A PROJECT REPORT ON

“Risk Management In Trading Stock Market”

A Project Submitted to

University of Mumbai for Partial Completion of the Degree

of Bachelor in Commerce (Accounting and finance)

Under the Faculty of Commerce

By

“Rahul Hansaraj Bhanushali"

T.Y.B.A.F (SEMESTER – VI)

PRN NO.: 2021016401607546

Under the Guidance of

‘ASST. PROF. DR. KISHOR CHAUHAN’

JNAN VIKAS MANDAL’S

Mohanlal Raichand Mehta College of Commerce

Diwali Maa College of Science

Amritlal Raichand Mehta College of Arts

Dr. R.T. Doshi College of Computer Science

NAAC Re-Accredited Grade 'A+' (CGPA : 3.31) (3rd Cycle)

Sector-19, Airoli, Navi Mumbai, Maharashtra 400708

FEBRUARY, 2024.

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CERTIFICATE

This is to certify that MR. Rahul Hansaraj Bhanushali has worked and duly completed his Project work for the degree os Bachelor in Commerce (Accounting and Finance) under the Faculty of Commerce in the subject of PROJECT WORK and his project is entitled, **"Risk Management In Trading Stock Market"**. Under my supervision.

I further certify that the entire work has been done by the learner under my guidance and that no part of it has been submitted previously for any Degree or Diploma of any University.

It is his own work and fact reported by her personal finding and investigations.

Guiding Teacher,

ASST. PROF. DR. KISHOR CHAUHAN.

Date of submission:

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DECLARATION

I the undersigned MR. RAHUL HANSARAJ BHANUSHALI here by, declare that the work embodied in this project work titled **"Risk Management In Trading Stock Market"**, forms my own contribution to the research work carried out by me under the guidance of ASST. PROF. DR. KISHOR CHAUHAN is a result of my own research work and has been previously submitted to any other University for any other Degree/ Diploma to this or any other University.

Wherever reference has been made to previous works of others, it has been clearly indicated as such and included in the bibliography.

I, here by further declare that all information of this document has been obtained and presented in accordance with academic rules and ethical conduct.

Rahul Hansaraj Bhanushali

Certified by:

ASST. PROF. DR. KISHOR CHAUHAN.

ACKNOWLEDGEMENT

To list who all have helped me is difficult because they are so numerous and the depth is so enormous.

I would like to acknowledge the following as being idealistic channels and fresh dimensions in the completion of this project.

I take this opportunity to thank the **University of Mumbai** for giving me chance to do this project.

I would like to thank my **I/C Principal, Dr.B.R.Deshpande Sir** for providing the necessary facilities required for completion of this project.

I take this opportunity to thank our **Coordinator** for their moral support and guidance.

I would also like to express my sincere gratitude towards my project guide **Asst. DRrof. Kishor Chauhan** whose guidance and care made the project successful.

I would like to thank my **College Library**, for having provided various reference books and magazines related to my project.

Lastly, I would like to thank each and every person who directly or indirectly helped me in the completion of the project especially **my Parents and Peers** who supported me throughout my project.

RISK MANAGEMENT IN TRADING STOCK MARKET

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CHAPTER:1

INTRODUCTION

INTRODUCTION STOCK MARKET

A stock market is a place where the sellers and buyers come together to trade stocks and bonds, equity. Investors buy, own the stock and decide whether to wait for its growth to sell it at a higher price or receive a quarterly dividend. The stock market has been around for more than we can remember. It has played a crucial role in conducting business and we cannot deny its negative or positive on the whole economy.

The stock market has its ups and downs which is the most spectacular thing about stock – it is unpredictable and risky. I have been interested in stock for a while as I have witnessed people who become filthy rich through stock and people who lost everything for the same reason. The line between success and failure lies thin. As a result, I conduct research about risk management in stock investing in order to elaborate on effective ways to minimize the risk of losing your investment. Risk management only tackles a mediocre part of smart investing; there are many more factors which have a greater impact on being a successful stock investor.

I used both quantitative and qualitative technique to ensure the most correct and practical result with different points of view. I used numbers from large stock market exchanges such as NIFTY50, BANKNIFTY,NYSE,NASDAQ, S&P 500, etc.

Additionally, I interviewed managers and individuals who are successful and experienced stock investors about their approach to the problem. Risk is a familiar term from daily life to the professional workspace. With no exception, investing and risk always go as a pair, one could not simply exist without the other. Anyone can pour their money and assets in stock, but a few can survive and thrive with massive appreciation in their stock value.

The difference between a good investor and a bad one is how they collect stock information and handle risks. Back in 2009, bear market cost investors a huge loss and was the longest period on the record since the World War 2 (Kim 2018). Most of them did not care about the volatility of the stock and the foreseeable risks. As a result, they lost more than they could earn.

You need long term plan with detail steps and lists of things to avoid before plunging yourself in the stock market. It takes time to nourish and show its true potential, any short term attempt is called speculating (gambling in short). This is where risk management plays its role and creates a big difference. In this research, I will analyse the most common risks and propose a methodology of handling them with the least damage. There are eight types of risks which revolve around the stock market, individual or firm and the environment around it.

SIZE OF THE MARKET:

Today, the BSE is measured as the world's 11th largest stock exchange, and the market capitalization is likely to be around $1.7 trillion. The market capitalization of the NSE is estimated to be over $1.65 trillion.

The exchanges are still on parity in terms of share trading volumes. Nowadays, people can conduct online trading sitting in their homes. Facilities such as zero brokerage Demat and live updates are available.

FOREX MARKET SIZE OF MARKET

The total market capitalization of all publicly traded securities worldwide rose from US$2.5 trillion in 1980 to US$93.7 trillion at the end of 2020.

As of 2016, there are 60 stock exchanges in the world. Of these, there are 16 exchanges with a market capitalization of $1 trillion or more, and they account for 87% of global market capitalization. Apart from the Australian Securities Exchange, these 16 exchanges are all in North America, Europe, or Asia.

By country, the largest stock markets as of January 2022 are in the United States of America (about 59.9%), followed by Japan (about 6.2%) and United Kingdom (about 3.9%).

What is the Share Market? What is the history of the Indian Share Market?

A stock exchange is “a body of individuals, whether incorporated or not, constituted to regulate or control the business of buying, selling or dealing in securities.”

“Securities refers to shares, bonds, scrip, stocks, debentures stock, and other marketable securities of incorporated companies or similar, government securities, and rights or interest in securities.”

In India, the share market is a term used to refer to the two major stock exchanges in the country— the Bombay Stock Exchange (BSE) and the National Stock Exchange of India (NSE). There are also 22 regional stock exchanges.

History of the Indian Share Market

The Indian stock market traces its history back to the late 18th century when the trading floor was under the shade of a sprawling banyan tree opposite the Town Hall in Mumbai. A few people would meet under this tree to informally trade in cotton.

- This was because Mumbai was a busy trading port, and essential commodities were traded here often.
- The Company’s Act was introduced in 1850, following which investors started showing an interest in corporate securities. The concept of limited liability also put an appearance around this time.
- By 1875, an organization is known as ‘The Native Share and Stockbrokers Association’ came into being. This was the predecessor of the BSE.
- In 1894, the Ahmedabad Stock Exchange came primarily to enable dealing in the shares of textile mills in the city.
- The Calcutta Stock Exchange was formed in 1908 to facilitate a market for shares of plantations and jute mills.
- It was in 1920 that the Madras Stock Exchange took shape.

- In 1957, the BSE was the first stock exchange to be recognized by the Government of India under the Securities Contracts Regulation Act.
- The SENSEX was launched in 1986, followed by the BSE National Index in 1989.
- The Securities and Exchange Board of India (SEBI) was constituted in 1988 to monitor and regulate the securities industry and stock exchanges. In 1992 it became an autonomous body with completely independent powers.
- In 1992, the NSE was formed as the first demutualized electronic exchange to ensure market transparency.
- NSE began operations in the Wholesale Debt Market (WDM) segment in 1994, the equities segment in 1994, and the derivatives segment in 2000.
- In 1995, the BSE switched to an electronic trading system from the open-floor system.
- In 2015, SEBI was merged with the Forward Markets Commission (FMC) to strengthen commodities market regulation, facilitate domestic and foreign institutional participation, and launch new products.

Introduction to Risk Management

Risk can be defined as the chance of loss or an unfavourable outcome associated with an action. Uncertainty does not know what will happen in the future, the greater the uncertainty, the greater the risk. For an individual, risk management involves optimizing expected returns subject to the risks involved and risk tolerance. Risk is what makes it possible to make a profit. If there was no risk, there would be no return to the ability to successfully manage it. For each decision there is a risk return trade-off. Anytime there is a possibility of loss (risk), there should be an opportunity for profit.

Risk management is the process of identifying, assessing and controlling threats to an organization's capital and earnings. These threats, or risk, could stem from a wide variety of sources, including financial uncertainty, legal liabilities, strategic management errors, accidents and natural disasters. IT security threats and data-related risks, and the risk management strategies to alleviate them have become a top priority for digitized companies. As a result, a risk management plan increasingly includes companies' processes for identifying and controlling threats to its digital assets, including proprietary corporate data, a customer's personally identifiable information and intellectual property.

Definition of Risk Management :

1) Risk management is an integrated process of delineating (define) specific areas of risk, developing a comprehensive plan, integrating the plan, and conducting the ongoing evaluation' – **Dr. P.K. Gupta.**

2) Risk Management is the process of measuring or assessing risk and then developing strategies to manage the risk'.

3) Managing the risk can involve taking out insurance against a loss, hedging a loan against interest rate rises, and protecting an investment against a fall in interest rates' – **Oxford Business Dictionary.**

When an entity makes an investment decision, it exposes itself to a number of financial risks. The quantum of such risks depends on the type of financial instrument. These financial risks might be in the form of high inflation, volatility in capital markets, recession, bankruptcy, etc. So, in order to minimize and control the exposure of investment to such risks, fund managers and investors practice risk management. Not giving due importance to risk management while making investment decisions, but risk arises due to change in an economy. Different levels of risk come attached with different categories of asset classes.

For example, a fixed deposit is considered a less risky investment. On the other hand, investment in equity is considered a risky venture. While practicing risk management, equity investors and fund managers tend to diversify their portfolio so as to minimize the exposure to risk.

The traditional view of risk management has been one of protecting the organization from loss through conformance procedures and hedging techniques. This is about avoiding the downside. The new approach to risk management is about 'seeking the upside while managing the downside'.

BREAKING DOWN THE DEFINITION OF RISK MANAGEMENT IN STOCK INVESTING

Stocks have been around for longer than we can remember, and they proved to be a cornerstone of the economy- both individually and globally. It is an effective wealth generating tool which requires d education and strategies, along with a clear head. Anyone can step in the game, which means a teacher, a student, a retired doctor, even some old chaps over 70 with a walking cane can too and of course, you have to be over 18 to acknowledge the responsibilities which you about to take. However, everything comes with a risk and stock investing is not an exception.

You have to consider your every move and avoid from falling deep into debt and watch your wealth depletes. I have seen people becoming millionaires and some are flat broke. I will further explain the art of risk management to help you stay above the danger line. First, we will go through the basic definition, understanding of what stock is and the risk management methodology integration.

The term stock market refers to several exchanges in which shares of publicly held companies are bought and sold. Such financial activities are conducted through formal exchanges and via over-the-counter (OTC) marketplaces that operate under a defined set of regulations.

Both “stock market” and “stock exchange” are often used interchangeably. Traders in the stock market buy or sell shares on one or more of the stock exchanges that are part of the overall stock market.

KEY TAKEAWAYS

- Stock markets are venues where buyers and sellers meet to exchange equity shares of public corporations.
- Stock markets are components of a free-market economy because they enable democratized access to investor trading and exchange of capital.
- Stock markets create efficient price discovery and efficient dealing.
- The U.S. stock market is regulated by the Securities and Exchange Commission (SEC) and local regulatory bodies.
- The National Stock Exchange of India Limited (NSE) is India's largest financial market and the fourth largest market by trading volume.
- The National Stock Exchange of India Limited was the first exchange in India to provide modern, fully automated electronic trading.
- The NSE is the largest private wide-area network in India.
- The NSE has been a pioneer in Indian financial markets, being the first electronic limit order book to trade derivatives and ETFs.

Understanding the Stock Market

The stock market allows buyers and sellers of securities to meet, interact, and transact. The markets allow for price discovery for shares of corporations and serve as a barometer for the overall economy. Buyers and sellers are assured of a fair price, high degree of liquidity, and transparency as market participants compete in the open market.

The first stock market was the London Stock Exchange which began in a coffeehouse, where traders met to exchange shares, in 1773. The first stock exchange in the United States began in Philadelphia in 1790. The Buttonwood Agreement, so named because it was signed under a buttonwood tree, marked the beginning of New York's Wall Street in 1792. The agreement was signed by 24 traders and was the first American organization of its kind to trade in securities. The traders renamed their venture the New York Stock and Exchange Board in 1817 and

Indian stock market establish in 1875.indian stock exchange having 2 exchange market BSE and NSE.

Function and purpose:

The stock market is one of the most important ways for companies to raise money, along with debt markets which are generally more imposing but do not trade publicly. This allows businesses to be publicly traded and raise additional financial capital for expansion by selling shares of ownership of the company in a public market. The liquidity that an exchange affords the investors enables their holders to quickly and easily sell securities. This is an attractive feature of investing in stocks, compared to other less liquid investments such as property and other immoveable assets.

