Analysis on Stock Market Crashing

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Abstract

This Research Paper talks about the term 'Stock Market Crashing' and the detailed definition that why it happens and also that what to do when the stock market has crashed as well as it also answers the question that is the Stock Market Crashing likely to happen in near future due to COVID 19 Pandemic.

Keywords

Stock Market Crash, COVID 19 crisis, Future Stock Market Condition

Literature Review

The need for this study is to make the students, professors or any other party to be aware of the term Stock Market Crashing and its reason that why it happens. The analysis of Stock Market has also been done so that it an be used by the Investors that are active for investing in short term as well as long term and also various points are mentioned to how to invest when the stock market has been crashed so as to safeguard the interests of the investors.

Introduction

A stock market collapse happens in a day, or a couple of days, when a stock benchmark falls significantly. The benchmarks include Dow Jones, the Standard & Poor's 500, the Industrial Average and NASDAQ.The collapse is sudden than the stock correction where the price fell 10 percent over days, weeks or even months from its peak of 52 weeks. Every bull market has been rectified (and also multiple) over the past 40 years. A regular part of the business cycle is accepted by knowledgeable investors. This pullback makes it easier to stabilize the market prior to rising.The stocks are a significant source of cash used by firms for the operation and growth of their enterprises. When stock values fell sharply, businesses are less capable of rising. Industries which do not manufacture will eventually lay off solvent employees. They spend less on laying off jobs. Declining demand means lower wages. More layoffs are expected. The economy is exhausted and causes a recession as the decadence progresses. Stock Markets had been collapsing in the past since the Great Crisis, the recession of 2001, and the 2008 Great Recession.

Research Methodology

We conducted Secondary Research and the data was collected through various Journals, Newspapers, Blogs, official sites and articles published by consulting firms.

Stock market crash

What is a stock market crash?

In stock market life, uncertainty is a reality. Individual equity prices and broader indices are rising and falling every day, and markets are experiencing turbulent changes over the short and the long term. A stock crash is caused by a fast, twin-digit decline of a broad index or many associated indexes. There is no clear percentage drop that describes a bond collapse specifically – unlike bulls and bear markets – but typically traders know when they see it.

Deeper definition

Stock market crashes, as well as changes in real economy, are driven by crowd dynamics. In fact, crashes signal the occurrence of or after disastrous events in a financial bubble. In any scenario, traders are beginning to rush to sell paper assets such as securities and bonds.Other factors that lead to stock market collapse include protracted stock price rising periods and excessive economic optimism, a market in which P/E ratios exceed long-term averages and a large use of participants' leverage. Significant stock market crashes may cause economic recessions or even depression.Stock market crashes have severe effects both for creditors and for society in general. As share price declines, creditors see the value of their investments fall and publicly traded firms see their market prices drop, making the raising of funds impossible for them. These factors mainly indirectly result in job losses and reduced disposable income in a company.Central banks like the United States require crashes. Federal Reserve to take additional measures to restore the normal workings of the economy. Central banks usually reduce interest rates, avoid trading, or change basic market rules to provide markets, especially the financial sector, with liquidity.

Stock Market Crashes in History

1. The Stock Market Crash of 1929

In October 1929, after the ten-year "Roaring 20s" boom collapsed, the first major bond market collapse occurred. Speculators ran wild on stock markets with products such as homes and cars selling like hot cakes. Many investors were over-rewarded (i.e. borrowed too much money in order to buy stocks) and when the bubble of the market arose, they could not satisfy their debt bonds, and slipped into bankruptcy.The poisonous combination of rising asset values, heavy debt and loaned money will be a blueprint for a equity collapse in the coming decades. In that situation, on the fourth day after the recession, the financial price dropped 12.82% (known as 'Black Monday') and the rebound after the U.S. economy from the Great Recession after the collapse of the price lasted 12 years. Interestingly, the Second World War was a significant force in the long-lasting rehabilitation of the economy, as Uncle Sam started fighting on two fronts to boost the manufacturing ability to wage a world war.

2. The Stock Market Crash of 1987 – In October the 1987 stock market collapse, branded as "Black Monday the 2nd," is branded as America's biggest one-day market loss. The crash was also a major one among speculators and high-profit creditors, but the bubble-popping technology has added yet another twist.Owing to the heavily charged corporate acquisitions and buyouts and the fact that corporations used questionable financial instruments such as junk bonds and margin accounts, share prices fell to Black Monday, October 19, 1987. The economy turned a dime on that day and retail salesmen continued to dominate the economy. More investors also panicked and aggressively sold, as more investors sold. This loop went on during the trade day, as machine trading made selling orders faster and quicker.

When the smoke was clear, the stock market lost 23 percent of its value. The initial steps were taken to install circuit breaks on the computer platform

that would allow market leaders, in future high-risk trading days, to 'pull a plug' into trading, and give bursaries a much-needed breath.

3. The Dot.com Bust of 1999-2000

Few stock crashes happen with a streak of lightning, as did the 1987 stock crash, which saw the stock losing 23% in one day's trading. Some crashes take longer, as after many trading sessions casualties add up. It occurred in the crash of the dot.com industry in 1999 and 2000. Tech was once again in the forefront of this scenario, with the investor's interest in internet stocks booming in the 1990s and "modern economy" businesses like AOL, Pets.com, Webvan.com, GeoCities and Globe.com seeing a huge rise in share prices.Globe.com was the first public offering phenomenon which launched at $87 per share on the first day of trading on 1998, probably the poster child of all dot.com shares, but just $9 per share was the initial price demanded. The IPO was raised by Globe.com for $28 million and the market cap was $842 million. Though just two years later, Globe.com dropped out of favor with other dot.com firms, as customers left increasingly inflationary tech shares. Globe.com traded less than $1 per share and was de-listed early by Nasdaq, two years after its lights-out IPO. The tech-oriented Nasdaq decreased from 5,000 in early 2001 to just 1,000 in 2002 with investors furiously shedding technology stocks like Globe. com.It only stabilized as Wall Street started to evaluate the actual financial health of technology-based businesses more reliably-as buyers became more selective and cautious on the securities and funds they invested.

