption is an option on a forward swap. Rather than have calls and puts, the swaptions market has receiver swaptions and payer swaptions. A receiver swaption is an option to receive fixed and pay floating. A payer swaption is an option to pay fixed and receive floating.



Thank You