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A Study of SENSEX Volatility (Pre and Post Elections)

ABSTRACT

The political parties and the general public to know who would be in control of the power at the Centre are keenly awaiting the greatest festival of Indian democracy, generally a once-in five- years affair, and this summer. The stock market is also looking up to the general elections, which would not only decide the mood and momentum of the stock market, but might also act as a sort of stimulus package for the economy, currently reeling under the pressure of a worldwide downturn Election is like big carnival in India with entire population from all walks of life gets swayed by it. There are colors and flood of money flowing. Everything comes to stand still. School, colleges and offices close on voting day. In India election process is held in multiple phases. 2009 election will be one-month extravaganza coming to an end by 16th may 2009, when one will be able to know about the victor and the vanquished. The outcome of the election will also determine the development trajectory of the India incorporate. This paper discusses some effects of election on the trend of stock market. How stock trends go up and down as per the elective government.

1. INTRODUCTION

India Indian Stock Market has seen lot of positive and negative trends in the Election month. Lot of volatility was seen in the market for past 5 weeks. This process may continue until the election results are clearly visible. Many traders have lost their money in this volatile market, but investors were big gainers going by data for the last eight elections from 1980 onwards, stock markets tend to dance in the run-up to the Lok Sabha elections with the sensdex showing an average 4% gain in the three months preceding elections. Expectations of a reform-minded government seem to enthuse investors as much as gains the sectors that benefit from poll-related expenditure.

Barring the May 2004 elections, sensdex has, in fact, gained more than 5% in the three months preceding the elections the last five times since 1980. The benchmark index was up 13.5% before the October 1999 polls, 5.1% before the March 1998 polls, 5.9% in 1996 and 8.1% in 1991, clearly showing how the anticipation of change spilled over on to Dalal Street. In 2004 (after five years of the NDA government) and 1980 (following the Janata Party's short-lived rule),

• sensdex recorded less than 1% returns in the
• three-month period before the polls, but mind
• you, it still made gains.

• The only time it went into negative
• territory was in 1989 when the sensdex was
• down 2% in the three months before the
• Congress government was overthrown due to
• the Bofors controversy. The five-phase
• elections for the 15th Lok Sabha began from
• April 16. Elections are held from 16th April to
• 13th May 2009, with the results on 16th May
• 2009. As data shows, only on three
• occasions (in 1989, 1996 and 1999) has the
• market delivered negative returns even in the
• one month before elections kick off? In all
• other years, the average gain has been 4.6%
• in the one month before polls. Even this year,
• since March 16th - exactly one month to the
• elections - the index has already risen by
• 2.5%. The general elections this summer not
• only decided the next government of the
• country but also the mood and momentum of
• stock markets as the outcome of polls would
• be a more important factor than even the
• fundamentals of corporate. According to an
• investor survey the results of the general
• elections would be the second most
• important driver for the Indian stocks in

2009, after the global market trends

It appears that the stock market show a strong correlation with the national events like the elections. If we go by the past data for stock market price movements from 1980 onwards, there seems to be on an average, 4% gain in 3 months before the elections of Lok Sabha in India. This average value s at 4% because it was in 2004 when there was a very small return of 0.7% in 2004 and a -2.1% in 1989 elections. On all the other occasions, the 3 months return from the stock markets before the elections has been much higher, as much as 13.5%. Though the gains in 2004 and 1980 were less than 1% returns in the three-month period before the polls, they were still positive. The only time it went into negative territory was in 1989 due to the Bofor controversy.

Wars (except the current one), recessions and bear markets tend to start in the first two years of a presidential cycle, and bull markets dominate the second half, thanks to voter-friendly interest-rate, tax and spending policies, designed to aid the incumbent party.

2. RETURNS FROM THE STOCK MARKET DURING THE ELECTION PERIOD

From the investors’ point of view, sectors such as media, FMCG and auto look favoritism in the run-up to the elections as polls are known to boost consumption. “Readership of newspapers goes up during elections and so does news channels’ viewership. Also, though it is not legally allowed, Sales & profits of alcoholic beverages shoot up during elections; and with increase in money supply, more pronounced in rural areas, personal care products are also likely to benefit. Auto sales usually go up (marginal increase) as SUVs are used for election campaigns, personal transportation and security of politicians.

Even this year, since March 16 - exactly one month to the elections - the index has already risen by 2.5%. But will the

market sustain the momentum post election? Analysis since 1980 shows that a month after the polls, the bellwether index posts an average rise of 3.5%. On six out of the eight times since 1980, investors have made gains. Indian equity markets have moved about 28 per cent in the last one month. But the worst may not be over yet. In India, both corporate and general election results may decide the broad direction of the markets.

Says Dipen Shah, vice-president (PCG-research), Kotak Securities: “While there may be company-specific surprises, we do not expect any major positive surprises on the overall performance of corporate India. The January-March 2009 (Q4FY09) results have to be seen in the backdrop of a challenging economic environment, both globally and locally.”

