An Appraisal of Security Investments by Indian Investors

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(A comparative analysis of public sector & private sector investors)

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Abstract

The Indian Security Investment Market is considered to be one of the earliest in Asia, which is in operation since 1875. Securities that are purchased in order to be held for investment. Investor "A person whose principal concern in the purchase of a security is the minimizing of risk, compared to the speculator who is prepared to accept calculated risk in the hope of making better-than-average profits, or the 'gambler' who is prepared to take even greater risks. More generally it refers to people who invest money in investment products." However, it remained largely outside the global integration process until 1991. A number of developing countries in association with the International Finance Corporation and the World Bank took steps to establish and revitalize their Security Investment Market s as an effective way of mobilizing and allocation of funds. In line with the global trend, reform of the Indian Security Investment Market also started with the establishment of Securities and Exchange Board of India (SEBI), although it became more effective after the Security Investment Market scam in 1991. An important feature of the development of stock market in India in the last 15 years has been the growing participation of Public and private investors, both foreign Public and private investors and the Indian mutual funds combined together, the total assets under their management amounts to almost 18% of the entire market capitalization. This paper examines the role of these investors in Indian stock markets and finds that the market movement can be explained using the direction of the funds flow from these investors.

Key Words: Public and Private Investors, Security Investment Markets, Stock Markets,

Introduction

This paper seeks to examine in this context whether reform in the Indian Security Investment Market has led to integration with the developed Security Investment Market s in the world. People buy goods and services in a place called market. The Indian Security Investment Market is considered to be one of the earliest in Asia, which is in operation since 1875. Historically, India had a bank-dominated financial system, which was supplemented by the development financial institutions (DFIs) to provide long- term project finance. However, the financial system has undergone a marked change during recent years. With the conversion of DFIs into banks, a gap has been created for long-term finance. Commercial banks, given the short-term nature of their liabilities, may not be able to fill the gap in long-term finance. In view of this, India's corporate sector requires long-term finance to supplement their resources. In this

context, development of the corporate bond market would play a strategic role in the near future. The corporate debt market in India has been in existence since independence. Public limited companies have been raising capital by issuing debt securities. However, it remained largely outside the global integration process until 1991. The Security Investment Market is the place where the transactions relating to the buying and selling of securities take place. These securities may be shares, stocks, debentures, and the list goes on. Investment for starters is some of money that we can put in a bank in the farm of deposit or spend the money in buying securities issued by a company or any other financial institution. A large number of securities are bought and sold every minute in the online Security Investment Market**.** As such a lot of parties work together in a Security Investment Market every day. A stock exchange is the only place where securities are bought and sold. But that does not mean that securities can also be traded with the help of banks.

Banks provide these facilities, which enable a person to buy and sell securities without stepping in the Security Investment Market. A number of developing countries in association with the International Finance Corporation and the World Bank took steps to establish and revitalize their Security Investment Market s as an effective way of mobilizing and allocation of funds. In line with the global trend, reform of the Indian Security Investment Market also started with the establishment of Securities and Exchange Board of India (SEBI), although it became more effective after the Security Investment Market scam in 1991. With the establishment of SEBI and technological advancement Indian Security Investment Market has now reached the global standard. The major indicators of Security Investment Market development show that significant development has taken in the Indian Security Investment Market during the post-reform period. Recent global developments have considerably undermined the prospects of a self-sustaining recovery in India, as in other parts of the world. The growing linkages and integration of the Indian economy and its financial system with the world have meant that India has become more vulnerable to external developments. The sovereign debt crisis and prolonged slowdown in the Euro area and the US have begun to have their impact on India's growth prospects, the resilience of the Indian economy notwithstanding. The Indian securities markets have witnessed far- reaching reforms in the post-liberalization era in terms of market design, technological developments, settlement practices and introduction of new instruments. Security Investments are the purchased in order to be held for investment. This is in contrast to securities that are purchased by a broker-dealer or other intermediary for resale. Banks often purchase marketable securities to hold in their portfolios. Investment securities held by banks are usually one of two main sources of revenue, along with loans. Investment securities provide banks with a source of liquidity along with the profits from realized capital gains when they are sold.

