PROJECT ON
A STUDY ON STOCK MARKET.

A Project Submitted to

University of Mumbai for partial completion of the degree of

Bachelor of Financial Markets

Under the Faculty of Commerce

SEMESTER VI
2020-2021

By

NITA NARAMWAR

ROLL NO: 324

Under the Guidance of

MR. NAGARAJ ARABHAVI

RAMANAND ARYA D.A.V. COLLEGE, MUMBAI.

RAMANAND ARYA D.A.V. COLLEGE, MUMBAI.

Certificate

This is to certify that **Ms. Nita Naramwar** has worked and duly completed his Project Work for the degree of Bachelor of Financial Market under the Faculty of Commerce in the subject of **Finance** and his project is entitled,

"*A Study On Stock Market.*" under my supervision.

I further certify that the entire work has been done by the learner under my guidance and that no part of it has been submitted previously for any Degree or Diploma of any University.

It is his own work and facts reported by his personal findings and investigations.

Course Co-ordinator
Mrs.Chandrakala Shrivastava

Principal
Dr. Ajay Bhamare

Project Guide
Prof. Nagraj Arabhavi

External Examiner

Internal Examiner
Prof. Nagraj Arabhavi

Date of Submission:

Declaration

I the undersigned **Ms. Nita Naramwar** here by, declare that the work embodied in this project work titled **"*A Study On Stock Market.*"**, forms my own contribution to the research work carried out under the guidance of **Mr. Nagaraj Arabhavi** is a result of my own research work and has not been previously submitted to any other University for any other Degree/ Diploma to this or any other University. Wherever reference has been made to previous works of others, it has been clearly indicated as such and included in the bibliography.

I, here by further declare that all information of this document has been obtained and presented in accordance with academic rules and ethical conduct.

Ms. Nita Naramwar
Name and Signature of the student

Certified by **: Prof. Nagraj Arabhavi**

Name and signature of the Guiding Teacher

Acknowledgment

To list who all have helped me is difficult because they are so numerous and the depth is so enormous.

I would like to acknowledge the following as being idealistic channels and fresh dimensions in the completion of this project.

I take this opportunity to thank the **University of Mumbai** for giving me chance to do this project.

I would like to thank my **Principal,** for providing the necessary facilities required for completion of this project.

I take this opportunity to thank our **Coordinator,** for his moral support and guidance.

I would also like to express my sincere gratitude towards my project guide **Mr. Nagaraj Arabhavi** whose guidance and care made the project successful.

I would like to thank my **College Library**, for having provided various reference books and magazines related to my project.

Lastly, I would like to thank each and every person who directly or indirectly helped me in the completion of the project especially **my Parents and Peers** who supported me throughout my project.

Index

Introduction

The capital market is the market for securities, where

Companies and governments can raise long-term funds. It is a market in which money is lent for periods longer than a year. A nation's capital market includes such financial institutions as banks, insurance companies, and stock exchanges that channel long-term investment funds to commercial and industrial borrowers. Unlike the money market, on which lending is ordinarily short term, the capital market typically finances fixed investments like those in buildings and machinery.

Nature and Constituents:

The capital market consists of number of individuals and institutions (including the government) that canalize the supply and demand for longterm capital and claims on capital. The stock exchange, commercial banks, co-operative banks, saving banks, development banks, insurance companies, investment trust or companies, etc., are important constituents of the capital markets.

The capital market, like the money market, has three important

Components, namely the suppliers of loanable funds, the borrowers and the

Intermediaries who deal with the leaders on the one hand and the Borrowers on the other.

 The demand for capital comes mostly from agriculture, industry, trade

The government. The predominant form of industrial organization developed Capital Market becomes a necessary infrastructure for fast industrialization. Capital market not concerned solely with the issue of new claims on capital, But also with dealing in existing claims.

Debt or Bond market

The bond market (also known as the debt, credit, or fixed income market) is a financial market where participants buy and sell debt securities, usually in the form of bonds. As of 2009, the size of the worldwide bond market (total debt outstanding) is an estimated $82.2 trillion [1], of which the size of the outstanding U.S. bond market debt was $31.2 trillion according to BIS (or alternatively $34.3 trillion according to SIFMA).

Nearly all of the $822 billion average daily trading volume in the U.S. bond market takes place between broker-dealers and large institutions in a decentralized, over-the-counter (OTC) market. However, a small number of bonds, primarily corporate, are listed on exchanges.

References to the "bond market" usually refer to the government bond market, because of its size, liquidity, lack of credit risk and, therefore, sensitivity to interest rates. Because of the inverse relationship between bond valuation and interest rates, the bond market is often used to indicate changes in interest rates or the shape of the yield curve.

Contents

Market structure

Bond markets in most countries remain decentralized and lack common exchanges like stock, future and commodity markets. This has occurred, in part, because no two bond issues are exactly alike, and the variety of bond securities outstanding greatly exceeds that of stocks.

However, the New York Stock Exchange (NYSE) is the largest centralized bond market, representing mostly corporate bonds. The NYSE migrated from the Automated Bond System (ABS) to the NYSE Bonds trading system in April 2007 and expects the number of traded issues to increase from 1000 to 6000.

Besides other causes, the decentralized market structure of the corporate and municipal bond markets, as distinguished from the stock market structure, results in higher transaction costs and less liquidity. A study performed by Profs Harris and Piwowar in 2004, Secondary Trading Costs in the Municipal Bond Market, reached the following conclusions: (1) "Municipal bond trades are also substantially more expensive than similar sized equity trades. We attribute these results to the lack of price transparency in the bond markets. Additional cross-sectional analyses show that bond trading costs decrease with credit quality and increase with instrument complexity, time to maturity, and time since issuance." (2) "Our results show that municipal bond trades are significantly more expensive than equivalent sized equity trades. Effective spreads in municipal bonds average about two percent of price for retail size trades of 20,000 dollars and about one percent for institutional trade size trades of 200,000 dollars."

Types of bond markets

The Securities Industry and Financial Markets Association (SIFMA) classifies the broader bond market into five specific bond markets.

- Corporate
- Government & agency
- Municipal
- Mortgage backed, asset backed, and collateralized debt obligation
- Funding

Bond market participants

Bond market participants are similar to participants in most financial markets and are essentially either buyers (debt issuer) of funds or sellers (institution) of funds and often both.

Participants include:

- Institutional investors
- Governments
- Traders
- Individuals

Because of the specificity of individual bond issues, and the lack of liquidity in many smaller issues, the majority of outstanding bonds are held by institutions like pension funds, banks and mutual funds. In the United States, approximately 10% of the market is currently held by private individuals.

Bond market size

Amounts outstanding on the global bond market increased 10% in 2009 to a record $91 trillion. Domestic bonds accounted for 70% of the total and international bonds for the remainder. The US was the largest market with 39% of the total followed by Japan (18%). Mortgage-backed bonds accounted for around a quarter of outstanding bonds in the US in 2009 or some $9.2 trillion. The sub-prime portion of this market is variously estimated at between $500bn and $1.4 trillion. Treasury bonds and corporate bonds each accounted for a fifth of US domestic bonds. In Europe, public sector debt is substantial in Italy (93% of GDP), Belgium (63%) and France (63%). Concerns about the ability of some countries to continue to finance their debt came to the forefront in late 2009. This was partly a result of large debt taken on by some governments to reverse the economic downturn and finance bank bailouts. The outstanding value of international bonds increased by 13% in 2009 to $27 trillion. The $2.3 trillion issued during the year was down 4% on the 2008 total, with activity declining in the second half of the year.

Bond market volatility

For market participants who own a bond, collect the coupon and hold it to maturity, market volatility is irrelevant; principal and interest are received according to a pre-determined schedule.

But participants who buy and sell bonds before maturity are exposed to many risks, most importantly changes in interest rates. When interest rates increase, the value of existing bonds fall, since new issues pay a higher yield. Likewise, when interest rates decrease, the value of existing bonds rise, since new issues pay a lower yield. This is the fundamental concept of bond market volatility: changes in bond prices are inverse to changes in interest rates. Fluctuating interest rates are part of a country's monetary policy and bond market volatility is a response to expected monetary policy and economic changes.

Economists' views of economic indicators versus actual released data contribute to market volatility. A tight consensus is generally reflected in bond prices and there is little price movement in the market after the release of "in-line" data. If the economic release differs from the consensus view the market usually undergoes rapid price movement as participants interpret the data. Uncertainty (as measured by a wide consensus) generally brings more volatility before and after an economic release. Economic releases vary in importance and impact depending on where the economy is in the business cycle.

Bond market influence

Bond markets determine the price in terms of yield that a borrower must pay in able to receive funding. In one notable instance, when President Clinton attempted to increase the US budget deficit in the 1990s, it led to such a sell-off (decreasing prices; increasing yields) that he was forced to abandon the strategy and instead balance the budget.

> “ I used to think that if there was reincarnation, I wanted to come back as the president or the pope or as a .400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody. ”
>
> — James Carville, political advisor to President Clinton, Bloomberg [6]

Bond investments

Investment companies allow individual investors the ability to participate in the bond markets through bond funds, closed-end funds and unit-investment trusts. In 2006 total bond fund net inflows increased 97% from $30.8 billion in 2005 to $60.8 billion in 2006.Exchange-traded funds (ETFs) are another alternative to trading or investing directly in a bond issue. These securities allow individual investors the ability to overcome large initial and incremental trading sizes.

Bond indices

Main article: Bond market index

A number of bond indices exist for the purposes of managing portfolios and measuring performance, similar to the S&P 500 or Russell Indexes for stocks. The most common American benchmarks are the Barclays Aggregate, Citigroup BIG and Merrill Lynch Domestic Master. Most indices are parts of families of broader indices that can be used to measure global bond portfolios, or may be further subdivided by maturity and/or sector for managing specialized portfolios.

STOCK OR EQUITY MARKET

A **stock market** or **equity market** is a public market (a loose network of economic transactions, not a physical facility or discrete entity) for the trading of company stock and derivatives at an agreed price; these are securities listed on a stock exchange as well as those only traded privately.

The size of the world stock market was estimated at about $36.6 trillion US at the beginning of October 2008. The *total* world derivatives market has been estimated at about $791 trillion face or nominal value, 11 times the size of the entire world economy. The value of the derivatives market, because it is stated in terms of *notional values*, cannot be directly compared to a stock or a fixed income security, which traditionally refers to an actual value. Moreover, the vast majority of derivatives 'cancel' each other out (i.e., a derivative 'bet' on an event occurring is offset by a

comparable derivative 'bet' on the event *not* occurring). Many such relatively illiquid securities are valued as marked to model, rather than an actual market price.

The stocks are listed and traded on stock exchanges which are entities of a corporation or mutual organization specialized in the business of bringing buyers and sellers of the organizations to a listing of stocks and securities together. The largest stock market in the United States, by market cap is the New York Stock Exchange, NYSE, while in Canada, it is the Toronto Stock Exchange. Major European examples of stock exchanges include the London Stock Exchange, Paris Bourse, and the Deutsche Börse. Asian examples include the Tokyo Stock Exchange, the Hong Kong Stock Exchange, the Shanghai Stock Exchange, and the Bombay Stock Exchange. In Latin America, there are such exchanges as the BM&F Bovespa and the BMV.

Contents

Trading

Participants in the stock market range from small individual stock investors to large hedge fund traders, who can be based anywhere. Their orders usually end up with a professional at a stock exchange, who executes the order.

Some exchanges are physical locations where transactions are carried out on a trading floor, by a method known as open outcry. This type of auction is used in stock exchanges and commodity exchanges where traders may enter "verbal" bids and offers simultaneously. The other type of stock exchange is a virtual kind, composed of a network of computers where trades are made electronically via traders.

Actual trades are based on an auction market model where a potential buyer *bids* a specific price for a stock and a potential seller *asks* a specific price for the stock. (Buying or selling *at market* means you will accept *any* ask price or bid price for the stock, respectively.) When the bid and ask prices match, a sale takes place, on a first-come-first-served basis if there are multiple bidders or askers at a given price.

The purpose of a stock exchange is to facilitate the exchange of securities between buyers and sellers, thus providing a marketplace (virtual or real). The exchanges provide real-time trading information on the listed securities, facilitating price discovery.

The New York Stock Exchange is a physical exchange, also referred to as a *listed* exchange — only stocks listed with the exchange may be traded. Orders enter by way of exchange members and flow down to a floor broker, who goes to the floor trading post specialist for that stock to trade the order. The specialist's job is to match buy and sell orders using open outcry. If a spread exists, no trade immediately takes place--in this case the specialist should use his/her own resources (money or stock) to close the difference after his/her judged time. Once a trade has been made the details are reported on the "tape" and sent back to the brokerage firm, which then notifies the investor who placed the order. Although there is a significant amount of human contact in this process, computers play an important role, especially for so-called "program trading".

The NASDAQ is a virtual listed exchange, where all of the trading is done over a computer network. The process is similar to the New York Stock Exchange. However, buyers and sellers are electronically matched. One or more NASDAQ market makers will always provide a bid and ask price at which they will always purchase or sell 'their' stock.

The Paris Bourse, now part of Euronext, is an order-driven, electronic stock exchange. It was automated in the late 1980s. Prior to the 1980s, it consisted of an open outcry exchange. Stockbrokers met on the trading floor or the Palais Brongniart. In 1986, the CATS trading system was introduced, and the order matching process was fully automated.

