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"ANALYZING FINANCIAL MARKET FOR INVESTMENT "

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ABSTRACT

We have several financial instruments to park one's savings, the choice is mind-boggling. There are traditional post office saving schemes, national savings certificate, public provident fund, bank deposits, real estate, gold, insurance, stock market and list is endless. Every individual wants to plan his investment in an intelligent way so as to live a secured and protected life for him and for his dependents and looks for secured investment. In this paper an attempt to analyze various investment opportunities and find the best suited investment portfolio through primary data analysis.

INTRODUCTION

A financial market is a market in which people and entities can trade financial securities, commodities, and other fungible items of value at low transaction costs and at prices that reflect supply and demand. Securities include stocks and bonds, and commodities include precious metals or agricultural goods.In economics, typically, the term market means the aggregate of possible buyers and sellers of a certain good or service and the transactions between them.

The term "market" is sometimes used for what are more strictly exchanges, organizations that facilitate the trade in financial securities, e.g., a stock exchange or commodity exchange. This may be a physical location (like the NYSE, BSE, NSE) or an electronic system (like NASDAQ). Much trading of stocks takes place on an exchange; still, corporate actions (merger, spinoff) are outside an exchange, while any two companies or people, for whatever reason, may agree to sell stock from the one to the other without using an exchange.

Trading of currencies and bonds is largely on a bilateral basis, although some bonds trade on a stock exchange, and people are building electronic systems for these as well, similar to stock exchanges.

Within the financial sector, the term "financial markets" is often used to refer just to the markets that are used to raise finance: for long term finance, the Capital markets; for short term finance, the Money markets. Another common use of the term is as a catchall for all the markets in the financial sector, as per examples in the breakdown below.

The capital markets may also be divided into primary markets and secondary markets. Newly formed (issued) securities are bought or sold in primary markets, such as during initial public offerings. Secondary markets allow investors to buy and sell existing securities. The transactions in primary markets exist between issuers and investors, while secondary market transactions exist among investors.

Liquidity is a crucial aspect of securities that are traded in secondary markets. Liquidity refers to the ease with which a security can be sold without a loss of value. Securities with an active secondary market mean that there are many buyers and sellers at a given point in time. Investors benefit from liquid securities because they can sell their assets whenever they want; an illiquid security may force the seller to get rid of their asset at a large discount.

Financial markets attract funds from investors and channel them to corporations—they thus allow corporations to finance their operations and achieve growth. Money markets allow firms to borrow funds on a short term basis, while capital markets allow corporations to gain long-term funding to support expansion (known as maturity transformation).

Capital markets which consist of:

- Stock markets, which provide financing through the issuance of shares or common stock, and enable the subsequent trading thereof.
- Bond markets, which provide financing through the issuance of bonds, and enable the subsequent trading thereof.
- Commodity markets, which facilitate the trading of commodities.
- Money markets, which provide short term debt financing and investment.
- Derivatives markets, which provide instruments for the management of financial risk.
- Futures markets, which provide standardized forward contracts for trading products at some future date; see also forward market.
- Insurance markets, which facilitate the redistribution of various risks.
- Foreign exchange markets, which facilitate the trading of foreign exchange.

Without financial markets, borrowers would have difficulty finding lenders themselves. Intermediaries such as banks, Investment Banks, and Boutique Investment Banks can help in this process. Banks take deposits from those who have money to save. They can then lend money from this pool of deposited money to those who seek to borrow. Banks popularly lend money in the form of loans and mortgages.

More complex transactions than a simple bank deposit require markets where lenders and their agents can meet borrowers and their agents, and where existing borrowing or lending commitments can be sold on to other parties. A good example of a financial market is a stock exchange. A company can raise money by selling shares to investors and its existing shares can be bought or sold.

The following table illustrates where financial markets fit in the relationship between lenders and borrowers:

Relationship between lenders and borrowers			
Lenders	**Financial Intermediaries**	**Financial Markets**	**Borrowers**
Individuals Companies	Banks Insurance Companies Pension Funds Mutual Funds	Interbank Stock Exchange Money Market Bond Market Foreign Exchange	Individuals Companies Central Government Municipalities Public Corporations

Companies

Companies tend to be borrowers of capital. When companies have surplus cash that is not needed for a short period of time, they may seek to make money from their cash surplus by lending it via short term markets called money markets.

There are a few companies that have very strong cash. These companies tend to be lenders rather than borrowers. Such companies may decide to return cash to surplus (e.g. via a share buyback.) Alternatively, they may seek to make more money on their cash by lending it (e.g. investing in bonds and stocks).

Borrowers

- Individuals borrow money via bankers' loans for short term needs or longer term mortgages to help finance a house purchase.
- Companies borrow money to aid short term or long term cash flows. They also borrow to fund modernization or future business expansion.
- Governments often find their spending requirements exceed their tax revenues. To make up this difference, they need to borrow. Governments also borrow on behalf of nationalized industries, municipalities, local authorities and other public sector bodies. In the UK, the total borrowing requirement is often referred to as the Public sector net cash requirement (PSNCR).

Governments borrow by issuing bonds. In the UK, the government also borrows from individuals by offering bank accounts and Premium Bonds. Government debt seems to be permanent. Indeed the debt seemingly expands rather than being paid off. One strategy used by governments to reduce the value of the debt is to influence inflation.

Municipalities and local authorities may borrow in their own name as well as receiving funding from national governments. In the UK, this would cover an authority like Hampshire County Council.

Public Corporations typically include nationalized industries. These may include the postal services, railway companies and utility companies.

Many borrowers have difficulty raising money locally. They need to borrow internationally with the aid of Foreign exchange markets.