An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government, or other organization which offers evidence of debt or equity. However, when the people need to trade in stocks, shares, debentures etc. there is a specific place where one needs to go. One cannot deal with these items in a normal market place. Thus a place or a platform where the trading of these shares and stocks takes place is known as the Security Investment Market. The price of these shares and stocks is not considered by monopoly; rather it is the demand and supply forces of the market that determines the prices of these shares and stocks. In earlier times, the trading, that is, the buying and selling of shares and stocks takes place at a particular place known as stock exchange. Thus, the person needs to go at that particular platform if he or she needs to trade in the shares. However with the advancement of technology, this process has almost become redundant. Now, the trading of shares and stock can take place electronically. There is a tremendous reduction of paperwork as everything has gone online. Due to globalization, Security Investment Market has strived to enhance its securities markets performance to increase its investors' confidence and hence widen their pools of investment portfolios. Since Indian Security Investment Market is vast and attract investors as a hotspot of investment.

The Indian market is steadily growing and had allured domestic investors' community and foreign investors group in the past .the major part of investment in Indian market is attributed to Public and private investors among whom foreign investors are of primary importance. One eminent concern in the matter is whether these foreign investors (PP Investors) direct the Indian Security Investment Market. With rapid changes in the economy because of liberal economic policies and fast pace changes due to globalization, Indian market has become a focus point for foreign investors. Organizations tend to target for large volume of trade in this era of globalization. Trade flows are indeed one of the most visible aspects of globalization. International investment is a powerful source in propelling the world toward closure economic integration.PP Investors refers to the investment made by resident of one country in the financial capital and asset of another country It facilitates and persuades large productivity and help in shaping up balance of payments. PP Investors flows in India have continuously grown in importance. PP Investors, because of its short-term nature, can have bidirectional causation with the returns of other domestic financial markets such as money markets, Security Investment Market s, and foreign exchange markets.

Hence, understanding the determinants of PP Investors is very important for any emerging economy as PP Investors exerts a larger impact on the domestic financial markets in the short run and a real impact in the long run. Recent years have seen considerable attention devoted to the analysis of factors influencing investment decisions in different countries. Investor confidence, company financial health and statements, political factors, and the current state of the economy all affect the Security Investment Market.

Investors look for companies that have the potential to earn consistent profits, maintain them, and grow. Companies that hold lots of cash have sound management, and sizeable profits are usually the most attractive to investors. The more profits a company makes, the more investors that will want a piece if it. Buying stocks and receiving regular dividends satisfies this. Also, companies that do not violate regulations are also attractive. Companies that are in hot water with agencies are shied away by potential and current investors. Also, companies with lots of debt and lower profits are not attractive to investors. In the long run, it's all about profits. In the short term, it's all about speculation and where the "experts" see a company going according to their industry.

Objectives of Study

To achieve the targets the following research method to be followed:-

1. To find the most valuable & returnable security orders in order to get lesser risk factor.
2. To compare the securities in terms of risk, return, marketability, convenience & tax shelter.
3. To the India individual, the research will avail the perfect investment scheme.
4. To come on the knowledge of the spectrum of investment avenues available to investors in India.
5. Detailed tabular classification of tabular classification of Investment material as to assess safety levels, Rate of risk, earning levels, growth rate & other future benefits.
6. Analysis of above tables to obtain objectives.

Review of Literature

The work in this area can be classified into three broad strands: a) those dealing with functioning of securities markets and financial institutions operating in these markets, b) those pertaining to the investment decision making process of individuals, and c) empirical work on Indian Security markets. One of the early works on functioning of Security markets and financial institutions was by Simha, Hemalata and Balakrishnan (1979).

Bhole (1980) wrote a comprehensive book on the growth and changes in the structure of Indian capital markets and financial institutions. Several books have been written on security analysis and investment in Indian Security markets: Bhalla (1981); Jain (1981), Sahni (1981), These books are primarily written for initiating lay investors to techniques for security analysis and management of investment portfolios. Barua & Varma (19981) and Ramachandran (1981) have critically examined various facets of the great securities scam of 1981. Raghunathan (1981), Varma (1981), comment upon the Indian capital market in general and trading systems in the Security exchanges in particular and suggest that the systems therein are rather antiquated and inefficient, and suffer from major weaknesses and malpractices. According to most of these studies, significant reforms are required if the Security exchanges are to be geared up to the envisaged growth in the Indian capital market. They conclude that the risk perception of individuals is significantly influenced by the skewness of the return distribution. This implies that while taking investment decisions, investors are concerned about the possibility of maximum losses in addition to the variability of returns. Thus the mean variance framework does not fully explain the investment decision making process of individuals.