From time to time, active trading (especially in large blocks of securities) have moved away from the 'active' exchanges. Securities firms, led by UBS AG, Goldman Sachs Group Inc. and Credit Suisse Group, already steer 12 percent of U.S. security trades away from the exchanges to their internal systems. That share probably will increase to 18 percent by 2010 as more investment banks bypass the NYSE and NASDAQ and pair buyers and sellers of securities themselves, according to data compiled by Boston-based Aite Group LLC, a brokerage-industry consultant.

Now that computers have eliminated the need for trading floors like the Big Board's, the balance of power in equity markets is shifting. By bringing more orders in-house, where clients can move big blocks of stock *anonymously*, brokers pay the exchanges less in fees and capture a bigger share of the $11 billion a year that institutional investors pay in trading commissions as well as the surplus of the century had taken place.

Market participants

A few decades ago, worldwide, buyers and sellers were individual investors, such as wealthy businessmen, with long family histories (and emotional ties) to particular corporations. Over time, markets have become more "institutionalized"; buyers and sellers are largely institutions (e.g., pension funds, insurance companies, mutual funds, index funds, exchange-traded funds, hedge funds, investor groups, banks and various other financial institutions). The rise of the institutional investor has brought with it some improvements in market operations. Thus, the government was responsible for "fixed" (and exorbitant) fees being markedly reduced for the 'small' investor, but only after the large institutions had managed to break the brokers' solid front on fees. (They then went to 'negotiated' fees, but only for large institutions.

However, corporate governance (at least in the West) has been very much adversely affected by the rise of (largely 'absentee') institutional 'owners'.

History

Established in 1875, the Bombay Stock Exchange is Asia's first stock exchange.

In 12th century France the *courratiers de change* were concerned with managing and regulating the debts of agricultural communities on behalf of the banks. Because these men also traded with debts, they could be called the first brokers. A common misbelief is that in late 13th century Bruges commodity traders gathered inside the house of a man called *Van der Beurze*, and in 1309 they became the "Brugse Beurse", institutionalizing what had been, until then, an informal meeting, but actually, the family Van der Beurze had a building in Antwerp where those gatherings occurred; the Van der Beurze had Antwerp, as most of the merchants of that period, as their primary place for trading. The idea quickly spread around Flanders and neighboring counties and "Beurzen" soon opened in Ghent and Amsterdam.

In the middle of the 13th century, Venetian bankers began to trade in government securities. In 1351 the Venetian government outlawed spreading rumors intended to lower the price of government funds. Bankers in Pisa, Verona, Genoa and Florence also began trading in government securities during the 14th century. This was only possible because these were independent city states not ruled by a duke but a council of influential citizens. The Dutch later started joint stock companies, which let shareholders invest in business ventures and get a share of their profits - or losses. In 1602, the Dutch East India Company issued the first share on the Amsterdam Stock Exchange. It was the first company to issue stocks and bonds.

The Amsterdam Stock Exchange (or Amsterdam Beurs) is also said to have been the first stock exchange to introduce continuous trade in the early 17th century. The Dutch "pioneered short selling, option trading, debt-equity swaps, merchant banking, unit trusts and other speculative instruments, much as we know them" There are now stock markets in virtually every developed and most developing economies, with the world's biggest markets being in the United States, United Kingdom, Japan, India, China, Canada, Germany, France, South Korea and the Netherlands.

IMPORTANCE OF STOCK MARKET

Function and purpose

The main trading room of the Tokyo Stock Exchange, where trading is currently completed through computers.

The **stock market** is one of the most important sources for companies to raise money. This allows businesses to be publicly traded, or raise additional capital for expansion by selling shares of ownership of the company in a public market. The liquidity that an exchange provides affords investors the ability to quickly and easily sell securities. This is an attractive feature of investing in stocks, compared to other less liquid investments such as real estate.

History has shown that the price of shares and other assets is an important part of the dynamics of economic activity, and can influence or be an indicator of social mood. An economy where the stock market is on the rise is considered to be an up-and-coming economy. In fact, the stock market is often considered the primary indicator of a country's economic strength and development. Rising share prices, for instance, tend to be associated with increased business investment and vice versa. Share prices also affect the wealth of households and their consumption. Therefore, central banks tend to keep an eye on the control and behavior of the stock market and, in general, on the smooth operation of financial system functions. Financial stability is the raison d'être of central banks.

Exchanges also act as the clearinghouse for each transaction, meaning that they collect and deliver the shares, and guarantee payment to the seller of a security. This eliminates the risk to an individual buyer or seller that the counterparty could default on the transaction.

The smooth functioning of all these activities facilitates economic growth in that lower costs and enterprise risks promote the production of goods and services as well as employment. In this way the financial system contributes to increased prosperity. An important aspect of modern financial markets, however, including the stock markets, is absolute discretion. For example, American stock markets see more unrestrained acceptance of any firm than in smaller markets. For example, Chinese firms that possess little or no perceived value to American society profit

American bankers on Wall Street, as they reap large commissions from the placement, as well as the Chinese company which yields funds to invest in China. However, these companies accrue

no intrinsic value to the long-term stability of the American economy, but rather only short-term profits to American business men and the Chinese; although, when the foreign company has a presence in the new market, this can benefit the market's citizens. Conversely, there are very few large foreign corporations listed on the Toronto Stock Exchange TSX, Canada's largest stock exchange. This discretion has insulated Canada to some degree to worldwide financial conditions. In order for the stock markets to truly facilitate economic growth via lower costs and better employment, great attention must be given to the foreign participants being allowed in.

Relation of the stock market to the modern financial system

The financial systems in most western countries has undergone a remarkable transformation. One feature of this development is disintermediation. A portion of the funds involved in saving and financing, flows directly to the financial markets instead of being routed via the traditional bank lending and deposit operations. The general public's heightened interest in investing in the stock market, either directly or through mutual funds, has been an important component of this process.

Statistics show that in recent decades shares have made up an increasingly large proportion of households' financial assets in many countries. In the 1970s, in Sweden, deposit accounts and other very liquid assets with little risk made up almost 60 percent of households' financial wealth, compared to less than 20 percent in the 2000s. The major part of this adjustment in financial portfolios has gone directly to shares but a good deal now takes the form of various kinds of institutional investment for groups of individuals, e.g., pension funds, mutual funds, hedge funds, insurance investment of premiums, etc.

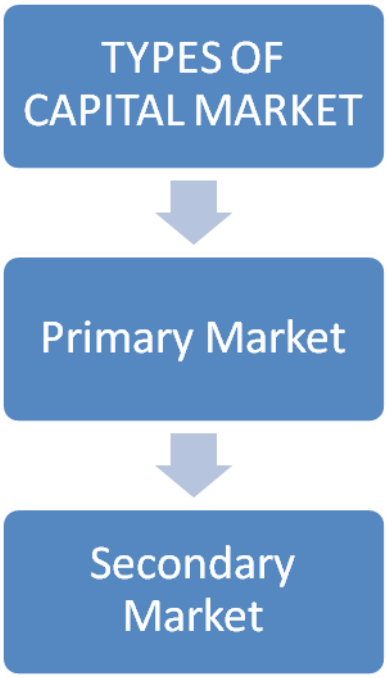
The trend towards forms of saving with a higher risk has been accentuated by new rules for most funds and insurance, permitting a higher proportion of shares to bonds. Similar tendencies are to be found in other industrialized countries. In all developed economic systems, such as the European Union, the United States, Japan and other developed nations, the trend has been the same: saving has moved away from traditional (government insured) bank deposits to more risky securities of one sort or another.

The stock market, individual investors, and financial risk

Riskier long-term saving requires that an individual possess the ability to manage the associated increased risks. Stock prices fluctuate widely, in marked contrast to the stability of (government insured) bank deposits or bonds. This is something that could affect not only the individual investor or household, but also the economy on a large scale. The following deals with some of the risks of the financial sector in general and the stock market in particular. This is certainly more important now that so many newcomers have entered the stock market, or have acquired other 'risky' investments (such as 'investment' property, i.e., real estate and collectables).

With each passing year, the noise level in the stock market rises. Television commentators, financial writers, analysts, and market strategists are all overtaking each other to get investors' attention. At the same time, individual investors, immersed in chat rooms and message boards, are exchanging questionable and often misleading tips. Yet, despite all this available information, investors find it increasingly difficult to profit. Stock prices skyrocket with little reason, then plummet just as quickly, and people who have turned to investing for their children's education and their own retirement become frightened. Sometimes there appears to be no rhyme or reason to the market, only folly.

This is a quote from the preface to a published biography about the long-term value-oriented stock investor Warren Buffett.[9] Buffett began his career with $100, and $100,000 from seven limited partners consisting of Buffett's family and friends. Over the years he has built himself a multi-billion-dollar fortune. The quote illustrates some of what has been happening in the stock market during the end of the 20th century and the beginning of the 21st century.



Primary Market

, also called the new issue market, is the market for issuing new securities. Many companies, especially small and medium scale, enter the primary market to raise money from the public to expand their businesses. They sell their securities to the public through an initial public offering. The securities can be directly bought from the shareholders, which is not the case for the secondary market. The primary market is a market for new capitals that will be traded over a longer period.

In the primary market, securities are issued on an exchange basis. The underwriters, that is, the investment banks, play an important role in this market: they set the initial price range for a particular share and then supervise the selling of that share.

Investors can obtain news of upcoming shares only on the primary market. The issuing firm collects money, which is then used to finance its operations or expand business, by selling its shares. Before selling a security on the primary market, the firm must fulfill all the requirements regarding the exchange.

After trading in the primary market the security will then enter the secondary market, where numerous trades happen every day. The primary market accelerates the process of capital formation in a country's economy.

The primary market categorically excludes several other new long-term finance sources, such as loans from financial institutions. Many companies have entered the primary market to earn profit by converting its capital, which is basically a private capital, into a public one, releasing securities to the public. This phenomena is known as "public issue" or "going public."

There are three methods though which securities can be issued on the primary market: rights issue, Initial Public Offer (IPO), and preferential issue. A company's new offering is placed on the primary market through an initial public offer.

Functioning of Primary Market

- **Primary Mortgage Market**
- **Primary Target Market**
- **Transaction Costs In Primary Market**
- **PL in Primary Market**
- **Revival Of Indian Primary Market**
- **primary Securities Market**
- **Problems Of Indian Primary Market**
- **Investment In Primary Market · Primary Money market**
- **International Primary Market Association**
- **IPO Primary Market**
- **Primary Capital Market**

Secondary Market

is the market where, unlike the primary market, an investor can buy a security directly from another investor in lieu of the issuer. It is also referred as "after market". The securities initially are issued in the primary market, and then they enter into the secondary market.

All the securities are first created in the primary market and then, they enter into the secondary market. In the New York Stock Exchange, all the stocks belong to the secondary market.

In other words, secondary market

is a place where any type of used goods is available. In the secondary market shares are maneuvered from one investor to other, that is, one investor buys an asset from another investor instead of an issuing corporation. So, the secondary market should be liquid.

Example of Secondary market:
In the New York Stock Exchange, in the United States of America, all the securities belong to the secondary market

.

Importance of Secondary Market:

Secondary Market has an important role to play behind the developments of an efficient capital market. Secondary market connects investors' favoritism for liquidity with the capital users' wish of using their capital for a longer period. For example, in a traditional partnership, a partner can not access the other partner's investment but only his or her investment in that partnership, even on an emergency basis. Then if he or she may breaks the ownership of equity into parts and sell his or her respective proportion to another investor. This kind of trading is facilitated only by the secondary market

ROLE OF STOCK MARKET

The primary role of the capital market is to raise long-term funds for governments, banks, and corporations while providing a platform for the trading of securities.

This fundraising is regulated by the performance of the stock and bond markets within the capital market. The member organizations of the capital market may issue stocks and bonds in order to raise funds. Investors can then invest in the capital market by purchasing those stocks and bonds.

The capital market, however, is not without risk. It is important for investors to understand market trends before fully investing in the capital market. To that end, there are various market indices available to investors that reflect the present performance of the market.

Regulation of the Stock Market

Every capital market in the world is monitored by financial regulators and their respective governance organization. The purpose of such regulation is to protect investors from fraud and deception. Financial regulatory bodies are also charged with minimizing financial losses, issuing licenses to financial service providers, and enforcing applicable laws.

The Capital Market's Influence on International Trade

Capital market investment is no longer confined to the boundaries of a single nation. Today's corporations and individuals are able, under some regulation, to invest in the capital market of any country in the world. Investment in foreign capital markets has caused substantial enhancement to the business of international trade.

The Primary and Secondary Markets

The capital market is also dependent on two sub-markets – the primary market and the secondary market. The primary market deals with newly issued securities and is responsible for generating new long-term capital. The secondary market handles the trading of previously-issued securities, and must remain highly liquid in nature because most of the securities are sold by investors. A capital market with high liquidity and high transparency is predicated upon a secondary market with the same qualiies.

ROLE OF STOCK MARKET IN INDIA:

India's growth story has important implications for the capital market, which has grown sharply with respect to several parameters — amounts raised number of stock exchanges and other intermediaries, listed stocks, market capitalization, trading volumes and turnover, market instruments, investor population, issuer and intermediary profiles.