Borrowers having similar needs can form into a group of borrowers. They can also take an organizational form like Mutual Funds. They can provide mortgage on weight basis. The main advantage is that this lowers the cost of their borrowings.

Derivative Products

During the 1980s and 1990s, a major growth sector in financial markets is the trade in so called derivative products, or derivatives for short.

In the financial markets, stock prices, bond prices, currency rates, interest rates and dividends go up and down, creating risk. Derivative products are financial products which are used to control risk or paradoxically exploit risk. It is also called financial economics.

Derivative products or instruments help the issuers to gain an unusual profit from issuing the instruments.

For using the help of these products a contract has to be made. Derivative contracts are mainly 3 types: 1Future Contracts 2. Forward Contracts 3. Option Contracts.

Currency Markets -Seemingly, the most obvious buyers and sellers of currency are importers and exporters of goods. While this may have been true in the distant past, when international trade created the demand for currency markets, importers and exporters now represent only 1/32 of foreign exchange dealing, according to the Bank for International Settlements.

The picture of foreign currency transactions today shows: Banks/Institutions Speculators**,**Government spending (for example, military bases abroad)**,**Importers/Exporters**,**Tourists

Analysis of Financial Markets

Much effort has gone into the study of financial markets and how prices vary with time. Charles Dow, one of the founders of Dow Jones & Company and The Wall Street Journal, enunciated a set of ideas on the subject which are now called Dow theory. This is the basis of the so-called technical analysis method of attempting to predict future changes. One of the tenets of "technical analysis" is that market trends give an indication of the future, at least in the short term. The claims of the technical analysts are disputed by many academics, who claim that the evidence points rather to the random walk hypothesis, which states that the next change is not correlated to the last change. The role of human psychology in price variations also plays a significant factor. Large amounts of volatility often indicate the presence of strong emotional factors playing into the price. Fear can cause excessive drops in price and greed can create bubbles. In recent years the rise of algorithmic and high-frequency program trading has seen the adoption of momentum, ultra-short term moving average and other similar strategies which are based on technical as opposed to fundamental or theoretical concepts of market behaviour.

The scale of changes in price over some unit of time is called the volatility. It was discovered by Benoît Mandelbrot that changes in prices do not follow a Gaussian distribution, but are rather modeled better by Lévy stable distributions. The scale of change, or volatility, depends on the length of the time unit to a power a bit more than 1/2. Large changes up or down are more likely than what one would calculate using a Gaussian distribution with an estimated standard deviation.

Financial Functions

- Providing the borrower with funds so as to enable them to carry out their investment plans.
- Providing the lenders with earning assets so as to enable them to earn wealth by deploying the assets in production debentures.
- Providing liquidity in the market so as to facilitate trading of funds.
- it provides liquidity to commercial bank
- it facilitates credit creation
- it promotes savings
- it promotes investment
- it facilitates balance economic growth
- it improves trading floors

Financial markets are affected by forces of supply and demand, and allocate resources over time through a price mechanism such as the interest rate. Typically financial markets use a market making or a bid and ask process.

Both general markets, where many commodities are traded and specialised markets (where only one commodity is traded) exist. Markets work by placing many interested sellers in one "place", thus making them easier to find for prospective buyers. An economy which relies primarily on interactions between buyers and sellers to allocate resources is known as a market economy in contrast either to a command economy or to a non-market economy that is based, such as a gift economy.

DATA COLLECTION

Primary data is collected through the structured questionnaires by survey method.

SAMPLE SIZE

A sample size of around 100 individuals across the Delhi - NCR area is used for assessing the investors' confidence in the financial markets.

In order to analyze the results of the study, various statistical tools were used using the aid of MS- EXCEL and SPSS v16.0.

DATA ANALYSIS

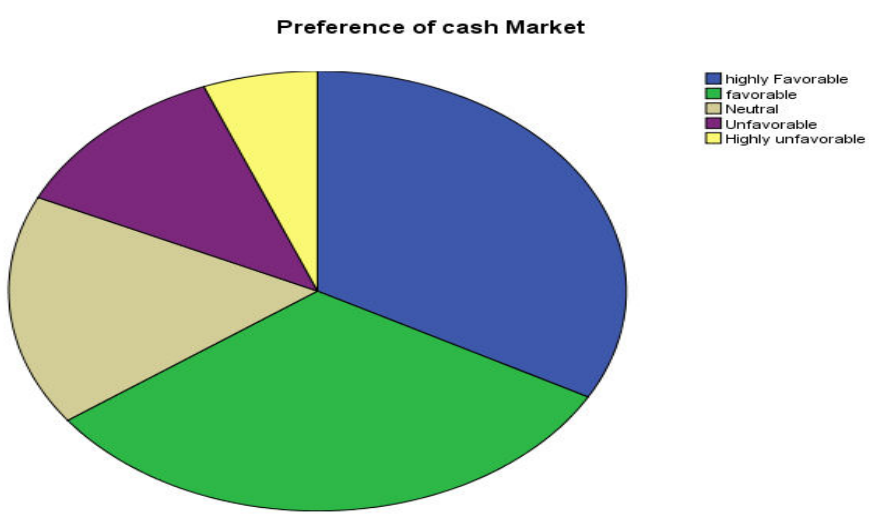
Study the investor confidence in the stock market.