Gupta (1982) argues that designing a portfolio for a client is much more than merely picking up securities for investment. The portfolio manager needs to understand the psyche of his client while designing his portfolio. According to Gupta, investors in India regard equity debentures and company deposits as being in more or less the same risk category, and consider mutual funds, including all equity funds, almost as safe as bank deposits. Chandra (1982) discusses the mistakes made by individual investors in designing their portfolios and suggests suitable remedial measures. In his recent book, L.C. Gupta (1982) concludes that, a) Indian Security market is highly speculative; b) Indian investors are dissatisfied with the service provided to them by the brokers; c) margins levied by the Security exchanges are inadequate and d) liquidity in a large number of Security s in the Indian markets is very low. While evidently a painstaking work, the conclusions except `c' above seem to be built on wrong or questionable arguments.

Barua and Raghunathan (1983) examined empirically the hedge provided by Security and bullion against inflation. These studies found that while gold provided complete hedge against inflation, silver and Security were only partial hedges against inflation. Rao and Bhole (1983) arrive at a similar conclusion about Security s. However, as these works pertain to the period prior to the booming 1980's and 1990's, the conclusion that Security is not an inflation hedge is of doubtful validity today. A similar study covering the more recent years would be very useful as one may reach a very different conclusion. With a booming Security market since the second half of eighties and the stagnation in the international price of gold, such a study may find that Security s and not gold provide complete hedge against inflation. The issue of inflation hedge has also been researched in the context of Security.

Varma (1984) compares the BSE National Index (Natex) which comprises 100 scrips with the Sensitive Index (Sensex) comprising 30 scrips and concludes that the Natex is a sluggish index which responds too slowly to market conditions. Changes which are reflected in the Sensex on any day are completely reflected in the Natex only by the next day. He finds that Sensex is more volatile than Natex. He concludes for this and other reasons that those who follow the Natex because of its greater comprehensiveness and theoretical appeal may be mistaken. The Sensex needs to be taken more seriously as a sound market index. The observed deficiencies of the Natex raise several disturbing questions for finance theorists and researchers. Is the market for the less well traded securities in the market inefficient? Do the scrips constituting the Sensex lead the other scrips? If so, can this relationship be used to make extra normal returns? Does the Bombay market lead other exchanges which are also represented in the Natex? These issues call for further research, especially since such questions have been raised by many, including the SEBI of late. On whether SEBI has been successful in improving the functioning of Indian Security markets, the conclusions are mixed.

Francis (1984), Barua (1984)). Dhillon (1984), in his doctoral dissertation studies the regulatory policies of Bombay Security Exchange (BSE) over a four year period (July 1986 - June 1990). His findings show that regulatory authorities decide changes in their margin policy on the basis of market activity.

He finds that the margins are prompted by changes in settlement returns, price volatility, trading volume and open positions. Granger causality results show that there is limited causality in the reverse direction: margin changes do not affect returns, and have only a limited impact on price volatility, trading volume and open positions. Event study methodology applied to daily margins show similar results, except that daily margin on sellers do not appear to be affected by market variables. Further, there is also evidence of under margining leading to excessively levered positions, thereby increasing the insolvency risk. The above results reveal that regulations through these instrument have had only a marginal impact on the dual objectives of controlling market activity and insolvency risk.

Pandya (1985) observes that as a regulatory and development body, SEBI's efforts in the direction of investor protection are varied and unlimited. The measures brought in by SEBI broadly cover measures for allocative efficiency in the primary market with fair degree of transparency, reforms in the secondary market for visible and mutual funds, regulation of various market intermediaries and above all for the protection of the investing public. Venkateshwar (1985) explores the relationships of the Indian Security markets as reflected by the Bombay Security Exchange Index, vis-a-vis other prominent international Security markets. International Security indices are used over the period 1983-87. He concludes that there is practically no meaningful relationship between the BSE index and other international Security market indices, though the British and South Korean indices are inversely related to BSE.

