An Analytical Study for Investors in Secondary Security Market

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Abstract:
Investments are important because, in today's world, just earning money is not enough. We work hard for the money we earn. But that may not be adequate for us to lead a comfortable life style or fulfill our dreams and goals. We should invest that money smartly to get good returns out of it. To do that, we need to make our money work hard for us as well. The deeper instinct of people for achieving dreams and goals continuously leads them towards research of diversified techniques of investing.

*Investing means different things to different people. To some it means putting money in the bank. To others it means buying gold-silver-property-securities-bonds-stocks-systematic investment plan through mutual funds or contributing to a pension plan. Investment strategies of different investor class people are different. Some want fixed returns without risk and they are satisfied in it. Whereas, some want more than normal return or we can say abnormal return on their investment involving lower to higher risks. Hence, different intellectual people have invented diversified ways of investment. Diversification can best be described by the following phrase: **"Don't put all your eggs in one basket."***

That means several things, depending on what sort of investment we're discussing. In every case, though, it means to spread out your money or your time or your other resources….

A global investor has a number of investment options to choose from. Some are traditional investments that have been used across generations, while some are relatively newer options that have become popular in recent years. Any investment can be considered successful and can create wealth if it can overcome inflation rate.

Here the researcher desires to provide an assistive study for the investor class who focuses on investing in the companies listed with Share market. A remarkable number of investors are interested in this investment option. Hence, this article may prove fruitful for not only the upcoming investors but also existing investors as well.

Keywords: *investment, secondary market, risk & return, trend*

1. Introduction

With the passage of time, the awareness of educated investors towards diversified investments is increasing. Out of various investment options, Secondary market is gaining popularity in the investor class. It is an option that can give optimum returns on investment. However, it involves a higher element of risk in comparison to the traditional investment options.

Stock market is always considered a place full of uncertainty and volatility. It has been observed that whether existing investors or new investors do not get the desired level of returns and many of them even lose their capital as well. Hence, an investor needs a special kind of knowledge in respect of fundamentals of companies listed along with technical & behavioural knowledge of Secondary market which includes different indicators like chart - analysis, ratio-analysis, financial statement analysis, statistical techniques like moving averages of time series analysis, graphical presentation, correlation, regression, t-test, z-test, etc. which will be suitable for analysis of data and for obtaining the results to satisfy the objectives of the article.

2. Objectives of the study

1. To study selected companies included in secondary market with regard to risk return and protection of investors.
2. To provide general awareness and to form basic guidelines for the fresh investors.
3. To study the causes and impacts of volatility in the secondary market.
4. To analyze and explain existing indicators of share prices which may be helpful to investors in taking rational investment decision.
5. To make some constructive and useful suggestions if any for improving the investment portfolio.

3. Significance of the study

The Share Market of any country is direct reflection of the economic development taking place in the country. It is also a reflection of financial soundness of the companies listed. It is directly associated with the financial health of investors and citizens of the country. However, Stock market is always considered a place full of uncertainty and volatility.

Volatility is an essential feature which must be considered. Various types of controllable and un-controllable factors like liquidity, RBI policy, interest rate, Global environment, fluctuations in value of currency, investor's psychology and sentiments, mutual funds actions, Future and Options contracts settlement are responsible for the variations in stock prices as well as returns in Indian stock market. As market is found to be risky so prominence should be given on controllable factors which may help in improvement of return of investors and even boost the percentage of genuine investors in the market.

Stock market being an important part of an economy attracts foreign capital which enhances the fluctuations more. It is very important to understand the behaviour of the stock market so that an investor can be careful at the time of investment. Moreover, with the spread of information and worldwide communication, the scope for investment in Share market has expanded a lot. These all aspects signify the study.

The secondary market plays a great role in the growth and development of investment environment in the country and it also affects the high-quality traded companies, its market capitalization, registered brokers, indices and turnover of stock exchanges.

