Market Trading in India - Customer Perception

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Abstract

This research is regarding the secondary market trading in India and its main objective is to understand customers' perception towards stock trading. In the last decade, India's GDP has raised from 414 billion dollar in 2001 to 1.3 trillion dollars in 2012. This growth in size of economy has been complimented by 8 fold increase in the market capitalization of the Indian companies. So people are now investing more in stock market to increase the value of their money. The primary data for this research was collected from a sample of 125 people who are currently doing stock trading from 15 different broking companies in the city of Bhubaneswar, India. The data was analyzed with the help of statistical tools SPSS, also Chi-square test and Spearman's correlation was used for this purpose. These research findings can be utilized by broking firms, investors and scholars for further analysis on secondary market trading and to understand this issue critically.

Keywords: Secondary market trading, Indian stock market, Customer perception, Broking companies, NSE, BSE.

Introduction

Indian stock market is one of the oldest stock markets in Asia with a glorious past that caters to the huge population of India and gives them investment opportunities. 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 in the international the depression after Independence led to closure of a lot of stock exchanges in the country. Lahore Stock Exchange was closed down after the partition of India, and later on merged with the Delhi Stock Exchange. Bangalore Stock Exchange Limited was registered in 1957 and got recognition in 1963. Most of the other Exchanges were in a miserable state till 1957 when they applied for recognition under Securities Contracts Act, 1956 ("Stock market of," 2009). But Government policies during 1980's played a vital role in the development of the Indian Stock Markets. And there was a sharp increase in number of Exchanges, listed companies as well as their capital.

BSE and NSE

The main focus of stock trading in India is on the companies that are registered with the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). Many other stock exchanges are also there in India, but they are small fish compared to these two large stock exchange.

The Bombay Stock Exchange is the symbolic head of the stocks trading in India and lists over 5,034 listed Indian companies as of December 2010. The equity market capitalization of the companies listed on the BSE was 1.63 trillion dollar as of December 2010, making it the 4th largest stock exchange in Asia and the 8th largest in the world. The BSE has also the largest number of listed companies in the world ("Bombay stock exchange," 2010).

Another stock exchange in India the National stock exchange is the 9th largest stock exchange in the world by market capitalization and largest in India by daily turnover and number of trades, for both equities and derivative trading. NSE has a market capitalization of around 1.59 trillion dollar and over 1,552 listings as of December 2010 ("National stock exchange," 2010).

Majority of the companies (4867) are listed with Bombay Stock Exchange, followed by Delhi Stock Exchange (2913) Calcutta Stock Exchange (2875) and National Stock Exchange (1334).

Types of Investment

Investing is the act of committing money to an endeavor with the expectation of obtaining an additional income. Simply, it means putting the money to work for you and maximizing the earning potential. The more time you give your investments, the more you are able to accelerate the income potential of the original investment ("Types of investments,"). There are various ways to invest money such as:

Bonds: They are called fixed-income securities and refer to any securities that are founded on debt. When you purchase a bond, you are lending out your money to a company or government. In return, they agree to give you interest on your money and eventually pay you back the amount you lent out. Bonds are relatively safety but the rate of return is lower.

Stocks: When you purchase stocks or equities you become a part owner of the business. This entitles you to vote at the shareholders' meeting and allows you to receive any profits that the company allocates to its owners. Stocks are volatile and they fluctuate in value on a daily basis. When you buy a stock, you aren't guaranteed anything. But compared to bonds, stocks provide relatively high potential returns.

Mutual Funds: A mutual fund is a collection of stocks and bonds. When you buy a mutual fund, you are pooling your money with a number of other investors which enables you to pay a professional manager to select specific securities for you. The major advantage of a mutual fund is that you can invest your money without the time or the experience that are often needed to choose a sound investment.

Futures: A futures contract is just what it's called a contract. It is not equity in a stock or commodity. It is a contract to make or take delivery of a product in the future, at a price set in the present. In formalized trading of futures contracts on exchanges, agreements specify price, quantity and the month of delivery. Futures can be used either to hedge or to speculate on the price movement of the underlying asset ("Futures,").

Options: It is a financial derivative that represents a contract sold by one party (option writer) to another party (option holder). The contract offers the buyer the right, but not the obligation, to buy (call) or sell (put) a security or other financial asset at an agreed-upon price during a certain period of time or on a specific date ("Option,").

There are also other alternative investment opportunities such as: Forex, Gold, Real estate etc.

Stock Trading

In simple words, stock is a share in the ownership of a company. Holding a company's stock means that you are one of the many owners (shareholders) of a company and you have a claim to everything the company owns. As an owner, you are entitled to your share of the company's earnings as well as any voting rights attached to the stock ("Stocks basics: what,").