Raghunathan and Varma (1985) point out that any comparison of the Indian Security market with that elsewhere must be carried out on a common currency base. They find that in dollar terms, the SENSEX return over the 1960-92 period is only about 0.5%, while during the same period the returns in the U.S. (based on the S & P Index) and the Japanese (based on the NIKEI index) are 6.1% and 11.4% per year respectively. Over the twelve year period 1980-92, the dollar returns for SENSEX, S & P and NIKEI indices turn out to be 6.5%, 10.65% and 13.6% respectively. For a shorter span of seven years, namely 1985-92, the returns for the three indices turn out to be quite comparable at 15%, 13% and 14% respectively. Very little theoretical work has been done in the field of equity valuation in the Indian context. Even when some work has been done, it is a mere extension of the well known works of Modigliani and Miller. For example, Raghunathan and Varma (1985) provide a reasonably comprehensive valuation model which captures most of the complexities and subtleties of real world. The model is capable of supporting both the Gordon and MM type assumptions about the investment policy of the firm. It allows for personal taxes with differential tax rates for dividends, interest, and capital gains. The model also takes into account flotation costs on debt and equity. Further, unlike other models which define capital gains as increase in the book value which in turn equals retained earnings, this model interprets capital gains as increase in the market value of the share. Finally, the model is modified to take into account the fact that inflation erodes the real value of the firm's assets, particularly the net monetary working capital.

Some of the other theoretical works on valuation pertain to the Indian debentures and bonds with unspecified conversion terms. These are discussed under the section on the valuation of bonds and debentures. There are several empirical works pertaining to the pricing of equities. Pandey (1986) examines the impact of leverage on equity prices and concludes that Modigliani-Miller hypothesis is not supported. However, the risk proxy used in the paper, namely, coefficient of variation of net operating income, is highly questionable. Zahir and Yakesh (1986) find the dividend per share to be the most important variable affecting the share price, followed by dividend yield, book value per share, dividend coverage and the return on investment, in that order. Balakrishnan (1986) also finds that the current dividend and book value per share are more important determinants of market price as compared to earnings per share and dividend coverage.

Bhaumik (2012), however, found evidence of market efficiency, although in a very limited framework of analysis. It may be noted that all these studies have mainly used the traditional tests in their efficiency studies and to that extent the scopes of these findings are rather limited. Two other studies on market efficiency in the Indian Security market are due to Basu and Morey (2012) and Kawakatsu and Morey (2012). Although their common objective was to find the effect of economic liberalization on the efficiency of Indian Security market, their analyses are relevant from the standpoint of market efficiency also. Applying variance ratio test on the monthly all-India share price index data spanning the period July 1987 to October 1996, Basu and Morey found that the aggregate equity prices show signs of being efficient since the mid-2012. Kawakatsu and Morey, on the other hand, found little evidence that liberalization has changed the behaviour of Indian Security indices. To the best of our knowledge, the most recent work on efficiency/predictability has been done by Poshakwale in 2000, by applying the BDS test (Brock et al . (2012)) for nonlinearity. Poshakwale (2012) has examined the random walk hypothesis by testing nonlinear dependence using both individual Security prices and equally weighted portfolio of 100 Security s for the period January 1, 1990 to November 30, 1998. The major finding of this study is that daily returns from the Indian Security markets do not follow random walk model.

Origin of the Indian Security Investment Market

The Indian Security Investment Market is not a new concept. It has a history of about 299 years old. It was in early 18th Century, the main PP Investors that is dealing in the trading of shares and stocks is the East India Company. Later by around 1830 s the main dealing in the shares and stocks (mainly in bank and cotton) was initiated in Bombay. However, the items in which the trading took place increased tremendously by the end of 1839.

There after the concept of broker business was started which show momentum in the mid 18th century. This concept has attracted nm\ember of people to indulge in the trading of items. By 1860, the number of brokers who are dealing in the trading of items goes up to 60 in number. Further, the number of brokers increased from 60 to 250 in around 1862-1863. However, around 1980-61 there is no supply of cotton from America as there was civil war that took place in America. Due to this, there is a concept of Share Mania that took place in India. This is the era of 1980 in which the Indian market had the initial flavor of the trading in items and the concept of Security Investment Market. Thereafter, it has shown significant changes both in the pre-independence era and post independence era. The Indian stock market has come of age and has substantially aligned itself with the international order. Over the last fifteen years the following developments have made the Indian stock markets almost on par with the global markets:

Screen based trading systems replaced the conventional open outcry system of trading and everyone acclaims the contribution of the screen based trading in developing the culture of equity investing.