Preference for the market: Equity, money market, futures, options and commodities

Table 1 Frequency table: Preference of Investment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	highly Favorable	33	33.0	33.0	33.0
	Favorable	32	32.0	32.0	65.0
	Neutral	17	17.0	17.0	82.0
	Unfavorable	12	12.0	12.0	94.0
	Highly unfavorable	6	6.0	6.0	100.0
	Total	100	100.0	100.0	

Chart 1: Preference of cash markets



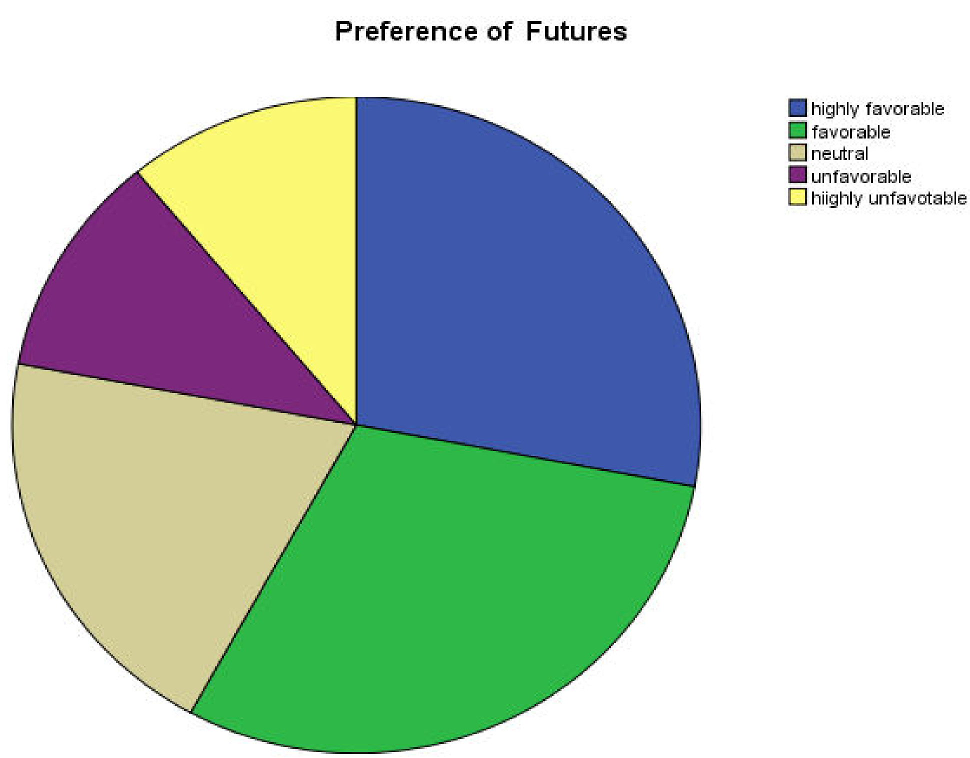
<u>Graphical Data Interpretation</u>

33 percent of all respondents consider cash market highly favorable. Another 32 percent consider it favorable to invest in the market. 17 percent of the respondents have neutral attitude of them.18 percent of the individuals have a negative bias for the Cash Market. The high preference of the cash market can be attributed to the traditional mentality of the Indian population as they prefer the more tried and tested areas for investing.

Table 2 Frequency table: Preference of Futures, commodity, derivatives, mutual funds

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	highly favorable	28	28.0	28.0	28.0
	Favorable	30	30.0	30.0	58.0
	Neutral	20	20.0	20.0	78.0
	Unfavorable	11	11.0	11.0	89.0
	highly unfavorable	11	11.0	11.0	100.0
	Total	100	100.0	100.0	

Chart 2: Preference of futures



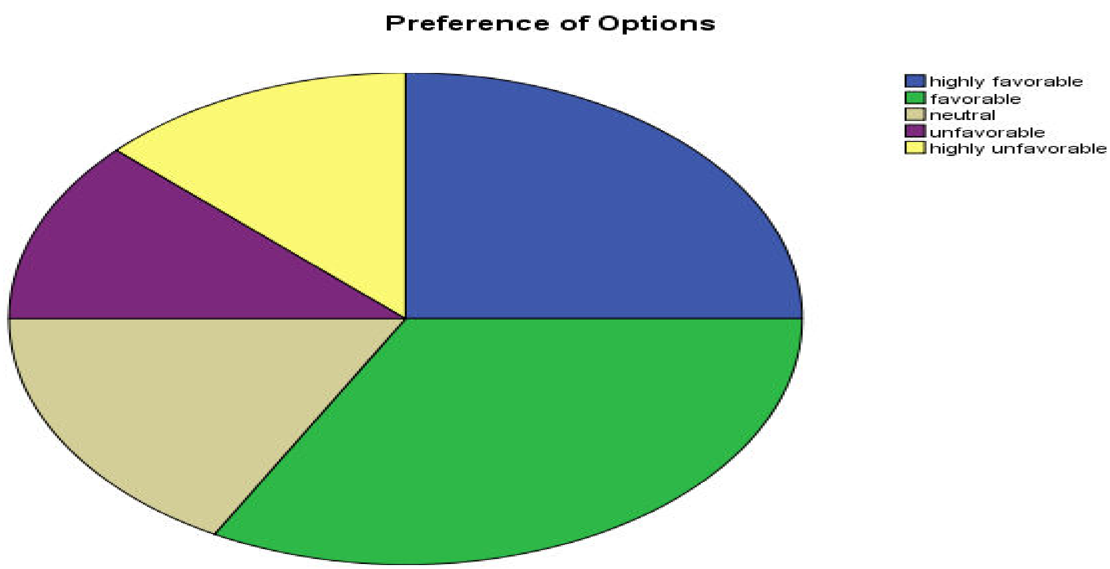
Graphical Data Interpretation

58 percent of individuals are having favorable preference for investing in futures. Another 20 percent of the individuals are neutral towards investing in the futures. A very high number of 22 percent of the total respondents are unfavorable for investing in futures. The figures can be directly attributed to the traditional mindset of the individuals.