Earlier days a stock was represented by a stock certificate which was a piece of paper that was proof of your ownership. But in today's computer age, your stock is stored electronically by your broker. This is done to make the shares easier to trade. In the past, when a person wanted to sell his shares that person physically took the certificates down to the broker. But now stocks can be purchased with a click of mouse.

Most stocks are traded on exchanges where both buyers and sellers meet and decide on a price. The purpose of a stock exchange is to facilitate the exchange of securities between buyers and sellers, and reducing the risks of investing. Some exchanges are physical locations where transactions are carried out on a trading floor. The other type of exchange is virtual, composed of a network of computers where trades are made electronically ("Stocks basics: how,").

Online and Offline Trading

Traditionally stock trading was done through stock brokers personally or through telephones. As number of people trading in stock market increased enormously in last few years, some issues like location constrains, busy phone lines, miss communication etc. started growing in stock broker offices. Then Information technology helped stock brokers to solve those problems by Online Stock Trading method ("Online stock brokers,").

Online stock trading is an internet based stock trading facility where Investor can trade shares through a website without any manual intervention from the broker.

It also provides investors with rich, interactive information in real time including market updates, investment research and robust analysis.

Still some people like offline stock trading where the customer calls the broker to enquire about the stock prices. Then the broker asks some personal details to verify his identity. After that customer can order the amount and the price at which he wants to buy a particular stock. The broker places the order on behalf of the customer. Similarly, the customer can also sell the shares in offline mode.

And the customer can monitor all these transactions by logging into his account. The main advantage in offline trading is time-saving.

Demat Account and Trading Account

Physical share certificates are converted into electronic format is known as "Dematerializationor De mat". Currently almost 99 percent of shares traded in Indian stock exchanges are indemat mode. You have to open a demat account if you want to buy or sell stocks, just like a bank account where actual money is replaced by shares. Demat account allows you to buy, sell and transact shares without the endless paperwork and delays.

Similarly, a trading account works as an intermediary between the savings account and demat account. When you want to buy shares, first the money is transferred from your savings account to trading account. After that required amount of shares are purchased and finally shares are stored in electronic form in the demat account. It works just in opposite way during the time of selling shares.

Depository and Depository Participants

A depository is an entity which holds securities of investors in electronic form at the request of the investors through a registered Depository participant. Currently there are two depositories in India they are:

- National Securities Depository Limited (NSDL)
- Central Depository Services Limited (CDSL)

Depository provides a safe and convenient way to hold securities and enables instant transfer of securities. It eliminates the risk associated with physical certificates such as bad delivery, fake securities, Delays, thefts etc. It also provides services such as: Dematerialisation, Rematerialisation, transfer of securities and change of beneficial ownership.

Depository Participant (DP) acts as intermediaries between the depository and the investors. The relationship between the DPs and the depository is governed by an agreement made between the two under the Depositories Act. Hence a depository participant acts as a custodian of your securities held in dematerialized form and carries out your instruction to transfer the same. Currently, CDSL has 553 DPs whereas NSDL has only 293 DPs ("Depository participant,").

Sensex and Nifty

The Sensex is basically an indicator that gives you an idea about whether most of the stocks have gone up or have gone down. It is an indicator of all the major companies of the Bombay Stock Exchange. BSE came out with this stock index in the year 1986 that subsequently became the barometer of the Indian stock market ("What are the,").

It is calculated taking into consideration prices of 30 largest and most actively traded stocks of the BSE listed companies. The base year of Sensex is 1978-79 and the base value is 100. Similarly, Nifty is an indicator of all the major companies listed with National Stock Exchange. It is calculated based on 50 major stocks listed with NSE. And the base year is taken as 1995 and the base value is 1000.

Historical returns from Share Market

Indian stock market has been booming since last decade and majority of stock holders has got good return from the stock market. Jindal Steel has given a return of 1223.21% return in last five years starting from 2006. Similarly Bajaj autos, State bank of India, HDFC Bank have given 357.47%, 221.72% and 221.58% return respectively.

Indian Broking Industry

The Indian broking industry is one of the oldest trading industries that have been around even before the establishment of the BSE. Despite passing through a number of changes in the post liberalization period, the industry has found its way towards sustainable growth. The number of brokers in various stock exchanges rose from 6,711 in 1994-95 to 9,335 in 2006. The number of brokers in all the exchanges together peaked to 10,213 in the year 2001 but gradually declined when the regional stock exchanges began to lose business in the light of wide ranging market structure reforms ("India's leading equity,"2007).