The replacement of the fourteen-day account period settlement system give way to rolling settlements on T+2 basis has brought down the settlement risk substantially.

Dematerialization of securities

Demutualization of exchanges

Derivatives trading

There are some obvious parallels between the problems faced by the public and private sectors. Both sectors undertake projects that require making some initial investments and are expected to provide benefits over a number of years. Both sectors must choose between making these investments and returning the cash to be invested to their beneficiaries— the shareholders in the case of private-sector firms, and the citizenry in the case of governments— who can then invest the cash directly in the capital markets or spend it on current consumption. As all parties involved—private-sector firms, the government, shareholders, and the citizenry—have access to the same capital markets, the marginal opportunities forgone by making these investments— the opportunity cost of these investments—should be the same for both sectors. In neither case can the beneficiaries' wishes be ignored with impunity. Private-sector managers are monitored by boards of directors, who are elected by shareholders. Directors will replace managers if these prove to be incompetent, or run the risk of them being replaced. Similarly, citizens in a democracy are provided, through elections, with the regular opportunity to replace incompetent governments. They also elect representatives whose role is to monitor the government. At first blush, then, one might expect the investment criteria that are appropriate for private-sector firms to be fairly similar to those for government. That this need not lead to the same investment appraisal procedures is a consequence of the differing nature of the agency relationships in the public and private sectors, the differing intent of the contemplated investments, and the presence of distortions such as taxes.

Market among all the countries in the world. Along with these changes the market has also witnessed a growing trend of 'PP Investors that may be considered as a consequence of globalization. More precisely the growing might of the Public and private investors entities whose primary purpose is to invest their own assets or those entrusted to them by others and the most common among them are the mutual funds and portfolio investors. Today, giant PP Investors control huge sums of money which they move continuously. In European and Japanese markets, PP Investors dominate virtually all trading. In the US, retail investors still remain active participants. An important feature of the development of stock market in India in the last 15 years has been the growing participation of Public and private investors , both foreign Public and private investors and the Indian mutual funds (since the pension funds are still restricted to fully participate in the stock market otherwise pension funds are big investors all world over). With the accelerating trends of reforms Indian stock market will witness more and more of PP Investors and the increasing size of money under the control, this set of investors will play a major role in Indian equity markets. The importance of Public and private investors particularly foreign investors is very much evident as one of the routine reasons offered by market Pundits whenever the market rises it is attributed to foreign investors' money, no wonder we see headlines like "PP Investors Fuel Rally" etc., in the business press. This is not unusual with India alone as most developed economies of today might have seen a similar trend in the past. The increasing role of Public and private investors has brought both quantitative and qualitative developments in the stock market viz., expansion of securities business, increased depth and breadth of the market, and above all their dominant investment philosophy of emphasizing the fundamentals has rendered efficient pricing of the stocks. This paper sets out with the objective of examining whether the Public and private investors, with their war chests of money, set the direction to the market. The next section briefly outlines the growth of Public and private investors ' presence in Indian stock market followed by an explanation of the data and methodology employed by the study and finally we present the results and discussions.

Public and private investors on Indian Markets:

A Grave Balance of Payments situation forced the policymakers to take a relook at allowing foreign capital Into the country and the year of 1991 marked the announcement of some fiscal disciplinary measures along with reforms on the external sector made, it possible for the foreign capital to reach the shores of the country. As on 31st March 2005 there were 685 (ISMR 2004-05 NSE, Mumbai) registered foreign Public and private investors in the Indian stock market. As on that date the net cumulative investments made by PP Investors are around USD 35.9 billion representing around 6.55% of India's market capitalization. Ever since they were permitted to invest in India the investments made by them showed a gradual increase except in the 1998-99. The net inflows averaged around 1.1 b.n. per year and large net outflows are rare barring the year of 1998-99 where most South Asian countries were out of favour for a while. Foreign portfolio investment carries a sense of notoriety of its own because at the first sign of trouble this flows in reverse direction. The notoriety emanates from the very nature of PP investment - portfolio managers tend to restructure and rebalance their portfolios dynamically across the countries, their primary concern being their portfolio. Owing to their magnitude of flows, the direction of PP investment flows tends to make or break the fortunes of a market. PP Investments flows to India are less.