History has shown that the price of stocks and other assets is an important part of the dynamics of economic activity and can influence or be an indicator of social mood. An economy where the stock market is on the rise is considered to be an up-and-coming economy. The stock market is often considered the primary indicator of a country's economic strength and development.

Rising share prices, for instance, tend to be associated with increased business investment and vice versa. Share prices also affect the wealth of households and their consumption. Therefore, central banks tend to keep an eye on the control and behaviours of the stock market and, in general, on the smooth operation of financial system functions. Financial stability is the raison d'être of central banks.

Exchanges also act as the clearinghouse for each transaction, meaning that they collect and deliver the shares, and guarantee payment to the seller of a security. This eliminates the risk to an individual buyer or seller that the counterparty could default on the transaction.

The smooth functioning of all these activities facilitates economic growth in that lower costs and enterprise risks promote the production of goods and services as well as possibly employment. In this way the financial system is assumed to contribute to increased prosperity, although some controversy exists as to whether the optimal financial system is bank-based or market-based.

Recent events such as the Global Financial Crisis have prompted a heightened degree of scrutiny of the impact of the structure of stock markets (called market microstructure), in particular to the stability of the financial system and the transmission of systemic risk.

Crashes

A stock market crash is often defined as a sharp dip in share prices of stocks listed on the stock exchanges. In parallel with various economic factors, a reason for stock market crashes is also due to panic and investing public's loss of confidence. Often, stock market crashes end speculative economic bubbles.

There have been famous stock market crashes that have ended in the loss of billions of dollars and wealth destruction on a massive scale. An increasing number of people are involved in the stock market, especially since the social security and retirement plans are being increasingly privatized and linked to stocks and bonds and other elements of the market. There have been a number of famous stock market crashes like the Wall Street Crash of 1929, the stock market crash of 1973–4, the Black Monday of 1987, the Dot-com bubble of 2000, and the Stock Market Crash of 2008.

1929:

One of the most famous stock market crashes started October 24, 1929, on Black Thursday. The Dow Jones Industrial Average lost 50% during this stock market crash. It was the beginning of the Great Depression.

1987:

Another famous crash took place on October 19, 1987 – Black Monday. The crash began in Hong Kong and quickly spread around the world.

By the end of October, stock markets in Hong Kong had fallen 45.5%, Australia 41.8%, Spain 31%, the United Kingdom 26.4%, the United States 22.68%, and Canada 22.5%. Black Monday itself was the largest one-day percentage decline in stock market history – the Dow Jones fell by 22.6% in a day. The names "Black Monday" and "Black Tuesday" are also used for October 28–29, 1929, which followed Terrible Thursday—the starting day of the stock market crash in 1929.

The crash in 1987 raised some puzzles – main news and events did not predict the catastrophe and visible reasons for the collapse were not identified. This event raised questions about many important assumptions of modern economics, namely, the theory of rational human conduct, the theory of market equilibrium and the efficient-market hypothesis. For some time after the crash, trading in stock exchanges worldwide was halted, since the exchange computers did not perform well owing to enormous quantity of trades being received at one time.

This halt in trading allowed the Federal Reserve System and central banks of other countries to take measures to control the spreading of worldwide financial crisis. In the United States the SEC introduced several new measures of control into the stock market in an attempt to prevent a re-occurrence of the events of Black Monday.

<u>2007-2009:</u>

This marked the beginning of the Great Recession. Starting in 2007 and lasting through 2009, financial markets experienced one of the sharpest declines in decades. It was more widespread than just the stock market as well. The housing market, lending market, and even global trade experienced unimaginable decline. Sub-prime lending led to the housing bubble bursting and was made famous by movies like The Big Short where those holding large mortgages were unwittingly falling prey to lenders.

This saw banks and major financial institutions completely fail in many cases and took major government intervention to remedy during the period. From October 2007 to March 2009, the S&P 500 fell 57% and wouldn't recover to its 2007 levels until April 2013.

<u>2020:</u>

The 2020 stock market crash was a major and sudden global stock market crash that began on 20 February 2020 and ended on 7 April. This market crash was due to the sudden outbreak of the global pandemic, COVID-19. The crash ended with a new deal that had a positive impact on the market.

What is Risk management in the trading and stock market ?

Risk management is an important part of the stock market. It helps investors make informed decisions about which stocks to buy and sell.

Risk management techniques include risk assessment, risk management plan, and risk monitoring. Risk management can help protect investors from losses in their investments.

1. Risk management is important in the stock market because it helps to protect investors from losing money.

2. There are different types of risk in the stock market and investors need to be aware of them.

3. Investors need to understand the risks associated with different types of stocks.

4. Risk management techniques can help protect investors from losses.

5. Investors need to be aware of the risks associated with stock market investments and make sure they are prepared for any potential losses.

Risk management in trading is essential for averting the risk of bearing the losses arising from stock market trade. Risk management involves identification, evaluation and mitigation of risks which usually arise when the market moves in the opposite direction from the expectations.

So, it is really important to set your expectations on the basis of a thorough analysis of the market and after anticipating all the risks.

Trends are the most important factor here. A trend implies the general direction or momentum of the market, asset price or other such measures. And a trend gets formed by the investors' risk appetite which implies the risk anticipated in case of certain events such as elections (political events), interest rate decisions (economic events) and new advancements in technology (business events).

Identification of Risks

While identifying the trading risks one needs to know the different variables at play in the market.

These variables can be economic factors such as decisions of interest rate by the central bank or a trade war.

While making our trading decisions, we must ensure that we are taking into consideration those economic factors which can affect our assets.

Here, we are mentioning the power of these factors to create possible price fluctuations of these assets and if they actually do affect the prices a lot then we must know the frequency of these factors.

Finding out these important points will help us with identifying these factors as a potential threat to the portfolio. This way, we can be prepared to tackle the risky scenarios in the market with the help of practices such as hedging, investing in options, diversification of assets into low risk and high risk etc.

Evaluation of Trading Risks

The trading risk evaluation implies finding out the performance of a portfolio in the market.

There are two ways to evaluate the risk in the market. One is with Alpha and another is with Beta.

Alpha is the measure of an investment's performance compared to a certain benchmark. The excess return of the portfolio over the benchmark index is the portfolio's alpha. If

alpha is positive the investment has outperformed its benchmark. Similarly, if it is negative then the portfolio has underperformed. An alpha of 0 would indicate that the portfolio is following the benchmark perfectly.

For example, an alpha of 1 means the fund has outperformed the returns of the benchmark index by 1% and an alpha of -1 means the fund underperformed by 1%.

Suggested Read: Alpha Generation - Controlling Intraday Risk Profile

Beta is a measure of the volatility of a security or a portfolio in comparison to the market as a whole. In general, a beta more than 1 indicates that the portfolio or security is more volatile than the market, while a beta of less than 1 indicates that the investment is relatively less volatile. Low beta stocks are also called defensive stock because investors like to hold them when the market is particularly volatile. High-beta stocks tend to be favoured when the market is rising steadily and investors are happy to take greater risks in order to maximize profits.

For example, if a stock's beta is 1.5, theoretically it is 50% more volatile than the market. Conversely, if a stock's beta is 0.60, theoretically it is 40% less volatile than the market.

Next, we will find out the risk management approaches which help with good money management.

The Most Effective Risk Management Strategies

To protect your capital when trading, you can use techniques developed to target specific risks. Here's an overview of the strategies that can help you assess and cap risk in your trading:

Scaling In

Scaling in is a risk management strategy where a trader increases the purchase volume as a security's price starts to fall. The strategy is applied when there is an assumption the price drop is temporary, with the goal being to sell in increments - or scale out - once it starts climbing again.

For example, suppose ABC stock is trading at $10 per share and then decreases to $9.5 per share and eventually to $9 per share. A trader looking to scale in would buy a small amount of shares at $9.5 apiece and another small amount at $9 per share, with small increments limiting the risk and increasing the potential for profit when the stock price starts rising again.

Of course, this trading strategy only makes sense if the trader believes that ABC stock price will continue to rise over the long term. Otherwise, the trader would simply be buying more of a losing position.

Hedging

Hedging is a risk management technique used to offset the risk of an investment by taking an opposite position in a security. Hedging happens when a trader buys and sells two different assets simultaneously to offset the risk of loss on one asset.

For example, if you owned shares in ABC and were worried about a potential decline in the stock value, you could buy a put option to hedge your position.

The put option gives you the right, though not the obligation, to sell your shares of ABC stock at a certain price within a specific timeframe. If the stock price falls, you can exercise your put option and sell your shares at the strike price. This would offset any losses on your ABC stock position.

Hedging can also be used to speculate on an asset's future price fluctuations. For example, if a trader thinks a stock will go up in value, they might buy it and sell a call option. If the stock does increase in value, the trader will profit from the stock and offset some of the losses from the call option.

Diversification

If you're unsure how to manage risk in trading, you should consider diversification. It is another popular technique experienced traders use to help manage risk and maximize profits. By investing in a variety of assets, diversification can help to spread out risk and potentially lead to a more profitable investment portfolio.

One popular way to diversify a portfolio is to invest in both stocks and bonds. This can provide exposure to different asset classes, which can perform differently at different times. For example, if the stock market is struggling, bonds may hold up better.

Diversification is not a guaranteed way to make money, but it is one of the tools investors use when managing risk. When used properly, diversification can help smooth out some of the ups and downs of the market and potentially lead to more consistent returns.

And although hedging and diversification have some similarities, it's important to note that they are not the same. Diversification is more about allocating your assets in a way that reduces your overall risk. Hedging is more about mitigating the risk of a specific trading position.

Trading Risk Management Tools

Now that we know what risk management is and have gone over some of the most popular techniques, let's take a look at the tools traders can use to help with risk management.

Trade Size

Trade size refers to the number of contracts or shares traded in a single transaction. By limiting the trade size, traders can help control the amount of risk they are taking on. In addition, trade size can also be used to adjust the risk-reward ratio of a trade.

For example, if a trader is looking for a higher return, they may increase the trade size. Conversely, if they want to minimize risk, they may decrease the trade size.

The Risk-Reward Ratio

When it comes to trading and managing market risk, the risk-reward ratio is something you must not forget. This ratio is a key metric determining whether a trade is worth taking. Simply put, the risk-reward ratio is the amount of potential profit a trader stands to make relative to the amount of risk they undertake.

For example, if a trader is looking to earn $10 on a stock, but has to invest $2, the risk-reward ratio would be 2:10 (10 being the potential earnings, and 2 being the investment).

In general, traders should only take trades where the potential reward is anywhere over 1:3. This ensures that even if the trade does not go as planned, the trader will still come out ahead in the long run.

Of course, no one can predict the future with 100% accuracy, so there will always be some inherent risk when trading. However, by sticking to trades with a favourable risk-reward ratio, traders can increase their chances of success in the long run.

The One-Percent Rule in Trading

The One-Percent Rule is one of the most important risk management practices used by most successful traders to help limit their risk when entering a trade. Essentially, the rule states that traders should never risk more than 1% of their account on any single trade.

For example, if a trader has a $10,000 account, they would only risk $100 per trade. While the 1% rule is not a hard-and-fast rule, it is a good way keep your risk low and avoid blowing up your account. Of course, you can still lose money even if you follow the rules, but it will help you stay in the game longer and give you a better chance of ultimately being profitable.

Stop Loss and Take Profit

If you're in trading, risk management is crucial. One of the most important aspects is knowing when to get out of a trade, and this is where stop-loss and take-profit orders come in.

A stop-loss order is an order that is placed with a broker to sell a security when it falls below a certain price. The main purpose of a stop-loss order is to limit losses if the price of the security declines.

On the other hand, a take-profit order is an order that is placed with a broker to sell a security. And the main purpose of a take-profit order is to lock in profits in case the price of the security increases.

Types Of Stock Market Trading

1.Day Trading:

The trader buys or sells the stock on the same day in intraday trading or day trading. Many traders make quick earnings or losses and close their trades before the stock market closes for the day.

In this type of trading, stocks can be held for a few hours, seconds, or even traded numerous times in a single day. Intraday trading is exceptionally volatile and necessitates quick decisions.

This aggressive trading technique is designed for active traders who can react quickly by closely monitoring stock market fluctuations. Intraday trading is not recommended for novices due to the high-risk levels and market volatility.

2. BTST (Buy Today Sell Tomorrow) :

BTST is a trading style that is neither intraday nor swing. This strategy entails taking a position in the final hour of a trading session and closing it out in the first hour of the next trading day. You can buy stocks now and sell them tomorrow under the BTST trading style, even if you don't have a delivery. In addition, BTST has the advantage of not requiring you to pay any DP fees.

3. STBT (Sell Today Buy Tomorrow):

BTST (shouldn't it be STBT??) is the polar opposite of this trading style. You can sell today and buy tomorrow on this site. However, this form of trading is not permitted in equities. In the derivatives market, anything is possible. The trader starts with a short sale (sells) in this strategy and then rolls over his temporary sell position to the next day and buys to close it out. In other words, the trader anticipates a gloomy market. As a result, the trader seizes the opportunity and profits. Simply put, a trader sells an asset class future and then repurchases it when the market opens the next day.

4. Scalping :

Active traders use scalping as one of their fastest methods. It basically comprises spotting and profiting from bid-ask spreads that are wider or narrower than usual due to short supply and demand imbalances.

5. Swing Trading:

Swing trading is identical to position trading, except that the latter is only open for a few months at a time. Swing traders trade to profit from the underlying's trend. The danger is considerable but not as great as intraday trading. To make money, one must have enough expertise to recognize a trend (uptrend or downtrend) and ride along with it.

