“Strategies for making an Investment in the Stock Market”

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Abstract

The current empirical study attempts to analyze the impact of COVID-19 on the performance of the Indian stock market concerning two composite indices (BSE 500 and BSE Sensex) and eight sectoral indices of Bombay Stock Exchange (BSE) (Auto, Bankex, Consumer Durables, Capital Goods, Fast Moving Consumer Goods, Health Care, Information Technology, and Realty) of India, and compare the composite indices of India with three global indexes S&P 500, Nikkei 225, and FTSE 100. The daily data from 2019 to 2021 have been considered in this study. So, the study mainly concentrated on how to make different strategies in order to invest in the stock market to get more returns.

Keywords: Stock market, Covid-19, NSE and BSE
I. INTRODUCTION

Stocks which have corrected 40% to 50% may still not be a buy since corporate or financial mismanagement could be a reason behind this fall. With almost two months of coronavirus lockdown restrictions, Indian share market has been impacted adversely due to economic fallout. The headline indices BSE Sensex and Nifty 50 have been witnessing a bumpy ride since the COVID-19 spread its wings. The 30-share Sensex hit a record high of 42,274 during the start of the year then plunged to a 52-week low of 25,638 in March. It has risen 25 per cent in two months to hit 32,000-mark. While investing during these tumultuous times in the share market, Sony Mathews, Senior Market Strategist at Geojit Financial Services, advises investors to exercise caution and adopt a staggered investment approach. While no sector in India can be COVID-19 proof, Mathews believes that some sectors will be less impacted by the pandemic than others. Here are the excerpts of Sony Mathews’ interview with Surbhi Jain of Financial Express Online.

II. REVIEW OF LITERATURE

Azimili (2020) also researched on understanding the impact of coronavirus on the degree and structure of risk-return dependence in the US by using quantile regression. The results indicate that following the COVID-19 outbreak the degree of dependence between returns and market portfolio has raised in the higher quantiles that lowering the benefits of diversification. The author also studied the GSIC and stock return relationship and found that the GSIC return relationship revealed an asymmetric pattern, lower tails influenced negatively almost twice as compared to the upper tails.

Shezad et al. (2020) conducted a study to analyze the non-linear behavior of the financial market of the US, Italy, Japan, and China markets return by applying the Asymmetric Power GARCH model. The study confirmed that COVID-19 harm the stock returns of the S&P 500. However, it revealed an inconsequential impact on the NASDAQ Composite index.

An empirical study conducted by Cepoi (2020) on the relationship between COVID-19 related news and stock market returns across the topmost affected countries. By employing a panel quantile regression this study found that the stock market presents asymmetry dependence on COVID-19 related information.

Osagie et al. (2020) by applying Quadratic GARCH and Exponential GARCH models with dummy variables found that the COVID-19 hurts the stock returns in Nigeria and recommended that a stable political environment, incentive to indigenous companies, diversification of economy, flexible exchange rate regime be implemented to improve the financial market.
Becker (2020), in his study, found that there is a dramatic fall in oil prices by 70-80 percent. It is severe than the financial crisis of 2008/09. This is a serious issue for the economy as the country is highly dependent on oil revenue. There is a huge gap between the depreciated exchange rate i.e. 20 percent and the fall in oil prices i.e. 70-80 percent.

According to Herfero (2020), the third wave of the COVID-19 pandemic has hit the emerging economy worst resulting decrease in the business activities. This unprecedented shock increases the risk-averse nature which increases the financial cost. Latin America is affected worst because of her much dependency on external financing. Due to the restriction on transport export have declined. Restriction in the international movement has hampered the tourism sector leading to a fall in revenue.

Hyun-Jung (2020) has made a study on the stock market of South Korea, another leading country of the emerging economies. In his analysis, it was found that the economy has shown a roller-coaster ride. The monthly export shows a downtrend in January, improved in February, then again dipped down in March and June. The country’s export volume has come down to an 11.2 percent point in comparison to the previous year.

Covid-19 – Pre and Post Scenario from 2019 to 2021

Pre COVID-19, market capitalization on each major exchange in India was about $2.16 trillion. The 2019 stock market rally was limited to 8-10 stocks within the large caps. The Sensex returned around 14% (excluding dividends) for the year 2019 but prominently featured blue-chip companies such as HDFC Bank, HDFC, TCS, Infosys, Reliance, Hindustan Unilever, ICICI Bank and Kotak Bank, without which Sensex returns would have been negative. However, in the start of 2020, there was overall recovery which led to both NSE and BSE traded at their highest levels ever, hitting peaks of 12,362 and 42,273 respectively. At the beginning of the year, there were close to 30 companies that were expected to file IPO’s. The market conditions were generally favorable as they witnessed record highs in mid-January. A Comparison of Pre and Post COVID View of Indian Stock Markets as tabulated as follows:

| Bourses | Indexes-14 Jan 21 | Indexes-23 Mar 21 | Indexes-24 Apr 21 |
|---------|------------------|------------------|------------------|
| Nifty 50 | 12,362           | 7,610            | 9,154            |
| Sensex  | 41,952           | 25,981           | 31,327           |

Ever since COVID 19 strike, markets loom under fear as uncertainty prevails. It has sent markets around the world crashing to levels not witnessed since the Global Financial Crisis of 2008. Following the strong correlation with the trends and indices of the global market as BSE Sensex and Nifty 50 fell by 38 per cent. The total market cap lost a staggering 27.31% from the start of the year. The stock market has reflected the sentiments this pandemic unleashed upon investors, foreign and domestic alike. Companies have scaled back; layoffs have multiplied and employee compensations have been affected resulting in negligible growth in the last couple of months. Certain sectors such as hospitality, tourism and entertainment have been impacted adversely.
and stocks of such companies have plummeted by more than 40%. While the world has witnessed many financial crises in the past, the last one being the global recession of 2008, the current coronavirus crisis is different from the past fallouts. In response to current turmoil, RBI and the Government of India has come up with a slew of reforms such as reductions of repo rate, regulatory relaxation by extending moratorium and several measures to boost liquidity in the system howsoever the pandemic has impacted the premise of the corporate sector. Payments deferrals, subdued loan growth, rising cases of bad loans and sluggish business conditions have impaired the growth and the health of the economic activity. Deceleration of GDP growth, demand-supply chain, cut in discretionary expenses and CAPEX has been the observed during the lockdown, which has led to falling in household incomes, marketing spends, reduced travel cost and hiring freeze.