Table 3 Frequency table: Preference of Options

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	highly favorable	25	25.0	25.0	25.0
	Favorable	33	33.0	33.0	58.0
	Neutral	17	17.0	17.0	75.0
	unfavorable	12	12.0	12.0	87.0
	highly unfavorable	13	13.0	13.0	100.0
	Total	100	100.0	100.0	

Chart 3: Prefernce of options



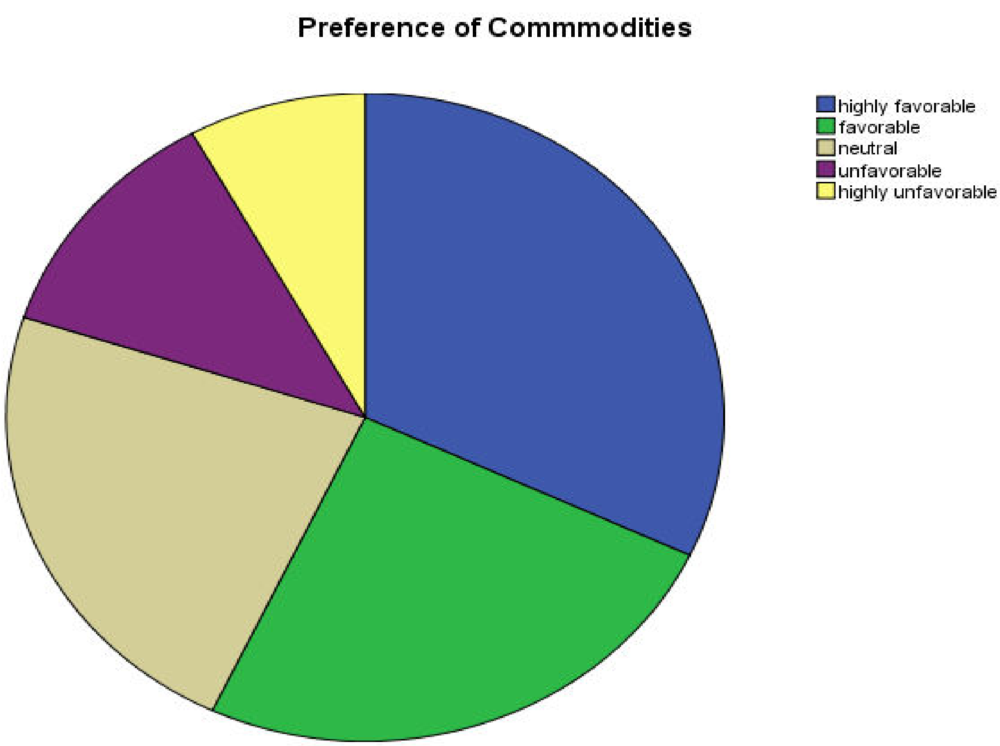
<u>Graphical Data Interpretation</u>

25 percent of the respondents favor highly investing in the options. 33 percent considers it a favorable avenue for the investment. While as high as 25 percent of all the respondents are of a negative view to the investment in Options.

Table 4 Frequency table: Preference of Commodities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	highly favorable	32	32.0	32.0	32.0
	Favorable	25	25.0	25.0	57.0
	Neutral	23	23.0	23.0	80.0
	Unfavorable	12	12.0	12.0	92.0
	highly unfavorable	8	8.0	8.0	100.0
	Total	100	100.0	100.0	

Chart 4



Graphical Data Interpretation

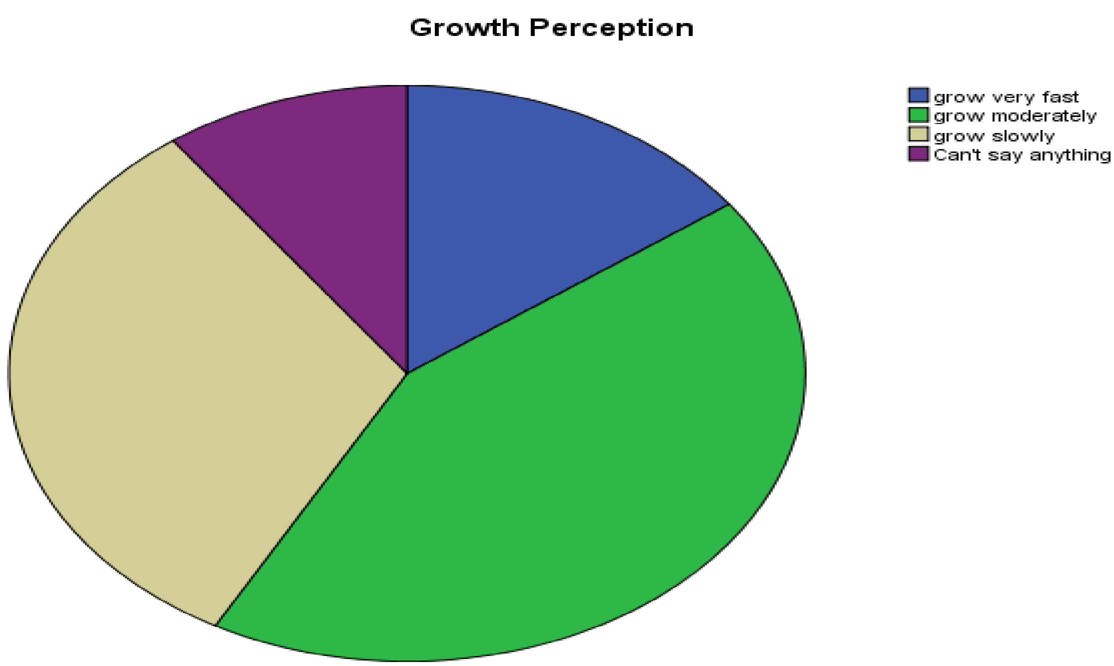
20 percent of the individuals have a negative view in investing in the commodities. A very high number of individuals amounting to 57 percent of the total respondents actually prefer investing in Commodities. Another 25 percent of individuals are actually neutral towards investment in Commodities. It fairs better than the options and the future markets due to the fact that this market is comparatively older than the market of Futures and Operations.

