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Understanding Stock Market in Indian Context

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ABSTRACT
This paper would discuss about today's stock market as per Indian perspective. In this paper I would be discussing about Indian stock market and its trade mechanism alongside with the market index. I would also talk about some restrictions that are imposed on investments and about investment of foreign entries in Indian stock market. In the second part of this paper, I will discuss how the Indian stock market works alongside with the procedure to invest and important key terms that are used in Indian stock market. In final part of this paper, I will talk about some reasons why investors fail in stock market and how to succeed in stock market with reference to current scenario and business trends.

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I. INTRODUCTION:

The stock market is a marketplace where consumers can purchase and sell publicly traded company shares. It provides a platform that allows for smooth stock exchange. Simply put, if A wants to sell shares of Reliance Industries, the stock market will assist him in finding a seller who is willing to purchase Reliance Industries. It is vital to note, however, that only a registered middleman, known as a stockbroker, can trade in the stock market. The electronic media is used to buy and sell shares. We'll get into more detail regarding stockbrokers later.[1]

The stock market is a set of markets and exchanges where regular operations such as buying, selling, and issuance of publicly traded company shares take place. Such financial transactions take place on institutionalised formal exchanges or over the counter (OTC) marketplaces that are governed by a set of rules. In a country or region, there may be many stock trading venues that allow transactions in stocks and other securities. While the phrases stock market and stock exchange are sometimes used interchangeably, the latter is usually considered a subset of the former. When someone says they trade in the stock market, they are referring to buying and selling shares/equities on one (or more) of the stock exchanges that make up the entire stock market. The New York Stock Exchange (NYSE), Nasdaq, and the Chicago Board Options Exchange are the three most important stock exchanges in the United States (CBOE). The stock market of the United States is made up of these big national exchanges as well as a number of other exchanges that operate in the country.

While practically anything can now be purchased online, each commodity usually has its own market. People, for example, drive to the outskirts of cities and farmlands to get Christmas trees, go to the local timber market to buy wood and other materials for home furniture and restorations, and shop at Walmart for their normal supermarket needs. These specialised markets act as a meeting place for a large number of buyers and sellers to meet, communicate, and deal. Due to the large number of market players, a reasonable price can be expected. If there is only one seller of Christmas trees in the entire city, for example, he will be free to charge whatever price he wants because the purchasers will have nowhere else to go. If a common marketplace has a high number of tree merchants, they will have to compete with one another to attract buyers. With low- or optimum-pricing, purchasers will be spoiled with choice, resulting in a fair market with price transparency. Buyers compare prices supplied by multiple sellers on the same shopping portal or across several shopping portals to get the greatest offers, forcing online sellers to offer the best price.[2]

INDIAN STOCK MARKET:

The Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) are the two primary stock exchanges in India, where the majority of trades are conducted (NSE). Apart from these two markets, there are a few more regional stock exchanges, such as the Bangalore Stock Exchange and the Madras Stock Exchange, but

[1] 'Introduction to stock market in India' (*5Paisa)* https://www.5paisa.com/school/introduction-to-stock-market Accessed on 15th August 2021.

[2] Chen J, 'Stock market' *(2021 Investopedia)* https://www.investopedia.com/terms/s/stockmarket.asp Accessed on 18th August 2021.

they no longer play a significant role. The National Stock Exchange of India (NSE) is India's largest stock exchange, where you can purchase and sell shares in publicly traded companies. It is a Mumbai-based company that was founded in 1992. NIFTY50 is the flagship index of the NSE. Based on trading volume and market capitalization, the index includes the top 50 companies. This index is frequently regarded as a barometer of the Indian capital markets by investors in India and throughout the world. BSE is both Asia's first and India's oldest stock exchange. It is located in Mumbai and was founded in 1875. As of August 21, 2017, it had 5,295 firms listed, with 3,972 of them eligible for trade. The BSE Sensex is the company's flagship index. It assesses the performance of the world's 30 largest, most liquid, and financially sound corporations in a variety of industries.[3]

- TRADING MACHANISM: At both exchanges, trading takes place through an open electronic limit order book, with the trading computer matching orders.[4] There are no market makers, and the entire process is order-driven, which means that market orders are automatically matched with the best limit orders put by investors. As a result, both buyers and sellers maintain their anonymity. An order-driven market has the advantage of providing greater transparency by displaying all buy and sell orders in the trading system. There is no certainty that orders will be filled in the absence of market makers.[5]

