

What is a Stock Market?

What is a Market?

The word calls to mind a cloth or vegetable market, a place where buyers and sellers meet in person and decide to exchange goods or commodities physically. There are also markets for services, typically a chowk or maidan, where various vendors of services, such as plumbers or carpenters, assemble, and those who need these services, particularly those operating in the construction labour market, hire them. As defined in economics, a market is a social arrangement that allows buyers and sellers to discover information and carry out a voluntary exchange of goods or services.

The function of a market requires a buyer, on the one hand, and a seller, on the other, both parties expecting to achieve the better deal. The buyer wants to buy at an optimum price and the seller to sell to earn the maximum profit. Thus, the chief function of a market is price discovery. In less sophisticated markets, where there are few buyers and sellers, individuals must engage in a more lengthy process of bargaining in order to gain the same information.



What is the Stock Market?

In general, the term 'stock market' is a place that enables the trading of company stocks. It is distinct from a stock exchange. The stock exchange is an entity (a corporation or mutual organizations) which is in the business of bringing buyers and sellers of stocks and securities together. The purpose of a stock exchange is to facilitate the exchange of securities between buyers and sellers, thus providing a marketplace, virtual or real. Just imagine how difficult it would be to sell shares, and at what a disadvantage you would be if you had to call out to try and locate a buyer. It would be like

trying to sell a house. Really, a stock exchange is nothing more than a super sophisticated farmers' market, providing a meeting place for buyers and sellers.

In India, the stock market does not have a physical presence; it's a virtual market. Gone are the days when share brokers assembled in a place called the trading ring and bought and sold shares; it was known as the outcry method. Technology has enabled the ring to be located on a central computer, which has millions of buyers and sellers attached to it through a telecommunication network. These buyers and sellers indicate their intentions through a computer at home or the office, their own or their broker's. Buyers' and sellers' orders are matched by the central computer, and if quantities and prices correspond, then a trade is set to be executed. The entire process of sending the order to the stock exchange computer, confirmation of the order, and execution, if any, is communicated within a fraction of a second.

The share market deals in shares.

What is a share? A share is nothing but an ownership in a company. We have entrepreneurs and technocrats with business propositions that they want to concretize, convinced that they will make a lot of money if they're successful. They may not have sufficient capital for setting up the business, namely land, buildings and machinery, or for funding initial expenses. The investor steps in and provides capital to the company. This capital reaches the company in the form of a public issue, that is the company invites the general public to subscribe to the company's capital through purchase of its shares. This is also called an IPO or Initial Public Offering.

Now, the person who subscribed to an IPO may not want to hold these shares indefinitely. He prefers to keep it liquid, to be able to sell when he finds a more lucrative opportunity or needs the money to meet a financial commitment, such as a marriage or foreign education. The company, meanwhile, has used the investor's capital to make long-term purchases, such as land or buildings, (which obviously cannot be liquidated). So, to meet the objectives of both entrepreneur and investor, a secondary market for shares, purchased through an IPO, is provided through stock exchanges.

The stock exchange supplies a platform from which to buy and sell shares in certain listed companies. It regulates the company's behaviour through requirements agreed upon by the company in order to be listed. This is called a Listing Agreement, which ensures that the company provides all the information pertaining to its working from time to time, including events that affect its valuation, such as mergers, amalgamations and such other sensitive matters.

Large volumes are possible in these markets because of two things. One, the ease of settlements. The shares that are traded in are received and delivered through an electronic entry in the books of buyers and sellers. Crores of rupees worth of shares get exchanged by merely passing a debit and credit entry in the books of a Depository Company which has a beneficial ownership account of buyers and sellers.

The second reason is guarantee of trades. Since

the introduction of Trade Guarantee Funds in 1996, there has never been a single hour's delay in the declaration of pay outs -- completion of the settlement process by collection of monies and securities due and their delivery to the recipients. Sellers get their money, buyers their shares.

Despite large ups and downs in the market, brokers have never failed to honour their commitments to stock exchanges. If anyone fails to pay, there are enough margins available with the exchange to honour those commitments. This is unique in India and no other markets work with such efficiency. Such a long record of timely settlements has given much confidence to investors in India and abroad. This is also one of the reasons for growth in Foreign Institutional Investors' investments in India

The stock market is one of the most important sources for companies to raise money. Experience has shown that the price of shares and other assets is an important part of the dynamics of economic growth. The Stock Market is also known as a barometer of the country's economy. The companies listed on stock exchanges collectively contribute to the country's GDP. If the company's financial performance is good then the share price of the company goes up. Rising prices leads to an increase in the index (collective measure of all share prices). Thus a rising index indicates that the economy is on a growth path. Participation in stock market also helps you participate in country's prosperity.

Asit C. Mehta

INVESTMENT INTERMEDIATES LTD

*Edited by Deena Mehta, Managing Director,
Asit C. Mehta Investment Intermediates Ltd. E-mail: damehta@acm.co.in*

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