The capital market consists primarily of the debt and equity markets. Historically, it contributed significantly to mobilizing funds to meet public and private companies' financing requirements. The introduction of exchange-traded derivative instruments such as options and futures has enabled investors to better hedge their positions and reduce risks.

India's debt and equity markets rose from 75 per cent in 1995 to 130 per cent of GDP in 2005. But the growth relative to the US, Malaysia and South Korea remains low and largely skewed, indicating immense latent potential. India's debt markets comprise government bonds and the corporate bond market (comprising PSUs, corporates, financial institutions and banks).

India compares well with other emerging economies in terms of sophisticated market design of equity spot and derivatives market, widespread retail participation and resilient liquidity.

SEBI's measures such as submission of quarterly compliance reports, and company valuation on the lines of the Sarbanes-Oxley Act have enhanced corporate governance. But enforcement continues to be a problem because of limited trained staff and companies not being subjected to substantial fines or legal sanctions.

Given the booming economy, large skilled labour force, reliable business community, continued reforms and greater global integration vindicated by the investment-grade ratings of Moody's and Fitch, the net cumulative portfolio flows from 2003-06 (bonds and equities) amounted to $35 billion.

The number of foreign institutional investors registered with SEBI rose from none in 1992-93 to 528 in 2000-01, to about 1,000 in 2006-07.

India's stock market rose five-fold since mid-2003 and outperformed world indices with returns far outstripping other emerging markets, such as Mexico (52 per cent), Brazil (43 per cent) or GCC economies such as Kuwait (26 per cent) in FY-06.

In 2006, Indian companies raised more than $6 billion on the BSE, NSE and other regional stock exchanges. Buoyed by internal economic factors and foreign capital flows, Indian markets are globally competitive, even in terms of pricing, efficiency and liquidity.

US sub prime crisis:

The financial crisis facing the Wall Street is the worst since the Great Depression and will have a major impact on the US and global economy. The ongoing global financial crisis will have a 'domino' effect and spill over all aspects of the economy. Due to the Western world's messianic faith in the market forces and deregulation, the market friendly governments have no choice but to step in.

The top five investment banks in the US have ceased to exist in their previous forms. Bears Stearns was taken over some time ago. Fannie Mae and Freddie Mac are nationalised to prevent their collapse. Fannie and Freddie together underwrite half of the home loans in the United States, and the sum involved is of $ 3 trillion—about double the entire annual output of the British economy. This is the biggest rescue operation since the credit crunch began. Lehman Brothers, an investment bank with a 158 year-old history, was declared bankrupt; Merrill Lynch, another Wall Street icon, chose to pre-empt a similar fate by deciding to sell to the Bank of America; and Goldman Sachs and Morgan Stanley have decided to transform themselves into ordinary deposit banks. AIG, the world's largest insurance company, has survived through the injection of funds worth $ 85 billion from the US Government.

The question arises: why has this happened?

Besides the cyclical crisis of capitalism, there are some recent factors which have contributed towards this crisis. Under the so-called "innovative" approach, financial institutions systematically underestimated risks during the boom in property prices, which makes such boom more prolonged. This relates to the shortsightedness of speculators and their unrestrained greed,

and they, during the asset price boom, believed that it would stay forever. This resulted in keeping the risk aspects at a minimum and thus resorting to more and more risk taking financial activities. Loans were made on the basis of collateral whose value was inflated by a bubble. And the collateral is now worth less than the loan. Credit was available up to full value of the property which was assessed at inflated market prices. Credits were given in anticipation that rising property prices will continue. Under looming recession and uncertainty, to pay back their mortgage many of those who engaged in such an exercise are forced to sell their houses, at a time when the banks are reluctant to lend and buyers would like to wait in the hope that property prices will further come down. All these factors would lead to a further decline in property prices.

Effect of the subprime crisis on India:

Globalization has ensured that the Indian economy and financial markets cannot stay insulated from the present financial crisis in the developed economies.

In the light of the fact that the Indian economy is linked to global markets through a full float in current account (trade and services) and partial float in capital account (debt and equity), we need to analyze the impact based on three critical factors: Availability of global liquidity; demand for India investment and cost thereof and decreased consumer demand affecting Indian exports.

The concerted intervention by central banks of developed countries in injecting liquidity is expected to reduce the unwinding of India investments held by foreign entities, but fresh investment flows into India are in doubt.

The impact of this will be three-fold: The element of GDP growth driven by off-shore flows (along with skills and technology) will be diluted; correction in the asset prices which were hitherto pushed by foreign investors and demand for domestic liquidity putting pressure on interest rates

.

While the global financial system takes time to "nurse its wounds" leading to low demand for investments in emerging markets, the impact will be on the cost and related risk premium. The impact will be felt both in the trade and capital account.
Indian companies which had access to cheap foreign currency funds for financing their import and export will be the worst hit. Also, foreign funds (through debt and equity) will be available at huge premium and would be limited to blue-chip companies.

The impact of which, again, will be three-fold: Reduced capacity expansion leading to supply side pressure; increased interest expenses to affect corporate profitability and increased demand for domestic liquidity putting pressure on the interest rates.

Consumer demand in developed economies is certain to be hurt by the present crisis, leading to lower demand for Indian goods and services, thus affecting the Indian exports.

The impact of which, once again, will be three-fold: Export-oriented units will be the worst hit impacting employment; reduced exports will further widen the trade gap to put pressure on rupee exchange rate and intervention leading to sucking out liquidity and pressure on interest rates.

The impact on the financial markets will be the following: Equity market will continue to remain in bearish mood with reduced off-shore flows, limited domestic appetite due to liquidity pressure and pressure on corporate earnings; while the inflation would stay under control, increased demand for domestic liquidity will push interest rates higher and we are likely to witness gradual rupee depreciation and depleted currency reserves. Overall, while RBI would inject liquidity through CRR/SLR cuts, maintaining growth beyond 7% will be a struggle.

The banking sector will have the least impact as high interest rates, increased demand for rupee loans and reduced statutory reserves will lead to improved NIM while, on the other hand, other income from cross-border business flows and distribution of investment products will take a hit.

Banks with capabilities to generate low cost CASA and zero cost float funds will gain the most as revenues from financial intermediation will drive the banks' profitability.

Given the dependence on foreign funds and off-shore consumer demand for the India growth story, India cannot wish away from the negative impact of the present global financial crisis but should quickly focus on alternative remedial measures to limit damage and look in-wards to sustain growth!

Role of stock market during the present crisis:

In addition to resource allocation, capital markets also provided a medium for risk management by allowing the diversification of risk in the economy. The well-functioning capital market improved information quality as it played a major role in encouraging the adoption of stronger corporate governance principles, thus supporting a trading environment, which is founded on integrity.

liquid markets make it possible to obtain financing for capital-intensive projects with long gestation periods..

For a long time, the Indian market was considered too small to warrant much attention. However, this view has changed rapidly as vast amounts of international investment have poured into our markets over the last decade. The Indian market is no longer viewed as a static universe but as a constantly evolving market providing attractive opportunities to the global investing community.

Now during the present financial crisis, we saw how capital market stood still as the symbol of better risk management practices adopted by the Indians. Though we observed a huge fall in the sensex and other stock market indicators but that was all due to low confidence among the investors. Because balance sheet of most of the Indian companies listed in the sensex were reflecting profit even then people kept on withdrawing money.

While there was a panic in the capital market due to withdrawal by the FIIs, we saw Indian institutional investors like insurance and mutual funds coming for the rescue under SEBI guidelines so that the confidence of the investors doesn't go low.

SEBI also came up with various norms including more liberal policies regarding participatory notes, restricting the exit from close ended mutual funds etc. to boost the investment.

While talking about currency crisis, the rupee kept on depreciating against the dollar mainly due to the withdrawals by FIIs. So , the capital market tried to attract FIIs once again. SEBI came up with many revolutionary reforms to attract the foreign investors so that the depreciation of rupee could be put to hault.

FACTORS AFFECTING STOCK MARKET IN INDIA

The capital market is affected by a range of factors . Some of the factors which influence capital market are as follows:-

A)Performance of domestic companies:-

The performance of the companies or rather corporate earnings is one of the factors which has direct impact or effect on capital market in a country. Weak corporate earnings indicate that the demand for goods and services in the economy is less due to slow growth in per capita income of people . Because of slow growth in demand there is slow growth in employment which means slow growth in demand in the near future. Thus weak corporate earnings indicate average or not so good prospects for the economy as a whole in the near term. In such a scenario the investors (both domestic as well as foreign) would be wary to invest in the capital market and thus there is bear market like situation. The opposite case of it would be robust corporate earnings and it's positive impact on the capital market.

The corporate earnings for the April – June quarter for the current fiscal has been good. The companies like TCS, Infosys,Maruti Suzuki, Bharti Airtel, ACC, ITC, Wipro,HDFC,Binani cement, IDEA, Marico Canara Bank, Piramal Health, India cements , Ultra Tech, L&T, Coca-Cola, Yes Bank, Dr. Reddy's Laboratories, Oriental Bank of Commerce, Ranbaxy, Fortis, Shree Cement ,etc have registered growth in net profit compared to the corresponding quarter a year ago. Thus we see companies from Infrastructure sector, Financial Services, Pharmaceutical sector, IT Sector, Automobile sector, etc. doing well . This across the sector growth indicates that the Indian economy is on the path of recovery which has been positively reflected in the stock market(rise in sensex & nifty) in the last two weeks. (July 13-July 24).

B) Environmental Factors :-

Environmental Factor in India's context primarily means- Monsoon . In India around 60 % of agricultural production is dependent on monsoon. Thus there is heavy dependence on monsoon. The major chunk of agricultural production comes from the states of Punjab , Haryana & Uttar Pradesh. Thus deficient or delayed monsoon in this part of the country would directly affect the

agricultural output in the country. Apart from monsoon other natural calamities like Floods, tsunami, drought, earthquake, etc. also have an impact on the capital market of a country.

The Indian Met Department (IMD) on 24th June stated that India would receive only 93 % rainfall of Long Period Average (LPA). This piece of news directly had an impact on Indian capital market with BSE Sensex falling by 0.5 % on the 25th June . The major losers were automakers and consumer goods firms since the below normal monsoon forecast triggered concerns that demand in the crucial rural heartland would take a hit. This is because a deficient monsoon could seriously squeeze rural incomes, reduce the demand for everything from motorbikes to soaps and worsen a slowing economy.

C) Macro Economic Numbers :-

The macro economic numbers also influence the capital market. It includes Index of Industrial Production (IIP) which is released every month, annual Inflation number indicated by Wholesale Price Index (WPI) which is released every week, Export – Import numbers which are declared every month, Core Industries growth rate (It includes Six Core infrastructure industries – Coal, Crude oil, refining, power, cement and finished steel) which comes out every month, etc. This macro –economic indicators indicate the state of the economy and the direction in which the economy is headed and therefore impacts the capital market in India.

A case in the point was declaration of core industries growth figure. The six Core Infrastructure Industries – Coal, Crude oil, refining, finished steel, power & cement –grew 6.5% in June , the figure came on the 23 rd of July and had a positive impact on the capital market with the Sensex and nifty rising by 388 points & 125 points respectively.

D) Global Cues :-

In this world of globalization various economies are interdependent and interconnected. An event in one part of the world is bound to affect other parts of the world , however the magnitude and intensity of impact would vary.

Thus capital market in India is also affected by developments in other parts of the world i.e. U.S. , Europe, Japan , etc.

Global cues includes corporate earnings of MNC's, consumer confidence index in developed countries, jobless claims in developed countries, global growth outlook given by various agencies like IMF, economic growth of major economies, price of crude –oil, credit rating of various economies given by Moody's, S & P, etc.

An obvious example at this point in time would be that of subprime crisis & recession. Recession started in U.S. and some parts of the Europe in early 2008 .Since then it has impacted all the countries of the world- developed, developing, less- developed and even emerging economies.

E) Political stability and government policies:-

For any economy to achieve and sustain growth it has to have political stability and pro- growth government policies. This is because when there is political stability there is stability and consistency in government's attitude which is communicated through various government policies. The vice- versa is the case when there is no political stability .So capital market also reacts to the nature of government, attitude of government, and various policies of the government.

The above statement can be substantiated by the fact the when the mandate came in UPA government's favor (Without the baggage of left party) on May 16 2009, the stock markets on Monday , 18th May had a bullish rally with Sensex closing 800 point higher over the previous day's close. The reason was political stability. Also without the baggage of left party government can go ahead with reforms.

F) Growth prospectus of an economy:-

When the national income of the country increases and per capita income of people increases it is said that the economy is growing. Higher income also means higher expenditure and higher savings. This augurs well for the economy as higher expenditure means higher demand and higher savings means higher investment. Thus when an economy is growing at a good pace capital market of the country attracts more money from investors, both from within and outside the country and vice -versa. So we can say that growth prospects of an economy do have an impact on capital markets.

G) Investor Sentiment and risk appetite :-

Another factor which influences capital market is investor sentiment and their risk appetite .Even if the investors have the money to invest but if they are not confident about the returns from their investment , they may stay away from investment for some time.At the same time if the investors have low risk appetite , which they were having in global and Indian capital market some four to five months back due to global financial meltdown and recessionary situation in U.S. & some parts of Europe , they may stay away from investment and wait for the right time to come.