GROWTH PERCEPTION TOWARDS THE DERIVATIVE MARKET

Table 5 Growth Perception

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	grow very fast	15	15.0	15.0	15.0
	grow moderately	43	43.0	43.0	58.0
	grow slowly	32	32.0	32.0	90.0
	Can't say anything	10	10.0	10.0	100.0
	Total	100	100.0	100.0	

Chart 4.5: Growth of perception



More than 40 percent of the individual respondents are of the view that the derivative market will grow moderately over a period of time. At the same time 32 per cent believes that it will grow slowly. 15 percent of all the individuals consider it highly favorable. About 10 percent of the individuals do not have any opinion regarding the growth perception of the derivative market.

WAYS OF REDUCING THE RISK IN THE FINANCIAL MARKET (STOCK MARKET)

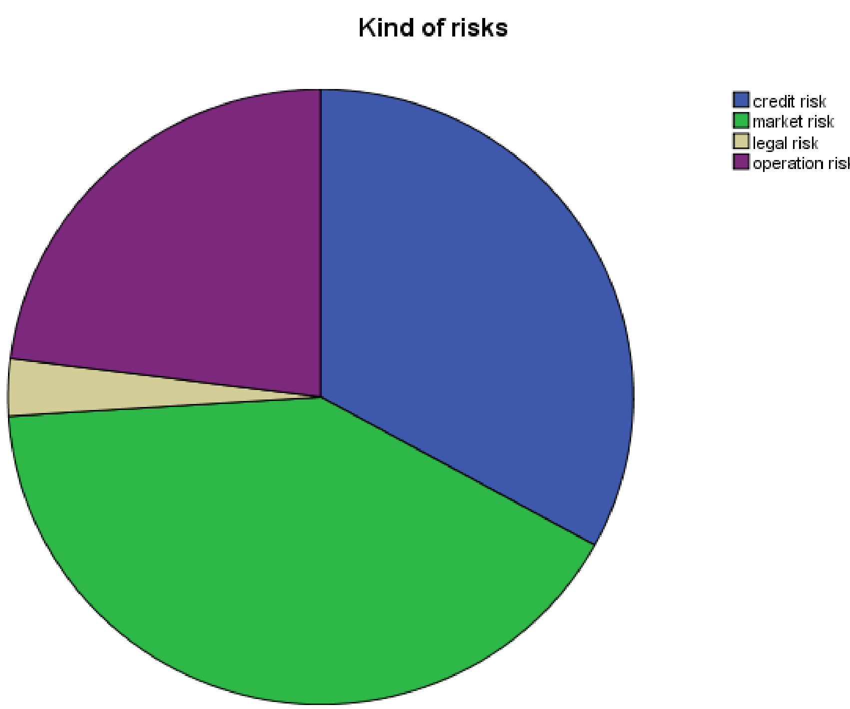
Frequency table 6:Overcoming risk

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	financial experts	33	33.0	33.0	33.0
	news paper	44	44.0	44.0	77.0
	Friends	14	14.0	14.0	91.0
	Others	9	9.0	9.0	100.0
	Total	100	100.0	100.0	

33 percent of respondents use the advice of financial experts to decide the ways to mitigate the risks associated with the derivative markets. At the same time about 44 percent uses the information available through the newspapers. The remaining 23 percent of individuals use friends and other sources to mitigate the risks. This can be attributed to the fact that the newspaper are easy to read and can be read at any point of day.

Risks associated with the financial market

Chart 6: kind of risks



Graphical Data Interpretation

Many respondents are affected by the risk associated with the financial market. 41 percent consider the risk associated due to market as the most significant risk. As high as 33 percent of respondents are consider the risk associated with the credit as the most significant. 24 percent of the respondents consider the operation risks as the most significant risk involved. A very limited number of individuals which is as low as 2 percent are affected by the legal risk associated with the market. This can be attributed to the fact that not many are aware of the various legislations in the Indian Markets as they are still in the nascent stages.

THE FACTORS AFFECTING THE INVESTMENT DECISION OF THE INDIVIDUAL

Frequency table 7: Factor for Investment decision

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Increase in wealth	22	22.0	22.0	22.0
	steady growth	24	24.0	24.0	46.0
	monthly income generated	25	25.0	25.0	71.0
	Safety	29	29.0	29.0	100.0
	Total	100	100.0	100.0	

All the aspects are considered equally important by the respondents. For the respondents, all the factors i.e, increase in wealth, steady growth, monthly income and safety of their investment are more or less equally important while considering the investment decision.