6. Momentum Trading:

Momentum investing is a trading strategy in which investors buy and sell rising securities when they are about to cross higher peaks.

The goal is to work with volatility by finding short-term uptrend buying opportunities and then selling when the securities start to lose momentum. Then, the investor takes the cash, looks for the following short-term uptrend, and repeats the process.

7. Position Trading:

It is a type that does not necessitate a lot of monitoring or adjustment. Best suited for professionals or those lacking time for trading but want profit. Positional trading is less dangerous than swing trading because of a longer period. This type of trade is made based on the stocks or company's future potential.

The holding period in positional trading is much longer, ranging from several months to years. Positional traders anticipate substantial price swings over a longer time frame in the hopes of making a significant profit.

To some extent, their trading decisions are based on both technical and fundamental analysis. So, short-term changes are just ignored.

8. Delivery Trading:

The traders here maintain a long-term horizon. In other words, they buy and keep stocks for a longer length of time. It could last for a few days, weeks, or even months. The most challenging aspect of delivery trading is identifying equities with substantial price swings.

The traders look to acquire stocks after conducting a comprehensive investigation. They consider technical patterns and projections that point to the probability of significant price movement.

When a trader identifies an emerging price movement, and spots accurate buy or sell signals, this trading technique is used to buy the relevant stocks and accordingly, when the trend is at its peak, the trader sells the stocks.

9. Margin Trading:

Margin trading is when you borrow money from a brokerage business to make transactions. When trading on margin, investors first deposit cash, which serves as security for the loan, and then pay interest on the money they borrow regularly.

Types of Traders in the Stock Market

Before moving on to the types of trading, it's important to understand various stock traders having multifarious stock market trading strategies at their disposal. Whether you're into online trading or offline share trading – it's the different trading styles that can classify you under the following categories:

1. Day Trader :

A day trader buys or sells the stock on the same trading day in intraday or day trading. Day traders make quick earnings or losses and close their trades before the stock market finishes for the day.

Here, intraday stock or index graphs are studied and analysed in real-time by the day traders. As a result, stocks can be held for a few hours, seconds, or even numerous times in a single day.

2. Swing Trader:

Swing traders are those who want to keep stocks for more than one day to profit from the price momentum. Moreover, they aim to forecast nightly variations in the short term. The primary distinction between day traders and swing traders is the length of time they hold an asset. The vast majority of technical traders you may be familiar with fall into this category.

3. Technical Trader:

Technical analysis is at the heart of all trading activity. Most traders use technical analysis to determine the Indian stock market price changes. This is because the stock price is supposed to be determined by supply and demand.

Therefore, the market's perspective is crucial in deciding a stock's price during technical analysis.

To become a technical trader, you must have a thorough understanding of equities and a reasonable level of research abilities.

4. Fundamental Trader:

Such a trader looks at company-specific events to decide which stock to buy and when to acquire it. As opposed to short-term trading, fundamental trading is more closely associated with a buy-and-hold approach.

Here, the parameters are similar to value investing, where an individual purchases a firm's shares based on the assumption that it is undervalued and expects to increase value over time. In such trades, there is no time factor coming into play.

5. Long Term Trader:

The focus of fundamental trading is company-specific events. Fundamentalists are long-term investors who adhere to the "buy and hold" philosophy.

Here, the trader forecasts the stock price using the company, industry, and financial information. Also, financial statements, earnings, growth, and management quality are studied to estimate intrinsic values.

CHAPTER:2

Research methodology

Objective

The main objectives are:

o supply capital - To achieve this task, ownership in a private corporation is sold to the public in the form of shares of stock. Funds received from the sale of stock contribute to the firm's capital formation.

To inspire savings - This inspires people to save their income by making a profit. Continuous purchase and sale of securities on a stock exchange lead to the evaluation of their prices

To develop economy - It helps economic development by supplying the capital to the industries

To protect fraudulently **-** It is also to ensure that no fraudulence occurs in a transaction.

To do long-term financing - Commercial banks generally disburse the short-term loan. So, supplying long-term finance is an objective of the stock exchange.

The options for investing your savings are continually increasing, but every one of them can still be categorized according to three fundamental characteristics: safety, income, and growth.

Those options also encompass the objectives of any investor. While the investor may have more than one of these objectives, and may well have all three, the success of one comes at the expense of the others.

The first task of any successful individual investor is to find the correct balance among these three worthy goals.

- Any trading can be characterized by three factors: safety, income, and capital growth.
- Every investor has to pick an appropriate mix of these three factors. One will be preeminent.
- The appropriate mix for you will change over time as your life circumstances and needs change.

What Are Basic Investment/Trading Objectives?

Income:

Investors who focus on income may buy some of the same fixed-income assets that are described above. But their priorities shift towards income. They're looking for assets that guarantee a steady income supplement. And to get there they may accept a bit more risk.

This is often the priority of retirees who want to generate a stable source of monthly income while keeping up with inflation.

Government and corporate bonds may be in the mix, and an income investor may go beyond the safest AAA-rated choices and will go longer than short-term CDs.45

The ratings are assigned by a rating agency that evaluates the financial stability of the company or government issuing the bond. Bonds rated at A or AA are only slightly riskier than AAA bonds but offer a higher rate of return. BBB-rated bonds carry a medium risk but more income.6 Below that, you're in junk bond territory and the word safety does not apply.

Income investors may also buy preferred stock shares or common stocks that historically pay good dividends.

Capital Growth:

By definition, capital growth is achieved only by selling an asset. Stocks are capital assets. Barring dividend payments, their owners have to cash them in to realize gains.

There are many other types of capital growth assets, from diamonds to real estate. What they all share is some degree of risk to the investor. Selling at lower than the price paid is referred to as a capital loss.

The stock markets offer some of the most speculative investments available since their returns are unpredictable. But there is risky and riskier.

Blue-chip stocks are generally considered the best of the bunch as many of them offer reasonable safety, modest income from dividends, and potential for capital growth over the long term.

Growth stocks are for those who can tolerate some ups and downs. These are the fast-growing young companies that may grow up to be Amazons. Or they might crash spectacularly.

The dividend stars are established companies that may not grow in leaps and bounds but pay steady dividends year after year.

Many individual investors avoid stock-picking and go with one or more exchange-traded funds or mutual funds, which can get them stakes in a broad selection of stocks.

One built-in bonus of stocks is a favourable tax rate. Profits from stock sales, if the stocks are owned for at least a year, are taxed at the capital gains rate, which is lower than the income tax rates paid by most.

Secondary Objectives:

Safety, income, and capital gains are the big three objectives of investing. But there are others that should be kept in mind when they choose investments.

Tax Minimization: Some investors pursue tax minimization as a factor in their choices. A highly-paid executive, for example, may seek investments with favourable tax treatment to lessen the overall income tax burden.

Contributing to an individual retirement account or any other tax-advantaged retirement plan is a highly effective tax minimization strategy for all of us.

Liquidity: Investments such as bonds or bond funds are relatively liquid, meaning they can in many cases be converted into cash quickly and with little risk of loss. Stocks are less liquid since they can be sold easily but selling at the wrong time can cause a serious loss.

Many other investments are illiquid. Real estate or art can be excellent investments unless you are forced to sell them at the wrong time.

Balancing Safety, Growth, and Capital Gains

For most investors, the answer does not lie in a single choice among safety, growth, or capital gains. The best choice is a mix of all three that meets your needs.

And remember, that changes over time. Your appetite for capital gains may be highest when you're at the start of your career and can withstand a lot of risk. As you approach retirement, you might prioritize holding onto that nest egg and dial down the risk.

At any stage, though, your portfolio will probably reflect one pre-eminent objective with all other potential objectives carrying less weight in the overall scheme.

HYPOTHESIS

H0 (Null Hypothesis): "There is no significant correlation between the level of risk taken in trading the stock market and the financial outcomes for investors."

H1 (Alternative Hypothesis): "There is a significant correlation between the level of risk taken in trading the stock market and the financial outcomes for investors."

Selection of the problems

1. No Patience on Entry:

Anticipating a signal that never comes is common for traders monitoring the market closely and eager to get some money working. For example, a good buying opportunity arises when a stock breaks from an ascending triangle. Jumping in ahead of the breakout is not an ideal situation. The probability of success buying an ascending triangle is not as good as buying a breakout from one. What causes this mistake? Fear of missing out on the maximum amount of profit is one. Fear of risking too much in buying a stock is another. Essentially, the two guiding forces of the stock market are at work here: fear and greed. By buying early, we can realize a greater profit when the stock does breakout since we will have a lower average cost. Or, by buying early we can reduce risk since a breakout followed by a pull back through our stop will result in a smaller loss as we have a lower average cost. What tends to happen, however, is that the stock does not break out when expected and instead pulls back. This either leads to an unnecessary loss or an opportunity cost of the capital being tied up while other opportunities arise.

The Solution:

The simple and obvious solution is to wait for the entry signal, but there are also some things you can do to help yourself stay disciplined. Rather than watch potentially good stocks tick by tick, use an alarm feature to alert you to when they actually make the break. Watching stocks constantly is somewhat hypnotic, and I think the charts can talk you into making a trade. However, letting the computer watch the stock may help you avoid the stock's evil trance. Another good solution is to focus on different thoughts when considering a stock. Don't think about potential profits, don't think about minimizing losses. Instead, focus in on the desire to execute high probability trades. It takes time to reprogram yourself, so persevere.

2 - Selling Too Soon

We have all felt the disappointment of not selling a stock at the high. When a stock is marching higher, we set a point where we intend to sell so that we can lock in the gain before it goes down. The problem is that after we sell the stock, it continues to go higher leaving us with an opportunity missed. Selling too soon is a problem that I continue to wrestle with after 23 years

of trading stocks. I want to lock in that good feeling of taking a profit off the table. I want to avoid the negative feeling of watching a good profit get cut in half by a rapid sell off. And so, I break my selling rules and sell the stock in anticipation of weakness, rather than when the market tells me I should. The result is that profitability over the long term is not maximized. Once in a while, I may get out of a trade at a better price than I would if I followed my rules, but over 10 or more trades, my net profitability is not as good as if I had maintained my selling rules. Keeping in mind that trading stocks is a probability game, it is important to maximize gains on the winners so that the inevitable losers can be overcome.

The Solution

There are few things that can help you avoid falling into this trap. First, go through a number of past trades and apply your selling rules to see what your net profitability would have been if you have been disciplined. Compare those results with what you actually achieved. I did this and it gave me powerful proof that maintaining discipline pays off and is worth striving for. In fact, when I did this over one particular one week period, the difference amounted to a pretty nice new car! That gave me the leverage on my emotions I need to overcome them. Second, turn off the profit and loss indicator that most brokerages and trading platforms give you. How much you are up or down is irrelevant to the decision-making process. Since we have an emotional attachment to the money, knowing that we are up a certain amount and then seeing that shrink on a normal pull back in a stock leads us to make an emotional decision. Finally, remember to sell at floors, not ceilings. Do not limit the upside movement of a stock by setting a price target, but instead, limit the downside movement by setting a price floor. Sell a stock when it pulls back to a floor, rather than selling it in anticipation of it reaching a ceiling price.

3 - Letting Small Losses Turn into Big Losses

As I just mentioned, trading stocks is a probability game. You will not be right all the time, which means that one of the most important aspects of trading stocks is to never let small losses grow into big, portfolio debilitating losses. You have to limit losses at a risk level if you are going to be successful over the long run.

The Solution

The simplest and I think most effective solution for most people is to set a stop loss point before purchasing a stock and apply it immediately after purchasing a stock. Use basic chart analysis to determine where the market will have proven your decision to enter a trade wrong and set your stop just below that. Automated stop losses are best because they do not require you to have the discipline to pull the exit button. Do not lower your stop once you are in the trade. Making the stop loss judgment before you enter the trade is best since you will not have an emotional attachment to the stock at that point since you have not put your money on the line yet.

4- Overtrading:

There are stock traders who make 150 or more trades in a single day. I am not sure they make a lot of money. I firmly believe that you can make more money by making fewer trades because it will make you focus on only the best of opportunities and play them with a larger amount of capital so the payoff is better. By being patient and disciplined with the really high probability trades, you can maximize profitability.

The Solution

If you are currently making 50 trades a week, tell yourself that next week you will only be allowed to make 10. If you are making 20 a week, promise yourself that you can only make 5. Don't just tell yourself that you are going to stick to your new rule, write it down! By setting this limit, you will hopefully change your outlook and try harder to only consider very high probability trades. We want to focus on great trading opportunities, not just those that are good.

5- Hesitation:

You are watching a stock that has all the signals you look for in an opportunity. The proper point to enter comes, but you wait. You second guess the opportunity and don't buy the stock. Or you bid for the stock at a price that is not likely to get filled if the opportunity does pan out the way you anticipate it will.

As a result, you get left behind while the market pushes the stock higher. A short while after the initial entry signal, when the stock has made a decent gain, you decide to finally enter the trade. After all, the market has proven your analysis correct, so you must be smart, and right! Not long after you enter, the stock turns south and you end up with a losing trade. If only you had bought when you first thought about it.

The Solution

This is really just a confidence issue. You are either not confident in your ability to analyse stocks, or you are not confident in the methodology that you are using to pick trades. Therefore, you have to research your method so that you have the confidence that it works. Then, you have to start small, making trades that have a potential loss that you are comfortable with. And you can earn crypto with miner. Awesome Miner - best miner for earn crypto on your PC (Click This) . As you gain confidence in your method and your ability, increase the trade size. With your newfound confidence, stand in a crowded room and scream, "I am great!" Well, maybe don't carry it that far.

