



## STOCK TRADING IS GAMBLING -A MYTH

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### ABSTRACT

Nowadays various investment alternatives are available in the market but the most prevalent one is shares and stock trading. Although there is myth in the minds of the people that stock trading is related to gambling but actually trading is purely legal and safe. Trading is a type of investment that involves maximum risk as well, as maximum return. It is based on the concept of risk and return trade off. Which means higher risk leads to higher return. In my research, I will make people aware about the facts of stock trading and how it benefits in gaining maximum return. I will also bring in light the ways of calculating and managing risk. Like Beta, CAPM model SML line curve, Traylor's and Sharpe's model. This paper will surely throw a light on the reality of stock trading and also helps in proving it to be fully safe and secure.

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### INTRODUCTION

Stock trading is an activity of trading in equities and the person who performs this trade is known as stock trader. The may be a hedger, trader, arbitrageur, speculator or stock broker. For trading in equities, one has to be well versed about the stock market. It is known as secondary market where existing owners of the shares can do the transaction with the buyers or investors. For many people stock trading is related only with buying the stocks, holding it for some time and selling it after a longer period of time Nowadays trading becomes very easy even a layman person can start doing trading on its own. Earlier selling and buying of shares are done through outcry system but now all are done on online basis which is pretty safe and legitimate.

#### The process of doing the trading is as follows

- Selection of broker
- Opening DEMAT account with depository
- Placing the order
- Execution of the order
- Settlement of the order.

Settlement is done in two ways first is "On the Spot Settlement" in which the settlement is done immediately or in T+2 way. According to rolling T+2 settlement if shares were purchased on Monday it will get settle down on Wednesday. Secondly is the Forward Settlement which means settlement will be done in future like T+5, T+10 basis.

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Online trading basically deals with stock exchange account with NSE and BSE certified broker. National stock exchange and Bombay stock exchange are the leading exchange in India BSE is the oldest stock exchange whereas NSE is the largest stock exchange. Majority of the people have a doubt regarding the difference between NSE and BSE the difference between these two exchanges are as follows:

Table 1 difference between BSE and NSE

bases	NSE	BSE
Number of listed companies	1697	5537(December 2014)
Market Capitalization of listed companies	1.47 trillion	9655963 crores
CEO and MD	Ms Chitra Ramakrishna	Ashish Chauhan
Ranking	Ranks 11 <sup>th</sup> in the world	Ranks 10 <sup>th</sup> in the world
Indexes	CNX500	BSE 500

Trading on equities is done on all weekdays. There is no trading on Saturday, Sunday and published Indian stock market holidays. Trading Session starts from 9.00 or 9.15 am to 3.30 pm buying and selling of shares can be done between these sessions only after that execution of transaction is not possible.

#### Stock market has various different characteristics which are as follows

- **Market for securities:** Stock exchange is a market, where securities of corporate bodies, government and semi-government bodies are bought and sold.
- **Deals in second hand securities:** It deals with shares, debentures bonds and such securities already issued by the companies.

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- **Regulates trade in securities:** Stock exchange does not buy or sell any securities on its own account. It merely provides necessary facilities and infrastructure to members and brokers who want to trade in securities.
- **Actual dealings in only listed securities:** Stock market provides an official list of securities for which investors can do the trading.
- **Association of person:** Stock exchange may be an association of person or body of individual that may be registered or not registered.
- **Central government regulation:** stock exchange is a regulatory market that needs central government recognition.
- **As per norms:** Buying and selling of securities in stock market is done as per the norms and rules made by SEBI

Stock trading is fully legitimate and safe as there is a full monitoring of SEBI authorities.

### Various guidelines are made by SEBI which are as follows

- To make aware about the exact financial strength of the company SEBI had made different credit rating agencies as they provide a fair view of it to investors for ex CRISIL, ICRA AND CARE. etcetera.
- SEBI is taking full responsibility to provide clear information to investors so that they can take fair investment decisions.
- Disclosure on market price for listed securities
- In case of oversubscription and undersubscription SEBI act as a representative to look into all allotments
- SEBI has the right to cancel the registration of all underwriters if they didn't fulfil all the business details.
- Even mutual funds are brought under the guidance of SEBI. Companies have to disclose their NPV every day during trading session
- There is an advertisement code **Table 3** by SEBI which all the companies and investors have to follow.

### Objective of The Study

- ✚ To aware the people about stock trading and their benefits
- ✚ To prove that stock trading is not related to gambling
- ✚ To explain how to do the risk analysis and risk management
- ✚ To explain all the method of risk analysis of stocks or securities
- ✚ To explain the difference between investor and speculator
- ✚ To explain how to diversify the risk associated with investment

### Research methodology

**Table 2** Research methodology details

Research Unit	Karvy stock broking company
Sampling	Random sampling
Sample Unit	Stock market
Sample size	150

### Analysis Of The Study

#### How to analyse the risk associated with stocks?

Beta is a measure of stock's volatility in relation to the market, by definition, the market has a beta 1.0, and individual stocks are ranked according to how much they deviate from the market.