INDIAN STOCK MARKET AN OVERVIEW

Evolution

Indian Stock Markets are one of the oldest in Asia. Its history dates back to nearly 200 years ago. The earliest records of security dealings in India are meagre and obscure. The East India Company was the dominant institution in those days and business in its loan securities used to be transacted towards the close of the eighteenth century.

By 1830's business on corporate stocks and shares in Bank and Cotton presses took place in Bombay. Though the trading list was broader in 1839, there were only half a dozen brokers recognized by banks and merchants during 1840 and 1850.

The 1850's witnessed a rapid development of commercial enterprise and brokerage business attracted many men into the field and by 1860 the number of brokers increased into 60.

In 1860-61 the American Civil War broke out and cotton supply from United States of Europe was stopped; thus, the 'Share Mania' in India begun. The number of brokers increased to about 200 to 250. However, at the end of the American Civil War, in 1865, a disastrous slump began (for example, Bank of Bombay Share which had touched Rs 2850 could only be sold at Rs. 87).

At the end of the American Civil War, the brokers who thrived out of Civil War in 1874, found a place in a street (now appropriately called as Dalal Street) where they would conveniently assemble and transact business. In 1887, they formally established in Bombay, the "Native Share and Stock Brokers' Association" (which is alternatively known as " The Stock Exchange "). In 1895, the Stock Exchange acquired a premise in the same street and it was inaugurated in 1899. Thus, the Stock Exchange at Bombay was consolidated.

Other leading cities in stock market operations

Ahmedabad gained importance next to Bombay with respect to cotton textile industry. After 1880, many mills originated from Ahmedabad and rapidly forged ahead. As new mills were floated, the need for a Stock Exchange at Ahmedabad was realized and in 1894 the brokers formed "The Ahmedabad Share and Stock Brokers' Association".

What the cotton textile industry was to Bombay and Ahmedabad, the jute industry was to Calcutta. Also tea and coal industries were the other major industrial groups in Calcutta. After the Share Mania in 1861-65, in the 1870's there was a sharp boom in jute shares, which was followed by a boom in tea shares in the 1880's and 1890's; and a coal boom between 1904 and 1908. On June 1908, some leading brokers formed "The Calcutta Stock Exchange Association".

In the beginning of the twentieth century, the industrial revolution was on the way in India with the Swadeshi Movement; and with the inauguration of the Tata Iron and Steel Company Limited in 1907, an important stage in industrial advancement under Indian enterprise was reached.

Indian cotton and jute textiles, steel, sugar, paper and flour mills and all companies generally enjoyed phenomenal prosperity, due to the First World War.

In 1920, the then demure city of Madras had the maiden thrill of a stock exchange functioning in its midst, under the name and style of "The Madras Stock Exchange" with 100 members. However, when boom faded, the number of members stood reduced from 100 to 3, by 1923, and so it went out of existence.

In 1935, the stock market activity improved, especially in South India where there was a rapid increase in the number of textile mills and many plantation companies were floated. In 1937, a stock exchange was once again organized in Madras - Madras Stock Exchange Association (Pvt) Limited. (In 1957 the name was changed to Madras Stock Exchange Limited).

Lahore Stock Exchange was formed in 1934 and it had a brief life. It was merged with the Punjab Stock Exchange Limited, which was incorporated in 1936.

Indian Stock Exchanges - An Umbrella Growth

The Second World War broke out in 1939. It gave a sharp boom which was followed by a slump.
But, in 1943, the situation changed radically, when India was fully mobilized as a supply base.

On account of the restrictive controls on cotton, bullion, seeds and other commodities, those dealing in them found in the stock market as the only outlet for their activities. They were anxious to join the trade and their number was swelled by numerous others. Many new

associations were constituted for the purpose and Stock Exchanges in all parts of the country were floated.

The Uttar Pradesh Stock Exchange Limited (1940), Nagpur Stock Exchange Limited (1940) and Hyderabad Stock Exchange Limited (1944) were incorporated.

In Delhi two stock exchanges - Delhi Stock and Share Brokers' Association Limited and the Delhi Stocks and Shares Exchange Limited - were floated and later in June 1947, amalgamated into the Delhi Stock Exchange Association Limited.

Post-independence Scenario

Most of the exchanges suffered almost a total eclipse during depression. Lahore Exchange was closed during partition of the country and later migrated to Delhi and merged with Delhi Stock Exchange.

Bangalore Stock Exchange Limited was registered in 1957 and recognized in 1963.

Most of the other exchanges languished till 1957 when they applied to the Central Government for recognition under the Securities Contracts (Regulation) Act, 1956. Only Bombay, Calcutta, Madras, Ahmedabad, Delhi, Hyderabad and Indore, the well-established exchanges, were recognized under the Act. Some of the members of the other Associations were required to be admitted by the recognized stock exchanges on a concessional basis, but acting on the principle of unitary control, all these pseudo stock exchanges were refused recognition by the Government of India and they thereupon ceased to function.

Thus, during early sixties there were eight recognized stock exchanges in India (mentioned above). The number virtually remained unchanged, for nearly two decades. During eighties, however, many stock exchanges were established: Cochin Stock Exchange (1980), Uttar Pradesh Stock Exchange Association Limited (at Kanpur, 1982), and Pune Stock Exchange Limited (1982), Ludhiana Stock Exchange Association Limited (1983), Gauhati Stock Exchange Limited (1984), Kanara Stock Exchange Limited (at Mangalore, 1985), Magadh Stock Exchange Association (at Patna, 1986), Jaipur Stock Exchange Limited (1989), Bhubaneswar Stock Exchange Association Limited (1989), Saurashtra Kutch Stock Exchange Limited (at Rajkot,

1989), Vadodara Stock Exchange Limited (at Baroda, 1990) and recently established exchanges - Coimbatore and Meerut. Thus, at present, there are totally twenty one recognized stock exchanges in India excluding the Over The Counter Exchange of India Limited (OTCEI) and the National Stock Exchange of India Limited (NSEIL).

The Table given below portrays the overall growth pattern of Indian stock markets since independence. It is quite evident from the Table that Indian stock markets have not only grown just in number of exchanges, but also in number of listed companies and in capital of listed companies. The remarkable growth after 1985 can be clearly seen from the Table, and this was due to the favoring government policies towards security market industry.

Growth Pattern of the Indian Stock Market

Sl.No.	As on 31st December	1946	1961	1971	1975	1980	1985	1991	1995
1	No. of Stock Exchanges	7	7	8	8	9	14	20	22
2	No. of Listed Cos.	1125	1203	1599	1552	2265	4344	6229	8593
3	No. of Stock Issues of Listed Cos.	1506	2111	2838	3230	3697	6174	8967	11784
4	Capital of Listed Cos. (Cr. Rs.)	270	753	1812	2614	3973	9723	32041	59583
5	Market value of Capital of Listed Cos. (Cr. Rs.)	971	1292	2675	3273	6750	25302	110279	478121
6	Capital per Listed Cos. (4/2) (Lakh Rs.)	24	63	113	168	175	224	514	693
7	Market Value of Capital per Listed Cos. (Lakh Rs.) (5/2)	86	107	167	211	298	582	1770	5564
8	Appreciated value of Capital per Listed Cos. (Lak Rs.)	358	170	148	126	170	260	344	803

Trading Pattern of the Indian Stock Market

Trading in Indian stock exchanges are limited to listed securities of public limited companies. They are broadly divided into two categories, namely, specified securities (forward list) and

nonspecified securities (cash list). Equity shares of dividend paying, growth-oriented companies with a paid-up capital of at least Rs.50 million and a market capitalization of at least Rs.100 million and having more than 20,000 shareholders are, normally, put in the specified group and the balance in non-specified group.

Two types of transactions can be carried out on the Indian stock exchanges: (a) spot delivery transactions "for delivery and payment within the time or on the date stipulated when entering into the contract which shall not be more than 14 days following the date of the contract" : and (b) forward transactions "delivery and payment can be extended by further period of 14 days each so that the overall period does not exceed 90 days from the date of the contract". The latter is permitted only in the case of specified shares. The brokers who carry over the outstanding pay carry over charges (cantango or backwardation) which are usually determined by the rates of interest prevailing.

A member broker in an Indian stock exchange can act as an agent, buy and sell securities for his clients on a commission basis and also can act as a trader or dealer as a principal, buy and sell securities on his own account and risk, in contrast with the practice prevailing on New York and London Stock Exchanges, where a member can act as a jobber or a broker only.

The nature of trading on Indian Stock Exchanges are that of age old conventional style of face-to-face trading with bids and offers being made by open outcry. However, there is a great amount of effort to modernize the Indian stock exchanges in the very recent times.

Over The Counter Exchange of India (OTCEI)

The traditional trading mechanism prevailed in the Indian stock markets gave way to many functional inefficiencies, such as, absence of liquidity, lack of transparency, unduly long settlement periods and benami transactions, which affected the small investors to a great extent. To provide improved services to investors, the country's first ringless, scripless, electronic stock exchange - OTCEI - was created in 1992 by country's premier financial institutions - Unit Trust of India, Industrial Credit and Investment Corporation of India, Industrial Development Bank of India, SBI Capital Markets, Industrial Finance Corporation of India, General Insurance Corporation and its subsidiaries and CanBank Financial Services.

Trading at OTCEI is done over the centers spread across the country. Securities traded on the OTCEI are classified into:

- Listed Securities - The shares and debentures of the companies listed on the OTC can be bought or sold at any OTC counter all over the country and they should not be listed anywhere else

- Permitted Securities - Certain shares and debentures listed on other exchanges and units of mutual funds are allowed to be traded

- Initiated debentures - Any equity holding at least one lakh debentures of a particular scrip can offer them for trading on the OTC.

OTC has a unique feature of trading compared to other traditional exchanges. That is, certificates of listed securities and initiated debentures are not traded at OTC. The original certificate will be safely with the custodian. But, a counter receipt is generated out at the counter which substitutes the share certificate and is used for all transactions.

In the case of permitted securities, the system is similar to a traditional stock exchange. The difference is that the delivery and payment procedure will be completed within 14 days.

Compared to the traditional Exchanges, OTC Exchange network has the following advantages:

- OTCEI has widely dispersed trading mechanism across the country which provides greater liquidity and lesser risk of intermediary charges.

- Greater transparency and accuracy of prices is obtained due to the screen-based scripless trading.

- Since the exact price of the transaction is shown on the computer screen, the investor gets to know the exact price at which s/he is trading.

- Faster settlement and transfer process compared to other exchanges.

- In the case of an OTC issue (new issue), the allotment procedure is completed in a month and trading commences after a month of the issue closure, whereas it takes a longer period for the same with respect to other exchanges.

Thus, with the superior trading mechanism coupled with information transparency investors are gradually becoming aware of the manifold advantages of the OTCEI.

National Stock Exchange (NSE)

With the liberalization of the Indian economy, it was found inevitable to lift the Indian stock market trading system on par with the international standards. On the basis of the recommendations of high powered Pherwani Committee, the National Stock Exchange was incorporated in 1992 by Industrial Development Bank of India, Industrial Credit and Investment Corporation of India, Industrial Finance Corporation of India, all Insurance Corporations, selected commercial banks and others.

Trading at NSE can be classified under two broad categories:

(a) Wholesale debt market and

(b) Capital market.

Wholesale debt market operations are similar to money market operations - institutions and corporate bodies enter into high value transactions in financial instruments such as government securities, treasury bills, public sector unit bonds, commercial paper, certificate of deposit, etc.

There are two kinds of players in NSE:

(a) trading members and

(b) participants.

Recognized members of NSE are called trading members who trade on behalf of themselves and their clients. Participants include trading members and large players like banks who take direct settlement responsibility.

Trading at NSE takes place through a fully automated screen-based trading mechanism which adopts the principle of an order-driven market. Trading members can stay at their offices and execute the trading, since they are linked through a communication network. The prices at which the buyer and seller are willing to transact will appear on the screen. When the prices match the transaction will be completed and a confirmation slip will be printed at the office of the trading member.

NSE has several advantages over the traditional trading exchanges. They are as follows:

- NSE brings an integrated stock market trading network across the nation.
- Investors can trade at the same price from anywhere in the country since inter-market operations are streamlined coupled with the countrywide access to the securities.
- Delays in communication, late payments and the malpractice's prevailing in the traditional trading mechanism can be done away with greater operational efficiency and informational transparency in the stock market operations, with the support of total computerized network.

Unless stock markets provide professionalized service, small investors and foreign investors will not be interested in capital market operations. And capital market being one of the major source of long-term finance for industrial projects, India cannot afford to damage the capital market path. In this regard NSE gains vital importance in the Indian capital market system.

MARKET EFFICIENCY

An **efficient capital market** is a market where the share prices reflect new information accurately and in real time.

Capital market efficiency is judged by its success in incorporating and inducting information, generally about the basic value of securities, into the price of securities. This basic or fundamental value of securities is the present value of the cash flows expected in the future by the person owning the securities.

The fluctuation in the value of stocks encourage traders to trade in a competitive manner with the objective of maximum profit. This results in price movements towards the current value of the cash flows in the future. The information is very easily available at cheap rates because of the presence of organized markets and various technological innovations. An efficient capital market incorporates information quickly and accurately into the prices of securities.