6- Letting Winners Turn into Losers:

Many of us have probably had a time when a trade was making big loot, and we started to count the profits like they were ours before we exited the trade. When the stock started to lose the ground, it had gained, we avoided selling because we had built up an emotional attachment to the paper profits we had seen. Instead of selling the stock to lock in some gain, we opted to hold out for the stock to go back to where it used to be, promising to sell when it came back to the point where we felt good about the trade. The stock drifts lower, and eventually the gain turns into a loss. We ultimately sell it at the bottom, swearing never to do it again. But without some reprogramming, we probably will.

The Solution

Like Kenny Rogers used to sing, "Don't count your money, when you are sitting at the table, there will be time enough for counting, when the dealing's done." Do not calculate your profits before you lock them in. Avoiding the profit watch will help you avoid an emotional attachment to the paper profits, giving you greater clarity to take the exit door when the market tells you it is time to do so. I hope this outline of mental problems and some solutions helps you become a better trader. The difference between those who succeed in trading and those who fail is not the system they play, but how well they play it. Your mind is a powerful thing, don't let it beat you in the market.

The different types of foreign exchange risks of multinational corporation (MNC) based in India.

1. Transaction risk:

Transaction risk is the in-built risk in foreign exchange transactions. It consists of a number of trading items such as foreign currency, invoiced trade receivables, and payables along with capital items such as foreign currency dividends and loan payments. Whenever a cash flow is affected in a specific transaction this risk is present. It is the risk of adverse exchange rate movements occurring in the course of international trading transactions. This risk arises when export prices are fixed in foreign currency terms or imports are invoiced in foreign currencies.

2. Position risk:

Bank transactions, both on spot and forward based, results in positions being created in the currencies in which these transactions are denominated. A position risk arises when a dealer in a bank is having an overbought (long) or an oversold (short) position. Dealers enter into these positions in expectation of a positive movement.

3. Settlement or credit risk:

Settlement risk is the risk of a counterparty failing to meet the obligations in a financial deal after the bank has fulfilled the obligations on the date of settlement of the contract. Settlement risk exposure possibly exists in foreign exchange or in local currency money market business.

Settlement risk arises mainly due to the way foreign currency deals are settled. Settlement necessitates a cash transfer from one bank's account to the others for the currencies involved in the transaction.

4. Mismatch or liquidity risk:

In the foreign exchange business, it is not possible to be in an ideal position always, where sales and purchases are according to maturity and there are no mismatched circumstances. Some mismatching of maturities is inevitable, as a result of which the bank may lose or gain. There could be a situation where the mismatch cannot be corrected within the same month and the alteration takes place in subsequent months. In these circumstances the number of risks increases.

5. Sovereign risk:

One more kind of risk which banks and other agencies that deal in foreign exchange face are sovereign risks. Sovereign risk is based on the government of a country. Although an importer in the country agrees to pay for his imports, the central bank of the country may not allow the importer to do so. This has happened in a number of African and South American countries on account of economic volatility and political uncertainties.

Key trading risk management takeaways

1. Trade with the prevailing trend

Consider taking the path of least resistance and go with the flow of the current market.

2. Establish a detailed strategy for entering and exiting trades

A detailed strategy defines parameters for getting into and out of trades – so there's no ambiguity.

3. Watch your downside risk and be prepared to act decisively

Make sure that you're disciplined enough in preserving your account so that you can live to trade another day.

4. Trade with reason, not emotion

Human emotions (excitement, greed, fear) don't always lend themselves to successful trading.

5. Avoid trading right around scheduled news events

Markets can become more volatile around news events, meaning prices may move drastically within short periods.

SMART Goals Examples for Risk Management

1. Create a Monthly Budget

My goal is to create a monthly budget for my home and personal expenses. I will engage in various cost-saving measures to reduce my financial burden by at least $250 per month. This $250 will then go toward my monthly investments and trades. My goal is to use at least $3,000 of what I would typically use for entertainment and pleasure per year for trading/investing."

2. Increase Primary Income

"My goal is to increase my primary income by at least 5% per month within the next 3 months, either by working longer hours or taking more shifts. This additional 5% income per month will be extra or disposable income I can use for investment. I will invest that extra 5% income as I see fit at the end of every month. The end goal for my investing is to attain additional financial resources for investing instead of reducing my expenditures."

3. Decrease Trading Capital

"I will decrease the trading capital I allocate from 5% to 1% per trade. I will do so immediately; following the 1% rule in investing is one of the cornerstones of risk management and responsible investment."

4. Invest in New Assets

Over the next year, my goal is to invest in two new and different assets per month in the spirit of portfolio diversification. I will focus on stocks, bonds, cryptocurrencies, commodities, and fiat currencies. I currently have invested in 2 assets, and with this plan, after 12 months, I will have 26 different investments across various sectors."

5. Increase Trading and Investment Returns

"My goal is to increase trading and investment returns by at least 5% per month, every month, over 12 months, for a 60% monthly profit increase (from initial monthly profits). I will take trading and investing classes (and complete at least one course within the next 3 months), seek outside assistance (such as from professional brokers), and use smart trading and investing practices."

Scope of the study

What are the career options in stock trading?

One of the well-known job roles associated with the stock market is that of a stockbroker. Brokers are stock market experts who use their market knowledge to assist clients and facilitate transactions. Other than brokerage, there are several other lucrative opportunities for professionals in stock trading. Some popular avenues include data analytics, consultancy, research and portfolio management services. The skills, qualifications and on-the-job training required for these job roles vary greatly.

For instance, research professionals gather and compile information to generate inferences and observations, while analysts interpret stock market data and generate useful insights relating to market performance and risk. On the other hand, administrative professionals manage hedge funds and mutual funds and execute financial strategies to improve the performance of client portfolios. Professionals in consultant roles may interact regularly with clients and other professionals to help them stay up-to-date on major developments and opportunities in the industry.

1. Market research analyst:

Companies require market research analysts to collect and compile consumer and competitor data. Analysts interpret this data to provide useful insights to their companies or clients. In the stock market, a research analyst may research the performance history of a company or its stock to help a buyer make an investment decision.

They may also perform research to help companies with business processes like expansion and IPOs (Initial Public Offerings). Equity and stock often behave like products or commodities, whose performance is affected by demand and supply factors. Market research analysts use their expertise to study these market forces and develop curated investment portfolios and financial strategies to navigate a market at any given point of time.

2. Dealer:

Dealers buy, hold and sell shares and equity on a stock exchange. They try to procure stock prior to a demand surge and sell it to interested buyers at higher prices to turn a profit. A dealer makes trades on their own account and for their own financial benefit. A broker on the other hand only facilitates such trades to receive a commission. The difference between dealers and traders is that a dealer operates as a business and usually has a larger scale of operations.

For example, a trader may purchase 100 shares of a stock and sell them all for a small profit, which they may invest further or withdraw. A dealer, on the other hand, procures a significantly larger amount of the stock (for instance, 10,000 shares) and conducts transactions with multiple traders and buyers to generate a much larger profit. A major portion of this profit may go into further investment and procurement of equity.

3. Trader:

In the stock market, traders are individuals who purchase and sell equities and shares regularly for financial gains. They strategies and identify entry and exit points for share values and make the necessary transactions to maximise profits. They try to reap financial rewards from short-term market fluctuations, and this makes their practice different from that of investors. Investors tend to have larger starting capital than traders and usually follow long-term financial strategies to maximise their profits. Trading has huge earning potential but involves a considerable amount of risk.

4. Investment consultant:

Investment consultants use their knowledge of equity and market trends to help their clients make good investment decisions. Investors may expect short-term or long-term financial gains, depending on their investment strategy. Investment consultants understand the specific financial goals of their clients and share valuable information regarding stock prices, stock performance, company reputation and performance history. They help investors develop a better understanding of their financial situation and the consequences of their decisions. They may work independently, or with financial institutions like banks, to assess the investment plans of clients.

5. Financial analyst:

Financial analysts are professionals who collect, organise and interpret financial data to provide forecasts, track metrics and create simulations or financial models. Companies often require the help of analysts to make consequential financial decisions. Analysts provide insights and inferences to help their clients get a comprehensive understanding of market scenarios before making large investments. Professionals in this domain may work independently or as part of the regular staff of a company.

6. Fundamental analyst:

Risk analysts help companies and clients assess the financial and temporal costs associated with major business decisions. On behalf of companies, they study market trends and perform investigations on clients and their financial records to evaluate risks involved in doing business with them. In the stock market, their expertise is often required in scenarios where companies or investors want to make major changes to their portfolios or holdings. Risk analysts try to paint an objective picture, weighing the pros and cons of a business situation in detail before giving advice.

7. Equity analyst:

Equity analysts assess a company or stock's performance history and analyse market trends to predict its performance for future periods. They use their specialised knowledge and understanding of finance to help clients make informed decisions relating to transactions and investments. They may also periodically track indicators to monitor the performance of stocks that their companies or clients hold. This job role involves heavy research and requires advanced analytical skills and business intelligence, along with financial and legal literacy.

8. Risk analyst:

Risk analysts help companies and clients assess the financial and temporal costs associated with major business decisions. On behalf of companies, they study market trends and perform investigations on clients and their financial records to evaluate risks involved in doing business with them. In the stock market, their expertise is often required in scenarios where companies or investors want to make major changes to their portfolios or holdings. Risk analysts try to

paint an objective picture, weighing the pros and cons of a business situation in detail before giving advice.

9. Investment Banker:

Investment banking is a subset of banking operations that enables companies or individual investors to raise money and resources for business activities and increase capital. Professionals in this domain are experts in economics and finance and devise methods and strategies to help clients meet their financial goals. They may act as a consultant and provide advice or may even stand in as an intermediary to facilitate transactions following a systematic pre-determined strategy.

10. Technical analyst:

A technical analyst is a professional statistician who evaluates investment decisions by studying market data and technical indicators. They try to understand market behaviour and price movements using raw data and assume an advisory role to their clients at times. The technical indicators they use are tools related to methodologies involved in studying different aspects of a market or stock, like volatility, strength, demand and potential. Prominent indicators include Bollinger Bands, MACD (Moving Average Convergence Divergence), MFI (Money Flow Index) and RSI (Relative Strength Index).

Stock market career prospects

A career in the stock market has potential benefits and underlying risks. Stock markets are volatile and unpredictable business environments. To perform well in a stock market career, you may require a thorough understanding of economics and finance concepts, along with soft skills like patience and determination.

Expertise, skill and experience greatly outweigh academic credentials in this domain. Hence, professionals require a good track record and some relevant work experience to pursue higher-level jobs in reputed companies. In addition to working for a company, the stock market also provides ample opportunity for independent work and entrepreneurship. Since the advent of the internet and online trading platforms, the market has been democratised to an extent,

resulting in huge spikes in the number of players and stakeholders. These are some prominent employment sectors for stock market professionals:

- Financial consultancies
- Insurance companies
- Research institutions
- Media organisations
- Stockbroking firms
- Mutual and pension fund providers
- Multi-national corporations
- Banks and other financial institutions
- Independent trading

Limitations of Risk Management in trading

Risk management consists of three components – identifying, assessing, and controlling. Failure can occur at any of these three stages.

In previous posts, I listed examples of risks that Netflix, Comcast, and Dish Network might face. These Risk Factors included attracting and retaining members, changes in consumer behaviours, and weak economic conditions, among many others. As an investor in these companies, you count on the employees to identify, assess, and manage these risks

While those actions comprise the foundation of a risk management strategy, there is one more important component to keep in mind – the limitations of the risk management strategy.

examples of areas where risk management can fall short.

1) Not enough data:

Pinpointing and analysing risks involves the collection of information

For instance, Netflix identifies attracting and retaining members as a Risk Factor. In order to manage that risk, they need to collect information regarding the lifetime value of their subscribers.

In order for Comcast to understand how changes in consumer behaviours might pose a risk, they need to collect data on the public's sentiment toward cord-cutting.

Finally, in order for Dish to analyse a Risk Factor such as weak economic conditions, they need to amass data Gathering information is time-consuming and can be expensive. However, without adequate data collection, managing risks (e.g. with a cost-benefit analysis) can be difficult or impossible. on economic indicators.

2) Poor analysis:

Alternatively, there could be instances where data is abundant, but the time and expertise needed to assess it are lacking.

What if the company you're analysing can identify risks, but can't put them into perspective? Because they lack the tools and/or know-how.

Risks have a lot of variables. Marketing, content, and any number of other things can affect Netflix's ability to attract and retain members.

Comcast's serviceable available market (SAM) consists of tens of millions of potential customers. There's an almost infinite number of issues that could affect changes in the behaviours of that many consumers.

Likewise, the economy is an exceedingly complex entity. How many different variables can affect a Risk Factor such as weak economic conditions?

A lot of generals fight the last war, not the next one. Or so the saying goes. Even if the company you're analysing has the capacity and confidence to thoroughly analyse risks, they may not be prepared for what comes next…

3) Unknown risks:

Risks that you aren't aware of obviously haven't been identified. Therefore, they can't be assessed. Nor managed. They just lurk in the shadows; waiting to have an adverse effect on the stock you're invested in.