According to the survey conducted by Dun and Bradstreet India (D&B India) among 33 Indian equity broking firms, the income of broking firms has seen a growth of 20.8% to Rs. 54,983 million in 2010. The overall profit of the broking firms eroded up to 70% in 2009 because of global financial crisis. But the trend has been changed in 2010 with profit level growing 86% to Rs. 19,990 million. Similarly, the major cost overhead across all broking firms was employee compensation (34.2%) in overall expenses ("India's leading equity,"2010).

Review of Literature

According to Philip Kotler perceptions are more important than reality, as it is perceptions that will affect the consumer's actual behavior. And Perception is defined as the selection, organisation, and interpretation of marketing and environmental stimuli into a coherent picture (Assael, 1998).

In the study conducted by Nidhi walia and Ravinder kumar (2007) examined the investor's preference for traditional trading and online trading. The major findings of the study were that Indian investors are more conservative, they do not change easily and Indian traditional traders still choose brokers for trading. But Internet traders are more comfortable with online trading because of its transparency and complete control over the terminal.

Another study by Sandeep Srivastava, Surendra S Yadav and P K Jain (2008) on "Derivative Trading in Indian Stock Market: Broker's Perception" found that high net worth individuals and proprietary traders contribute to the major proportion of trading volumes in the derivative segment. The survey also revealed investors are using these securities for risk management, profit enhancement, speculation and arbitrage. It also emphasized to popularize option instruments because they may prove to be a useful medium for enhancing retail participation. Several earlier studies done regarding the characteristics of online traders in USA by Barber and Odean (2002) found that young men are more likely to use the Internet for investing, and that online investors tend to increase turnover and decrease their performance after switching to online trading. Research conducted by Konari Uchida (2006) on the characteristics of Japanese online investors found Japanese online investors prefer higher capital gains, choose low-volatility stocks less often, use chart data more frequently, and are more likely to choose stocks to buy and sell themselves.

The study conducted by Yingzi Xu, Robert Goedegebuure and Beatrice van der Heijden (2006) on "Customer Perception, Customer Satisfaction, and Customer Loyalty within Chinese Securities Business: Towards a Mediation Model for Predicting Customer Behavior" found service quality perceived by customers has a direct, significant effect on customer satisfaction. Also the relationship between perceived service value and customer loyalty is found to be determined by customer satisfaction.

Research Objectives

The recent developments like the recession affecting major stocks and increased innovations have caused a great deal of indecisiveness in differentiating the broking companies from each other in terms of their quality of service. This emerging scenario makes it necessary for the broking companies to identify customer perception of service quality, which strongly influences the customers' behavioral intentions. This would facilitate the process of categorizing, determining and measuring, controlling and thereby improving the customer perception in the context of service quality secondary market trading. The objectives of this study can be demonstrated as follows:

(i) To evaluate Indian customer perception in terms of secondary market trading services offered by broking companies.

(ii) To find customer satisfaction level in stock trading from past experiences.

The main factors of this research are: investment purpose, exposure to stock market, expectation of return, awareness of stock market and experience with broking firms. Investment purpose means the reasons for investing in stock market. Exposure to stock market measures amount invested and duration of investment in stock market. Similarly, awareness of stock market tries to measure investors' level of awareness regarding financial instruments. And experience with brokerage firms tries to find level of satisfaction of investors with broking firms.

Research Methodology

This is an analytical study based mainly on the primary data collected through scientifically developed questionnaire. It will help to understand the problems and analyze the situation. Similarly, we used Internet, research papers and journals as the source of secondary data. Secondary data is very much useful as it gives an insight to what already has been done by different research scholars and agencies.

This research is based on a sample of size of 125 customers chosen randomly from 15 different broking companies across the city of Bhubaneswar. Those companies are: Bonanza, Arihant, RR Equity, Religare, Sharekhan, SBI Sec., HDFC Sec., ICICI Sec., Reliance Money, IDBI Capital, Adiya Birla Money, Indian Infoline, Karvy, Kotak and Stand Chart. We used random probability sampling to choose customers representing various age groups, occupation, gender, marital status and annual income range.

A questionnaire was developed on the basis of the literature review and initial investigation. The questionnaire was initially pre-tested with some sample customers for its reliability and consistency. Both closed ended and open ended questions were used to collect the customers' response. And the customer feedback was recorded by directly meeting with people. The customer survey was done by visiting 10 different places of Bhubaneswar in a time span of 10 days. Finally, the data was analyzed with the help of statistical tools (SPSS and Excel), also Chi- square test and Spearman's correlation was used for this purpose.

