



COMPARATIVE ANALYSIS OF INDIAN STOCK MARKET FROM 2007 TO 2017

Management

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KEYWORDS

Indian stock market has nineteen active stock exchanges. Out of which BSE or Bombay stock exchange is the most popular one. More than 80% of the total volume of transactions happen in BSE.

Hence it is very important to understand the impact BSE has on Indian economy. Be it any stock exchange or for that matter any financial market i.e. security or commodity or currency, financial markets contribute a lot to the economy of any nation. The entrepreneurial mechanism of any nation requires funding. The stock exchanges provide the right platform for any business to generate capital by allowing the entrepreneurs to dilute the certain calculated percentage of ownership, in exchange for required funding from the retail investors. Hence the growth of these entrepreneurs and their venture is visible through the performance of the company in the stock exchange. But this is not always the case as the investment is not always made for being with the business and to see its growth, many investors invest in stock exchange with the purpose of speculation and idea to make quick money. This entirely changes the game of investment in stock market. Due to the greed factor in any stock exchange, which is driven 90% by psychological factors and only 10% by technical analysis, the speculation turns as a mad race. The investors are slowly and steadily realizing these but are resistant to give up the idea completely. To quote an example, currently, i.e. towards the end of 2017, the bitcoin in the international market has touched 15000 marks, which means that one bitcoin can be purchased by paying more than \$15000. These clearly show how speculation can be extremely dangerous just like tulipomania. Tulipomania happened in Europe in the period 1636-37, where people started speculating heavily on Tulip bulbs. These fashionable tulips known as the viceroy, reached an extraordinary level only to collapse later in Feb 1637. These reflect an important fact of human Psychology that any product which looks new, attractive and we do not have a fair understanding of it, can drive us to speculate about it only to see or be the part of the collapse in future. Because at the end of the day, Tulip is only a flower which is perishable. An economy can survive and thrive if it restricts itself from greed-driven speculation and let the game of pricing be decided by demand and supply based on the usage of the product.

The speculations of the bitcoin today is another Mackay's madness of crowds, though some bitcoin lovers will disagree and strongly oppose the idea. The logic that can be quoted is that it is based on blockchain technology, powered by lighting network. So???

No doubt, bitcoin is a good product with a subject to a lot of upgrading. The participant of this speculation might understand the technology behind bitcoin but they fail to understand the basic economics behind the product. Before any investment be it hedging or speculation, one simple question should be asked by every investor is, what is the intrinsic value of the asset I am investing in? I do not consider Cryptocurrency as a weak product but my serious worries are that the greed of the people in form of speculation might kill it even before it is put to the real global use.

Since the speculations can be very dangerous to any economy, let's understand the Indian stock market, BSE and see how feasible is the 33000 mark it is floating onto and how can be its feasible future.

The year 2007 was the golden period of Indian Stock market. The upward trend which started in 2003, looked like never ending the journey of Indian economy on its way to be the strongest economy in the world. The decade of 2000 can actually be considered as India's journey to be a superpower, which was short-lived. The January of

2008 saw the BSE touch the mark of 21,000 and the entire economy was overwhelmed with investment experts were very bullish and were confident enough for the market to achieve 25000 marks in 2008. The major investors failed to see the forthcoming sub-prime crisis. Once it was sensed, the mood changed dramatically and the BSE Sensex plummeted 7.4%. It's biggest single-day decline ever as concerns over a possible US recession overwhelmed the market. The cause can be anything but this is quite natural for any time frame for a decade to see the cyclical variation as we saw in the year 2007-2008. The aftermath of the sub-prime crisis is a popular investment learning. The beast-like Lehman Brothers collapsed like a house of cards. The Indian economy or Indian financial system was best popularized during this period as being fundamentally strong. Still, the Indian Stock markets were also burnt by the western fire. The FIIs and FDIs was something very popular and is something very popular today also. But it is always the small investors who fail to develop the correct hedging strategy. It took 7 years for the economy to recover from the popular recession of 2008.