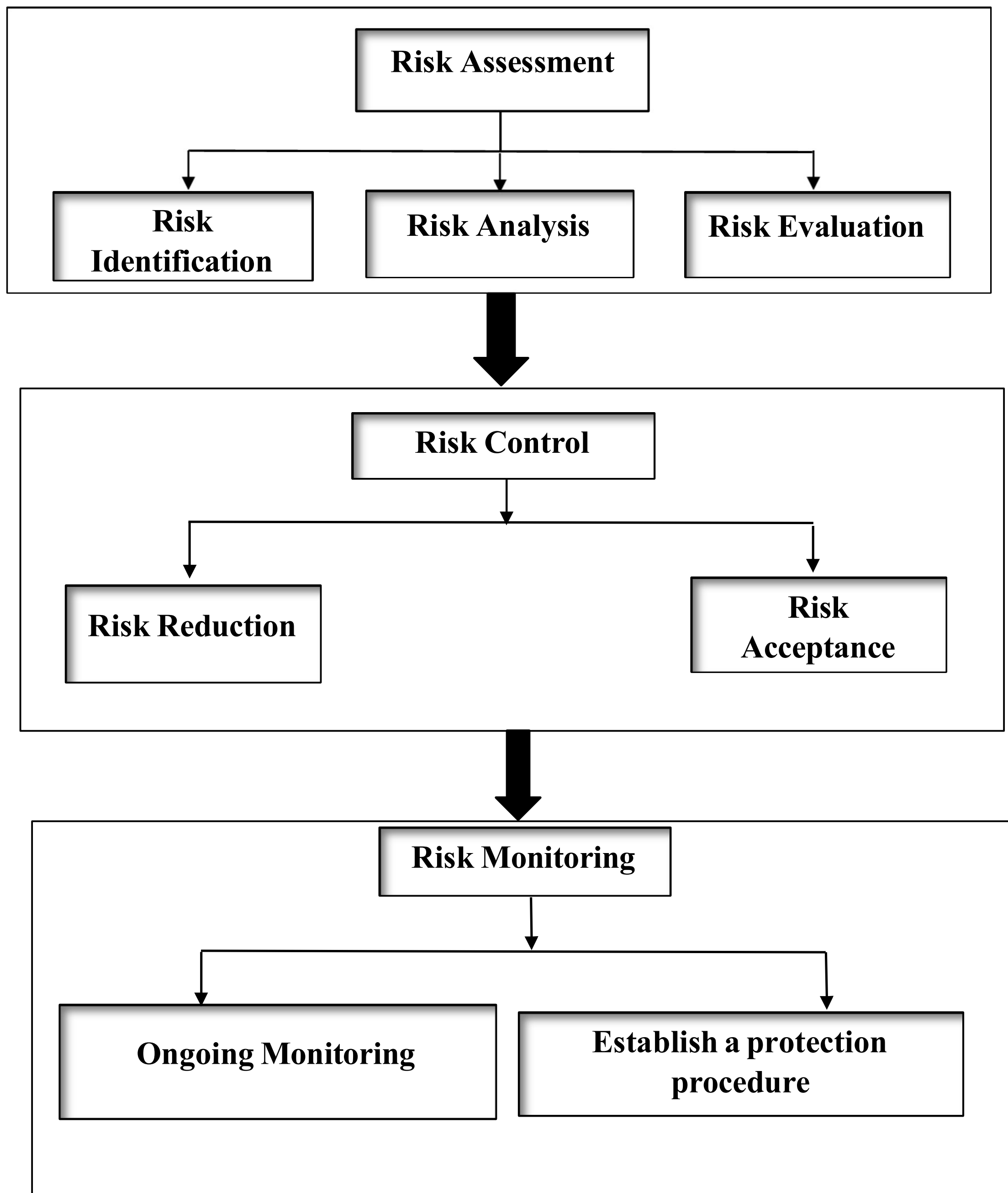
Even if these unknown risks have reared their ugly head in the past, that doesn't mean they are at the forefront of management's mind. Pandemics and civil unrest are nothing new. They've happened all throughout history. Nevertheless, the second and third-order (and beyond) effects from these risks might not be identified until it's too late.

Risk assessment limitations:

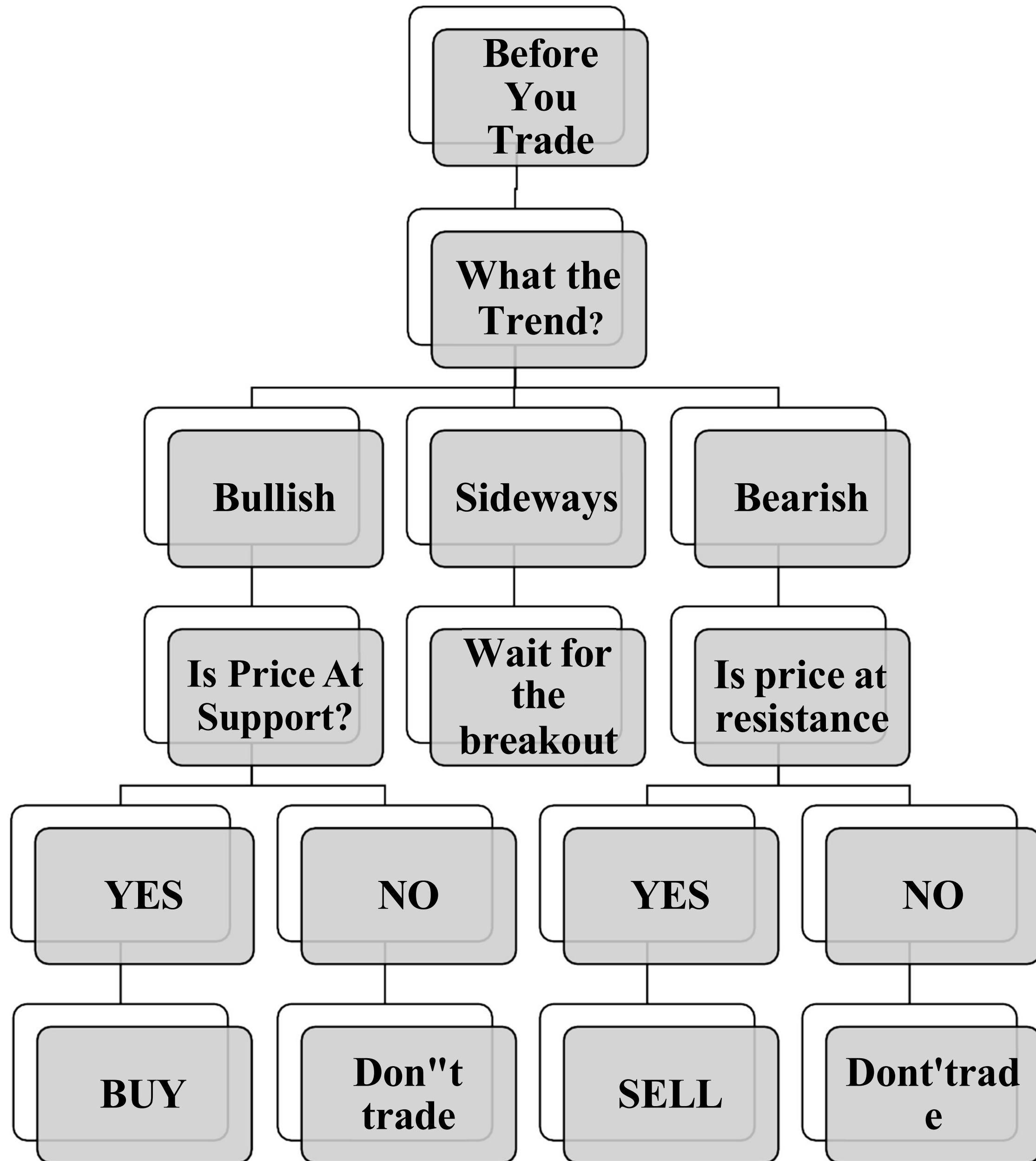
I believe that Risk Factors, generally, are on executives' minds. But can their risk management strategies reduce the risks you take as an investor? I also think so. Especially when they have some skin in the game. If your investment were to tank, theirs should too.

Nevertheless, keep in mind, that risk management is not always comprehensive. Remember to use diversification, hedges, stop losses, and any other tools necessary to manage your risks as an investor. Don't just leave it in management's hands.

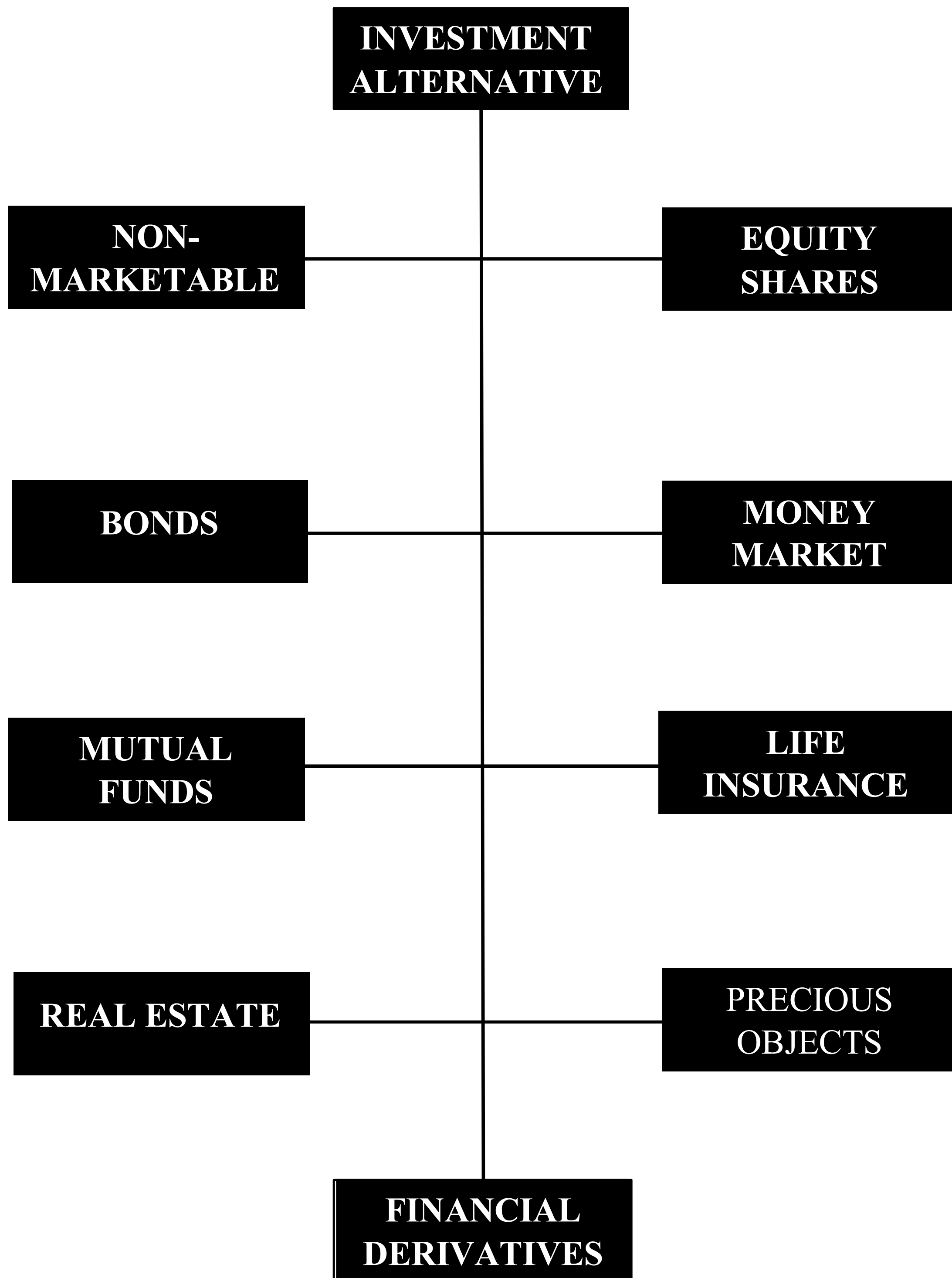
Tabulation of data: Risk management process:



Trading process flow chart



Alternative financial Investment chart flow



Data collection of stock market

To create a financial and stock market data feed, information is gathered from various sources. These sources include stock market research firms, news aggregators, stock exchanges themselves, public records, brokers and specialized online services. With the digitalization of market exchanges around the world, most of this information is now collected through the sources available online and stored as raw stock market data.

1st party: Stock exchange, Brokers

2nd party: Public records

3rd party: Stock market, Research Firms

Stock Market Research Firms:

There are various companies and software creators that work solely to analyse and provide stock market data services in the form of graphs, charts, figures and statistics. A financial and stock market data vendor often uses these research firms as a source of stock market data.

The information that a stock data provider can collect from stock market research firms is highly accurate, making the data compiled from stock market research firms incredibly useful for stock market analytics.

Generally, the data providers partner with the market research firm to create their database. Otherwise, many stock market research firms also make this data available to a user through subscriptions of their software packages and other methods. A data provider can access the information through these channels as well. A stock market research firm can itself be a data provider too.

News Aggregators:

When news aggregator engines are employed for financial and stock market data collection, they constantly trawl the internet for any news that relates to the trading of a particular asset or a range of assets. This information is then verified and compiled in stock market datasets.

Much of the information which comprises a financial and stock market dataset can be obtained from news outlets which discuss the conditions of the stock market, and the main movers and shakers in that market, including the relevant bidding information. It's up to the stock market database provider to distinguish between the content on news platforms. Some financial markets data is objective, factual information, whereas other news reports are purely speculation and prediction from experts and pundits, so aren't completely reliable market data sources.

