

## AN INTRODUCTION TO STOCK MARKET AND ITS SCOPE FOR CHARTERED ACCOUNTANTS

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### ABSTRACT

*Indian stock market history is the oldest in Asia as in 1875 Bombay Stock Exchange (BSE) was established by 22 brokers. From that time onwards the Indian Stock market has grown in leaps and bounds and has become a forceful and competent stock market at the international level. It turns out to be important for the investors to keep themselves up to date and financially literate about the stock market and factors affecting. This paper is an attempt to study the role of Chartered Accountants in stock market investments because they are equipped with various fundamental subjects who are necessary to develop a sense of knowledge regarding the overall economy and markets. A Chartered Accountant is a Financial Doctor of "Person" as defined under section 2(31) of the Income Tax Act, 1961.*

**KEYWORDS:** *Stock Market, Financial Doctor, Capital Market, Share and Securities.*

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### Introduction

A stock market is a place where buyers and sellers meet. It does not refer to a physical location but to a loose network of economic transactions of stocks (also called shares), which represent business ownership claims. Stock Exchanges and Primary Market are part of Capital market directly supports the growth of the Economy. The Stock exchange provides liquidity and marketability to investors to deal into share and securities once they issued in the primary market. Thus it helps in providing a channel between industries and investors, which is important for the financial market of any country and hence for its economy. Indian stock market is one of the oldest stock markets in Asia. In 1875 Bombay Stock Exchange (BSE) was founded by 22 brokers. Currently, most of the trading in the Indian stock market takes place on its two stock exchanges: the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). Out of all the listed firms on the BSE in India, only 500 firms make up more than 90% of its market capitalization; the rest of the crowd consists of highly illiquid shares.

The Stock market includes both

- Securities listed on a public stock exchange, as well as
- The Stock that is only traded privately. For e.g. equity mobilization funding



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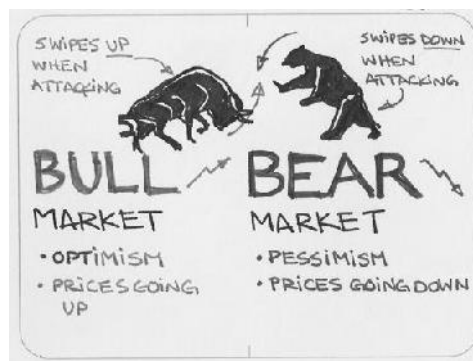
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### Bombay Stock Exchange

A stock exchange is a market that is organized for the purpose of buying and selling securities, commodities, options and other investments. A stock exchange is usually called bourse. The word "bourse" is based on the house, belonging to Van der Burse, where merchants met and traded together.

A company decides to get itself listed in stock exchange because doing so, the companies can collect additional funds from the public, and companies can offer employee stock options and also get the brand name. Stocks of a listed company are more liquid as they can be easily traded in the secondary market. The exchange may also act as a guarantor of settlement. Some large companies will have their stock listed on more than one exchange in different countries so that international investors can be attracted. No one can directly trade on the stock market. It can only be done with the help of a stockbroker. A broker is a person who allows buying and selling orders on behalf of clients for stocks and other securities in a listed market or over the counter, usually for a fee or commission.

### Types of Stock Market



### Bull and Bear Markets

- **Bull Market**

Bull markets are defined by the stock prices going up aggressively over a period of time. As the market starts to rise, there is more demand in the stock market. Bull markets are characterized by:

- Optimism
- Investment confidence
- Expectations that strong results should continue for an extended period of time

- **Bear Market**

The bear market definition is exactly the opposite of a bull market. It is a market where stock prices are falling at a speed of 10 percent in every quarter. That signals a bear market, and when this happens people are really afraid to invest money into the stock market. Bear markets are characterized by:

- Falling prices
- Pessimism

### Literature Review

**Barber and Odean (2001)** studied that internet is the major source of information for young investors while investing. Young investors also started investing in online trading.

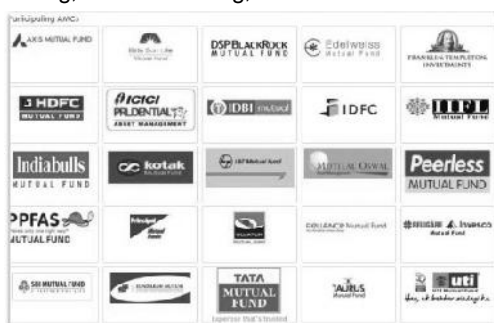
**Yartey (2008)** studied macroeconomic factors such as income level, gross domestic investment; banking sector development, private capital flows, and stock market liquidity are important determinants of stock market development in emerging market countries. He also found that political risk, law and order, and bureaucratic quality are important determinants of stock market development because they increase the behavior of external finance.