Data Analysis

Around 24 percent of the total respondents belong to the age group of 18 to 23 years. And 28 percent people belong to the age group of 24 to 29 years. Similarly, 24 percent people belong to 30 to 35 age groups. Whereas 12 percent people are each from the age group of 36 to 41 years and above 42 years age. This shows that there are people from various age groups in the sample. Out of 125 respondents, 72 percent are male and 28 percent are females. 32 percent of the people are doing job in Private organizations. And only 16 percent are having their own business. Whereas 20 percent people are government employees and only 12 percent are professionals. 56 percent people are unmarried and 44 percent are married in the collected sample. In the sample 36 percent people have an annual income range of 0 to 2 Lakhs. And 32 percent people have income between 3 to 5 Lakhs. Similarly, 16 percent and 8 percent people have an income range of 6 to 8 Lakhs and 9 to 11 Lakhs respectively.

Hypothesis

Null hypothesis (H0): There is no relationship between amount invested in stock market and expected annual return.

Alternative hypothesis (H1): There is relationship between amount invested in stock market and expected annual return.

Spearman's rho analysis is done between amount invested (ordinal variable) and expected annual return (ordinal variable). From the SPSS result it is concluded that there exists a positive correlation between variables Amount_Invested and Expected_Return as the correlation coefficient is .090. But the correlation is not strong enough since significance level is .317 > .05. Hence Null hypothesis (H0) is accepted. So there is no relationship between amount invested in stock market and expected annual return.

Null hypothesis (H0): There is no relationship between age and amount invested in stock market.

Alternative hypothesis (H1): There is relationship between age and amount invested in stock market.

Spearman's rho analysis is done between variables age (ordinal variable) and amounts invested (ordinal variable). From the SPSS result it is concluded that there exists a positive correlation between Age and Amount Invested as the correlation coefficient is .558. It is also significant as the level of significance .01 < .05. Hence the Null hypothesis (H0) is rejected. So there is a positive relationship between age and amount invested in stock market. Hence the older people invest more in stock market.

Main Findings

In this research it is found that majority of Indian investors (64%) like to trade in equities than in Futures and Options. This shows there is a need to create awareness among investors regarding profitability of investment in futures and options. Some other major findings of this research are summarized below:

1) Indian people mainly invest their money in Share market followed by Mutual funds and Fixed deposits.

Hence the broking companies should diversify their business into MF distribution as there is a large market opportunity.

2) Investors' main motive behind investment in share market is high returns. So the brokers should always suggest most profitable stocks to their customers.

3) The annual return expected by majority of investors (44%) from share market is between 21 to 30 percent.

So brokers should advice customers to buy those shares that have given more than 30 percent historical return previously.

4) Most people invest in share market for long term (40%) followed by medium term investment (28%). So while advising people to invest money brokers should keep in mind customer's long term needs and portfolio management.

5) Recent recession has also some impact on investment strategy of people. Now most people are going for short term investment strategy followed by diversification and investment in F&O. This shows people are taking less risk now in stock trading.

6) Maximum people favor online mode of share trading than offline trading. This show broking firms need to educate customers regarding online trading as well as developing a user-friendly trading portal.

7) It is also found that 60% of people would like to purchase shares in delivery mode. And only 40% prefer to buy in intraday mode.

8) Investors generally prefer own research or broker's advice to decide whether to buy or sell shares. It means broker's need to be more reliable and authentic while giving their advice on selection of shares.

9) Customers' choose broking firms based on their customer service and brand name. So it's high time for broking firms to concentrate more on customer service as well as position themselves as a reliable brand.

10) Indian broking firms are doing well in customer service since 64% people are satisfied with them. But still there is a scope to improve it further.

11) Similarly, 76% customers find their broker's trading portal to be user-friendly. And 60% people are satisfied with the speed and accuracy of trading.

Limitations

This research might have some minor limitations because of limited sample size and the environment in which data was collected. The data analysis and findings are based on the knowledge and experience of the respondents. It is assumed that at the time of undertaking survey the best available respondent group was chosen and the responses given by each one of them was genuine. If the respondents responded to the questionnaire without any interest, attention or adequate knowledge regarding stock market, then the conclusions drawn from this research might not become valid in real world.

Conclusions

The findings of the research are quite eye-opening and thus the objective of this study has been successfully achieved in understanding customer perception towards secondary market trading. These findings are significant in the aspect that it shows why customers behave in a certain way towards stock trading. It also shows some major characteristics of Indian stock market investors such as: They mainly prefer investment in equities for getting high annual returns. They mainly chose online mode of trading and make decision to purchase shares based on their own research or broker's advice. This research work can also be used by the broking firms to enhance their customer service as well as brand image. They can utilize these findings to understand the actual need of their customers and predict their behavior.

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