- MARKET INDEX: The Sensex and Nifty are two popular Indian stock market indexes. The Sensex is the oldest stock market index in the world, with shares from 30 BSE-listed companies accounting for about half of the index's free-float market value. It was founded in 1986 and has time series data dating back to April 1979. The Standard and Poor's CNX Nifty is another index; it contains 50 equities listed on the NSE that account for 46.9% of its free-float market capitalization. 7 It was founded in 1996 and contains time series data from July 1990 to the present.[6]

- RESTICTIONS AND INVESTMENT CEILINGS: The FDI limit is set by the Indian government, and different restrictions have been set for different sectors. The government has gradually raised the ceilings over time. The majority of FDI ceilings are in the range of 26 percent to 100 percent. By default, the maximum limit for portfolio investment in a listed company is determined by the FDI ceiling for the industry in which the company operates. Portfolio investing, however, is subject to two additional constraints. First, the total investment limit for all FIIs in any given firm, including their sub-accounts, has been set at 24 percent of the paid-up capital. With the consent of the company's boards and shareholders, the limit can be lifted up to the sector cap.[7]

Second, any one FII's investment in a single company shall not exceed 10% of the company's paid-up capital. Regulations allow for a separate 10% investment ceiling for each of a FII's sub-accounts in any one firm. The same ceiling applies to international corporations or individuals investing as a sub-account; however, it is only 5%. Investments in equity-based derivatives traded on stock exchanges are likewise subject to regulations.[8]

- INVESTMENT OF FOREIGN ENTRIES: Institutional investors can provide exposure to Indian stocks to foreign businesses and people. Retail investors are increasingly interested in India-focused mutual funds. Participatory notes (PNs), depositary receipts (ADRs) and global depositary receipts (GDRs), exchange-traded funds (ETFs), and exchange-traded notes (ETNs) are some of the offshore products that can be used to make investments (ETNs).

Participatory notes reflecting underlying Indian stocks can only be issued overseas by FIIs to regulated businesses, according to Indian regulations. Small investors, on the other hand, can buy American depositary receipts (ADRs) that reflect the underlying equities of well-known Indian companies listed on the New York Stock Exchange and Nasdaq. ADRs are denominated in dollars and are governed by the Securities and Exchange Commission of the United States (SEC). Global depositary receipts, meanwhile, are traded on

[3] 'Introduction to stock market in India' (*5Paisa)* https://www.5paisa.com/school/introduction-to-stock-market Accessed on 15th August 2021.

[4] NSE India, 'Trading System' Accessed on 10th June 2021.

[5] Singh M, 'An introduction to Indian stock market' *(March 2021 Investopedia)* https://www.investopedia.com/articles/stocks/09/indian-stock-market.asp Accessed on 20th August 2021.

[6] Securities Exchange Board Of India, 'Annual Report 2018-19' https://www.sebi.gov.in/reports/annual-reports/jul-2019/annual-report-2018-19_43670.html Accessed on 1st June 2021.

[7] Reserve Bank of India, ' Investment in Indian Companies by FIIs, NRIs, PIOs' https://www.rbi.org.in/scripts/BS_FiiUSer.aspx Accessed on 3rd May 2021.

[8] Singh M, 'An introduction to Indian stock market' *(March 2021 Investopedia)* https://www.investopedia.com/articles/stocks/09/indian-stock-market.asp Accessed on 20th August 2021.

European stock exchanges. However, many promising Indian companies are still not using ADRs or GDRs to raise funds from international investors.
ETFs and ETNs based on Indian stocks are available to retail investors as well. India-focused exchange-traded funds (ETFs) invest primarily in Indian stock indices. The majority of the stocks in the index are already traded on the NYSE and Nasdaq.
The iShares MSCI India ETF (INDA) and the Wisdom-Tree India Earnings Fund are two of the most popular ETFs based on Indian stocks as of 2020. (EPI). The iPath MSCI India Index Exchange Traded Note is the most well-known ETN (INPTF). For outside investors, both ETFs and ETNs offer a solid investment opportunity.[9]

HOW THIS STOCK MARKET WORKS?