In the weak-form efficient capital market, information about the history of previous returns and prices are reflected fully in the security prices; the returns from stocks in this type of market are unpredictable.

In the semi strong-form efficient market, the public information is completely reflected in security prices; in this market, those traders who have non-public information access can earn excess profits.

In the strong-form efficient market, under no circumstances can investors earn excess profits because all of the information is incorporated into the security prices.

The funds that are flowing in capital markets, from savers to the firms with the aim of financing projects, must flow into the best and top valued projects and, therefore, informational efficiency is of supreme importance. Stocks must be efficiently priced, because if the securities are priced accurately, then those investors who do not have time for market analysis would feel confident about making investments in the capital market.

Eugene Fama was one of the earliest to theorize capital market efficiency, but empirical tests of capital market efficiency had begun even before that.

Efficient-market hypothesis

In finance, the **efficient-market hypothesis** (**EMH**) asserts that financial markets are "informationally efficient". That is, one cannot consistently achieve returns in excess of average market returns on a risk-adjusted basis, given the information publicly available at the time the investment is made.

There are three major versions of the hypothesis: "weak", "semi-strong", and "strong". Weak EMH claims that prices on traded assets (*e.g.*, stocks, bonds, or property) already reflect all past publicly available information. Semi-strong EMH claims both that prices reflect all publicly available information and that prices instantly change to reflect new public information. Strong EMH additionally claims that prices instantly reflect even hidden or "insider" information. There is evidence for and against the weak and semi-strong EMHs, while there is powerful evidence against strong EMH.

The validity of the hypothesis has been questioned by critics who blame the belief in rational markets for much of the financial crisis of 2007–2010. Defenders of the EMH caution that conflating market stability with the EMH is unwarranted; when publicly available information is unstable, the market can be just as unstable.

Historical background

The efficient-market hypothesis was first expressed by Louis Bachelier, a French mathematician, in his 1900 dissertation, "The Theory of Speculation". His work was largely ignored until the 1950s; however beginning in the 30s scattered, independent work corroborated his thesis. A small number of studies indicated that US stock prices and related financial series followed a random walk model.[5] Research by Alfred Cowles in the ’30s and ’40s suggested that professional investors were in general unable to outperform the market.

The efficient-market hypothesis was developed by Professor Eugene Fama at the University of Chicago Booth School of Business as an academic concept of study through his published Ph.D. thesis in the early 1960s at the same school. It was widely accepted up until the 1990s, when behavioral finance economists, who were a fringe element, became mainstream. Empirical analyses have consistently found problems with the efficient-market hypothesis, the most consistent being that stocks with low price to earnings (and similarly, low price to cash-flow or book value) outperform other stocks. Alternative theories have proposed that cognitive biases cause these inefficiencies, leading investors to purchase overpriced growth stocks rather than value stocks. Although the efficient-market hypothesis has become controversial because substantial and lasting inefficiencies are observed, Beechey et al. (2000) consider that it remains a worthwhile starting point.

The efficient-market hypothesis emerged as a prominent theory in the mid-1960s. Paul Samuelson had begun to circulate Bachelier's work among economists. In 1964 Bachelier's dissertation along with the empirical studies mentioned above were published in an anthology edited by Paul Cootner. In 1965 Eugene Fama published his dissertation arguing for the random walk hypothesis, and Samuelson published a proof for a version of the efficient-market hypothesis. In 1970 Fama published a review of both the theory and the evidence for the hypothesis. The paper extended and refined the theory, included the definitions for three forms of financial market efficiency: weak, semi-strong and strong (see below).

Further to this evidence that the UK stock market is weak-form efficient, other studies of capital markets have pointed toward their being semi-strong-form efficient. A study by Khan of the grain futures market indicated semi-strong form efficiency following the release of large trader position information (Khan, 1986). Studies by Firth (1976, 1979, and 1980) in the United Kingdom have compared the share prices existing after a takeover announcement with the bid offer. Firth found that the share prices were fully and instantaneously adjusted to their correct levels, thus concluding that the UK stock market was semi-strong-form efficient. However, the market's ability to efficiently respond to a short term, widely publicized event such as a takeover announcement does not necessarily prove market efficiency related to other more long term, amorphous factors. David Dreman has criticized the evidence provided by this instant "efficient" response, pointing out that an immediate response is not necessarily efficient, and that the

longterm performance of the stock in response to certain movements is better indications. A study on stocks response to dividend cuts or increases over three years found that after an announcement of a dividend cut, stocks underperformed the market by 15.3% for the three-year period, while stocks outperformed 24.8% for the three years afterward after a dividend increase announcement.

Theoretical background

Beyond the normal utility maximizing agents, the efficient-market hypothesis requires that agents have rational expectations; that on average the population is correct (even if no one person is) and whenever new relevant information appears, the agents update their expectations appropriately. Note that it is not required that the agents be rational. EMH allows that when faced with new information, some investors may overreact and some may underreact. All that is required by the EMH is that investors' reactions be random and follow a normal distribution pattern so that the net effect on market prices cannot be reliably exploited to make an abnormal profit, especially when considering transaction costs (including commissions and spreads). Thus, any one person can be wrong about the market—indeed, everyone can be—but the market as a whole is always right. There are three common forms in which the efficient-market hypothesis is commonly stated—**weak-form efficiency**, **semi-strong-form efficiency** and **strong-form efficiency**, each of which has different implications for how markets work.

In **weak-form efficiency**, future prices cannot be predicted by analyzing price from the past. Excess returns cannot be earned *in the long run* by using investment strategies based on historical share prices or other historical data. Technical analysis techniques will not be able to consistently produce excess returns, though some forms of fundamental analysis may still provide excess returns. Share prices exhibit no serial dependencies, meaning that there are no "patterns" to asset prices. This implies that future price movements are determined entirely by information not contained in the price series. Hence, prices must follow a random walk. This 'soft' EMH does not require that prices remain at or near equilibrium, but only that market participants not be able to *systematically* profit from market 'inefficiencies'. However, while EMH predicts that all price movement (in the absence of change in fundamental information) is random (i.e., non-trending), many studies have shown a marked tendency for the stock markets

to trend over time periods of weeks or longer and that, moreover, there is a positive correlation between degree of trending and length of time period studied (but note that over long time periods, the trending is sinusoidal in appearance). Various explanations for such large and apparently non-random price movements have been promulgated. But the best explanation seems to be that the distribution of stock market prices is non-Gaussian (in which case EMH, in any of its current forms, would not be strictly applicable).

The problem of algorithmically constructing prices which reflect all available information has been studied extensively in the field of computer science. For example, the complexity of finding the arbitrage opportunities in pair betting markets has been shown to be NP-hard.

In **semi-strong-form efficiency**, it is implied that share prices adjust to publicly available new information very rapidly and in an unbiased fashion, such that no excess returns can be earned by trading on that information. Semi-strong-form efficiency implies that neither fundamental analysis nor technical analysis techniques will be able to reliably produce excess returns. To test for semi-strong-form efficiency, the adjustments to previously unknown news must be of a reasonable size and must be instantaneous. To test for this, consistent upward or downward adjustments after the initial change must be looked for. If there are any such adjustments it would suggest that investors had interpreted the information in a biased fashion and hence in an inefficient manner.

In **strong-form efficiency**, share prices reflect all information, public and private, and no one can earn excess returns. If there are legal barriers to private information becoming public, as with insider trading laws, strong-form efficiency is impossible, except in the case where the laws are universally ignored. To test for strong-form efficiency, a market needs to exist where investors cannot consistently earn excess returns over a long period of time. Even if some money managers are consistently observed to beat the market, no refutation even of strong-form efficiency follows: with hundreds of thousands of fund managers worldwide, even a normal distribution of returns (as efficiency predicts) should be expected to produce a few dozen "star" performers.

INTRODUCTION TO MUTUAL FUND AND ITS VARIOUS ASPECTS

Mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. This pool of money is invested in accordance with a stated objective. The joint ownership of the fund is thus "Mutual", i.e. the fund belongs to all investors. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciations realized are shared by its unit holders in proportion the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost. A Mutual Fund is an investment tool that allows small investors access to a well-diversified portfolio of equities, bonds and other securities. Each shareholder participates in the gain or loss of the fund. Units are issued and can be redeemed as needed. The fund's Net Asset value (NAV) is determined each day.

Investments in securities are spread across a wide cross-section of industries and sectors and thus the risk is reduced. Diversification reduces the risk because all stocks may not move in the same direction in the same proportion at the same time. Mutual fund issues units to the investors in accordance with quantum of money invested by them. Investors of mutual funds are known as unit holders.


Concept of Mutual Fund
Many investors with common financial objectives pool their money
Investors, on a proportionate basis, get mutual fund units for the sum contributed to the pool
The money collected from investors is invested into shares, debentures and other securities by the fund manager
The fund manager realizes gains or losses, and collects dividend or interest income
Any capital gains or losses from such investments are passed on to the investors in proportion of the number of units held by them

When an investor subscribes for the units of a mutual fund, he becomes part owner of the assets of the fund in the same proportion as his contribution amount put up with the corpus (the total amount of the fund). Mutual Fund investor is also known as a mutual fund shareholder or a unit holder.

Any change in the value of the investments made into capital market instruments (such as shares, debentures etc) is reflected in the Net Asset Value (NAV) of the scheme. NAV is defined as the market value of the Mutual Fund scheme's assets net of its liabilities. NAV of a scheme is calculated by dividing the market value of scheme's assets by the total number of units issued to the investors.

ADVANTAGES OF MUTUAL FUND

- Portfolio Diversification
- Professional management
- Reduction / Diversification of Risk
- Liquidity
- Flexibility & Convenience
- Reduction in Transaction cost
- Safety of regulated environment
- Choice of schemes
- Transparency

DISADVANTAGE OF MUTUAL FUND

- No control over Cost in the Hands of an Investor
- No tailor-made Portfolios
- Managing a Portfolio Funds
- Difficulty in selecting a Suitable Fund Scheme

HISTORY OF THE INDIAN MUTUAL FUND INDUSTRY

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank. Though the growth was slow, but it accelerated from the year 1987 when non-UTI players entered the Industry.

In the past decade, Indian mutual fund industry had seen a dramatic improvement, both qualities wise as well as quantity wise. Before, the monopoly of the market had seen an ending phase; the Assets Under Management (AUM) was Rs67 billion. The private sector entry to the fund family raised the Aum to Rs. 470 billion in March 1993 and till April 2004; it reached the height if Rs. 1540 billion.

The Mutual Fund Industry is obviously growing at a tremendous space with the mutual fund industry can be broadly put into four phases according to the development of the sector. Each phase is briefly described as under.

First Phase – 1964-87

Unit Trust of India (UTI) was established on 1963 by an Act of Parliament by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988 UTI had Rs.6,700 crores of assets under management.

Second Phase – 1987-1993 (Entry of Public Sector Funds)

1987 marked the entry of non- UTI, public sector mutual funds set up by public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first non- UTI Mutual Fund established in June 1987 followed by Canbank Mutual Fund (Dec 87), Punjab National Bank Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 92). LIC established its mutual fund in June 1989 while GIC had set up its mutual fund in December 1990.At the end of 1993, the mutual fund industry had assets under management of Rs.47,004 crores.

Third Phase – 1993-2003 (Entry of Private Sector Funds)

1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993.

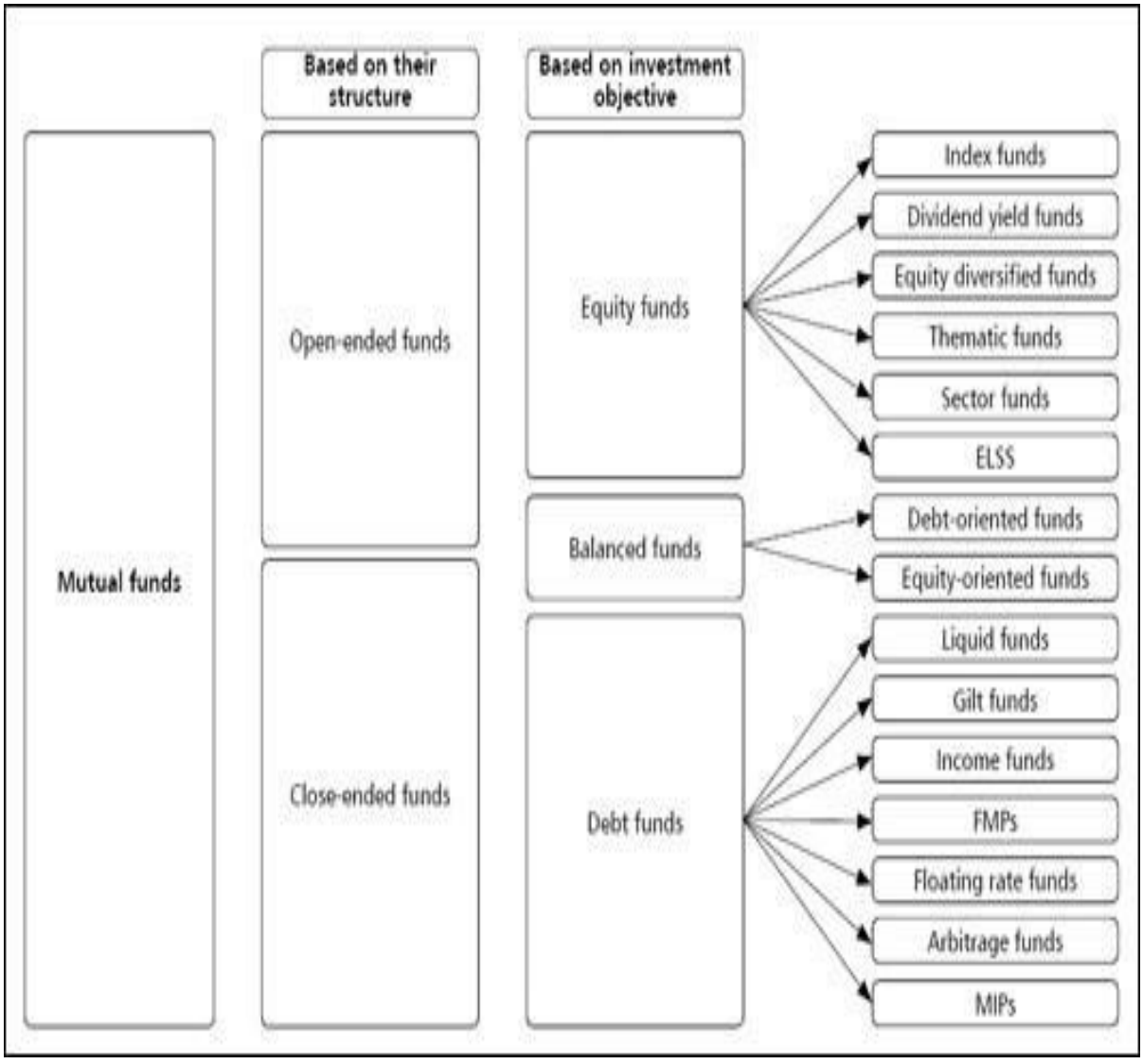
The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996. As at the end of January 2003, there were 33 mutual funds with total assets of Rs. 1,21,805 crores.