3. IMMEDIATE IMPACT OF ELECTION 2009 ON INDIAN STOCK MARKET

Sensex vaults 17% as market cheers UPA’s thumping victory in election; trading halted for the day on 18th May 2009. A clear mandate for the Congress-led United Progressive Alliance (UPA) in Lok Sabha election send stocks surging with trading on the bourses halted for the day at about 11:55 IST. For the first time in the history of the stock markets trading was halted because the market-wide circuits were applied due to a solid surge. Earlier, there have been instances when trading was halted when market-wide circuit filters were applied due to a market crash. The 30-share Sensex jumped 2110.79 points or 17.34% at 14,284.21 and the 50-unit S&P CNX Nifty gained 651.50 points or 17.74% to 4,323.15. BSE clocked a paltry turnover of Rs 77 crore. The combined turnover in the cash and the derivatives segment of BSE and NSE totaled Rs 3103. Only 846 stocks were traded on the BSE while

202 stocks witnessed action on the NSE.

Trading was halted in just 16 seconds after the market re-opened at 11:55 IST. Earlier in the day, trading was halted within seconds of opening as the market soared following a clear mandate for the UPA in the Lok Sabha election. A clear mandate for the Congress-led United Progressive Alliance (UPA) boosted hopes a strong coalition would be able to push through economic

reforms that would boost foreign investment. The 30-share Sensex surged 14.70% or 1,789.88 points to 13,963.30 and the 50-unit S&P CNX Nifty gained 531.65 points or 14.48% to 4203.30, when trading was halted within seconds of opening.

For the record, the BSE Sensex today attained its highest closing since 11th September 2008 and the S&P CNX Nifty attained its highest closing since 10th September 2008. As per the provisional data

Year of Election	Period of Poll	Month	Open	High	Low	Close	Change(%)
1991	20th May to 15th June, 1991	Mar 1991	1200	1251	1137	1167	13%
		April 1991	1179	1316	1179	1235	
		May 1991	1269	1338	1239	1307	
		June 1991	1302	1372	1245	1269	
		July 1991	1252	1679	1251	1632	-5%
		Aug. 1991	1647	1861	1598	1795	
1996	27th April 1996 to 30th May 1996	Feb. 1996	2929	3607	2929	3391	17%
		Mar. 1996	3391	3435	3210	3366	
		April 1996	3376	3950	3376	3826	
		May 1996	3827	3879	3578	3724	-6%
		June 1996	3731	4131	3731	3812	
July 1996	3798	3820	3387	3536			
1998	16th to 23rd Feb., 1998	Dec. 1997	3536	3711	3247	3658	4%
		Jan. 1998	3658	3792	3164	3224	
		Feb. 1998	3288	3639	3261	3622	-5%
		Mar 1998	3657	3999	3600	3892	
		April 1998	3901	4322	3901	4006	
1999	5, 11, 18, 25th Sept. to Oct., 1999	July 1999	4156	4810	4120	4542	9%
		Aug 1999	4571	4965	4470	4898	
		Sept. 1999	4910	4914	4513	4764	-15%
		Oct. 1999	4808	5150	4368	4444	
		Nov. 1999	4490	4770	4209	4622	
		Dec. 1999	4609	5077	4584	5005	
2004	20th April to 10th May 2004	Feb. 2004	5715	6082	5550	5667	5% -2%
		Mar. 2004	5649	5951	5324	5590	
		April 2004	5599	5979	5599	5655	
		May 2004	5645	5772	4227	4759	
		June 2004	4792	5012	4613	4795	
2009	16th April to 13th May 2009	Feb. 2009	9340	9724	8619	8891	3%
		Mar 2009	8762	9120	8047	8966	
		30Apr 2009	11092	11403	11310	11403	
		13 May 2009	12202	12256	11934	12019	

released by the stock exchanges after trading hours, foreign funds today bought shares worth a net Rs 44.64 crore. Domestic institutional investors sold shares worth a net Rs 8.41 crore. The BSE Mid-Cap index rose 12.06% and the BSE Small-Cap index rose 9.09%.

The BSE Realty index (up 25.37%), the BSE Capital Goods index (up 23.47%), the BSE Bankex (up 20.27%), the BSE Oil & Gas index (up 19.57%) outperformed the Sensex. The BSE FMCG index (up 6.78%), the BSE Healthcare index (up 8.04%), the BSE IT index (up 11.41%), the BSE Auto Returns from the past seven to eight elections have no exact set pattern. The returns in the run up to the elections have been lackluster. Market generally in all the occasion has shown range bound trading or sideways movement. Twelve month return post elections have been positive on four occasions and marginally negative on two occasions. Years when government took bold steps or the mandate swayed in favor of one

party has raised the hope of investors and hence good returns were seen. 1984, 1989 and 1991, the market rallied in the first year.

