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BLISS TO INVESTORS – EXTENDED TRADING HOURS

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ABSTRACT

This paper aims to measure the impact & investors myths regards to increase in trading hour on Indian Stock Exchange. Longer trading hours may become the norm for investors soon. In India trading took place for five and a half hours in a single trading session. In many of the international exchanges, trading in derivatives is conducted between 10 and 15 hours, and in a few cases, it goes up to 24 hours. Extending the trading hours is one of the latest actions initiated by SEBI in order to increase the efficiency and volume of the market, reducing the volatility in returns and thereby providing enough time to investors for implementing investment strategies. Efficiency of the share market is one of the areas of utmost concern for the stock market regulators because of its bearing on the investment behavior of investors. It would also align the domestic market with the Asian and European markets. Impact of change in market timings on the volatility and volume of trade in the Indian stock market, its dependence on Singapore Stock Exchange (SGX) Nifty Futures and investment behavior of the Foreign Institutional Investors (FIIs) and Domestic Institutional Investors (DIIs).The returns and turnover in S&P CNX Nifty, returns on SGX Nifty Futures, and net investments by FIIs and DIIs have been analyzed on a daily basis. It is found that subsequent to the change in the year 2010 stock market timings had shown reduction in volatility while the volume of trade has increased.

Keywords: Market Efficiency, Volatility , Trading Volume & Investor Myths.

Introduction

SEBI is planning to increase trading hours for currency futures so that market participants in India would be able to adjust and alter their positions in line with the movements in foreign currencies in global markets. The currency futures market is expected to open from 9.00 am to 7.30 pm. "The timings of the currency markets can now be enhanced from 5 pm to 7:30 pm. So, we are moving in a direction where the Indian currency derivatives market can help the corporates, for example, hedge on a continuous basis. At present, currency futures are traded on platforms offered by exchanges like the NSE, BSE, MCX-SX, and United Stock Exchange and the trading hours are from 9 am to 5 pm. Like stock futures traded on bourses, this is a market where individuals as well as companies with foreign exchange exposure - like export receivables, import payable and cheaper dollar loans - can take positions by either going long or short the dollar against the rupee. And as in stock futures, these are leveraged positions where a fraction of the exposure amount is chipped in as margin.

How it works:

1. Presently, all futures contracts on MCX-SX are cash settled. There are no physical contracts.
2. All trade on MCX-SX takes place on its nationwide electronic trading platform that can be accessed from dedicated terminals at locations of the members of the exchange.
3. All participants on the MCX-SX trading platform have to participate only through trading members of the Exchange.
    a. Participants have to open a trading account and deposit stipulated cash/collaterals with the trading member.
4. MCX-SX stands in as the counterparty for each transaction; so participants need not worry about default.
    a. In the event of a default, MCX-SX will step in and fulfil the obligations of the defaulting party, and then proceed to recover dues and penalties from them.

5. Those who entered either by buying (long) or selling (short) a futures contract can close their contract obligations by squaring-off their positions at any time during the life of that contract by taking opposite position in the same contract.
    a. A long (buy) position holder has to short (sell) the contract to square off his/her position or vice versa.
    b. Participants will be relieved of their contract obligations to the extent they square off their positions.
6. All contracts that remain open at expiry are settled in Indian rupees in cash at the reference rate specified by RBI.

The 5 Biggest Stock Market Myths

1. **Investing in stocks is just like gambling.**

   Assessing the value of a company isn't an easy practice. There are so many variables involved that the short-term price movements appear to be random (academics call this the Random Walk Theory); however, over the long term, a company is only worth the present value of the profits it will make. In the short term a company can survive without profits because of the expectations of future earnings, but no company can fool investors forever - eventually a company's stock price can be expected to show the true value of the firm. Gambling, on the contrary, is a zero-sum game. Don't confuse investing and creating wealth with gambling's zero-sum game.

2. **The stock market is an exclusive club in which only brokers and rich people make money.**
   Actually, individuals have an advantage over institutional investors because individuals can afford to be long-term oriented. The big money managers are under extreme pressure to get high returns every quarter. Their performance is often so scrutinized that they can't invest in opportunities that take some time to develop. Individuals have the ability to look beyond temporary downturns in favor of a long-term outlook.