Advantage of derivative

Frequency table 8: advantage for financial market

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Speculation	20	20.0	20.0	20.0
	Arbitrage	17	17.0	17.0	37.0
	Hedging	40	40.0	40.0	77.0
	reduction of costs	23	23.0	23.0	100.0
	Total	100	100.0	100.0	

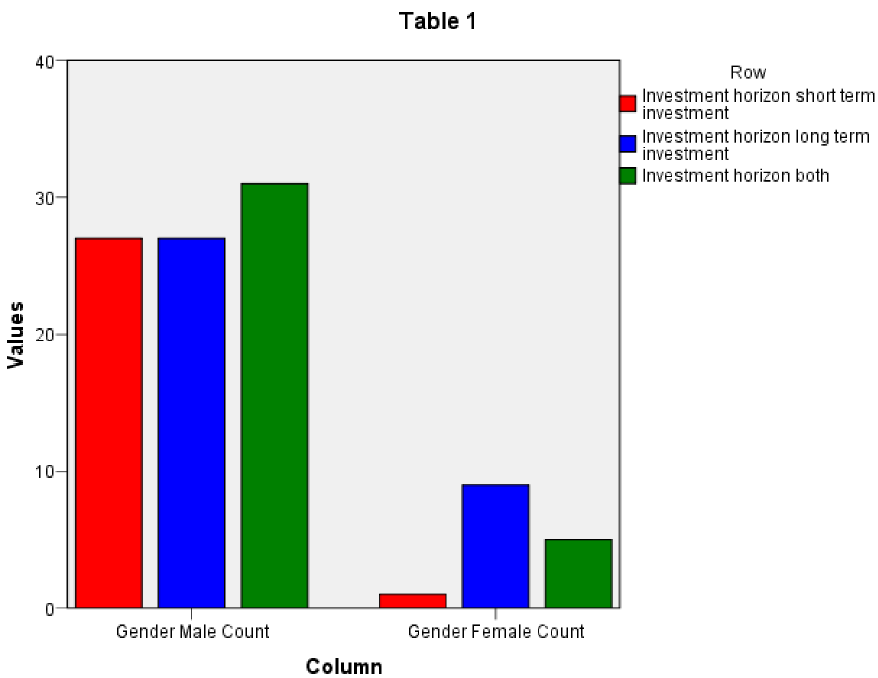
40 percent of the respondents consider hedging as the most important advantage in the financial market. While all the other factors such as speculation, arbitrage and reduction of costs. The importance of hedging can be best understood due to the fact that it single handedly lead to the Sub Prime Mortgage Crisis leading to enormous losses.**RELATIONSHIP WITH GENDER WHILE DECIDING THE INVESTMENT HORIZON**

Frequency table 9: Relationship with investment horizon

	Gender

		Male	Female
		Count	Count
Investment horizon	short term investment	27	1
	long term investment	27	9
	Both	31	5

Chart 7: Investment horizon comparison according to gender



Graphical Data Interpretation

During the survey 85 males and 15 females were surveyed. With regards to female respondents as high as 14 of the 15 respondents are of the view to invest in long term or a mix of short term and a long term. In the case of male this ratio is considerably low. 27 of the 85 male respondents are interested in the short term horizon for the investment.

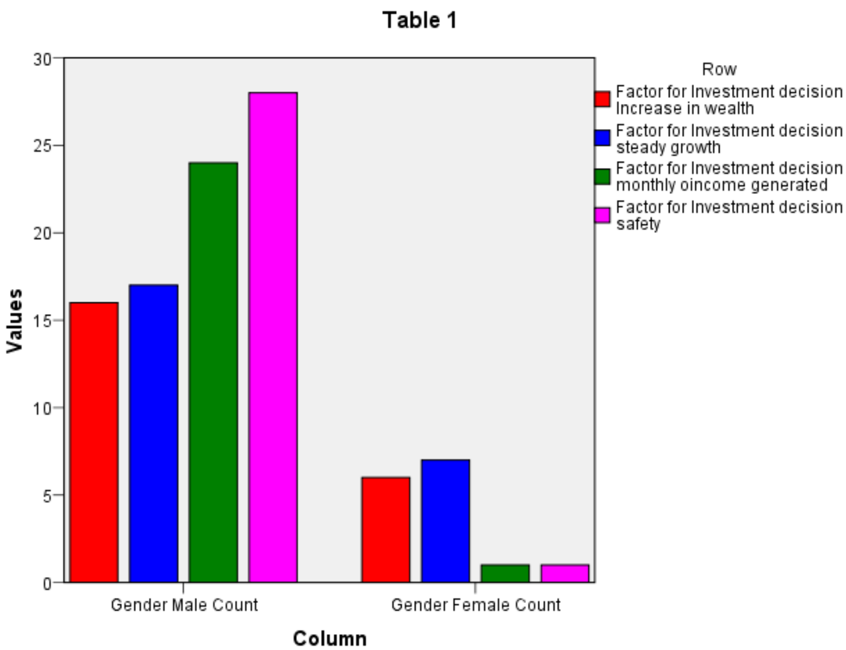
RELATIONSHIP OF GENDER AND FACTOR FOR INVESTMENT DECISION MAKING

Table 10: Factors for investment decision making

		Gender	
		Male	Female
		Count	Count
Factor for Investment	Increase in wealth	16	6

decision	steady growth	17	7
	monthly income generated	24	1
	Safety	28	1

Chart 8: reasons for investment decision



Graphical Data Interpretation

In this segment too there is very large number of women preferring rise in income and steady growth as the primary factors for investing. About 13 of the 15 women have described it as the most important factors. On the other hand men are much more concerned about the safety of the investment and the monthly income generated. The preference of men can be attributed to the fact that in India they are the chief bread earners and hence monthly income generated and safety of the investment are primary to them.