Companies with innovative products, increasing distribution reach, technology-driven processes and healthy balance sheet would revive the growth momentum post lockdown. Lower oil prices and high capital expenditure by the government in turn creating capital which will provide a platform to flourish when we overcome COVID 19 pandemic. As for the outlook for the market, we only need to look back at its history. A drop in BSE sensitive index is temporary, and each dip provides investors with the opportunity to enter the market and earn a higher return especially for those with long term horizon. Moreover, the higher the fluctuations, the higher chances of getting better returns. While these crises are real and it impacts the world economy, but historically, such crisis has not lasted long, as the world is competent enough to come up with answers to combat these challenges. Despite the fact that it’s hard to predict the magnitude and impact of Coronavirus on the economy, but it is certain that the markets will bounce back soon the crisis gets over. With an average annual return (CAGR) of around 15 per cent, by growing from 100 points in 1979 to over 41,000 points in 2019, Sensex has proven time and again that corrections are temporary, but growth is permanent.

Strategies for to Make an Investment in the Stock Market

The basic strategies as follows:

1. **Wreak havoc in equity**: Equity markets and corporate earnings have been impacted by the uncertainty as the economic activity came to a standstill for almost two months now due to the lockdown. There were relief rallies expecting continuous stimulus measures from both the Reserve Bank of India (RBI) and the government, and the hope that things would become normal soon. But those were just short rallies with no explanations. The impact of Covid-19 on the economy cannot be accurately gauged because of the uncertainty that still persists. Similarly, it is difficult to predict the recovery process. Globally too, renewed trade tensions between the US and China threaten to derail the positive news of economies reopening after prolonged lockdowns. Therefore, investors must be cautious about investing in this market. They should be stock specific in this market. It is better to focus on quality large caps and selected mid-caps and invest in a staggered manner.
2. The Sectoral Decision for investment: Commodity stocks are showing positivity driven partly by the stimulus measures announced by governments and partly due to renewed Chinese demand. Revival in Chinese demand boosted the commodity market sentiments since China is one of the largest consumers of commodities. Hence, growth in Chinese demand is essential for the commodity markets to move up. No sector in India can be termed as Covid-19 proof. It is just that some sectors are relatively less impacted by the virus than others. We feel that speciality chemicals and agri sector along with consumption stocks, including FMCG, have the potential to recover faster than others. Blue-chip private sector banks may outperform public sector banks. Insurance companies also look positive because the sector is still under penetration in India and people will be more cautious about health and life eventualities in the post-Covid scenario.

3. Investment Target: Earning commentary for this quarter is expected to be a washout for companies. Even before the spread of Covid-19, one thing that dogged Indian markets was the weak corporate earnings and recovery. This will again be the biggest factor impacting markets, at least for the next 2-3 quarters. Till companies recover from the virus shock and demand revives there will be volatility. We expect a range of 8800 to 9000 in the downside and 9300 to 9500 in the upside for Nifty in the current scenario. If the viral infection escalates then the markets will be impacted much more. Stocks may be chosen based on their recovery potential, earnings visibility, management strength (including pledge and leverage) and balance sheet strength. Once the economy starts showing signs of recovery, there will be more stock ideas to invest in at a good rate. HDFC Bank, PI Industries, SBI Life Insurance, Mahanagar Gas, Pidilite are some of the stocks we are positive on.

4. Certainty of Time for investment: A major trigger will be infections peaking out in India or even better will be the news about the development of a vaccine (low probability in the near term). This is because, in spite of the lockdown, the infection rates have kept on increasing and this brings huge uncertainty to the markets. The other trigger will be sector-specific stimulus packages rather than liquidity packages by the government. It is true that reforms announced till now are fiscally responsible and are good on a long term basis, but may not be ideal for immediate relief and considering the enormity of the crisis. Normal monsoon will also spread a feel-good factor in the market. Small caps might take longer to recover, and large caps could benefit first when we start emerging out of this crisis. Stocks which have corrected 40% to 50% may still not be a buy since corporate or financial mismanagement could be a reason behind this fall. Instead of buying a large number of shares of these underperforming stocks, which may never recover, it would be better to accumulate a few shares of good quality companies. This may not be a good time to be adventurous and we would prefer that investors focus more on quality and stay cautious, at least in the near term. Invest in a staggered manner (do not invest in one go) and the time horizon of investment should be a minimum of 1 year to 2 years.
III. CONCLUSION

However, during the crisis, it is observed that skewness becomes negative with index returns or has shifted into more negative values for a few of the index returns. Another important finding of the paper is that the Indian stock market depicts roughly the same standard deviation compared to the developed economies of the United States, Japan, and the United Kingdom but has higher negative risk and higher positive returns, which make the market, seem more volatile. In this context, it is suggested that risk-averse investors should remain away from investing in the stock market during COVID-19 period, and those short-term investors who are holding the stocks should close their positions as early as possible to evade losses.

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