3. **Fallen angels will all go back up, eventually.**
   Whatever the reason for this myth's appeal, nothing is more destructive to unprofessional investors than thinking that a stock trading near a 52-week low is a good buy. Think of this in terms of the old Wall Street adage, "Those who try to catch a falling knife only get hurt."

4. **Stocks that go up must come down.**
   The laws of physics do not apply in the stock market. There is no gravitational force that pulls stocks back to even. Uptrend and DownTrend is a part of life so as for Stocks.

5. **Having just a little knowledge, because it is better than none, is enough to invest in the stock market.**
   Knowing something is generally better than nothing, but it is crucial in the stock market that individual investors have a clear understanding of what they are doing with their money. It's those investors who really do their homework that succeed.
   Don't fret, if you don't have the time to fully understand what to do with your money, then having an advisor is not a bad thing. The cost of investing in something that you do not fully understand far outweighs the cost of using an investment advisor.

Impact on Stock Market:

1. **Increased integration of the global markets** due to which information originating from different countries has a bearing on Indian securities market. While the Asian markets are ahead of Indian time zone, the European and American markets extend much beyond the Indian market timings. Some of the exchanges, such as Singapore stock exchange, London stock exchange, to name a few, have adopted longer trading hours. This has facilitated market participants in these countries to hedge their risk that might arise due to global information flow. Additionally, Indian markets have been in the pursuit of matching the best international standards and practices. Extending the trade timings of the domestic exchanges may, therefore, enable the

domestic market participants to take advantage of such global information flows. Domestic markets will be more competitive and in sync with the European and other Asian markets with the extension in timings. It will bring about greater integration with those markets.

2. **The increased interest among FIIs and overseas arbitragers in Nifty Futures traded in the Singapore Stock Exchange (SGX)**, this allows domestic players to take advantage of global developments. Currently, the cash and equity derivatives markets are open from 9.55 am to 3.30 pm. The currency derivatives market is open from 9 am to 5 pm, while the commodity derivatives market is open from 8 am to 11.30 pm. An increase in trading hours means higher volumes and profitability for brokers.

3. **To align the stock market timings with that of other financial markets such as currency, bonds and call money**, so as to boost volume in the stocks and equity derivatives market. In a world where different exchanges are competing with each other to increase participation, it is imperative that the Indian markets align themselves to global markets to attract such trading interest. Extension of market hours would enable market participants to execute trading strategies in Indian markets based on information flowing in, which otherwise would have been executed outside India. It was expected that the business volume and trading opportunity will increase, as the retail investors will have more exposure and wider access to the market. Also, the day traders may trade more significantly as it would help them gain an access to early price discovery mechanism and react to European markets. Additionally, FII turnover may also increase on account of more suitable timings of the Indian markets. Indian exchanges to capture a greater share of trading volumes as compared to offshore centers.

4. To protect the interest of investors in securities and promote regulation and development of the securities market. **Quick and effective assimilation of information makes markets more efficient in terms of better price discovery,**

reduction in volatility and impact cost. The extension of market hours may help in effectively assimilating information and thereby make Indian markets efficient, benefiting Indian investors. The extension in market hours enables participants to take positions over a longer time window. This enables them to take advantage of market movements overseas. If an exchange is allowed to offer currency futures trading platform till late evening, the hedging can take place.

Limitations:

1. Extended Trading Hours regards with constant movement of prices in 24-hour market, allowing active traders to move in and out of positions swiftly. As a result, funds need not be tied up for long periods of time. However, these constant price fluctuations also lead to a highly volatile market, where sudden losses can be experienced at any time. And since most traders leverage their trades, margin risk is extremely high.
2. Maintaining Infrastructure & Manpower cost will be increased.
3. The increase in the overall efficiency of the Indian stock market could not be attributed solely to the increased trading hours. There can be many other qualitative factors like the improvement in the global economic scenario, improved monsoons, decreased inflation etc. which may have improved the efficiency of the Indian markets.

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