RELATIONSHIP WITH THE ANNUAL INCOME OF THE RESPONDENTS WITH AREA OF PARTICIPATION

Frequency table 11: Annual income and area of participation

		Annual income			
		Below 100000	100000-500000	500000-1000000	Above 1000000
		Count	Count	Count	Count
Area	for stock index futures	2	18	5	6

participation	stock indian options	2	26	0	2
	futures on individual stock	0	12	7	2
	options of individual stock	1	14	3	0

Here respondents with 100000-500000 favor most the stock on Indian Options. While in cumulative Stock Index Futures and Stock Indian options are equally favored. Respondents in the 500000-1000000 category favor future on individual stock, as high as 60 percent in this category are interested in investing in stock index futures. Futures invariably enjoy more representation here as compare to Options**RELATIONSHIP WITH ANNUAL INCOME AND GROWTH PERCEPTION**

Frequency Table 12 : growth perception

		Annual income			
		Below 100000	100000-500000	500000-1000000	Above 1000000
		Count	Count	Count	Count
Growth Perception	grow very fast	0	14	1	0
	grow moderately	4	25	8	6
	grow slowly	1	24	3	4
	Can't say anything	0	7	3	0

Individuals in the net worth category of 100000-500000 account for 14 of the 15 respondents in favor of growth perception of growing very fast. In the rest of the categories more or less equal weightage is being given to all the growth perception according to the income.

RELATIONSHIP OF ANNUAL INCOME AND PREFERENCE FOR THE MARKETS

Frequency Table 12 : growth perception

		Annual income			
		Below 100000	100000-500000	500000-1000000	Above 1000000
		Count	Count	Count	Count
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	grow moderately	4	25	8	6

	grow slowly	1	24	3	4
	Can't say anything	0	7	3	0

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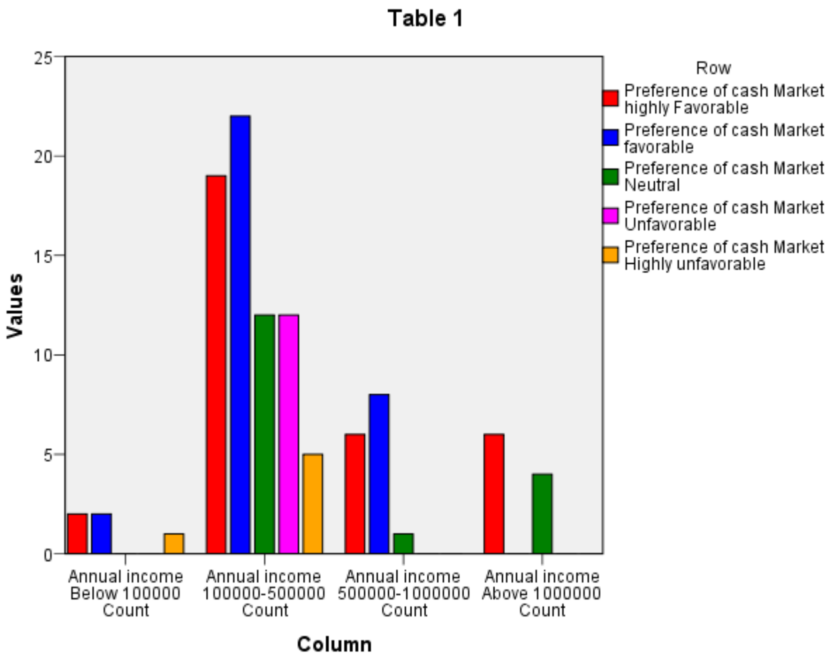
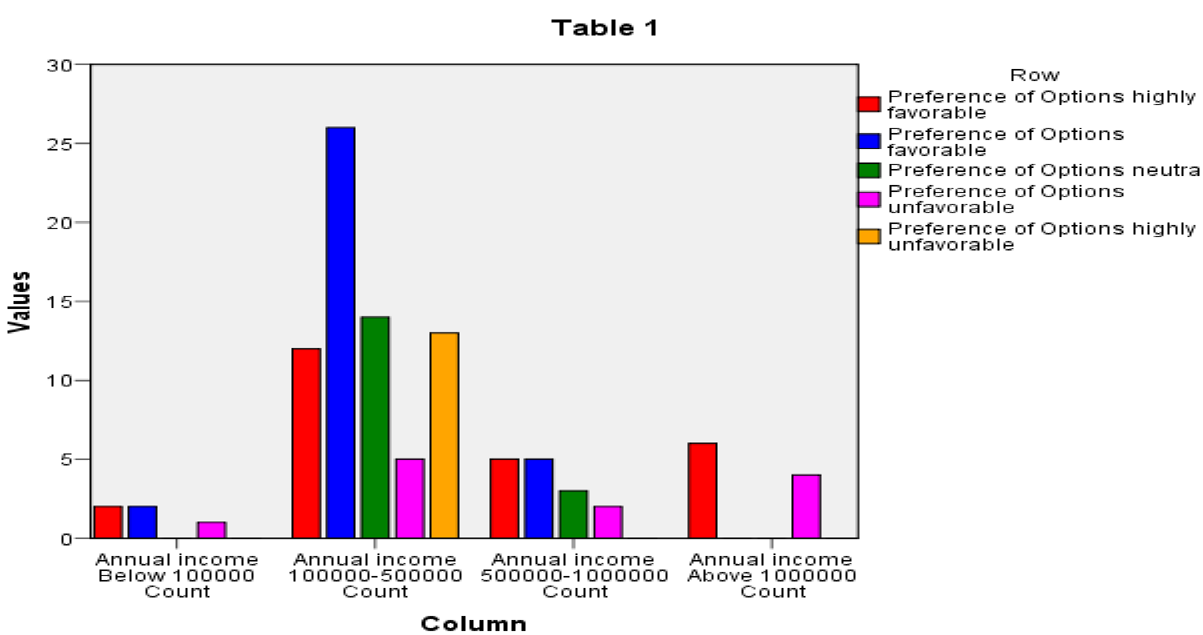
RELATIONSHIP OF ANNUAL INCOME AND PREFERENCE FOR THE MARKETS