**Joshi (2013)** found major reasons responsible for the movement in the Indian stock market. He found that factors like Flow of Foreign Institutional Investors, Political Stability, Growth of Gross Domestic Product, Inflation, Liquidity, and different interest rate and Global level factors are major factors responsible to create movement in Indian stock market.

### Career Opportunities in the Stock Markets for Chartered Accountants

The capital market is an emerging place to start a job. It is getting bigger day by day and many beginners are setting up every day in the country. In India, according to Bloomberg, less than 1.5% of the total population invests in the equity market. Comparing this to China and the United States, almost 10% of the Chinese population and 18% of the United States population invests in the stock market. There is great potential in the Indian stock market.

Currently, the financial market in India is growing at a much faster pace than any other region. It has widened its scope and at present has increased the number of stock exchanges from 8 (in the 1960s) to 23. Rapid growth in the industry has opened up opportunities for a huge workforce across the country. It mainly looks for graduates who have knowledge and experience in commerce, economics, finance, mathematics, and management. Freshers get started in the financial advisory companies. Mutual fund houses and the stock brokerage firms also hire fresh and skilled graduates. The Mutual Fund Company mainly includes sales and marketing, fund accounting, investment and research, operations and administration.



Mutual Fund Houses



Financial Advisory

### Investment Banking

Investment banking is a specialized type of bank involved in major and complex financial services for core organizations. Unlike commercial and retail banks, they do not take deposits. They work as a broker and financial advisor for financial clients. There is a whole gamut of services offered by the investment banks in India. The following are the services which are standing outside:

- **Mergers & Acquisition Advisory**

Chartered Accountants through their expertise in cost accounting, taxation, regulation Acts, information technology and most importantly, strategic and financial management, can evaluate various M & A opportunities on the basis of their

- Profit margins
- Geographic locations
- Customer base
- Competitive ability
- Industry opportunities

After creating the target company's multiple valuation models, the Chartered Accountants have been able to advise the company to make a decision whether to invest in the potential acquisition target or not. The education and activities of Chartered Accountants ensure that they remain diligent in their examination and analysis. They also help in getting sufficient funds required for the purpose of Merger & Accusation.

- **Capital Procurement and Money Management**

The investment banking business is divided into two parts- 'The Sell Side' and 'The Buy Side'.

The Sell Side (Capital Procurement) refers to the

- Creation
- Promotion
- Analysis
- Sale of securities to the buy side of the industry

This involves underwriting securities offerings which mean that funding and bringing them to market. Usually, investment banks in India offer management of public issues in two ways – fixed price method and book building method. They also offer IPO, FPO, Preferential Issues, Rights Issue, Qualified Institutional Placement and Debt Placement.

The Buy Side (Money Management) involves:

- Substantial Buying of securities for
- Pension funds
- Private equity funds
- Hedge funds
- Insurance firms for money management purposes

A Chartered Accountant acts as a Money Manager, who manages the investment portfolio of an individual/institutional investor. He has the expertise (knowledge and skills) in areas of research and investment options for monitoring the assets and deciding when to sell them. Money manager does not deal in his own funds but he is obliged to choose and manage investments prudently for his clients. The work includes developing an appropriate investment strategy and buying and selling securities to meet those goals. A money manager may also be known as a "portfolio manager" or "investment manager." Examples of leading money managers in India include Ernst & Young Private Ltd., Deloitte Touche Tohmatsu India LLP, O3 Capital Global Advisory Private Ltd., etc. Money managers are an integral part of the finance industry. Some of the common job options include Portfolio Manager, Mutual Fund Analyst, and Hedge Fund Traders.

**Table 1: List of Top Investment Banks 2018 (on the Basis of Market Capitalization)**

| Rank | Company              | Market capitalization (US\$bn, January 19, 2018) |
|------|----------------------|--|
| 1    | JP Morgan            | 392.1B   |
| 2    | Bank of America      | 330.9B   |
| 3    | Wells Fargo          | 316.2B   |
| 4    | HSBC Holdings        | 221.4B   |
| 5    | Citigroup            | 207.0B   |
| 6    | Royal Bank of Canada | 125.2B   |
| 7    | Morgan Stanley       | 103.9B   |
| 8    | BNP Paribas          | 102.4B   |
| 9    | Goldman Sachs        | 100.3B   |
| 10   | UBS Group            | 77.7B  |