From the above information, we try to understand and analyze the behavior of share prices of selected companies in such a way so that we can generate some important research in the sphere of investment of valuable investors.

4. Technical Price Indicator with the application of Moving Averages of Time Series analysis

In the process of research, researcher has to use various accounting and statistical tools and techniques to justify his research considering the statement of problem of his research. There are various methods like ratio-analysis, financial statement analysis and statistical techniques like cross- tabulation, chart - analysis, graphical presentation, correlation, time series analysis, regression, mean, median, mode, standard deviation, chi-square test, t-test, z-test, etc. Here we are going to discuss moving average method of time series analysis as a statistical tool used in the course of a research.

The prices of securities and values of indexes are volatile and unpredictable, forcing traders to look for any advantage that enables them to reduce risk and increase the likelihood of profit. The fundamental assumption of technical analysis holds that past performance can inform future movements. Moving averages play a central role in the determination of past price trends.

Moving average method is a simple device of reducing fluctuations and obtaining trend values with a fair degree of accuracy. They do not predict price direction, but rather define the current direction with a lag. Moving averages lag because they are based on past prices. Despite this lag, moving averages help smooth price action and filter out the noise.

4.1 Exponential Moving Average Calculation

Exponential moving averages (EMAs) reduce the lag by applying more weight to recent prices. The weighting applied to the most recent price depends on the number of periods in the moving average. EMAs differ from simple moving averages in that a given day's EMA calculation depends on the EMA calculations for all the days prior to that day. You need far more than 10 days of data to calculate a reasonably accurate 10-day EMA.

There are three steps to calculating an exponential moving average (EMA). First, calculate the simple moving average for the initial EMA value. An exponential moving average (EMA) has to start somewhere, so a simple moving average is used as the previous period's EMA in the first calculation. Second, calculate the weighting multiplier. Third, calculate the exponential moving average for each day between the initial EMA value and today, using the price, the multiplier, and the previous period's EMA value. The formula below is for a 10-day EMA.

Initial SMA: 10-period sum / 10

Multiplier: [2 / (Time periods + 1)] = [(2 / (10 + 1)] = 0.1818 OR 18.18%

EMA = {Closing Price – EMA of previous day} x multiplier + EMA

➢The Weighting Multiplier:

A 10-period exponential moving average applies an 18.18% weighting to the most recent price. A 10-period EMA can also be called an 18.18% EMA. A 20-period EMA applies a 9.52% weighting to the most recent price (2/(20+1) = .0952). Notice that the weighting for the shorter time period is more than the weighting for the longer time period. In fact, the weighting drops by half every time the moving average period doubles.

If you want to use a specific percentage for an EMA, you can use this formula to convert it to time periods and then enter that value as the EMA's parameter:

Time Period = (2 / Percentage) – 1

3% Example: Time Period = (2 / 0.03) - 1 = 65.67 time periods

4.2 EMA Accuracy

The formula for an EMA incorporates the previous period's EMA value, which in turn incorporates the value for the EMA value before that, and so on. Each previous EMA value accounts for a small portion of the current value. Therefore, the current EMA value will change depending on how much past data you use in your EMA calculation. Ideally, for a 100% accurate EMA, you should use every data point the stock has ever had in calculating the EMA, starting your calculations from the first day the stock existed. This is not always practical, but the more data points you use, the more accurate your EMA will be. The goal is to maximize accuracy while minimizing calculation time.

Case study: LARSEN & Toubro COMPANY [Capital Goods]

Following are the closing prices of Larsen & Toubro listed in Nifty-50 for 30 days starting from 31st August, 2018. From there on calculate 10 DMA evolving over 21 days from 14/09/2018 to 16/10/2018 by applying SMA and EMA.

Stock price for given period are actual data and converted into nearest zero values.