		Annual income			
		Below 100000	100000-500000	500000-1000000	Above 1000000
		Count	Count	Count	Count
Preference of cash Market	highly Favorable	2	19	6	6
	favorable	2	22	8	0
	Neutral	0	12	1	4
	Unfavorable	0	12	0	0
	Highly unfavorable	1	5	0	0
Preference of Futures	highly favorable	2	12	8	6
	favorable	0	27	3	0
	Neutral	2	14	0	4
	unfavorable	1	6	4	0
	highly unfavorable	0	11	0	0
Preference of Options	highly favorable	2	12	5	6
	favorable	2	26	5	0
	Neutral	0	14	3	0
	unfavorable	1	5	2	4
	highly unfavorable	0	13	0	0
Preference of Commodities	highly favorable	2	13	7	10
	favorable	0	20	5	0
	Neutral	2	20	1	0
	unfavorable	1	9	2	0
	highly unfavorable	0	8	0	0

Chart 9: Cash Market



Respondents with annual income between 100000-500000 and 500000-1000000 considers the cash market as a favorable area of investment. The respondents in the category of 500000-1000000 and above 1000000 of annual income has more favorable outlook towards investing in the cash market. None of the respondents in this category has actually given a negative outlook towards investment in the cash market.



Individuals in the income category of 100000-500000 favor most the option of investment in the options market. Only individuals in this category have a very highly unfavorable response towards the option market. All the 13 responses have come from the respondents in this category.

INVESTMENT HORIZON OF THE INDIVIDUAL AND IN COMPARISON WITH ANNUAL INCOME

Frequency table 14: Investment horizon

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	short term investment	28	28.0	28.0	28.0
	long term investment	36	36.0	36.0	64.0
	Both	36	36.0	36.0	100.0
	Total	100	100.0	100.0	

36 percent of the respondents consider long term investment as their investment horizon. Another 36 percent of the respondents have a mix tendency for the investment horizon. This can be attributed to the fact that India is more traditional economy and hence a long term investment portfolio.

Frequency table 15: Annual income in relation with investment horizon

		Annual income			
		Below 100000	100000-500000	500000-1000000	Above 1000000
		Count	Count	Count	Count
Investment horizon	short term investment	3	18	3	4
	long term investment	0	27	7	2
	Both	2	25	5	4

About 50 percent respondents having annual income 500000-1000000 secure for long term investment. The respondents highly prefer the investment in the long term investment.

\FINDINGS AND ANALYSIS

Most of the respondents (52%) are of the age group 20-30 in financial market (stock market).Majority of the respondents (85%) are male in stock market. Most of the respondents (70%) are having an Income level of 1-5lacs followed by respondents having income level 5-10 lacs. Most of the respondents (44%) are influenced by newspapers followed by financial experts. Most of them (33%) are highly favorable towards the cash market.Most of them (28%) are highly favorable towards the Futures market.Most of them (25%) are favorable towards the Options market.Most of them (32%) stayed favorable towards the Commodities market.Majority of the respondents (36%) wanted to invest in long term funds followed by both short term and long term funds.Respondents perceived that Market Risk and Credit risk are the two major risk observed in capital markets.All of the respondents wanted to minimize their risk involved in the financial market.Most of the respondents (44%) said that News Papers and Financial Experts(33%) help them to minimize their risk.From Correlation test , it is found there exist a negative correlation between the income percentage on investment and the participation in derivative market Investment in commodities is highly preferred by the income group of Above 1000000.All the highly unfavorable respondents for Options and Future are from the income group 100000-500000.All the factors i.e, increase in wealth, steady growth, monthly income and safety of their investment are more or less equally important while considering the investment decision.

CONCLUSION

It is concluded that stock market is a key part of the financial system. To conclude the significance of stock market in India, it has taken the findings and directly has related its importance with the institutional investors of India. The investors consider the derivative market as an attractive avenue for the investment. However, the financial market is more preferred in this avenue. During the survey the general feeling among the individuals seems to be that the derivative market will grow moderately. The financial market in India has been expanding rapidly and will continue to grow. While derivatives are very useful for hedging and risk transfer, and hence improve market efficiency, it is necessary to keep in view the risks of excessive leverage, lack of transparency particularly in complex products, difficulties in valuation, tail risk exposures, counterparty exposure and hidden systemic risk. Clearly there is need for greater transparency to capture the market, credit as well as liquidity risks in off-balance sheet positions and providing capital there for.

The economic benefit of financial market is not dependent on the size of the institution trading them. The decision about whether to use derivatives should be driven, not by the company's size, but by its strategic objectives. However, it is important that all users of financial market, regardless of size, understand how their contracts are structured, the unique price and risk characteristics of those instruments, and how they will perform under stressful and volatile economic conditions.

To conclude, the financial market in India has been expanding rapidly and will continue to grow. While much of the activity is concentrated in foreign and a few private sector banks, increasingly public sector banks are also participating in this market as market makers and not just users. Their participation is dependent on development of skills, adapting technology and developing sound risk management practices. Corporate are also active in these markets. While derivatives are very useful for hedging and risk transfer, and hence improve market efficiency, it is necessary to keep in view the risks of excessive leverage, lack of transparency particularly in complex products, difficulties in valuation, tail risk exposures, counterparty exposure and hidden systemic risk.

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