Stock Exchanges:

Stock exchanges themselves publish the details about the assets that are being traded on their platform constantly. There, you'll find detailed analytics about a given trading period, including the latest price of an asset, the closing price, the number of trades, etc. A stock exchange dataset vendor compiles and categorizes all of this information and sifts it to suit the user's needs.

Public Records:

Exchanges often file public documents that provide a crucial insight into trading activity. The best financial market data providers will consult these documents when compiling their dataset: they often contain information which has been provided due to regulatory measures.

For example, SEC filings need an exchange to disclose financial information about the trades that were made for a number of assets. Such information makes for an accurate and detailed source of financial markets data.

Some public records are freely available on the internet to download; however many require visiting the office physically to collect the records. A financial and stock market data provider removes this obstacle: their stock trade data fully automated and accessible whenever you need it.

Expert Opinions:

Stock market experts can provide as valuable information as the stock market facts can.

The opinion collected from stock market experts can be speculative in nature and can discuss potential future trends.

This information is not as accurate as other sources due to its speculative nature. However, due to their vast experience in the fields, the information collected from the experts can help in making better trade decisions.

Brokers:

Most traders don't trade on an exchange personally. Instead, they employ brokers who do the trading for them. There are many popular brokers that have a vast number of clients which include large scale firms.

A data provider can get valuable information by collecting it through these brokers. However, the quality of information provided by brokers can vary hugely. Some provide impartial, data-supported insights; others are simply speculative sources.

Like with news aggregators, it's up to the data provider to verify that the sources and methods of their data is reliable - in the sense that their stock trading data is pulled from from raw stock market data, not the predictions of one individua1.

Dedicated Online Services:

There are several online services such as Google finance which specifically provide information related to financial and stock market data. The data provider can directly use these services to fill in the gaps in their database, so that the financial and stock market data you'll receive is as detailed and scalable as possible.

The information that is collected from these sources is format specific to the sources themselves. Due to this, the data vendors first format this information internally.

The information is compiled in a consistent format that makes it easier to analyse and understand. Any errors encountered are corrected during this phase.

Looking at these sources of financial and stock market data, we've come across several factors which can influence the quality of the data collected by the provider. With this in mind, let's look at how you can be sure that your data provider is going to the adequate lengths to ensure that their data is high quality.

Tools and Techniques for Trading

Types of Charts used in Technical Analysis

Charts are graphical presentations of price information of securities over time. Charts plot historical data based on a combination of price, volume as well as time intervals.

The use of charts is so prevalent, that technical analyst is often referred to as chartists. Originally, charts were drawn manually, but a majority of charts nowadays are drawn by computer.

Chart Types

The main chart types used by technical analysts are the line chart, bar chart, candlestick chart, Reno Chart, Point-and-Figure charts, etc. Charts can also be presented on an arithmetic or logarithmic scale. The types of charts and the scale used depend upon what information the technical analyst considers to be most important, and which charts and which scale ideally shows that information.

Line Charts

Line charts are the most basic form of charts, they are composed of a single line from left to right that links the closing prices. Generally, only the closing price is graphed, presented by a single point.

This is a popular type of chart used in presentations and reports to give a very general view of the historical and current direction.

Bar Chart

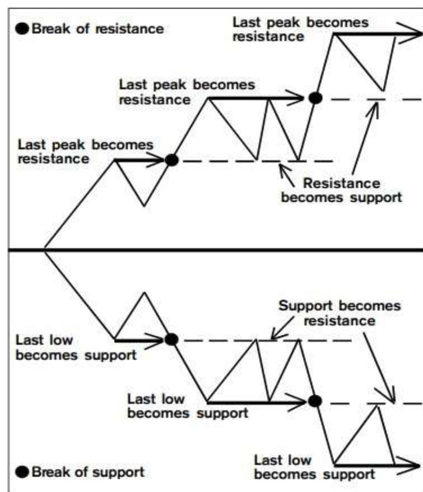
One of the basic tools of technical analysis is the bar chart. Bar charts are also referred to as open-high-low-close (OHLC) charts. They are comprised of a series of vertical lines that indicate the price range during that Time Frame.

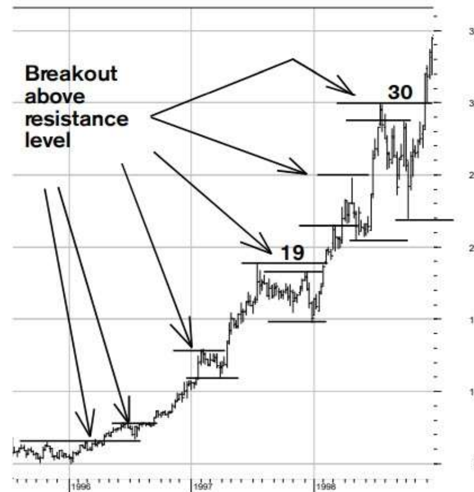
Candlestick Chart

Another kind of chart used in the technical analysis is the candlestick chart, so-called because the main component of the chart which represents prices looks like a candlestick, with a thick 'body' and usually, a line extending above and below it, called the upper shadow and lower shadow, respectively.

Support and resistance

Resistance lines are horizontal lines that start at a recent extreme price peak with the line pointing horizontally into the future. Support lines are horizontal lines that start at a recent extreme of a correction low and also point toward the future on the time axis. An uptrend continues as long as the most recent peak is surpassed and new peak levels are reached. A downtrend continues as long as past lows are broken, sustaining a series of lower lows and lower highs. Notice that the previous support often becomes resistance and resistance becomes support. A resistance or a support line becomes more important and breaks above or below these lines gain more credibility as the number of price extremes (peaks for resistance; or lows for support) that can be connected by a single line increase.

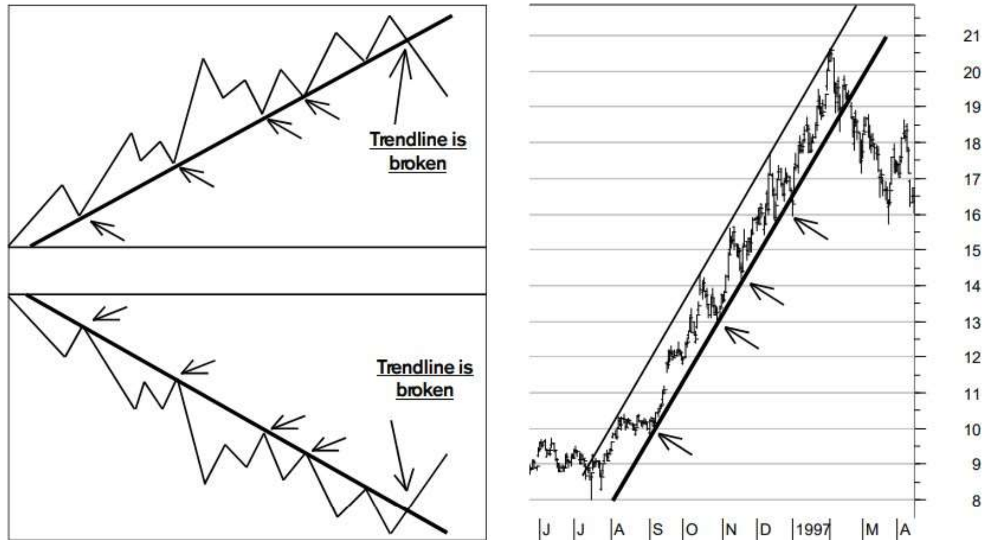




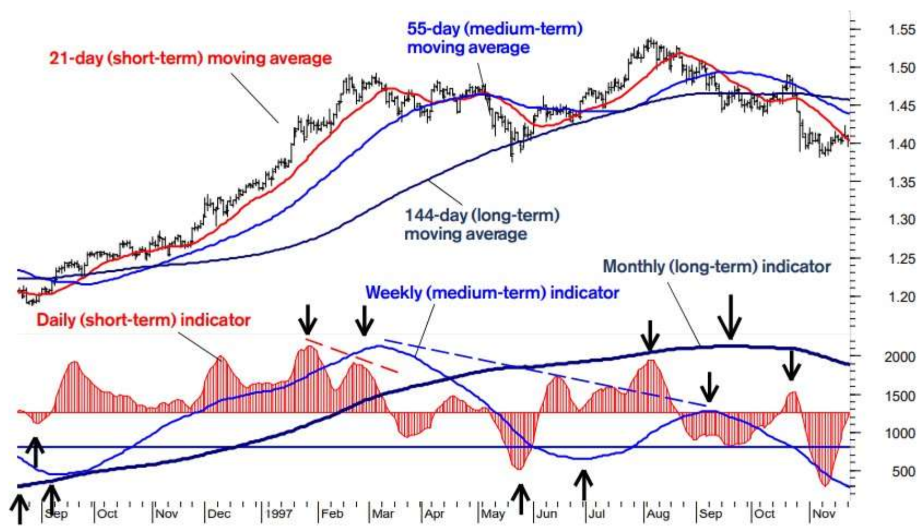
Trendlines

Resistance levels can either be drawn by horizontal lines (as discussed on the previous page) or can be up trending or down trending lines. The trendline is nothing more than a straight line drawn between at least three points. In an up move the low points are connected to form an uptrend line. For a downtrend the peaks are connected. The important point is that it should not be drawn over the price action. Trendlines must incorporate all of the price data, i.e. connect the highs in a downtrend and the lows in an uptrend. The trendline becomes more important and gains credibility as the number of price extremes that can be connected by a single line increase. The validity and viability of a line that connects only two price extremes (for example

the starting point and one price low) is questionable. The trend is broken when the price falls below the uptrend line or rises above the downtrend line. Some analysts use a 2-day rule, meaning that the trend is only seen as broken if the price closes above/below the trendline for at least two days. Others use a 1% stop (could be higher depending on market volatility), meaning the trend is only seen as broken if the price closes over 1% above/below the trendline.



Trend and momentum combination



CHAPTER:3

Literature Review

M. Pandey (2002)in his study entitled "IS THERE SEASONALITY IN THE SENSEX MONTHLY RETURNS". The study considers seasonal or monthly stock returns in several developed and emerging markets. This study also investigates the existence of seasonality in Indian markets. The study makes use of monthly return data of BSE's sensitivity index for the period ranging from April 1991 to March 2002. The collected data are analysed Regressive Moving Average, ARIMA Model, ARCH Model and Weighted Average Share Price Index. The result of the study observes that investor during the end of the year, sell shares whose value have declined to book losses in order to reduce their taxes. Major findings of the study is Return for the month of January, February, August and December higher than other months return Maximum returns in the month of February compared to the other months, whereas return during the months of March, April, May, September, October and November shows a negative trend. ARIMA models are with white Noise. Time Series Regression Model disclose that the return for the month of March, July and October are amongst the lowest are compared to the month of January, which clearly indicates the presence of seasonality in the Sensex returns. This study result does confirm the January effect of stock return in India. The result of the study indicates that stock returns in India are not entirely random. This study confirms that the Indian stock market may not efficient. As a consequence perhaps investors can improve their return by timings their investments.

S N. Sharma (2004) in his study entitled "STOCK MARKET SEASONALITY IN AN EMERGING MARKET" try to explore the Day-of-the-week effect on the Indian stock market Returns, in the Post reform era. This study attempt to fill the gap on the Indian stock markets Calendar anomalies especially in the Post reform era and try to explore the Indian stock market's efficiency in the 'weak form' in the context of calendar anomalies, especially in respect the weekend effect. The data required for the study is secondary nature. Secondary data collected from PROWESS data base regarding daily opening, high, low and close values 80 months. Data pertaining to Daily Returns of 'SENSEX' 'NATEX' and BSE 200 are collected from January 1-1996 to August 10-2002. The collected data are analysed by applying KRUSKALL-WALLIS test using 'H' statistic testing the seasonality in the Indian Stock Market Returns. The result of the study the Indian Stock Market does manifest seasonality in their returns. (i.e.) The Monday –Tuesday, Monday-Friday and Wednesday-Friday sets have positive deviations for all the indices, The Monday-Friday indices has the highest positive deviation,

there by indicating the presence of opportunity to make consistent abnormal returns through a trading strategy of buying on Mondays and selling on Fridays.

Ankur Singhal, Vikram Bahure (2009)in their study entitled "WEEKEND EFFECT OF STOCK RETURNS IN THE INDIAN MARKET" investigates whether daily returns depends on the day of the week by taking the context of the Indian Stock Market. The data for this study have been taken from prowess data base. The data relating Opening and closing price of three major operation indices in India BSE Sensex, BSE 200 and the S&P Nifty have been collected. The daily returns were calculated from April 2003 to April 2008. The collected data are analysed by making use of regression. The findings of the study portraits that returns on each day of the week during this period for the BSE Sensex, BSE 200 and S&P indices, have similar results. Monday returns remained less than other days, and Friday remained greater than other days. The limitation of the study is the author considers cyclic factor rather than fundamental factors and consider only weekly variation in stock returns. Seasonal variation, Monthly variations or intraday variations in returns have not been considered.