Now let's go ahead an analysis the cyclical trend of BSE for last two decades in two different time frames, namely 1998 to 2008 and 2009 to 2017:

The following is the chart showing 21 days simple moving average for the period of 1998 to 2008:

As visible in the trend, we can clearly see that the cyclical trend has been very bullish from the period of 2003 till 2008. Post which there was downward cyclical trend.

The following is the chart showing 21 day simple moving average for the period of 2009 to 2017:

1998-99 TO 2007-08



2008-09 TO 2016-17



If we analyze both the cyclical trends, we will see that there has been positive trend line in both graphs. Then the year 2008 saw a major decline as visible in the former graph. Now seeing both the graphs, it is clear that the current economic situation the trend is positive but its definitely on the verge of initiating the decline. One strong argument to support this is that in the stock market, history definitely repeats itself, that is famously known as market psychology. Hence the decline as per the graph says that there will be a decline but after a certain period, probably after a year, towards the end of 2018.

longer duration. The investor should focus more on the market psychology and technicality rather than people's psychology.

If we also go by the other fundamental factors, it is clear that the year 2007 was the year for the IPOs. Hence major of the funds started moving from secondary market to primary market. The year 2007 helped the primary market to raise Rs. 46,687 crore through IPO and similarly the year 2017 has managed to raise Rs. 67,505 crore worth of mainstream IPO till date. The IPOs are considered as one of the major contributing factors to understand the market trend. If we analyse the factors further, we learn that the GDP growth rate in India currently is 6.3% against the estimated 7%. Though some foreign economists are convinced that Indian GDP growth rate can be around 10% as in the 2006-2007, it was close to 9.5%. The point here is that the GDP and Sensex both should project the trend direction similarly. Though we have improved the GDP growth rate in the last 4 years, the trend is very different when we rejoice the 33000 marks for our Sensex. We are also learning that the FIIs are pulling out and seeking investment opportunities outside India, though the rating has improved for India in terms of ease of doing business or the rating of Indian economy. But looking at the overall picture, it is quite clear that though the factors are against the current bulling high tide, still something is driving the Sensex drastically. The demonstration, GST or any other government policies have proved to slow down the growth of the economy when we are looking via micro duration. Undoubtedly India is an emerging market with GDP slightly upwards of \$2 trillion in 2017.

Indian GDP was at \$541 billion in 2003, had overwhelmingly crossed \$1 trillion in 2007 and \$2 trillion in 2015. There is the very positive outlook for the economy to be a 3 trillion economy by the end of next year. The increasing liquidity available domestically, huge domestic consumption and global demand will be driving the economy towards upward trend but the major loss in IT and telecoms sector, lack of job opportunities is likely going to slow down the Sensex trend and we also might see the reverse trend in a year or so but that would definitely be short lived.

Based on the Sensex data extracted for the year, 2017, the required findings are as follows:

The Beta appearing for the Sensex when we consider the average of five stocks is coming as 0.995.

We have taken the average of 5 stocks (along with their respective beta are as follows) for the above calculation:

1. Cipla Ltd. 0.958
2. BHEL 0.937
3. TCS 0.942
4. Hero 0.973
5. Reliance 0.946

The calculated Beta for the Sensex using the formula is 0.995

$$\text{Beta} = \frac{\text{Covariance}(\text{Sensex}, \text{Stock})}{\text{Variance}(\text{Sensex})}$$

Hence this clearly shows that the growth of the Sensex has been achieved by maintaining the balanced volatility.

Conclusion:

Hence this is clear that the stock exchange has done a tremendous job in the year 2017 just like the year 2007. We are likely to see the dip in the year 2018 but the impact would be sustainable. The positive outlook of the economy, the improved rating of India as an investment opportunity on the global platform are some of the factors which are going to put India again on the global map as an attractive market. With better investment on infrastructure, skilling Indian youth to make them better employable would be some of the areas where we can improve. As the investor, a careful analysis of the trend for last two decades is definitely going to show that there is a huge benefit to the investors from Indian Stock Market if they are making the investment for the