After 1996 a significant change has been on the political front in India i.e.; beginning of coalition era. The returns in these times were very moderate as the mandate was clear. The other reason could be Asian crisis, nuclear test, Kargil war, Dotcom bust.

Key findings from the above Table:

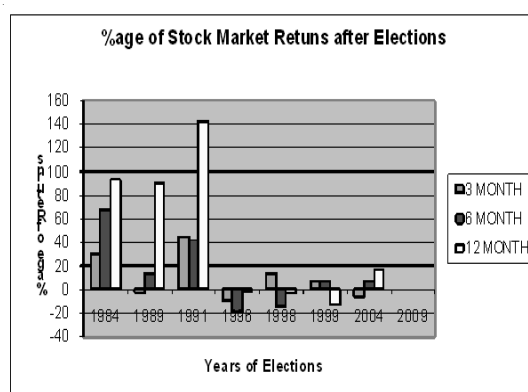
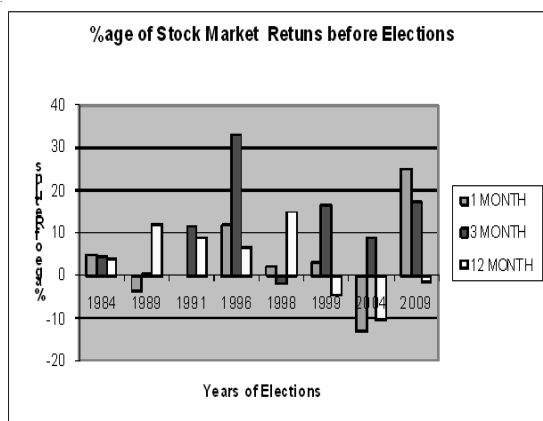
Above table reveals that one month before the elections, market was higher and after the elections, the market falls.

The maximum rise before the elections was 17% from its prior month and average rise was 9.6%

The maximum fall after the elections was 29% from its 2 month's high and average fall was 12.3%.

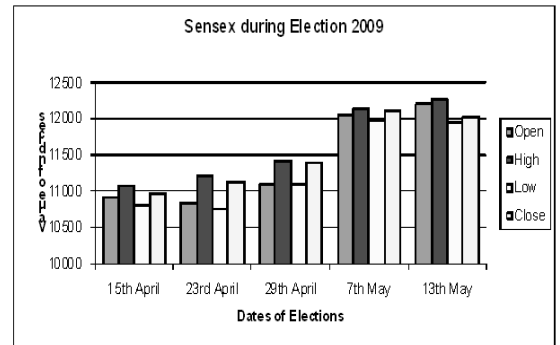
Further, in the month of election period, the market (16th April to 13th May) is likely to be range bound from the month prior to the elections.

YEAR	%age RETURN BEFORE ELECTION			%age RETURN AFTER ELECTION		
	1 Month	3 Months	12 Months	3 Months	6 Months	12 Months
1984	4.8	4.4	3.8	29.4	68	92.9
1989	-3.9	0.2	11.9	-2.3	13.1	90.8
1991	0	11.7	8.9	44	42.1	142.8
1996	11.8	33.2	6.7	-9.2	-18.9	-1.5
1998	2	-2	14.9	14	-14.5	-3.3
1999	2.9	16.7	-4.5	6.5	6.4	-13
2004	-13.4	9	-10.7	-5.8	6.7	16.7
2009	25.2	17.28	-1.34	N.A.	N.A.	N.A.



Status of Sensex and Elections in 2009

Date of Election	Open	High	Low	Close
15 th April	10916	11069	10800	10967
23 rd April	10842	11203	10759	11134
29 th April	11092	11430	11092	11403
7 th May	12064	12144	11981	12117
13 th May	12202	12256	11934	12020



4. CONCLUSION

As the new government settles down and the reform that was taken up by the previous government is carried forward, we believe market will again resume its bull run in the second half of the 2009. We also believe the era of coalition is here to stay and market will not be affected as long as it is seen that the coalition is stable and there are no expectation of major policy reversal.

However if the Third front comes to power, the market is likely to taste another low. Our small endeavor will help you understand market in better way. While recession has deeply affected the global economy and those who are given the best deals are also in relative tatters, general elections in India would not have any less profound impact on the Indian economy. Here

is hoping that a big number of positives come out instead. Having said that, a rational study of the electoral mandate only seems logical. Normally pleasant fallout of the general elections would be higher liquidity that in any event is set to boost the stock market. It surely would be an aid in revival of the plastered economy. Theorists agree that victory for congress and BJP would be in favor of the stock market while Left front or a third party coalition would adversely affect the growth of the market. It is noticeable that global market and FDI pool is bound to swell at the smell of a favorable mandate in Indian elections.

Stock market is an index, the reflection of our financial strength and people of India are anticipating a surge in its numbers post this election.

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