Ashish Garg, B.S.Bodla and Sangeetha Chhabra (2010) in their study entitled "SEASONAL ANOMALIES IN STOCK RETURNS: A STUDY DEVELOPED AND EMERGING MARKETS" examines whether seasonal anomalies still persist in the Developed and Developing Markets and the Indian and US markets are taken as the representative of Emerging and Developed Markets. The study utilises data during January 1998 and December 2007 BSE Sensex and S&P 500 for US Markets data to analysis Turn of the Month effect, Semi Month effect, Monthly effect, Monday effect and Friday effect. The study employs Post hoc analysis and ANOVA, the author observe that in India stock market returns on Friday is higher than other days of the week, whereas Friday's return is found lowest than the other days return in US market. Monday effect, Friday's stock return reflected on Monday's stock return, Monday is the negative returns other days quite positive for the first period. Second period Monday is lower average return of the rest of the days. Monday effect exists in Indian stock market but not in the US. Semi-monthly effect to compare the average return of first half of the month, and average return of second half of the month. BSE ltd first half month return higher than the second half month. Semi-monthly effect is same for both of the Indian and US market. Ending for this study efficiency of stock market closely related to the allocation of scare capital resources. Both Indian and US market turn of month effect is significantly. Monthly effect

upward pressure of stock market and result higher return in January month. But in case of India in the month of March is tax saving month, therefore anomaly exist in Indian stock market. Result for this study the presence of anomalies indicates stock market efficiency, therefore. SEBI as a regulator of India's stock market security exchange commission in US need to take steps in order to increase the informational efficiency of stock market.

P. Nageswari, DR.M. Selvam and DR.J. Gayathri (2011) in their study entitled "AN EMPRICAL ANALYSIS OF SEMI MONTH AND TURN OF THE MONTH EFFECTS IN INDAIN STOCK MARKET" examines the return of the month effect in Indian stock market. The study has been carried out to find how bad news and good news is reflected stock prices. The study considers S & P CNX Nifty and BSE Sensex data for six years from 1 January 2005 to 31 December 2010. The collected data are analysed by applying 't' test. The result of the study disclose that highest mean return was recorded for the first half of the month than the rest of the days in the month. Result of the study also shows that the semi-month effect and turn of the month effect was not prevalent in the Indian stock market during the study period. By analysing these anomalies in Indian stock market it is concluded that most of the cash flow entered in the Indian stock market in first few days of the month, as a result indices stock prices to move upward.

Mihir Dash, Anirban Dutta, and Mohit Sabharwal (2011) in their study entitled "SEASONALITY AND MARKET CRASHES IN INDIAN STOCK MARKET" to explore the relation between the Month-of-the-year effect and market crash effects on monthly return in Indian Stock market. Closing value of BSE Sensex between April 1997 and March 2007 is utilized for the study ANOVA, Regression, ADF test and Duncan post hoc test are the tools used for analysis. ANOVA result discloses that there is no significant difference in mean monthly return between the different months. Duncan post hoc test indicates that March returns were significantly lower than those of November, December, and August. The November returns were significantly higher than those of months March, April, May, October, and September. Conclusion for the study End of the year effect is due to Diwali as general public spend their saving towards purchase household goods, equipment's and Gold, similarly return is noticed. Negative return is noticed during March, as investor in order to reduce their stock burden prefers to re-invest their shares.

Ash Narayan Sah (2009) in his study entitled “STOCK MARKET SEASONALITY: A STUDY OF THE INDIAN MARKET” examines days of the week effect in returns of S&P CNX nifty. To examine weekend effect in S&P CNX nifty returns and to examine the seasonality in monthly return of BSE Sensex, the monthly data on S&P Nifty for the period April 1997 to March 2009 is considered for the study Auto Regression, augmented Dickey-Fuller test, ARCH test are employed. Over than nifty for sample period. Volatility as measured by standard deviations of the returns of the sample period. Nifty and junior Nifty 6.71% and 9.75 % respectively, Junior Nifty is more volatility than the Nifty implying investment in junior Nifty is riskier. ARCH effect we found weekend effect in junior return, significant seasonality in nifty junior return across the days. Monday, Wednesday, and Friday were significantly different from each other. Result for the study established that the Indian stock Market is not efficient and investor can improve their returns by timing their investment.

Sanjay Sehgal, Srividya Subramaniam, and Florent Deisting (2012) in their study entitled “ACCRUALS AND CASH FLOWS ANOMALIES: EVIDANCE FROM THE INDIAN STOCK MARKET” examines that negative relationship is observe between accruals and cash flows. CAPM tests that the market beta is lower for the low accrual portfolio as compared to the high accrual portfolio. The study perspective of portfolio manager’s information in accruals / cash flows does not hold strong promise of providing extra normal returns in the India context. From the academic point of view their results are in conflict with the findings for developed markets. Suggesting differences in investor behaviour across markets.

Rohan Laximichand Rambhia, and Mayank Joshipura (2012) in their study entitled “EXPLORING RISK ANOMALY IN INDIAN EQUITY MARKET” Low volatility portfolios are used to explore the risk anomaly in Indian equity markets. The result for the study consists of the constituent stocks from S&P CNX 500 index January 2001- June 2011 were obtained by Capital line data base. Out of the total available list of 500 companies of S&P CNX 500 following companies are excluded from the final sample. Companies for which data for 36 months historical data was not available and hence their volatility is not calculated. S&P CNX 500 the broad market index gave absolute average monthly returns of 1.2% P1, P10 and S&P 500 index. Comparison with regards to the number of months for which LV portfolios gave higher returns the

HV portfolios. It can be clearly seen in spite of the long Bull Run that the Indian markets saw from January 2004 to December 2007. LV portfolio our performed HV portfolio in 47 out of 90 months of the testing period and that too with significantly lesser risk. Implementation issues / consideration 1. Transaction cost, 2. Monthly rebalancing, 3. Back testing using quantitative analysis, & 4. Long term strategy. Behavioural aspects are 1. High volatility stocks are still preferred, 2. It may therefore be used to understand why high volatility stocks are preferred to low volatility stocks in spite of unexpected high returns of low-volatility & high volatility portfolios. The most common explanation for higher interest in the high-volatility stocks is a phenomenon called as a lottery effect. The lottery effect thus leads effective low returns high volatility stocks. Result for this study the results found in the Indian markets are similar to those found in some other countries such as the US, the low volatility portfolio strategy gives a higher absolute return over a long period then both high volatility portfolio as well as the broad market index and requires patience its benefits.

Sanjay Sehgal, Srividya Subramaniam, and Laurence Porteu DE LA Morandiere (2012) in their study entitled "A SEARCH FOR RATIONAL SOURCES OF STOCK RETURN ANOMALIES: EVIDENCE FROM INDIA" Disproves the traditional theory (i.e.) higher the risk higher the return . Investors, who invest in low volatile stock earns more return than high volatile stocks.

Shyam Lal Dev Pandey and Gopi Prachetas (2012) in his study entitled "TESTING OF RISK ANOMALIES IN INDIAN EQUITY MARKET BY USING MONTHLY AVERAGE RISK & RETURN" proves that low volatile stocks offers higher average rate of return than high volatile stocks, which proves the existence of inefficiency in Indian Stock Market.

Sarbapriya (2012) in her study "INVESTING SEASONAL BEHAVIOUR IN THE MONTHLY RETURNS: EVIDENCE FROM BSE SENSEX OF INDIA" proves that the month of year effect is noticed in Indian stock market whereas an investor may dispose the loss the month of march making shares in order to avail income tax benefit.

Manish.R.Pathak (2013) in his study entitled "STOCK MARKET SEASONALITY: A STUDY OF THE INDIAN STOCK MARKET" (NSE) observes that day of the week effect and month of the year effect is not noticed in Indian stock market due to the increased volatility, increased awareness among Indian investors, Globalization of Indian Economy, reach of Media, emergence of Derivatives segment and Increase in disposable Income.

Dr. Pedapalli Neeraja and CMA. Potharla Srikanth (2014) in their study entitled "ANOMALIES IN INDIAN STOCK MARKET – AN EMPIRICAL EVIDENCE FROM SEASONALITY EFFECT ON BSEIT INDEX" examine the anomalies present in the Indian Information Technology companies' stocks and also study the impact of overall Indian stock market conditions on the Information technology company's stocks. The result indicates of Augmented Dickey Fuller test that returns of Indian IT sector stocks are more volatile than the overall Indian stock market. GARCH model disclose that negative returns are observed in IT better during the month of March and April. Similar trend is noticed in BSE during the month of January, July and August.

Krunal K Bhuva and Vijay H Vyas (2015), A review of Article on "Dividend Policy and Stock Price Behaviour in Indian Corporate Sector: A panel data approach", PARIPEX - Indian Journal of Research (Vol.4, Issue-2), ISSN - 2250-1991: states that if long term investment are made into the market, then the dividends on stock would be good source of income. The relationship in terms of dividend varies with respect to return on market for different industries. However there are some sectors which give a good or robust returns in terms of growth and dividend. The result also shows that dividend paying companies are large but more debt in such companies will affect to stock return. Similarly there are mutual funds houses which banks on dividend oriented schemes which help an investor to re-invest their dividend into units thus strengthen their holdings. A wise decision would help to earn a dual advantage of growth and dividend income.

Rakesh H.M (2014), A Study on Individual Investors Behaviour in Stock Markets Of India, IJMSS (Vol.02, Issue-02), ISSN:2321-1784: The paper proposes to study the behaviour of individual investors in the stock markets and the factors that influence their investment decisions, which include awareness level, investment duration etc. The research was based on the primary data collected from the city of Mysore of 150 respondents, being stock market investors. The research paper observes that only 10 % of the respondents intended to stay invested into the stock market for a period of more than 5 years. In other words, the research paper observed that people do not want to stay committed for longer period of time into the stock market despite it giving better returns. The paper analyses that annual income and annual savings are given importance by investors, but the level of savings are decided by their level of income. He states that "investors are fully aware about the stock market and they feel that market movements also affect the investment pattern of investors in the stock market." The paper however remains silent on its observation about the uneducated investors who are not aware of the market conditions, with market trends and the stock price movements. It focuses on the factors influencing savings and sources of information for decision making. The income level of an individual, also decide the investment pattern of the investor. The investor's income level does determine the type of investment avenues the investor prefers.

Reena Rai (2014), Factors Affecting Investors' Decision Making Behaviour in The Stock Market: An Analytical Review, Indian Journal of Applied Research (Vol.4, Issue-9), ISSN - 2249-555X: The paper under study aims to study the factors influencing an investors decision making behaviour on basis of related studies. It states that the various factors that influence include various demographic factors such as gender, age, education. It is known that men are more overconfident than women. Age plays a role on the mindset of the individual and the propensity to take risk. It also explains sometimes, the precautious attitude and conservatism. On the firm level the decision of the investors depend on capital structure average pricing, political and media exposure, trend analysis, past performance of company's stocks, expected dividend and EPS etc. Finally, it concludes that out of the various factors affecting behaviour of investors some factors have a slight role while some majorly impact investor behaviour. The general factors being gender, age, confidence levels, cognitive bias, risk factors, company's performance.

Kaushal A. Bhatt (2013), Investment and Trading Pattern of Individuals Dealing in Stock Market, The SIJ Transactions on Industrial, Financial & Business Management (IFBM) (Vol.1, Issue-02), ISSN: 2321 – 242X: The paper aims at studying the literacy and awareness of capital markets among investors regarding various investment avenues. To find and identify segments preferred more by the people and the influencing force behind the decision making, while investing in currently available options including stock markets. It concludes that investors are moving to new investment avenues such as equity market, mutual funds, bonds, and others like gold, land etc. This is due to the decreasing trend of bank rates. This also increases the scope of business for the investment companies. The investors are also risk sensitive. They want more safety and security. The stock markets have become very popular due to high rate of return but due to uncertainty and risk many people do not invest in equity markets. This stands true due to the lack of stability in the current market scenarios. The risk related to investment also defines the amount invested by people in the particular stock. The factors like age, occupation and income level are key factors in investment decision making of people. The other major factors being considered were market scenario, risk involved and other investment opportunities.

Kajal Gandhi (2015), Retail Investors Participation in Indian Stock Market- A Survey, GJRA - Global Journal for Research Analysis (Vol.4, Issue-02), ISSN No 2277 - 8160 : paper findings were based on the survey which has been carried out among five cities-Mumbai, Delhi, Kolkata, Chennai and Ahmedabad. The respondents of the metro cities are more inclined towards investing in stock market as they consider it as financial tool but they don't have expertise knowledge or don't prefer to hire a professional to manage their portfolio due to which they fall prey of losses. However, people at Tier-II cities like Ahmedabad still consider the traditional investment like gold, property, gold and bank deposits are their favourite option this is due to narrow minded as there is low saving habits, low awareness of investment opportunities.

Anju Bala (2013), Indian Stock Market - TRANS Asian Journal of Marketing & Management Research (Vol.2, Issue-7), ISSN 2279-0667: The paper has explained the logistics involved into the working of the stock market and the investors preferences of selecting stock market as a tool of investment.

The paper studies the different asset class and other financial alternative available to investors covering all age groups depending on their requirements such as :

- NON MARKETABLE FINANCIAL ASSETS (Bank Deposits, Company Deposits)
- EQUITY SHARES (Blue Chips shares, Growth shares)
- BONDS (Government Securities, PSU Bonds)
- MONEY MARKET INSTRUMENTS (Treasury Bills, Certificates of Deposit)
- MUTUAL FUNDS (Balanced Schemes, Debt Schemes)
- LIFE INSURANCE (Money back policy, Whole Back policy)
- REAL ESTATE (Agricultural Land, Commercial Property)
- PRECIOUS OBJECT (Gold & Silver)
- FINANCIAL DERIVATIVES (Future & Option warrants)

It has recommended a list of measures for the improvement of investor participation into the stock market. It has recommended the listing of stock prices on multiple stock exchanges to improve liquidity and gain investor confidence. It has also observed that speculation is widespread into the Indian stock market system and thereby it cause volatility into the prices of shares. This volatility creates insecurity. It has further observed that investors use technical analysis and fundamental analysis for selecting their investment into the stock market and the low cost of operations into the derivatives market has made it a preferred choice of investment.