Fourth Phase – since February 2003

In February 2003, following the repeal of the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs.29,835 crores as at the end of January 2003, representing broadly, the assets of US 64 scheme, assured return and certain other schemes

The second is the UTI Mutual Fund Ltd, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. consolidation and growth. As at the end of September, 2004, there were 29 funds, which manage assets of Rs.153108 crores under 421 schemes.

CATEGORIES OF MUTUAL FUND:



Mutual funds can be classified as follow :

Based on their structure:

- Open-ended funds: Investors can buy and sell the units from the fund, at any point of time.

- Close-ended funds: These funds raise money from investors only once.

Therefore, after the offer period, fresh investments can not be made into the fund. If the fund is listed on a stocks exchange the units can be traded like stocks (E.g., Morgan Stanley Growth Fund). Recently, most of the New Fund Offers of close-ended funds provided liquidity window on a periodic basis such as monthly or weekly. Redemption of units can be made during specified intervals. Therefore, such funds have relatively low liquidity.

Based on their investment objective:

Equity funds: These funds invest in equities and equity related instruments. With fluctuating share prices, such funds show volatile performance, even losses. However, short term fluctuations in the market, generally smoothens out in the long term, thereby offering higher returns at relatively lower volatility. At the same time, such funds can yield great capital appreciation as, historically, equities have outperformed all asset classes in the long term. Hence, investment in equity funds should be considered for a period of at least 3-5 years. It can be further classified as:

i) Index funds- In this case a key stock market index, like BSE Sensex or Nifty is tracked. Their portfolio mirrors the benchmark index both in terms of composition and individual stock weightages.

ii) Equity diversified funds- 100% of the capital is invested in equities spreading across different sectors and stocks.

iii|) Dividend yield funds- it is similar to the equity diversified funds except that they invest in companies offering high dividend yields.

iv) Thematic funds- Invest 100% of the assets in sectors which are related through some theme.

e.g. -An infrastructure fund invests in power, construction, cements sectors etc.

v) Sector funds- Invest 100% of the capital in a specific sector. e.g. - A banking sector fund will invest in banking stocks.

vi) ELSS- Equity Linked Saving Scheme provides tax benefit to the investors.

Balanced fund: Their investment portfolio includes both debt and equity. As a result, on the risk-return ladder, they fall between equity and debt funds. Balanced funds are the ideal mutual funds vehicle for investors who prefer spreading their risk across various instruments. Following are balanced funds classes:

i) Debt-oriented funds -Investment below 65% in equities. **ii) Equity-**

oriented funds -Invest at least 65% in equities, remaining in debt.

Debt fund: They invest only in debt instruments, and are a good option for investors averse to idea of taking risk associated with equities. Therefore, they invest exclusively in fixed-income instruments like bonds, debentures, Government of India securities; and money market instruments such as certificates of deposit (CD), commercial paper (CP) and call money. Put your money into any of these debt funds depending on your investment horizon and needs.

i) **Liquid funds-** These funds invest 100% in money market instruments, a large portion being invested in call money market.

ii) **Gilt funds ST-** They invest 100% of their portfolio in government securities of and T-bills.

iii) **Floating rate funds -** Invest in short-term debt papers. Floaters invest in debt instruments which have variable coupon rate.

iv) **Arbitrage fund-** They generate income through arbitrage opportunities due to mis-pricing between cash market and derivatives market. Funds are allocated to equities, derivatives and money markets. Higher proportion (around 75%) is put in money markets, in the absence of arbitrage opportunities.

v) **Gilt funds LT-** They invest 100% of their portfolio in long-term government securities.

vi) **Income funds LT-** Typically, such funds invest a major portion of the portfolio in long-term debt papers.

vii) MIPs- Monthly Income Plans have an exposure of 70%-90% to debt and an exposure of 10%-30% to equities.

viii) FMPs- fixed monthly plans invest in debt papers whose maturity is in line with that of the fund.

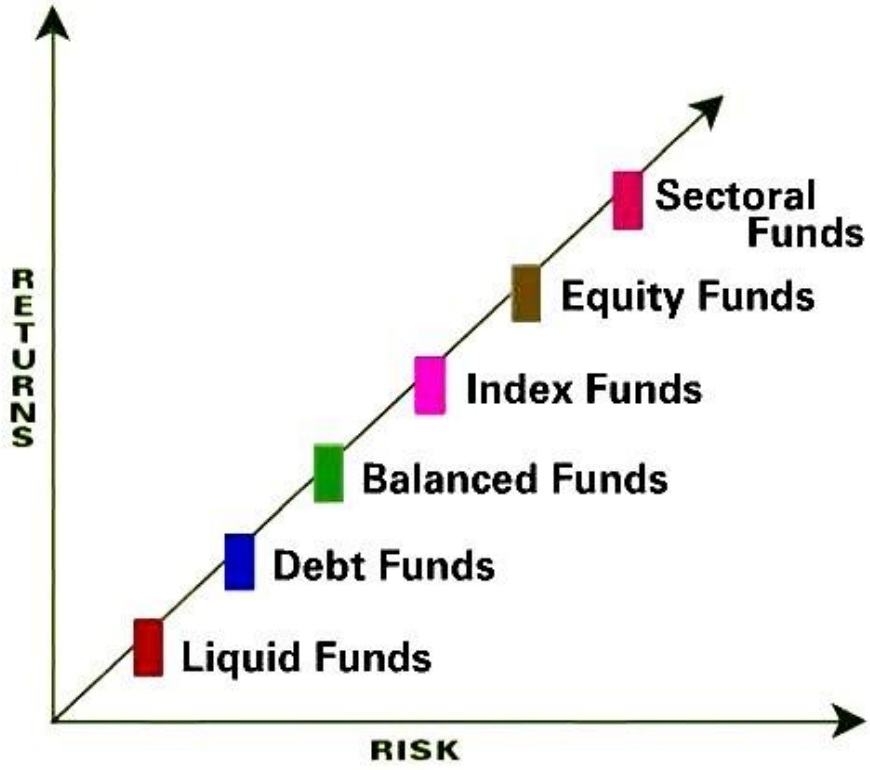
INVESTMENT STRATEGIES

1. Systematic Investment Plan: under this a fixed sum is invested each month on a fixed date of a month. Payment is made through post dated cheques or direct debit facilities. The investor gets fewer units when the NAV is high and more units when the NAV is low. This is called as the benefit of Rupee Cost Averaging (RCA)

2. Systematic Transfer Plan: under this an investor invest in debt oriented fund and give instructions to transfer a fixed sum, at a fixed interval, to an equity scheme of the same mutual fund.

3. Systematic Withdrawal Plan: if someone wishes to withdraw from a mutual fund then he can withdraw a fixed amount each month.

RISK V/S. RETURN:



Research Methodology

This report is based on primary as well secondary data, however primary data collection was given more importance since it is overhearing factor in attitude studies. One of the most important users of research methodology is that it helps in identifying the problem, collecting, analyzing the required information data and providing an alternative solution to the problem .It also helps in collecting the vital information that is required by the top management to assist them for the better decision making both day to day decision and critical ones.

Data sources:

Research is totally based on primary data. Secondary data can be used only for the reference. Research has been done by primary data collection, and primary data has been collected by interacting with various people. The secondary data has been collected through various journals and websites.

Duration of Study:

The study was carried out for a period of two months, from 1st July to 13th July 2010.

Sampling:

- **Sampling procedure:**

The sample was selected of them who are the customers/visitors of State Bank if India, Boring Canal Road Branch, irrespective of them being investors or not or availing the services or not. It was also collected through personal visits to persons, by formal and informal talks and through filling up the questionnaire prepared. The data has been analyzed by using mathematical/Statistical tool.

- **Sample size:**

The sample size of my project is limited to 200 people only. Out of which only 120 people had invested in Mutual Fund. Other 60 people did not have invested in Mutual Fund.

- **Sample design:**

Data has been presented with the help of bar graph, pie charts, line graphs etc.

Limitation:

- Some of the persons were not so responsive.
- Possibility of error in data collection because many of investors may have not given actual answers of my questionnaire
- Sample size is limited to 200 visitors of reliance mutual funds

  Branch, Ludhiana out of these only 120 had invested in Mutual Fund. The sample.

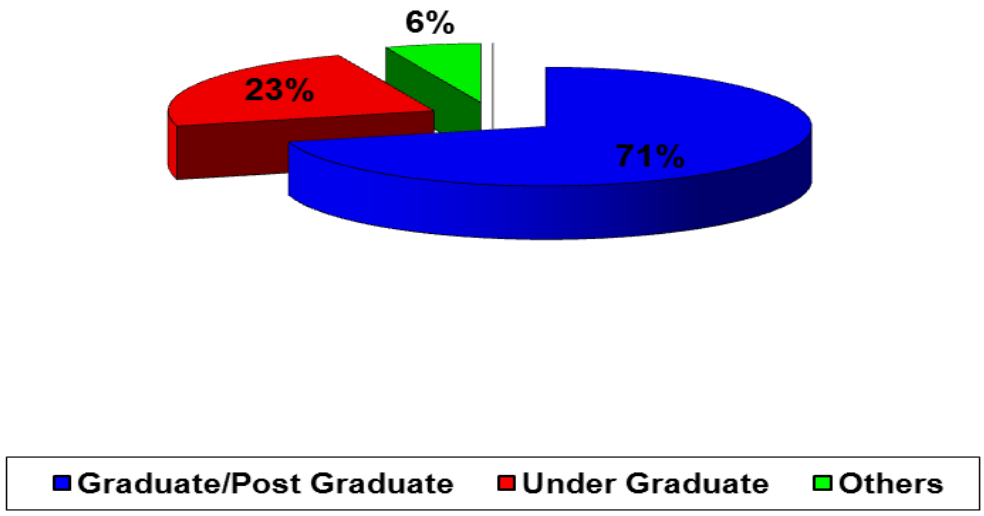
  Size may not adequately represent the whole market.
- Some respondents were reluctant to divulge personal information which can

  affect the validity of all responses.
- The research is confined to a certain part of Ludhiana.

ANALYSIS & INTERPRETATION OF THE DATA

1. Educational Qualification of investors of Ludhiana.

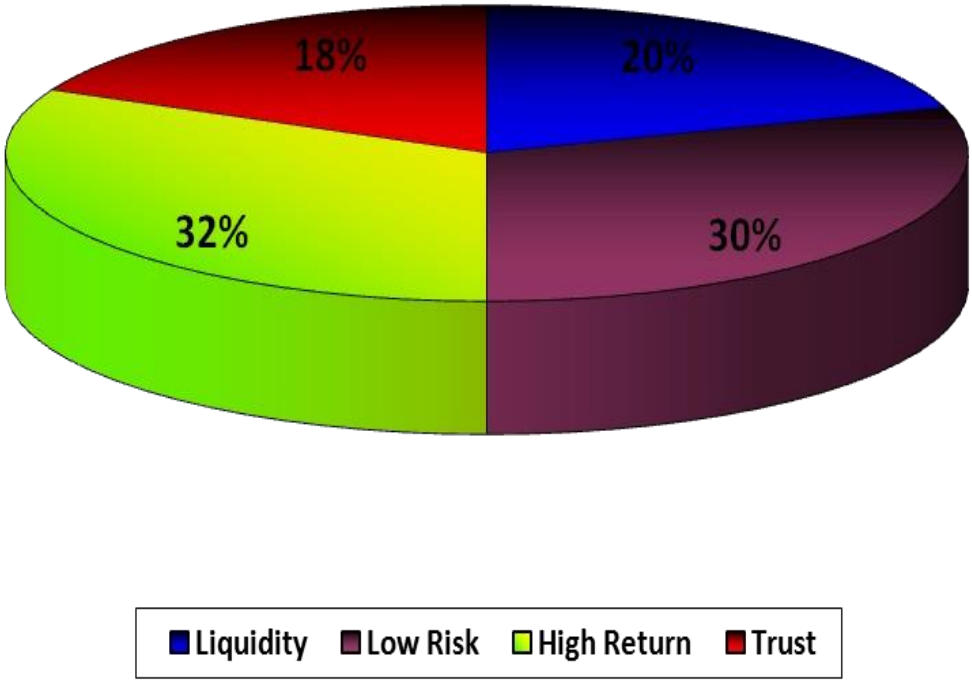
Educational Qualification	Number of Investors
Graduate/ Post Graduate	88
Under Graduate	25
Others	7
Total	120



Interpretation: Out of 120 Mutual Fund investors 71% of the investors in Ludhiana are Graduate/Post Graduate, 23% are Under Graduate and 6% are others (under HSC).