$$B_P = \text{COV}(r_p, r_b) / \text{VAR}(r_b)$$

Table 3 showing calculation of beta of Aurbindo pharma

year	ra	rm	ra-rm	rm-rm	(ra-ra)2	rm-rm2	6/7
1	15	12	-0.09	-3.18	0.01	10.11	0.29
2	-6	1	-21.09	-14.8	444.7	201.07	299.6
3	18	14	2.91	-1.18	222.3	1.39	-3.43
4	30	24	14.91	8.82	9.55	77.79	131.5
5	12	16	3.09	0.82	98.21	0.67	-2.51
6	25	30	9.91	14.8	171.35	219.3	146.8
7	2	-3	-13.09	-18.8	24.11	330.5	237.9

$$810.15 / 840.83 = 0.96$$

beta of the stock is 0.96

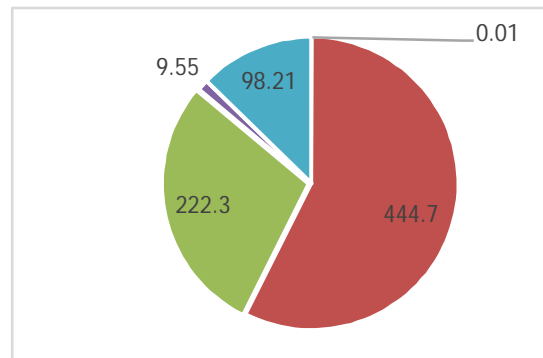


figure 1 Pie chart showing the details of returns on market and stock of aurbindo pharma

**Interpretation:** As the value of Beta is 0.96 shows that the returns of stock is more volatile as per the market conditions that shows that chances of gaining a return is higher.

How to study the stock market?

**Table 4** showing details of share price of aurbindo pharma on 21st July

	Price Data for Aurobindo Pharma on 21-07-2017	
	BSE	NSE
Open Price	Rs.755.00	Rs.755.00
High Price	Rs.756.10	Rs.755.90
Low Price	Rs.733.85	Rs.733.15
Close Price	Rs.747.55	Rs.748.25
Volume	212642	2340391

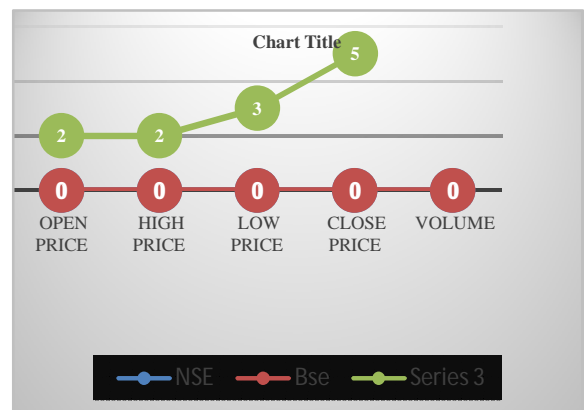
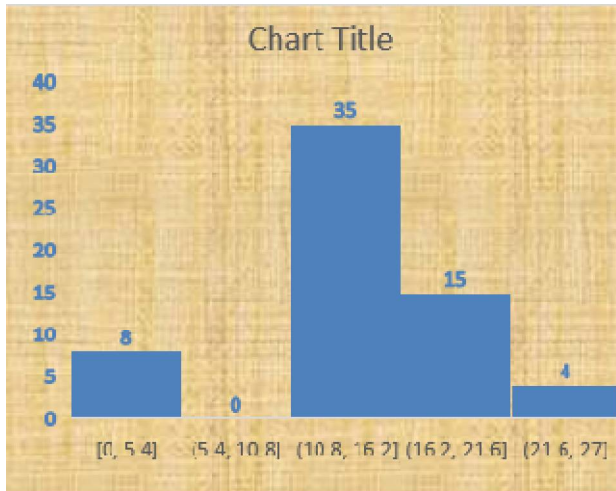


Figure 2 chart showing the ups and down in stock Price

**Interpretation:** As per the graph the market pens with higher piece of 755 but close down at 748 means the market falls down for Aurbindo pharma on 21stjuly.

**Table 4** Comparison of aurbindopharma with other pharma companies

Particular	Aurbindopahrma	Sun pharma	Aur/sun
High	1541	1201	128.3
Low	582	706	82.4%
Sales per share	237.5	117.5	202.2%
Earnings per share	33.9	19.6	172.8%
Dividend per share	2.50	1.00	250.0%
Book value per share	120.6	130.5	92.4%
Avg P/E ratio	31.3	48.7	64.4%



**Figure 3** chart showing the comparison of aurbindo pharma with other pharma companies.

**Findings of The Study**

- As per table 1 investor can trade either through BSE or NSE.
- The investor who are buying through BSE can sell it in NSE also
- For analysis of any stock we have to see 52-week high price and 52week low price
- As per the details aurbindopharma companies share price is riskier as well as profitable also.
- The beta value of aurbindo pharma stock is 0.96 which means it is more volatile as per market conditions
- As per the comparison chart the aurbindo pharma high price is more than sun pharma company.
- The market falls down higher for aurbindo pharma as price is more volatile.

**Suggestions/Recommendations**

- Investing is stock is not all gambling
- Stock trading is purely legitimate and safe
- Investor should not be a risk averse he should be a risk taker
- Taking higher risk will increase the chances of gaining higher return
- Probability of gaining return is less than the probability of getting risk

**CONCLUSION**

Taking risk and gaining return is a part of investment. Stock trading is a type of investment where the chances of your overall investment return might increase. Although there are equal chances of losing the money in such investment. But that risk we can manage through diversified portfolio. Money should be invested in such a way that if loss occurs in one area then that loss will be covered by gaining profit through other areas. Stock trading will help the investor in learning about different investment strategies so that losses can be covered in time. At last I can say that stock trading is not gambling it is purely a trading which requires some basic knowledge about financial market.

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