RAVI KANT (2011), Testing of Relationship Between Stock Return and Trading Volume In India, International Journal of Multidisciplinary Research (Vol.1, Issue-06), ISSN 2249- 2496 : The paper draws attention towards the sensitive relationship that exist between stock returns and trading volume in India. The paper observed that, at times the volumes do not play a crucial role. In case of Futures & Options, the volumes matters during the short term news favouring a particular company. However it is not easy to predict the behaviour of trading volume and stock return.

Krunal K Bhuva and Vijay H Vyas (2015), A review of Article on "Dividend Policy and Stock Price Behaviour in Indian Corporate Sector: A panel data approach", PARIPEX - Indian Journal of Research (Vol.4, Issue-2), ISSN - 2250-1991: states that if long term investment are made into the market, then the dividends on stock would be good source of income. The relationship in terms of dividend varies with respect to return on market for different industries. However there are some sectors which give a good or robust returns in terms of growth and dividend. The result also shows that dividend paying companies are large

Rajeev Jain (2012), Investor's Attitude towards Secondary Market Equity Investments and Influence of Behavioural Finance, International Journal on Emerging Technologies (Vol.3, Issue 2) ISSN (Online): 2249-3255 : but more debt in such companies will affect to stock return. Similarly there are mutual funds houses which banks on dividend oriented schemes which help an investor to re-invest their dividend into units thus strengthen their holdings. A wise decision would help to earn a dual advantage of growth and dividend income.

It's a fact that only few investors create immense wealth from a stock market and also manage to keep it for decades. These investors take the right decisions and for doing this one need experience. But experience comes from bad decisions too. Investors who create wealth from equity markets and keep it for decades, at times for generations, do not panic when a market fall.

CHAPTER:4

DATA ANALYSIS,INTERPRETATION AND PRESENTATION

NIFTY BANK ANALYSIS

Portfolio characteristics:

The Nifty 50 index is a well-diversified 50 companies index reflecting overall market conditions. Nifty 50 Index is computed using free float market capitalization method. Nifty 50 can be used for a variety of purposes such as benchmarking fund portfolios, launching of index funds, ETFs and structured products. Index Variants: Nifty50 USD, Nifty 50 Total Returns Index and Nifty50 Dividend Points Index.

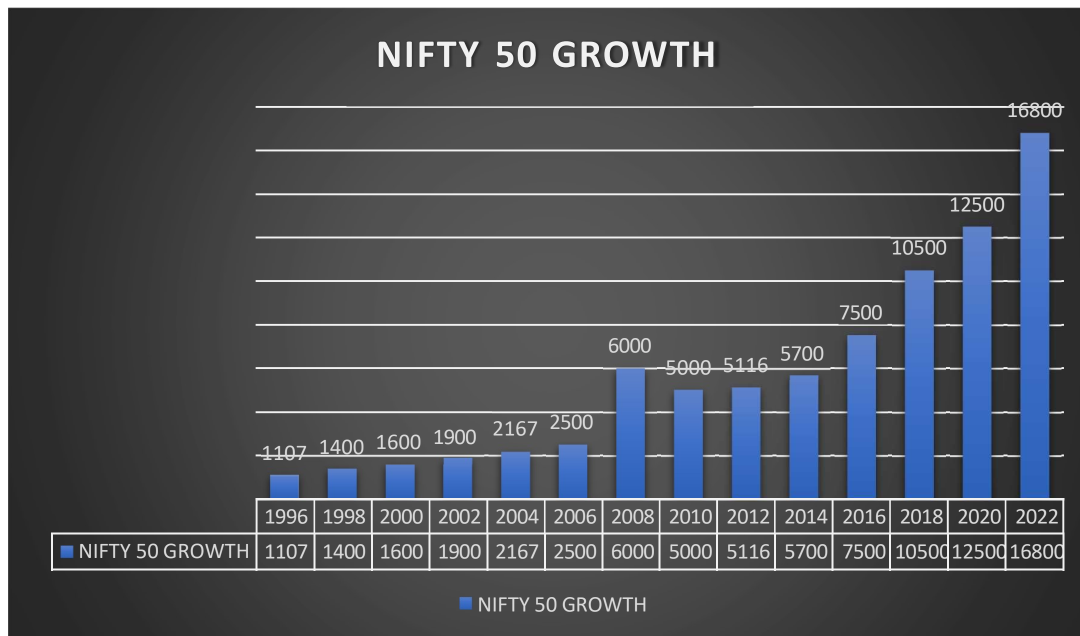
Methodology	Free Float Market Capitalization
No. of Constituents	50
Launch Date	April 22, 1996
Base Date	November 03, 1995
Base Value	1000
Calculation Frequency	Real-Time
Index Rebalancing	Semi-Annually

Sector Representation:

SECTOR	Weight(%)
Financial Services	36.81
Information Technology	14.70
Oil, Gas & Consumable Fuels	12.17
Fast Moving Consumer Goods	9.02
Automobile and Auto Components	5.84
Metals & Mining	4.02
Healthcare	3.91
Construction	3.29
Consumer Durables	2.85
Telecommunication	2.47
Power	1.99
Construction Materials	1.81
Services	0.59
Chemicals	0.52

Top constituents by weightage:

Company's Name	Weight(%)
Reliance Industries Ltd.	10.41
Reliance Industries Ltd.	9.06
ICICI Bank Ltd.	7.44
Infosys Ltd.	7.20
Housing Development Finance Corporation	6.06
Tata Consultancy Services Ltd.	4.41
ITC Ltd.	3.98
Larsen & Toubro Ltd.	3.29
Kotak Mahindra Bank Ltd.	3.22
Axis Bank Ltd.	3.02



- Market impact cost is the best measure of the liquidity of a stock. It accurately reflects the costs faced when actually trading an index. For a stock to qualify for possible inclusion into the Nifty50, have traded at an average impact cost of 0.50% or less during the last six months for 90% of the observations, for the basket size of Rs. 100 million.
- The company should have a listing history of 6 months.
- Companies that are allowed to trade in F&O segment are only eligible to be constituent of the index.
- A company which comes out with an IPO will be eligible for inclusion in the index, if it fulfils the normal eligibility criteria for the index for a 3 month period instead of a 6 month period.
- Index Re-Balancing:

  Index is re-balanced on semi-annual basis. The cut-off date is January 31 and July 31 of each year, i.e. For semi-annual review of indices, average data for six months ending the cut-off date is considered. Four weeks prior notice is given to market from the date of change.
- Index Governance:

  A professional team manages all NSE indices. There is a three-tier governance structure comprising the Board of Directors of NSE Indices Limited, the Index Advisory Committee (Equity) and the Index Maintenance Sub-Committee.

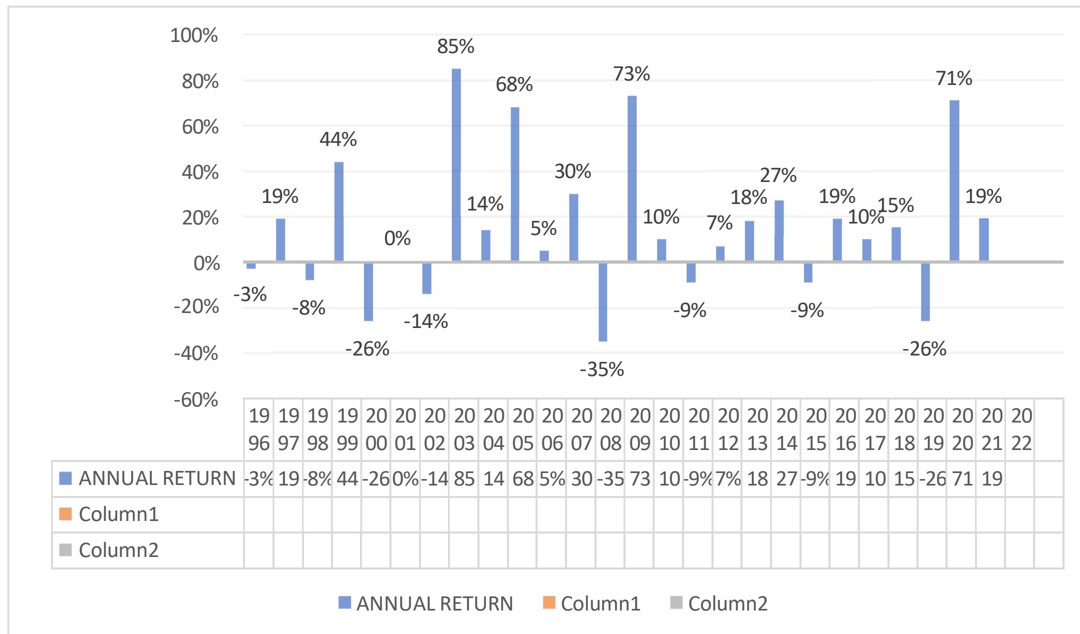
Nifty 50	1 Year	5 Years
Nifty Rolling Return Occurrences	**26**	**22**
Nifty Negative Return Occurrences	**8**	**1**
Probability of Loss	**31%**	**5%**

Nifty 50 Annual Returns:

YEAR	NIFTY INDEX VALUE	NIFTY 50 ANNUAL RETURN
1996	995	
1997	970	-3%
1998	1150	19%
1999	1063	-8%
2000	1535	44%
2001	1138	-26%
2002	1139	0%
2003	984	-14%
2004	1820	85%
2005	2068	14%

2006	3473	68%
2007	3634	5%
2008	4740	30%
2009	3060	-35%
2010	5291	73%
2011	5826	10%
2012	5318	-9%
2013	5704	7%
2014	6704	18%
2015	8491	27%
2016	7738	-9%
2017	9174	19%
2018	10114	10%
2019	11624	15%
2020	8598	-26%
2021	14691	71%
2022	17465	19%

CHART:



Nifty historical yearly rolling return is absolute return.

Nifty 50 starting 1996 and value 995.

Nifty 50 1996-to 2022 nifty growth is very high .it is giving high returns per year. And today nifty value 17465.

The Nifty 50 is the benchmark index of India’s National Stock Exchange.

It is comprised of the 50 largest and most actively traded stocks.

It’s an important barometer for understanding the overall performance of India’s stock market.

Investors often look to the Nifty 50’s annual returns as a sign of how the market is doing.

In this article, we’ll explore the Nifty 50’s returns for various time periods.

Nifty historical rolling return are based on closing index values as on last trading day of March.

Nifty historical yearly rolling return is absolute return.

CHAPTER:5

FINDING,SUGGESTIONS AND CONCLUSION

SUGGESTIONS

Always Use a Trading Plan: A trading plan is a written set of rules that specifies a trader's entry, exit, and money management criteria for every purchase.

Treat Trading Like a Business: To be successful, you must approach trading as a full- or part-time business, not as a hobby or a job.

Use Technology to Your Advantage: Trading is a competitive business. It's safe to assume that the person sitting on the other side of a trade is taking full advantage of all the available technology.

Protect Your Trading Capital: Saving enough money to fund a trading account takes a great deal of time and effort. It can be even more difficult if you have to do it twice.

Risk Only What You Can Afford to Lose: Before you start using real cash, make sure that all of the money in that trading account is truly expendable. If it's not, the trader should keep saving until it is.

Always Use a Stop Loss: A stop loss is a predetermined amount of risk that a trader is willing to accept with each trade. The stop loss can be a dollar amount or percentage, but either way, it limits the trader's exposure during a trade. Using a stop loss can take some of the stress out of trading since we know that we will only lose X amount on any given trade.

Know When to Stop Trading: There are two reasons to stop trading: an ineffective trading plan, and an ineffective trader.

FINDINGS

- Avoid making hasty investment decisions to protect your money.
- It is important to understand the technical terminology and the basics of stock market trading.
- You must define your risk profile and investment goals clearly to succeed.
- Investing is a better option for a new investor. If you cannot give enough time to the stock markets, it is advisable to invest in mutual funds.
- Start analysing and identifying potential stocks. Remember to avoid making emotional decisions and derivative trading.
- Established companies are less likely to lose their ground. It is advisable to keep stocks of these companies in your portfolio.

CONCLUSION

Before investing in the stock market, an investor has to equip a considerable amount of stock related knowledge. Getting yourself familiar with the term volatility is a must-do, you will not get surprised and be vulnerable to such violent movement of the stock market. Moreover, you also have to assess your capability and limit of your investment, know who you are and what your goals are. By doing so, you will not have to take unnecessary risk and negate the negative impact on your stock portfolio.

The stock market is a resourceful but unpredictable market. To investors, uncertainties are perceived as loose ends and often bring unwanted loss. Without proper research or commitment, investing may result in zero return, or worse: losing your investment. Sometimes, the return would not worth the trouble at all. However, the stock market attracts many new and experienced investors every now and then, it does not make sense at all. On the contrary, the thing that keeps investors investing in such an instable market is the risks versus return, the higher the stake the better the profit.

How can we tolerate risks and at the same time increase the returns? The answer is risk management process. To overcome risks, firstly you must understand risks and the volatility of the stock market. By using the process, we can identify 8 types of risks, each of them relates to a different subject and causes different consequences. The risks resolve around the investors and appear in every aspect from the investors themselves, the stock market, the government, etc. It is difficult to apply the risk management process in real situation but with enough time and dedication, you can negate risks as much as possible and thrive for profit. The importance of risk management is undeniable.

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