Days	Dates	Closing Price	10 Days SMA	SMOOTHING CONSTANT [2/10+1]	10 Days EMA
1	31/08/2018	1370			
2	03/09/2018	1360			
3	04/09/2018	1360			
4	05/09/2018	1350			
5	06/09/2018	1350			
6	07/09/2018	1350			
7	10/09/2018	1340			
8	11/09/2018	1330			
9	12/09/2018	1350			
10	14/09/2018	1360	13520/10 = 1352	-	1352
11	17/09/2018	1340	13490/10 = 1349	0.1818	1349.82
12	18/09/2018	1330	13460/10 = 1346	0.1818	1346.22
13	19/09/2018	1330	13430/10 = 1343	0.1818	1343.27
14	21/09/2018	1330	13410/10 = 1341	0.1818	1340.86
15	24/09/2018	1320	13380/10 = 1338	0.1818	1337.07
16	25/09/2018	1320	13350/10 = 1335	0.1818	1333.97
17	26/09/2018	1330	13340/10 = 1334	0.1818	1333.25
18	27/09/2018	1310	13320/10 = 1332	0.1818	1329.02
19	28/09/2018	1270	13240/10 = 1324	0.1818	1318.29
20	01/10/2018	1250	13130/10 = 1313	0.1818	1305.87
21	03/10/2018	1250	13040/10 = 1304	0.1818	1295.71
22	04/10/2018	1260	12970/10 = 1297	0.1818	1289.22
23	05/10/2018	1230	12870/10 = 1287	0.1818	1278.45
24	08/10/2018	1220	12760/10 = 1276	0.1818	1267.82
25	09/10/2018	1220	12660/10 = 1266	0.1818	1259.13
26	10/10/2018	1250	12590/10 = 1259	0.1818	1257.47
27	11/10/2018	1230	12490/10 = 1249	0.1818	1252.48
28	12/10/2018	1240	12420/10 = 1242	0.1818	1250.21
29	15/10/2018	1220	12370/10 = 1237	0.1818	1244.72
30	16/10/2018	1210	12330/10 = 1233	0.1818	1238.41

4.3 Trend indicator pattern for LARSEN AND TOUBRO from the above SMAs.

Moving averages also impart important trading signals on their own, or when two averages cross over. A rising moving average indicates that the security is in an uptrend, while a declining moving average indicates that it is in a downtrend. If we evaluate above table it is observed that both SMA & EMA indicate continuous downtrend in share price of LARSEN and we may conclude that before taking entry in above security investors need to be conscious as it is in a bearish trend.

Investors must note that above analysis is based on 10 DMA and for short term only. The company is financially sound and leader in its sector so for long term perspective investors can surely bank on it.

5. Limitations

1. This research is restricted only to stock prices and fundamental analysis of selected companies.
2. The research is limited to specific investor class and hence does not cover individual investor analysis.
3. This research is based on secondary data and therefore it will not be possible to include all available sources under study.
4. The information will be collected through secondary data and therefore each and every time it is not possible to inspect authenticity of data.
5. The share market is the place affected by numerous controllable and uncontrollable factors and uncontrollable factors like Covid – 19 Pandemic are always unpredictable and hence no assistance can be generated for the same.

6. Conclusion

The investment patterns and capital formation are the barometers for measuring the Economic growth and development of a country. There are various possible avenues of making investments and getting returns thereof. The secondary market is one of the possible avenues where a large number of investors invest their funds in hope of getting good returns. Indian stock market has undergone a sea change in the last decade. Technology has changed the face of secondary market, new trading system, new stock exchanges; new players, new market instruments and new markets have come into existence. Since, the Indian secondary market has been volatile signaling threats to the investors in the form of losses. It is observed that high per cent of investors has lost their money in secondary market by guessing stock price movements. In order to make money from secondary market one should cautiously understand the movements of stocks and strategically follow it. The study suggests that the investors should not blindly follow the advice and tips of brokers, newspapers, television channels, magazines, fundamental analysis. Investors should diligently devote their time in understanding the stock price movements and then invest in the market giving priority to safety of Capital.

Investors must understand that sometimes “Return of Investment” is highly important than “Return on Investment”.

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