DO Operators Run The Stock Market

There is a general belief among most investors that markets are controlled by operators and it is no place for small investors. It is believed that the operators enriched themselves at the cost of small investors. Two scams of 1992 and 2002 had certain operators at the center of the storm. There were other star players in the market also in the past that had a big role to play in the market movements. Let us examine the validity of the statement that Stock Markets are run by operators.

An operator is a person who is supposed to drive the market price of a particular share that is he decides what should be the pricing of the share and whether it should go up or down. It is also believed that operators in association with the management of the company first acquire certain stocks in the market and subsequently through rumors and such other communication mechanism create a mass interest in the share. Subsequently once the general public starts believing in the company's prosperity the operators sells the shares and makes handsome profits. Some operators also use circuit mechanism of stock exchanges to hike the price. The circuit mechanism allows the operator to put an order at a price which is 3 to 8% above the previous days closing. Once the share hits upper circuit there are very few sellers in the market since they believe that if the share has hit upper circuit it is likely to go up further. This is the modus operandi of an operator. For an operator to be successful some factors are very important. Such as connivance with the management, low capital base of the company so that manipulation can be done with very little capital and a mass following.

Is manipulation possible in high volume shares? Let us now look at the trading statistics reported by stock exchanges (data of a particular date). Top 30 scripts i.e 10 in each group, account for 41% of turnover in NSE and 37% of the turnover in BSE. Both the Exchanges put together this translates in to a value of about 4100 crores on a daily basis. As per the market share reported of brokers by NSE (NSE Bulletin) top 10 trading members account for just 24% of the market share i.e on an average each broker would have about 2.4% of the market across all company shares traded by the company. Hence, the dominance that a single broker can have on the volumes in the market is minimal in highly traded scrips.

Then we move to low value high volume traded scrips. As per the data is provided by newspapers separately on Quotations page, the aggregate value of shares traded in this category on a particular date was studied. The turnover for BSE in such scrips was Rs.34,03,470 ie .01% of total turnover and for NSE is Rs.20,28,050 i.e 0.003% and in terms of number of shares traded it is 1.5 % in case of BSE and in case of NSE 0.45%. This is one area where low funds can help to move the prices and give a false sense of liquidity. Hence investors are advised to refrain from investing in scrip just because it is low value; the merit of the share should be looked into before making the investments.

The Stock exchanges have a system of guiding the investors on stock selection by way of classifying the companies into various groups. A group stocks are highly liquid and good performing companies. B1 group are again good performing companies with lesser liquidity then A group stocks. B2 are stocks that have low capital bases and less liquid. Companies that do not adhere to Listing agreement are categorized as Z group. These companies do not attend to investor complaints and fail to file various investor related information with the stock exchange such as quarterly working, book closure dates etc. Shares which have concentrated activity and unusual price movements are categorized in T 2 T or trade for trade settlement, ie every sale and purchase must result in delivery and positions cannot be squared off during the day. This classification should be kept in mind while selecting a company for investment. Stock exchanges also verify the news items appearing in leading newspapers and get companies to clarify on rumours. This information is also of vital importance since operators and company managements at times plant false stories in newspaper to mislead the public.

Special laws have been put in place to act as deterrent to such manipulation. The Insider Trading Regulations and Fraudulent and Unfair Trade Practices regulations are the tools available to SEBI to taken action against those manipulating the markets. The punishment is maximum penalty of Rs. 25 crores and imprisonment. Both these laws have been enacted in early 2000. Hence their effectiveness will be proved only with efflux of time. Till the enactment of these laws the prosecution of persons indulging in market manipulation had to be tried under the general legal system, the delays in the same are not unknown to us.

We always blame the regulators, brokers and exchanges if scams happen in markets. However the menace of operators will go only if we stop following their leads in the market. Tips given by operators are widely followed, and so long as you make money on these tips we do not blame anyone. However once the operator weakens then there is fall in prices and the blame game starts. Operators are creations of society and the greed inherent in all of us. Easy money by riding the operator's tips is a strong attraction. Scams bring down the prices of not only the shares which were manipulated by the operators but also all other fundamentally good shares also held by us. Mass following that the operators thrives on would be absent if we refrain from buying those shares that are remotely associated with any operator. Reporting wrongful activities of company managements, dabba traders and other market participants will help the regulator in directing their efforts on the wrong doers. Remember, being a spectator to a wrongdoing and not reporting the same is as bad as committing the crime.

Asit C. Mehta
INVESTMENT INTERRMEDIATES LTD

Edited by Deena Mehta, Mng. Dir., ACMIIL • E-mail: damehta@acm.co.in

E-mail : acmiil@acm.co.in
Group Website : www.nucleusindia.com
Online Trading Portal : www.investmentz.com

SEBI / Regulatory Registration Numbers :
BSE C.M. : INB 010607233
• NSE C.M. : INB 230607239
• DP Registration (C.M & Derivatives) : IN - DP - CDSL - 28 - 29

Registered Office :
Nucleus House, 5th floor, Saki Vihar Road, Andheri (E),
Mumbai - 400072. India • Tel.: 022-2857 7898 or 2857 7614/15/16
Fax: 022-2857 7647
Corporate Office :
67, Poddar Chambers, 3rd Floor,109, S. A. Brelvi Road,
Fort, Mumbai - 400 001. India • Tel.: 022-2270 0115, 2265 1540
Fax: 022-2270 0124