Table 1

Year	**Net Investments by PP Investors (Rs)**
2000-01	4.27
2001-02	5444.60
2002-03	4776.60
2003-04	6720.90
2004-05	7386.20
2005-06	5908.45-
2006-07	729.11
2007-08	9765.13
2008-09	9682.52
2009-10	8272.90
2010-11	2668.90
2011-12	44000.03
2012-13	41416.45
March	

Source: Chandra Prasanna (2013)

Since it is not statutorily binding on PP Investors to make public, the companies in which they are investing in, there is no publicly available information on this aspect. However, the overall investment that can be made by all PP Investors in any company's equity is monitored by Reserve Bank of India; it gives a caution notice, when the overall PP investment level reaches 22 percent in a company. Subsequently, all purchases have to be done by prior approval of Reserve Bank of India. From such monitoring reports it can be gauged that the PP Investors are market or not. Here, one has to note that most stocks that figure in Public and private investors ' portfolios are more or less those securities that comprise the nifty or Sensex indices hence, co-movements between index and the PP investments is likely. But, when we use Advances and Declines ratio (ADR hereafter) it captures the direction of entire market in unambiguous terms. Generally advances to declines ratio indicate the breadth of the market. Hence, we use ADR instead of Nifty or Sensex returns. In reality, it is not possible to isolate the actions of mutual funds and PP Investors on the stock market, since both the category of investors are acting simultaneously hence, the PP Investors activity is captured by taking the ratio of combined purchases of mutual funds and Fl Is to combined sales of mutual funds and PP Investors so if the ratio is >1 means PP Investors have pumped in money i.e., the market witnessed a net inflow of money while a ratio of <1 indicates there is an outflow of money from the market.

Results and Discussions:

My first question is whether PP Investors activity has an influence on the market or not and this is examined by running a simple regression with the advances to decline ratio as the dependent variable and the public and private purchases to sales as the independent variable. But, before we attempt to do the regression we have put to investigate whether the data is stationary or not and for this we used Augmented Dickey Fuller tests Hamilton, J. (1994). The unit root test results on the individual data series is given below in Table II.

Table II

Variable	Test Statistic	P Value
ADR	14.3039	0.0000
PP INVESTORS	14.2312	0.0000
MF	9.9388	0.0000
Public and Private Investors	12.8703	0.0000

Source: McKinnon critical values at 1% level of significance is 3.4385

The inferences about the stationary of the data series remain unchanged even when we used the Phillips- Perron tests. Since the data series is found to be stationary, the results from the standard OLS regression cannot be refuted. Now, we present the results of the linear regression in the following Table III

Table III

Variable	Coefficient	Std. error	t-statistic	P value
Public and Private Investors	0.925420	0.03056	30.28240	0.0000

We have also conducted another regression with Private and public investors and MF as the independent variables separately and the ADR as the dependent variable and the results are similar to the above regression these are presented below:

Table IV

Variable	Coefficient	Std. error	t-statistic	P value
PP INVESTORS	0.252056	0.031955	7.88774	0.0000
MF	0.753414	0.04279	17.60712	0.0000

So, it is clear that the PP Investors activity has an influence on the stock market and both mutual funds as well as PP Investors actions have significant impact on the market's direction. Does this imply that PP Investors activity because the stock market to rise/fall? This question is addressed by using Granger (1969) causality test assuming a one period lag we obtained the following results:

Table V

Null hypothesis	F-Statistic	P-value
PP INVESTORS does not Granger Cause ADR	3.15491	0.07595
ADR does not Granger Cause PP INVESTORS	0.65358	0.41899

The F statistics indicate that the null hypothesis ADR does not Granger Because PP Investors cannot be rejected and the null hypothesis PP does not Granger Cause ADR can be rejected. In other words there is statistical evidence that the forecasts about market direction can be improved by using the institutional activity as an independent variable. Then we examined whether the institutional activity is one sided meaning. Whether the PP Investors actions and mutual fund actions are correlated. Since both these type of investors are driven by teams of trained analysts; we can premise that their actions may be positively correlated. The correlation results indicate that there is a weak negative correlation over this period and the correlation coefficient is -0.06439. To further augment my analysis we conducted a Granger Causality test as to whether the direction of public and private investments can be predicted using previous day's information on mutual fund activity. The causality test results are shown below:

Table VIII

Null hypothesis	F-Statistic	P-value
MF does not Granger Cause PP Investors	4.36575	0.03687
PP Investors does not Granger Cause MF	0.06531	0.79834

From the above results we can infer that the null hypothesis MF does not Granger cause PP Investors can be rejected but the hypothesis PP Investors does not Granger cause MF cannot be rejected. In other words, the forecasts of PP Investors activity using mutual fund activity can be improved where as the reverse is not possible. This is a little bit surprising as well as interesting to note that the Indian mutual funds are leading the pack and are giving direction to the market and even PP Investors are following their direction, probably, because of the larger size of the funds under the management of the mutual funds and hence the statistics are showing accordingly. The growth of Public and private investors in the market is having its own advantages as well as its own share of problems on the brighter side almost always purchase stocks on the basis of fundamentals. And this means that it is essential to have information to evaluate, so research becomes important and this leads to increasing demands on companies to become more transparent and more disclosures. This will lead to reduction in information asymmetries that plagued the Indian markets for quite a while. Also, the increasing presence of this class of investors leads to reform of securities trading and transaction systems, nurturing of securities brokers, and liquid markets. On the flip side the increase of foreign investors in particular will bring a very welcome inflow of foreign capital, but there are always some dangers if certain limits are exceeded. Firstly, the foreign capital is free and unpredictable and is always on the lookout of profits PP Investors frequently move investments, and those swings can be expected to bring severe price fluctuations resulting in increasing volatility. Also, increased investment from overseas may shift control of domestic firms to foreign hands. But, in India there were limits to foreign ownership of shares in firms. If foreign investors reach the ownership limits, shares in those firms are restricted to trading by Public and private investors.

Conclusion:

Investors in developed markets are increasingly becoming convinced of the merits of investing in emerging markets. Indeed, a number of major investment banks in India have recommended that 5—10% of investors' portfolio be allocated to emerging markets. It is very easy to get cheated in the securities market. Investors in other countries don't think any differently. The survey found that investors around the globe have higher expectations from stocks in 2013. In emerging markets, 66% of the respondents expect their local stock market to improve (versus 58% in developed markets).

However, despite this optimism, 57% of those surveyed plan to follow a more conservative investment strategy this year. Surprisingly, younger investors (aged 25 to 34) will lead the charge toward "safer" havens. "Despite investors' overall positive outlook, it appears that avoiding loss, rather than achieving higher returns, is still a top priority," said Greg Johnson, President and Chief Executive Officer, Franklin Templeton Investments. "Clearly the market volatility over the past five years has reinforced a preference among investors for capital retention over investment gains. As seen in recent years, this risk avoidance has led many investors to remain on the sidelines, missing opportunities. Working with a financial advisor can be the best resource for evaluating all sides of the risk equation," he added.

Indian investors have the highest return expectations from stocks in the world: 15% in 2013 and 22% over the next 10 years. However, high inflation is clearly the top factor making investors reluctant to invest in the stock markets in India followed by the state of the global economy. Amongst the respondents (middle income Indian investors) exposure to mutual funds is a quarter of their total investments and they expect it to increase by one-third over the next five years. Indian investors overwhelmingly expect local equity and fixed income markets to outperform their global counterparts. Purchasing a new home is the top investment goal for investors in India for 2013. While retirement is one of the top three goals, compared to their global counterparts, Indian investors' focus on retirement as a goal is the lowest amongst all the countries surveyed. Interestingly, while 97% of Indian investors are confident about achieving their financial goals, a majority of them think they can do it without equity exposure. Another interesting finding is that respondents view professional financial advice as an important or very important factor for making investments - more than two-thirds (69%) of investors are willing to pay fees to their distributors/financial advisors for such advice.