In a word, stock exchanges provide a safe and regulated environment in which market participants can confidently trade shares and other qualified financial products with zero to low operational risk. The stock markets operate as primary and secondary markets, according to the guidelines set forth by the regulator. The stock market, as a main market, permits corporations to issue and sell their shares to the general public for the first time through initial public offerings. This practise aids businesses in obtaining the funding they require from investors. It basically means that a corporation divides itself into shares and sells a portion of those shares to a third party.[10]

- THE STOCK EXCHANGE PLATFORM: An Overview, A stock exchange is a platform that allows traders to trade financial items such as stocks and derivatives. The Securities and Exchange Board of India regulates the operations on this platform. To conduct trading, parties must first register with SEBI and the stock exchange. Brokering, issuing shares by firms, and other trading operations are examples.[11]

- LISTING OF THE COMPANY IN SECONDRY MARKET: An Initial Public Offering, or IPO, is when a company's shares are initially placed on the secondary market. Stocks are allotted before they are listed, and investors who bid for them receive a share based on the number of investors.[12]

- TRADING IN THE SECONDARY MARKET: Investors can trade stocks on the secondary market once the company has been listed. This is the site where buyers and sellers can transact and make money or lose money in some situations.[13]

- STOCKBROKERS: It's tough to get thousands of investors to gather in one place because of the size of the investment. As a result, stockbrokers and brokerage businesses enter the scene to execute trading. These are companies that have been registered with the Stock Exchange and act as a link between investors and the exchange. When you submit an order to buy a certain stock at a specific price, the broker processes it at the exchange, which involves many parties.[14]

- PASSING OF YOUR ORDER: The broker sends your buy order to the exchange, where it is matched with a sell order for the same. When the seller and the buyer agree on a price and finalise it, the exchange takes place, and the order is confirmed.[15]

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[9] Ibid.

[10] Chen J, 'Stock market' *(2021 Investopedia)* https://www.investopedia.com/terms/s/stockmarket.asp Accessed on 18th August 2021.

[11] Harpar D, 'Getting to know stock market' *(2020 Investopedia)* < https://www.investopedia.com/articles/basics/04/092404.asp> Accessed on 15th August 2021.

[12] 'How the stock market works' *(2021 Clear)* < https://cleartax.in/s/stock-market-explained> Accessed on 3rd August 2021.

[13] Kenton W, 'Secondary Market' *(2020 Investopedia)* < https://www.investopedia.com/terms/s/secondarymarket.asp> Accessed on 28th July 2021.

[14] Scott G, 'Stock Broker' *(2020 Investopedia)* < https://www.investopedia.com/terms/s/stockbroker.asp> Accessed on 25th June 2021.

[15] [15] 'How the stock market works' *(2021 Clear)* < https://cleartax.in/s/stock-market-explained> Accessed on 3rd August 2021.

- SETTELMENT: Once you've decided on a price, the exchange double-checks the details to make sure the transaction is complete. Settlement is the process through which the exchange allows the transfer of ownership of the shares. When this happens, you'll get a message. Multiple parties are involved in the communication of this message, including the brokerage order department, exchange floor traders, and so on. The settlement period used to take weeks to materialise, but now it takes T+2 days. This means that if you trade today, your shares will appear in your Demat account in two business days. Market hazards exist while investing in the stock market. Before you invest, you should obtain professional advice.[16]

WHY DO INVESTORS FAIL IN STOCK MARKET?

Which is to blame for stock market losses: the market or the investor? Contrary to popular belief, it is the investor who is to fault, not the market. Why? Because, like most other stock markets, the Indian stock market has maintained an upward bias over time. In 1991, the Sensex closed at 1,908 points. The Sensex is currently trading at roughly 51,700 points. Do you believe the market is still the issue? So, why do so many people lose money in the stock market? Your search for the Holy Grail has come to a conclusion. The solution has always been there; all that was needed was for it to be placed in the proper perspective.[17]

In the stock market, your ability to make excellent decisions and pick the correct stock at the right moment determines whether you gain money or lose money. People frequently make mistakes and, as a result, fail to make a profit. In order to prosper, such errors must be avoided. To avoid them, one must first comprehend the most common causes of failure. The five most common reasons why investors lose money in the stock market are as follows:

- WHERE EMOTIONS OVERSHADOW JUDGMENT: Major blunders are generally the result of people succumbing to their emotions and not prioritising analysis. Fear and greed are two of these emotions that have a negative impact on an investor's selections. Some judgments made under the impact of emotions, such as taking significant positions in futures, investing heavily in unknown firms, and so on, could end devastating for the investor. As a result, it is recommended to prioritise analysis and judgement over emotional instincts.[18]
- WHERE INVESTORS INVEST IN STOCK RATHER THAN BUSINESS: Investing in companies based on price patterns and ignoring the business is one of the most common reasons for stock market failure. Decisions based on stock prices can sometimes be deceiving and result in a loss for the investor. The stock price may fluctuate due to momentary fluctuations, but it is critical to understand the firm in order to predict market trends.

A thorough understanding of business is beneficial in the following areas: Better trend-based decision-making, when is the best time to enter or exit the market, the stock's future potential, gives you a greater grip on your stocks, assists in lowering the risk.[19]

- WHEN INVESTORS MAKE DECISIONS BASED ON HERD MENTALITY RATHER THAN TECHNICAL RESEARCH: In the stock market, a herd mentality is almost always unsuccessful. This is a frequent mistake that investors often commit. Such techniques do not produce long-term results and frequently result in significant losses. The fundamental reason for this is that these decisions are influenced by friends rather than serious technical investigation. As a result, they are a hit-or-miss process, and another reason for a significant loss. Experts advise investors to follow the technical research and analysis. Rather of following the herd, investors should work within their own risk tolerances.[20]

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[16] Ibid.

[17] Vats V, '10 reasons why most stock investors fail' *(January 2021 Words Worth)* https://www.valueresearchonline.com/stories/27254/10-reasons-why-most-stock-investors-fail/ Accessed on 18th July 2021.

[18] '5 reasons why investors fail in stock market' *(IIFL Securities)* https://www.indiainfoline.com/article/news-personal-finance/5-reasons-why-investors-fail-in-stock-market-investing-in-a-stock-118013100704_1.html Accessed on 28th July 2021.

[19] Haque M, 'Invest in the business, not in stocks' *(2020 Value Research)* https://www.valueresearchonline.com/stories/23324/invest-in-the-business-not-in-the-stock/ Accessed on 1st August 2021.

[20] 'Impact of heard mentality on investment decisions' *(2020 Community)* < https://community.nasscom.in/communities/digital-transformation/bfsi/impact-of-herd-mentality-on-investment-decisions.html> 5th August 2021.

- WHEN INVESTORS DON'T TAKE A METHODICAL APPROACH TO INVESTING: Investing in the stock market is a risky endeavour that necessitates extreme caution when making decisions. A haphazard approach leads to failure and a significant loss in the stock market. If an investor does not use a disciplined approach, patience, and a sound strategy, he or she is likely to fail. Before investing, investors should take a disciplined approach by thoroughly considering several factors. This entails constant trend monitoring, thorough analysis, technical research, and a thorough understanding of the business. Market and economic news is updated on a regular basis.[21]

HOW TO SUCCEED IN STOCK MARKET?

The act of buying and selling a financial instrument on the same day, or numerous times throughout the day, is known as day trading. Profiting from modest price changes may be a rewarding game if done right. However, it can be a risky game for newcomers or anyone who does not follow a well-thought-out plan. However, not all brokers are suitable for day traders' high volume of trades. However, certain brokers are specifically built for day traders. Check out our list of the best day trading brokers to find which brokers are best for day traders.[22]

- KNOWLEDGE IS POWER: Day traders must keep up with the latest stock market news and events that affect equities, such as the Federal Reserve's interest rate plans, the economic outlook, and so on, in addition to knowing basic trading methods. So, go ahead and finish your assignment. Make a wish list of equities you'd like to trade and stay informed about the firms you've chosen as well as the wider markets. Examine the latest business news and go to reputable financial websites.[23]

- SET ASIDE FUNDS AND TIME: Determine how much money you're willing to put at risk with each deal. Many effective day traders trade with less than 1% to 2% of their account at any given time. Your maximum loss per trade is $200 (0.5 percent * $40,000) if you have a $40,000 trading account and are ready to risk 0.5 percent of your capital on each deal. Set aside a sum of money that you can trade with and are willing to lose. Remember, it may happen or it could not.[24] Day trading necessitates your availability. That is why it is referred to as day trading. In fact, you'll have to forego the most of your day. If you only have a short amount of time, don't bother. A trader must follow the markets and look for opportunities, which can occur at any time during trading hours. The ability to move rapidly is essential.