www.relbanks.com assessed on 20-06-2019 at 10:00 am

### Mutual Fund

A Mutual Fund pools the capital of many individual investors and invests it into Set Portfolios. Suppose a person decides to start investing and he wants a balanced portfolio – 50% stock, 30% bonds and 20% government securities. However, he owns a small amount of money to invest. As investments of such small amounts cannot be made directly, a mutual fund allows him to add money with other investors. The companies are recommended by an investment advisor and fund manager. The fund manager is appointed by a board of directors and is legally responsible for working ethically. Fund managers may be or may not be the owners of the fund. Mutual Funds employ some data analysts to help pick investments or perform market research. A fund accountant is kept on staff to calculate the fund's net asset value (NAV), or the daily value of the mutual fund that determines if share prices go up or down. Mutual funds need to have a compliance officer or two, and probably an attorney, to keep up with government regulations.

**Table 2: List of Top Mutual Fund Schemes and their Performance**

| Name of the Scheme                   | 3 Year Returns (%) | 5 Year Returns (%) |
|--------------------------------------|--------------------|--------------------|
| SBI BlueChip Fund–Reg(G)             | 9.38               | 15.88              |
| Franklin India Equity Fund(G)        | 9.45               | 16.49              |
| Mirae Asset India Equity Fund–Reg(G) | 14.16              | 18.84              |
| HDFC Mid-Cap Opportunities Fund(G)   | 11.87              | 21.21              |
| ICICI Pru Bluechip Fund(G)           | 12.35              | 14.83              |

www.fundsindia.com assessed on 31-12-2018 at 9:00 am

- **Fund Accounting**

Fund Accounting is an accounting system prevalent in the mutual fund industry. It emphasizes the accounting aspect rather than the return generation (profitability). The main use of fund accounting is

- Accurate pricing of these investment vehicles
- Correct assignment of investment income to unit holders

These are thus major concerns for the chief financial officers, controllers and operations managers of mutual fund companies. JP Morgan is hiring CAs as a Fund Accounting specialist.

- Oversee the accurate and timely production of the fund's daily and monthly accounting activities and net asset value calculation of the funds for various clients.
- Proper recording of all income, such as dividends and interest.
- Recording all securities transactions i.e. purchase and sale of portfolio investments.
- Review all financial statements prior to production and ensure that timely and accurate sign-offs are in place from various constituents of the valuation process.

- **Hedge Funds**

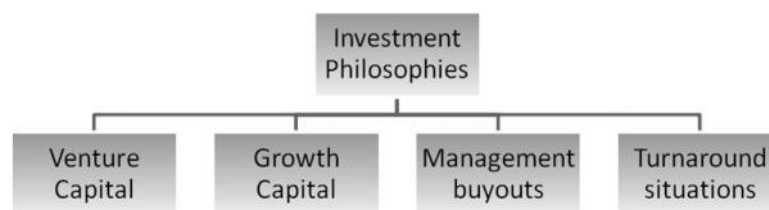
Hedge Fund is a private investment firm that markets it almost exclusively to wealthy investors. The middle and lower classes are generally not allowed to invest in hedge funds due to financial limits. Hedge Funds are aggressive and risk-seeking investment funds that typically use leverage to magnify returns. High-profile money managers deserted the traditional mutual fund industry in search of higher returns in the early 1990s, seeking fame and fortune as hedge fund managers. Since that era, the hedge fund industry has grown substantially. Today the hedge fund industry is massive—total assets under management in the fund industry are valued at more than \$3.2 trillion according to the 2016 Preqin Global Hedge Fund Report. The number of operating hedge funds has grown from around 2,000 hedge funds in 2002 to over 10,000 by 2015.

- **Private Equity Funds**

A private equity fund typically refers to a general partnership formed by Private Equity firms which are utilized to invest in private companies. The private equity fund may invest in different industries or have specific industry criteria. However, private equity funds typically have an investment philosophy that it sticks to its plan throughout its term, which tends to be anywhere between 10 -15 years. After this time period elapses, the private equity fund is closed by having all funds distributed back to the limited partners.

Private equity funds may invest directly in

- Equity securities of the target investment or
- Mezzanine debt or
- Both equity and debt.



Investment Philosophies under Private Equity Funds

## Conclusion

We know investors like to invest for the long term in the stock market than short term investment. Their major source of investment is electronic media (television and internet), newspaper and broker through who they used to transact. A Chartered Accountant acts as a Money Manager, who manages the investment portfolio of an individual/ institutional investor. He has the expertise (knowledge and skills) in fields ranging from research and selection of investment options to monitoring the assets and deciding when to sell them. They are equipped with the learning of Corporate and Allied Laws which are applicable to the Corporate as well as the Capital Markets.

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