Harshendu Bindal, President, Franklin Templeton India said, "The survey clearly shows the strong optimism in India about the growth prospects, albeit with near-term concerns. Also, it is heartening to note that contrary to popular belief, there is willingness to pay advisory fees for professional advice, especially amongst middle income investors. Given the ongoing changes in the distribution landscape, this willingness augurs well for financial planners and advisors". That is why we need proper education and knowledge about the ways of this market. There are many factors influencing price of a stock. We need to find out in which instruments to invest in, as there are a lot of investment opportunities in the market. Also we need to be careful about the rise and fall of Security Investment Market prices if we are investing in the Security Investment Market. The results showed that, while giving much higher returns than the trading method when the market is relatively stable, the rule of using 'overnight gains as a predictor of day gains' does not hold in a highly volatile market. Thus out-of-sample tests of market anomalies are essential before reaching conclusions about the efficiency of any financial market. Some directions for future research emerging from the study include investigating the phenomenon in the developed markets, which are expected to be more efficient; examining the behaviour of investors and fund managers to find out if they take the overnight shift in the stock prices into consideration in devising trading strategies for the following day; and developing an elaborate and more accurate model factoring in details like issue of ESOPs and issue of preferential shares. There are money brokers out there in the market who helps out people in the Security Investment Market by giving them advise when to invest and when not to. A real broker must be registered by the SEBI. A brokers works for a fee and is bound by rules imposed by the SEBI. The securities markets in India have witnessed several policy initiatives, which has refined the market micro-structure, modernized operations and broadened investment choices for the investors. In India however, corporate bond market is quite small compared to the size of the equity market. One of the main reasons for this is that a large part of corporate debt, being loan from financial intermediaries, is not securitized. One of the most important functions of the capital market

is to channelize resources for productive use. It can perform this function effectively only if it is able to build up investors' confidence by ensuring that the expected return from an investment opportunity is commensurate with the risk associated with it, both in the primary as well as the secondary markets. The primary market is the market for fresh issue of securities directly from the companies to the investors. The secondary market is where investors trade in the securities after the initial issue in the primary market. A well-functioning secondary market is essential to attract household savings in the primary market. Amongst the respondents (middle income Indian investors) exposure to mutual funds is a quarter of their total investments and they expect it to increase by one-third over the next five years. Indian investors overwhelmingly expect local equity and fixed income markets to outperform their global counterparts.

According to most of this study, significant reforms are required if the Security exchanges are to be geared up to the envisaged growth in the Indian capital market. It is concluded that the risk perception of individuals are significantly influenced by the skewness of the return distribution. This implies that while taking investment decisions, investors are concerned about the possibility of maximum losses in addition to the variability of returns. Thus the mean variance framework does not fully explain the investment decision making process of individuals. The portfolio manager needs to understand the psyche of his client while designing his portfolio. The Indian stock markets have really come of age there were so many developments in the last 15 years that make the markets on par with the developed markets. The important feature of developed markets is the growing clout of Public and private investors and this paper sets out to find whether the markets have also being dominated by Public and private investors. The regression results show that the combined might of the PP Investors and mutual funds are a potent force, and they infact direction can forecast market direction using the direction of the flow of funds from PP Investors and mutual funds, the Granger causality test has showed that the mutual funds in fact lead the market rise or fall and PP Investors follow suit. This may actually raise questions on the market efficiency but on the contrary, markets become more efficient with the growing presence of Public and private investors who predominantly go by fundamentals. Noise trading on the part of Public and private investors will be less in Indian context since all their trades are delivery based only. He finds that the margins are prompted by changes in settlement returns, price volatility, trading volume and open positions. Granger causality results show that there is limited causality in the reverse direction: margin changes do not affect returns, and have only a limited impact on price volatility, trading volume and open positions. Event study methodology applied to daily margins show similar results, except that daily margin on sellers do not appear to be affected by market variables. Further, there is also evidence of under margining leading to excessively levered positions, thereby increasing the insolvency risk. The above results reveal that regulations through these instrument have had only a marginal impact on the dual objectives of controlling market activity and insolvency risk. Pandya (1992) observes that as a regulatory and development body, SEBI's efforts in the direction of investor protection are varied and unlimited. The measures brought in by SEBI broadly cover measures for allocative efficiency in the primary market with fair degree of transparency, reforms in the secondary market for visible and mutual funds, regulation of various market intermediaries and above all for the protection of the investing public.

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