- START SMALL: As a newbie, limit yourself to one or two stocks per session. With just a few stocks, it's easy to keep track of and spot possibilities. It's been more usual in recent years to be able to trade fractional shares, which allows you to invest in smaller cash quantities. If Apple shares are trading at $250 and you just want to buy $50 worth, many brokers now allow you to acquire one-fifth of a share.[25]

- TIME THOSE TRADES: Many investor and trade orders start to execute as soon as the markets open in the morning, contributing to price volatility. A skilled player may be able to spot trends and make informed decisions in order to profit. However, for newcomers, it may be preferable to simply read the market for the first 15 to 20 minutes before making any moves. The middle hours are normally less volatile, and then the pace picks up again as the clock approaches the closing bell. Even while rush hours provide chances, beginners should avoid them at first.[26]

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[21] '5 reasons why investors fail in stock market' *(IIFL Securities)* https://www.indiainfoline.com/article/news-personal-finance/5-reasons-why-investors-fail-in-stock-market-investing-in-a-stock-118013100704_1.html Accessed on 28th July 2021.

[22] Kuepper J, 'Ten day trading strategy for beginners' *(2021 Investopedia)* < https://www.investopedia.com/articles/trading/06/daytradingretail.asp> Accessed on11th August 2021.

[23] Pilkster, 'Knowledge is power: a research on stock market investment' *(Street directory)* < https://www.streetdirectory.com/travel_guide/36526/investment/knowledge_is_power_a_research_on_stock_market_investment.html> Accessed on 6th July 2021.

[24] Barnes R, 'Top 6 budgeting questions answered' *(2021 Investopedia)* < https://www.investopedia.com/articles/pf/07/budget-qs.asp> Accessed on 10th August 2021.

[25] 'How to invest in stock market with little money' *(Karvy)* < https://www.karvyonline.com/knowledge-center/beginner/how-to-invest-in-stock-market-with-little-money> Accessed on 6th July 2021.

[26] 'What is the right time to invest in stocks' *(IIFL Securities)* < https://www.indiainfoline.com/investment-guide/right-time-to-invest-in-stock-

- CUT LOSSES BY LIMIT ORDER: Make a decision about the kind of orders you'll employ to enter and exit trades. Are you going to use market or limit orders? There is no price guarantee when you make a market order because it is executed at the best price available at the time. Meanwhile, a limit order guarantees the price but not the execution. Limit orders allow you to trade more precisely by allowing you to establish your price (not ridiculous, but attainable) for both buying and selling. Options methods may be used by more skilled and experienced day traders to hedge their positions.[27]

- BE REALISTIC ABOUT PROFTS: To be profitable, a strategy does not have to win all of the time. Many traders only win about half of their transactions (50-60%). They make more money on their victories than they do on their failures, though. Make sure that each trade's risk is limited to a certain proportion of the account's value, and that entry and exit procedures are properly stated and documented.[28]

- STICK TO THE PLAN: Successful traders must move quickly, but they do not need to think quickly. Why? Because they've planned ahead and devised a trading strategy, as well as the discipline to stick to it. Rather of trying to chase revenues, it's critical to stick to your recipe. Allowing your emotions to get the best of you and abandoning your strategy is not a good idea. Day traders have a saying: "Plan your trade and trade your plan."[29]

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market#:~:text=All%20these%20factors%20taken%20into,are%20sharking%20around%20the%20waters.> Accessed on 16th August 2021.

[27] Anderson S, 'The stop loss order' *(2021 Investopedia)* < https://www.investopedia.com/articles/stocks/09/use-stop-loss.asp> Accessed on 20th August 2021.

[28] Farley A, 'can you make money in stocks' *(2021 Investopedia)* < https://www.investopedia.com/investing/can-you-make-money-stocks/> Accessed on 03rd August 2021.

[29] Kuepper J, 'Ten day trading strategy for beginners' *(2021 Investopedia)* < https://www.investopedia.com/articles/trading/06/daytradingretail.asp> Accessed on11th August 2021.