2. Preference of factors while investing

Factors	(a) Liquidity	(b) Low Risk	(c) High Return	(d) Trust
No. of Respondents	40	60	64	36

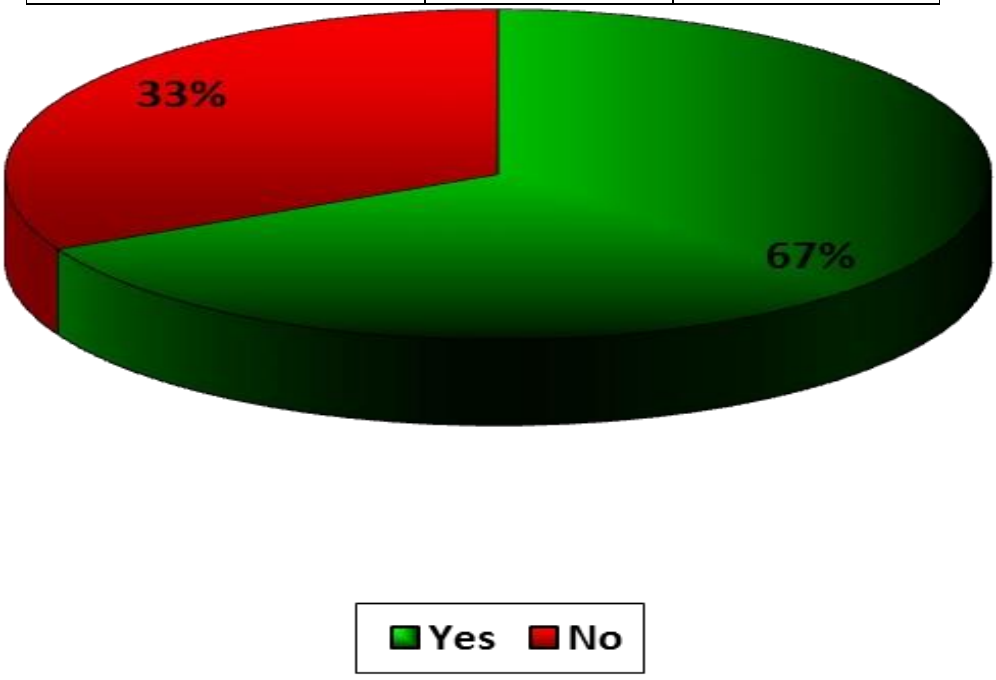


Interpretation:

Out of 200 People, 32% People prefer to invest where there is High Return, 30% prefer to invest where there is Low Risk, 20% prefer easy Liquidity and 18% prefer Trust

3. Awareness about Mutual Fund and its Operations

Response	Yes	No
No. of Respondents	135	65



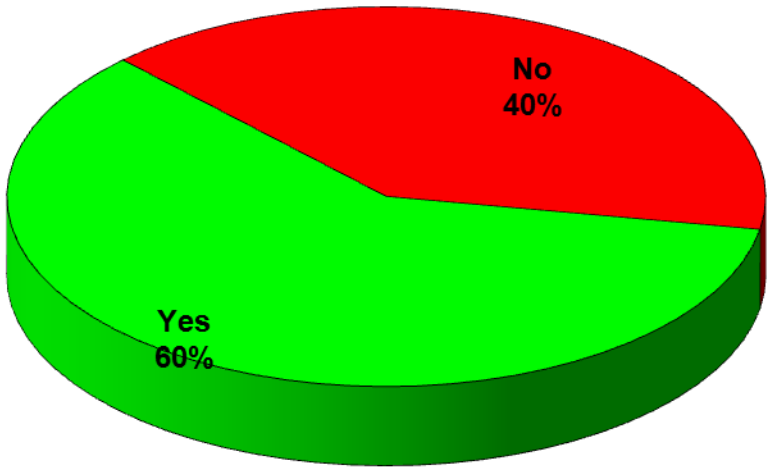
Interpretation:

From the above chart it is inferred that 67% People are aware of Mutual Fund and its operations and 33% are not aware of Mutual Fund and its operations.

4. **Investors invested in Mutual Fund**

Response	No. of Respondents
YES	120
NO	80
Total	200

Source of information	No. of Respondents
Advertisement	18
Peer Group	25
Bank	30

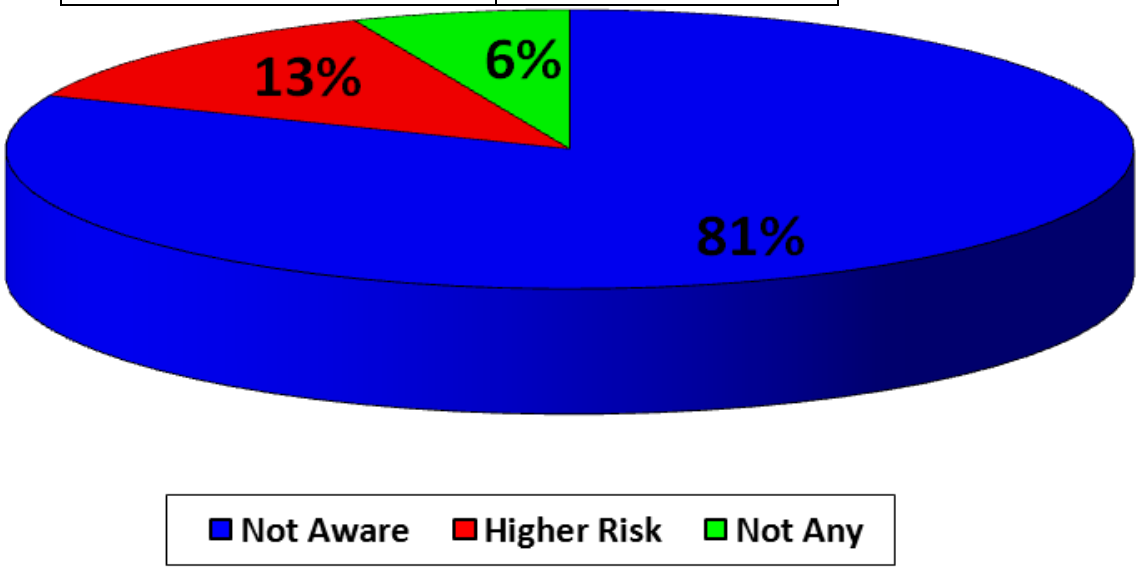


Interpretation:

Out of 200 People, 60% have invested in Mutual Fund and 40% do not have invested in Mutual Fund.

5. Reason for not invested in Mutual Fund

Reason	No. of Respondents
Not Aware	**65**
Higher Risk	**5**
Not any Specific Reason	**10**



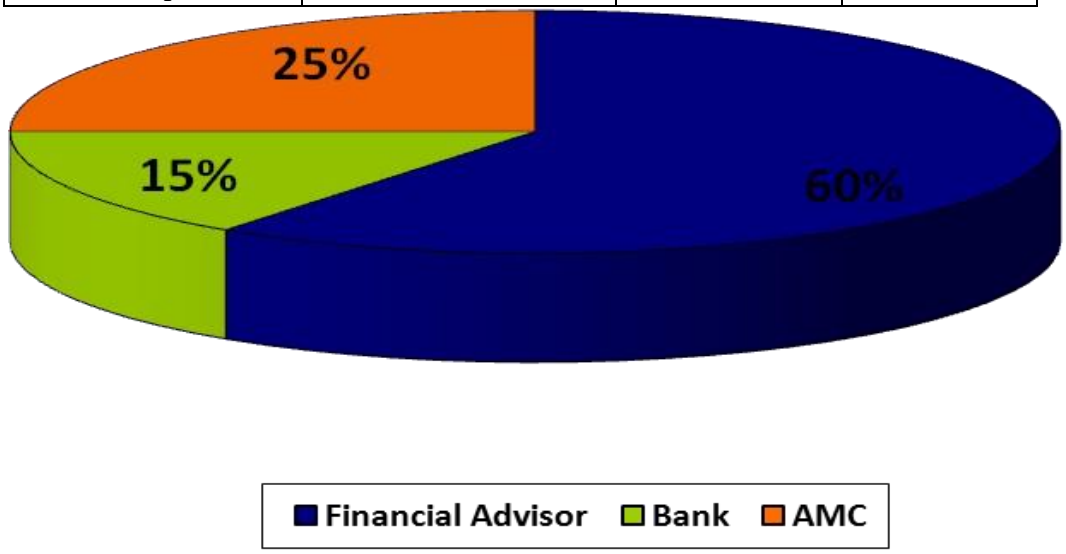
Interpretation:

Out of 80 people, who have not invested in Mutual Fund, 81% are not aware of Mutual Fund, 13% said there is likely to be higher risk and 6% do not have any specific reason.

6. Channel Preferred by the Investors for Mutual Fund Investment

Channel	Financial Advisor	Bank	AMC

No. of Respondents	72	18	30

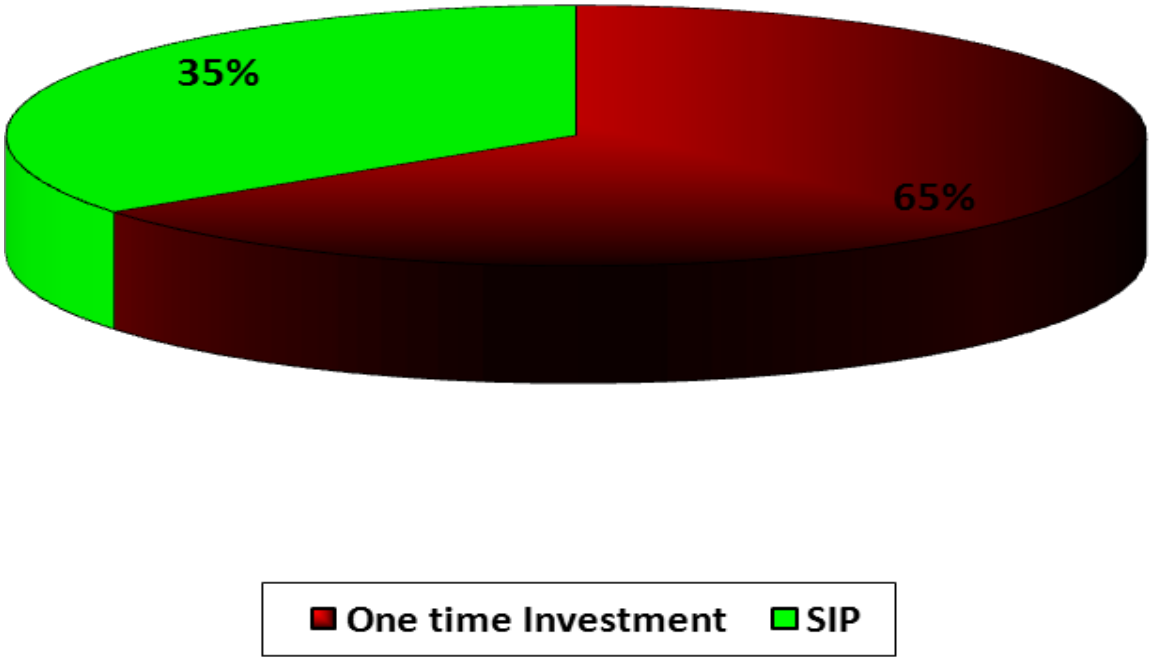


Interpretation:

Out of 120 Investors 60% preferred to invest through Financial Advisors, 25% through AMC and 15% through Bank.

