

A STUDY ON PREFERRED STOCK MARKET INDICES IN INDIA

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Abstract

Stock market plays a very important role in the economy. It ensures economic growth and development of a nation. Stock indices provide the pulse of stock market. Different stock indices of different stock markets are available to the investors to know the current scenario of the stock market that influence their investment decisions and trading behaviour. The present study aims to identify the most preferred stock indices by the investors of the stock markets in India. It is revealed from the study that S&P BSE SENSEX and NIFTY 50 of Bombay Stock Exchange and the National Stock Exchange are the most preferred equity indices and the index Sensex is equally preferred in both Rural and Urban areas.

Introduction

The stock market refers to public markets that exist for issuing, buying and selling stocks that trade on a stock exchange or over-the-counter. Stocks, also known as equities, represent fractional ownership in a company, and the stock market is a place where investors can buy and sell ownership of such investible assets. An efficiently functioning stock market is considered critical to economic development, as it gives companies the ability to quickly access capital from the public. The stock market serves two very important purposes. The first is to provide capital to companies that they can use to fund and expand their businesses. The secondary purpose the

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stock market serves is to give investors – those who purchase stocks – the opportunity to share in the profits of publicly-traded companies. Investors can profit from stock buying in one of two ways. Some stocks pay regular dividends (a given amount of money per share of stock someone owns). The other way investors can profit from buying stocks is by selling their stock for a profit if the stock price increases from their purchase price.

Statement of the Problem

The overall performance of the stock markets is usually tracked and reflected in the performance of various stock market indices. Stock indices are composed of a selection of stocks that is designed to reflect how stocks are performing overall. Stock market indices themselves are traded in the form of options and futures contracts which are also traded on regulated exchanges. Many stock indices are prevailing in India through various stock exchanges mainly BSE and NSE. So, there arises a problem among investors regarding which index should be preferred to track the performance of the stock market. Different indices are preferred by different investors. Therefore, the present study makes an attempt to analyse the most preferred indices of stock market by the investors in India.

Objectives

1. To know the demographic profile of selected investors.
2. To identify the most preferred stock indices of Indian stock market.

Demographic Profile of Investors

Demographic profiles of 100 investors selected for the study are given below in the table.

Table 1 Demographic Profile of Investors

	Categories	Frequency	Percent	Cumulative Percent
Age	20-40	68	68	68
	40-60	25	25	93
	Above 60	7	7	100
Sex	Male	69	69	69
	Female	31	31	100.0
Marital status	Married	61	61	61
	Unmarried	39	39	100.0
Location	Urban	64	64	64
	Rural	36	36	100.0
Qualification	School Education	29	29	29
	College Education	68	68	97
	Professional	3	3	100.0
Occupation	Salaried	67	67	67
	Professional	3	3	70
	Business	30	30	100.0
Monthly Income	Below 20000	8	8	8
	20000-40000	73	73	81
	40000 and above	19	19	100.0

Source: Primary Data

Above table shows the demographic profile of investors selected for the study. It is known from the table that 68 per cent of the investors belong to the age group of 20 - 40 years; 25 per cent are in 40-60 years of age and the rest 7 per cent are having the age above 60 years. Most of the selected investors are males (69 per cent) than females (31 per cent). Majority of the investors are married (61 per cent) and the others are unmarried (39 per cent). About 64 per cent of the investors are in urban areas and rest, 36 per cent, in rural areas. Most of the investors are

having college education (68 per cent), about 29 per cent are having only school education and the rest 3 per cent are professionals. Exactly 67 per cent of investors are salaried, 30 per cent are doing business and the remaining 3 per cent are professionals. Many of the investors are in the income category of Rs. 20,000 to Rs. 40,000 (73 per cent), 19 per cent are having the monthly income Rs.40000 and above and the balance 8 per cent belongs to the income level below Rs.20000.

Indices Mostly Preferred

Seven indices both from NSE and BSE have been selected for the study namely NIFTY 500, NIFTY 200, NIFTY 100 and NIFTY 50, S&P BSE SENSEX, S&P BSE SENSEX 50 TMC and S&P BSE SENSEX 50 based on their market capitalization. Equity indices preferred by the respondents are identified with the Friedman Test by using Mean ranks in the following Tables.

Table 2 Indices Mostly Preferred: Mean Rank

Equity Indices	Mean Rank
S&P BSE SENSEX	1.64
NIFTY 50	1.87
S&P BSE SENSEX 50 TMC	3.06
S&P BSE SENSEX 50	3.86
NIFTY 500	5.02
NIFTY 100	5.72
NIFTY 200	6.21

Source: Primary Data

Table 3 Indices Mostly Preferred: Friedman Test -Test Statistics

N	100
Chi-Square	1078.555
Df	6
Asymp. Sig.	.000

Source: Primary Data

From the above tables, it is understood that S&P BSE SENSEX (**Mean rank 1.64**) and NIFTY 50 (**Mean rank 1.87**) are the most preferred equity indices of the investors, based on the lowest Mean ranks and found out to be significant at 5 per cent level of significance as per the Friedman test (**Friedman chi-square 1078.555 with $p=.000 < 0.05$**).

Effect of Sensex as an Index in Rural and Urban Areas

Effect of Sensex as an index in Rural and Urban Areas can be identified by using Mann-Whitney U Test and the result is given in the below tables.

Table 4 Effect of Sensex as an Index in Rural and Urban Areas: Mean Rank

	Location	N	Mean Rank	Sum of Ranks
Sensex	Urban	64	83.89	5369.00
	Rural	36	16.11	580.00
	Total	100		

Source: Primary Data

Table 5 Effect of Sensex as an Index in Rural and Urban Areas: Mann-Whitney Test -Test Statistics

	Sensex
Mann-Whitney U	2990.000
Wilcoxon W	580.000
Z	-.163
Asymp. Sig. (2-tailed)	.756

Source: Primary Data Grouping Variable: Location

It is inferred from the above tables that Sensex is equally preferred in both Rural and Urban areas as an equity index to invest by the investors, as the U-value is found insignificant at 5 per cent level of significance ($p=0.756>0.05$) as per Mann-Whitney U Test.

Findings

1. Majority of the investors (68 per cent) belong to the age group of 20 - 40 years.
2. Most of the selected investors are males (69 per cent) than females.
3. Majority of the investors are married (61 per cent) than unmarried.
4. About 64 per cent of the investors are in urban areas and rest, 36 per cent, in rural areas.
5. All the investors are literate and many of them are having college education (68 per cent).
6. Majority of investors (67 per cent) are salaried and many of them (73 per cent) are in the income category of Rs. 20,000 to Rs. 40,000 per month.
7. S&P BSE SENSEX (Mean rank 1.64) and NIFTY 50 (Mean rank 1.87) are the most preferred equity indices of the stock markets and the index Sensex is equally preferred in both Rural and Urban areas ($p=0.756>0.05$).

Conclusion

Stock market plays a very important role in the economy. It ensures economic growth and development of a nation. Stock indices provide the pulse of stock market. Different stock indices of different stock markets are available to the investors to know the current scenario of the stock market that influence their investment decisions and trading behaviour. The present study aims to identify the most preferred stock indices by the investors of the stock markets in India. It is revealed from the study that S&P BSE SENSEX and NIFTY 50 of Bombay Stock Exchange and the National Stock Exchange are the most preferred equity indices and the index Sensex is equally preferred in both Rural and Urban areas.

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