11. Mode of Investment Preferred by the Investors

Mode of Investment	One time Investment	Systematic Investment Plan (SIP)
No. of Respondents	78	42

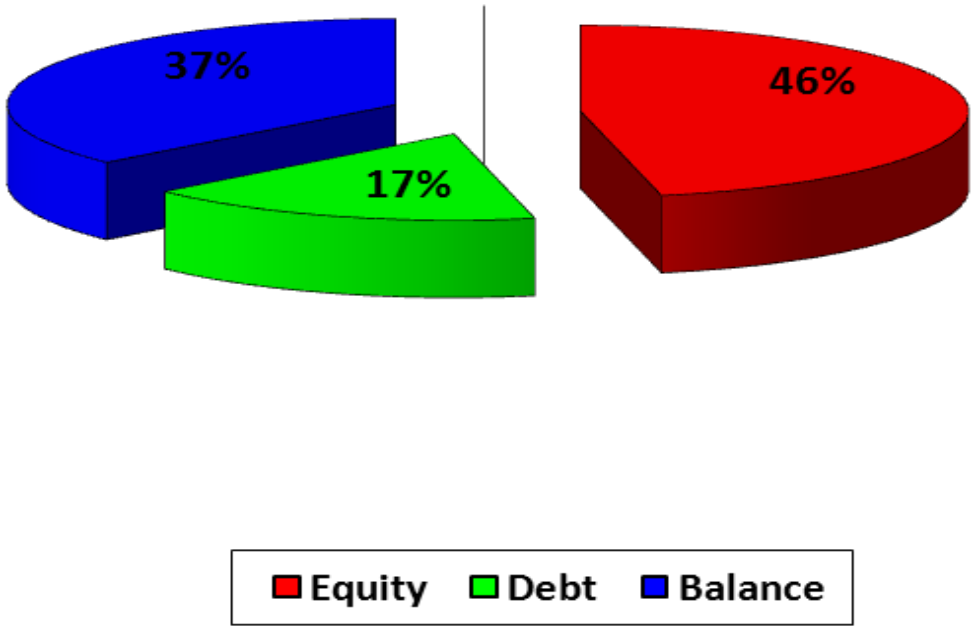


Interpretation:

Out of 120 Investors 65% preferred One time Investment and 35 % Preferred through Systematic Investment Plan.

7. Preferred Portfolios by the Investors

Portfolio	No. of Investors
Equity	56
Debt	20
Balanced	44

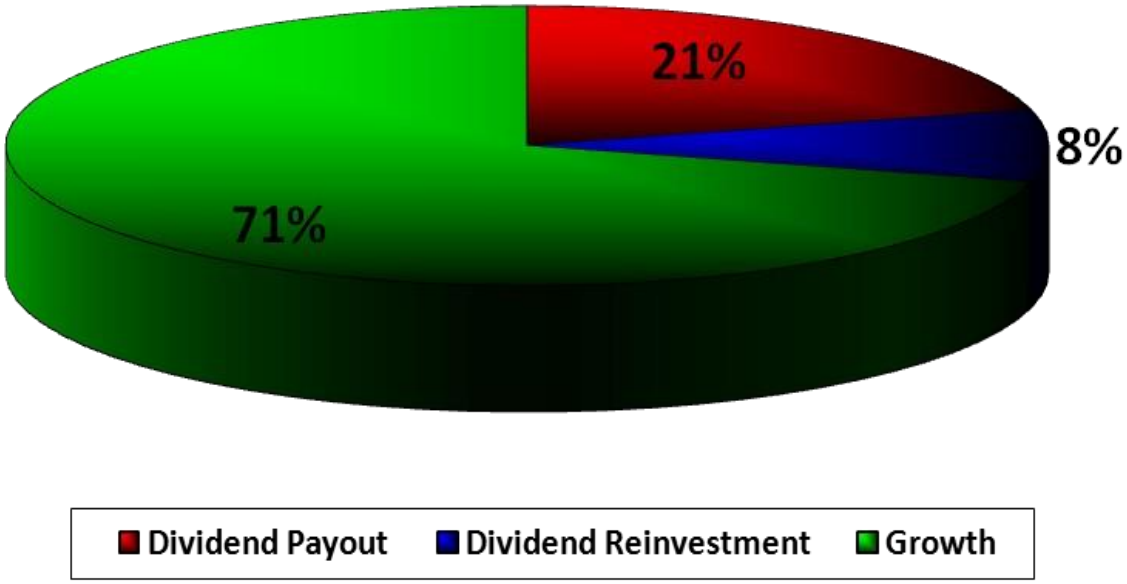


Interpretation:

From the above graph 46% preferred Equity Portfolio, 37% preferred Balance and 17% preferred Debt portfolio

8. Option for getting Return Preferred by the Investors

Option	Dividend Payout	Dividend Reinvestment	Growth
No. of Respondents	25	10	85

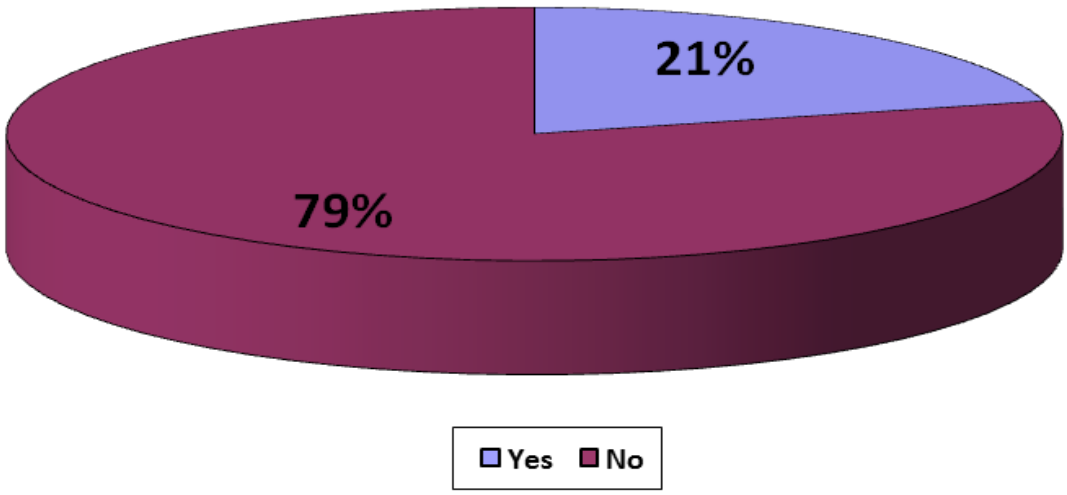


Interpretation:

From the above graph 71% preferred Growth Option, 21% preferred Dividend Payout and 8% preferred Dividend Reinvestment Option.

9. Preference of Investors whether to invest in Sectorial Funds

Response	No. of Respondents
Yes	25
No	95



Interpretation:

Out of 120 investors, 79% investors do not prefer to invest in Sectorial Fund because there is maximum risk and 21% prefer to invest in Sectorial Fund.

Findings

- In kALYAN in the Age Group of 36-40 years were more in numbers. The second most Investors were in the age group of 41-45 years and the least were in the age group of below 30 years.
- In kalyanmost of the Investors were Graduate or Post Graduate and below HSC there were very few in numbers.
- In Occupation group most of the Investors were Govt. employees, the second most Investors were Private

employees and the least were associated with Agriculture.

- In family Income group, between Rs. 20,001- 30,000 were more in numbers, the second most were in the Income group of more than Rs.30,000 and the least were in the group of below Rs. 10,000.
- About all the Respondents had a Saving A/c in Bank, 76% Invested in Fixed Deposits, Only 60% Respondents invested in Mutual fund.
- Mostly Respondents preferred High Return while

investment, the second most preferred Low Risk then liquidity and the least preferred Trust.

- Only 67% Respondents were aware about Mutual fund and its operations and 33% were not.

- Among 200 Respondents only 60% had invested in Mutual Fund and 40% did not have invested in Mutual fund.
- Out of 80 Respondents 81% were not aware of Mutual Fund, 13% told there is not any specific reason for not invested in Mutual Fund and 6% told there is likely to be higher risk in Mutual Fund.
- 60% Investors preferred to Invest through Financial Advisors, 25% through AMC (means Direct Investment) and 15% through Bank.
- The most preferred Portfolio was Equity, the second most was Balance (mixture of both equity and debt), and the least preferred Portfolio was Debt portfolio.
- Most of the Investors did not want to invest in Sectoral Fund, only 21% wanted to invest in Sectoral Fund.

Conclusion

- Running a successful Mutual Fund requires complete understanding of the peculiarities of the Indian Stock Market and also the psyche of the small investors. This study has made an attempt to understand the financial behavior of Mutual Fund investors in connection with the preferences of Brand (AMC), Products, Channels etc. I observed that many of people have fear of Mutual Fund. They think their money will not be secure in Mutual Fund. They need the knowledge of Mutual Fund and its related terms. Many of people do not have invested in mutual fund due to lack of awareness although they have money to invest. As the awareness and income is growing the number of mutual fund investors are also growing.
- "Brand" plays important role for the investment. People invest in those Companies where they have faith or they are well known with them. There are many AMCs in Punjab but only some are performing well due to Brand awareness. Some AMCs are not performing well although some of the schemes of them are giving good return because of not awareness about Brand.
- Distribution channels are also important for the investment in mutual fund. Financial Advisors are the most preferred channel for the investment in mutual fund. They can change investors' mind from one investment option to others. Many of investors directly invest their money through AMC because they do not have to pay entry load. Only those people invest directly who know well about mutual fund and its operations and those have time.

Suggestions and Recommendations

- The most vital problem spotted is of ignorance. Investors should be made aware of the benefits. Nobody will invest until and unless he is fully convinced. Investors should be made to realize that ignorance is no longer bliss and what they are losing by not investing.
- Mutual funds offer a lot of benefit which no other single option could offer. But most of the people are not even aware of what actually a mutual fund is? They only see it as just another investment option. So the advisors should try to change their mindsets. The advisors should target for more and more young investors. Young investors as well as persons at the height of their career would like to go for advisors due to lack of expertise and time.

- Mutual Fund Company needs to give the training of the Individual Financial Advisors about the Fund/Scheme and its objective, because they are the main source to influence the investors.

- Before making any investment Financial Advisors should first enquire about the risk tolerance of the investors/customers, their need and time (how long they want to invest). By considering these three things they can take the customers into consideration.

- Younger people aged under 35 will be a key new customer group into the future, so making greater efforts with younger customers who show some interest in investing should pay off.
- Customers with graduate level education are easier to sell to and there is a large untapped market there. To succeed however, advisors must provide sound advice and high quality.
- Systematic Investment Plan (SIP) is one the innovative products launched by Assets Management companies very recently in the industry. SIP is easy for monthly salaried person as it provides the facility of do the investment in EMI. Though most of the prospects and potential investors are not aware about the SIP. There is a large scope for the companies to tap the salaried persons.

BIBLIOGRAPHY

- **NEWS PAPERS**
- **OUTLOOK MONEY**
- **TELEVISION CHANNEL (CNBC AAWAJ)**
- **MUTUAL FUND HAND BOOK**
- **FACT SHEET AND STATEMENT**
- **WWW.SBIMF.COM**
- **WWW.MONEYCONTROL.COM**
- **WWW.AMFIINDIA.COM**
- **WWW.ONLINERESEARCHONLINE.COM**
- **WWW. MUTUALFUNDSINDIA.COM**

QUESTIONNAIRE

A study of preferences of the investors for investment in mutual funds.

1. **Personal Details:**

(a). Name:-

(b). Add: - Phone:-

(c). Age:-

(d). Qualification:-

Graduation/PG	Under Graduate	Others

(e). Occupation. Pl tick (√)

Govt. Ser	Pvt. Ser	Business	Agriculture	Others

(g). What is your monthly family income approximately? Pl tick (√).

Up to Rs.10,000	Rs. 10,001 to 15000	Rs. 15,001 to 20,000	Rs. 20,001 to 30,000	Rs. 30,001 and above

2. What kind of investments you have made so far? Pl tick (√). All applicable.

a. Saving account	b. Fixed deposits	c. Insurance	d. Mutual Fund
e. Post Office-NSC, etc	f. Shares/Debentures	g. Gold/ Silver	h. Real Estate

3. While investing your money, which factor will you prefer?

(a) Liquidity	(b) Low Risk	(c) High Return	(d) Trust

4. Are you aware about Mutual Funds and their operations? Pl tick (√). Yes No

5. If yes, how did you know about Mutual Fund?

a. Advertisement	b. Peer Group	c. Banks	d. Financial Advisors

6. Have you ever invested in Mutual Fund? Pl tick (√). Yes No

7. If not invested in Mutual Fund then why?

(a) Not aware of MF (b) Higher risk (c) Not any specific reason

8. If yes**,** in which Mutual Fund you have invested? Pl. tick (√). All applicable.

a. SBIMF	b. UTI	c. HDFC	d. Reliance	e. Kotak	f. Other. specify

9. When you plan to invest your money in asset management co. which AMC will you prefer?

Assets Management Co.	
a. SBIMF	
b. UTI	
c. Reliance	
d. HDFC	
e. Kotak	
f. ICICI	

10. Which Channel will you prefer while investing in Mutual Fund**?**

(a) Financial Advisor	(b) Bank	(c) AMC

11. When you invest in Mutual Funds which mode of investment will you prefer? Pl. tick (√).

a. One Time Investment	b. Systematic Investment Plan (SIP)

12. When you want to invest which type of funds would you choose?

a. Having only debt portfolio	b. Having debt & equity portfolio.	c. Only equity portfolio.

13. How would you like to receive the returns every year? Pl. tick (√).

a. Dividend payout	b. Dividend re-	c. Growth in NAV
	investment	

14. Instead of general Mutual Funds, would you like to invest in sectorial funds?

Please tick (√). Yes No

Any suggestions……

……..