4. The "Great Recession" Stock Market Crash of 2008 - Many Americans still don't know how close America's banking system has fallen after the crash of the stock market in 2008 and 2009, when Wall Street banks have nearly destroyed the world's high-risk investment habits.

The downturn of 2008 was caused by the massive use of the US housing sector's mortgage-sponsored securities. This good – marketed to creditors, mutual funds and banks by financial firms – lost interest as house prices plummeted (a situation that started in 2006). Even less US borrowers capable of servicing their mortgage commitments, MBS rates collapsed, pushing distressed financial organizations.Investors were not prepared to have much needed liquidity on the country's capital markets with investment risk in the stratosphere.The United States soon. Congress approved a major effort to finance the economy, which often rescued "too big to fail" banks while stabilizing the economies. Furthermore, the Federal Reserve has purchased lower mortgage securities and has steered interest rates up to 0%. This succeeded primarily, because the stock market started up again at the end of 2009 after two years of jitters — and the economy, albeit at a glacial rate, began to rebound.

What to do in a Stock Market Crash?

Search for dividend paying stocks - Although market values are determined by equity acquisitions and transactions, the dividend comes from the net profits of a business. When the price of the stock declines, but the business makes a good profit and also pays a dividend, it is a perfect choice for those pursuing more profits.Another of the main providers of capital accumulation is dividend-paying securities. Make sure you choose what you want and not just pick a random product, because it pays a dividend. Behind this stupidity, there is a process.

Find Sectors that raise rates on a bear market - Researches on past bear markets are useful in order to determine what inventories, assets or sectors grew (or at least owned) when the market ran around them. Many finance blogs report efficiencies in the industry over various time spans, so it is easy to see which places detail certain industries.Start to decide any of the investments in these industries, and once an company is efficient,

this is normally achieved for a longer time. Bear markets can also have various catalysts, which means that this approach can also support investors with their portfolios.

Use ETFs to diversify and blend sectors - It's no secret that many businesses are performing well in both global ups and downs. For example, as the economy rises, a organization that produces large-scale goods, such as digital gadgets, vehicles, green houses, healthcare advancement and other related large-scale sales, continues to do so successfully. That's why their stocks do likewise.If the economy seems to be in crisis, it is worth changing to protective stocks linked with basic human needs,such as food (i.e. grocery stores within the consumer staples industry), energy stocks with blue chips, and even clothes and certain real estate.

Purchase Bonds - Bonds are a safe way to counterbalance a bear market. Note that in typical difficult financial times a deteriorating market occurs. It frequently reveals which companies owe too much to take care of and who generally handles their debt quite well.

Short Underperforming Stocks - This is strictly for advanced investors, so novices need not seek it out. Short sales are when you borrow money to buy stock shares, then sell them straight away. The goal is then to repurchase them at a cheaper price, sell the stock to the investor and to benefit.The abbreviation of a stock is incredibly dangerous, so you roll the dice. Even the best analysis of investment will not ensure the share decreases, but a thorough analysis can certainly help in a bear market.

Listen to the Bulls and the Bears - One of the biggest strengths to be a successful investor is that you want to hear an argument on both sides before you make an investment decision. If you're buying inventories or you are buying assets, try to consider the viewpoint of the biggest bull, the smallest bear and everyone in the center. You'll have stronger confidence when you take benefit and minimize risks by understanding what can go right and what can go wrong.

Learn to Love Managing Your Money - Passive investment is the most important strategy today: if you have "long naked" stocks via an ETF, a mutual fund, an index fund or a pension fund, your wealth will grow over time. But as the latest bond crash shows, you will lose a lot of money with this strategy especially if you only get into the investment game or if you contributed to it.The concern with passive investing is the implicit conflict of interest between the goals and the company's priorities. Remember even if your investments are worth more or less, they do not make profits, they just make money from dividends, so that they allow you to purchase speculative investments at any expense. Basically, if you lose money they don't matter.The answer? Handle your own money. Handle your own assets. And if it is difficult to locate someone who is a genuine and successful investor, you should locate certain ways to improve your odds.

Learn from Investors Who Want You to Succeed

There has been one thing proved by the latest stock market crash listening to financial media will lose you money by reporting priced news, and your guests are usually financial companies who are trying to sell information you don't necessarily want to benefit.Instead, a good investor with a proven track record and reading their books is the perfect way to know.Regardless about what you want, the books published there by influential investors are infinite. What you must do now is keep this great library of learning and wisdom from being lost.

Prepare to "Go Short" (There are Ethical Ways) - There will come a moment in each investor 's life, where you want to be short. But it's also tabo: if you bet on a business, you bet on people's work, so people's finances. But you can speculate on businesses without influencing their stock prices using various financial instruments.CFDs can be used as one means: derivatives that represent the underlying price and the real value of the stock will not affect it — while certain countries have banned it because of legislation. The alternatives options could be because they're a totally different market, the stock price is not affected.

Never Let Your Mind Play Tricks on You- The psychology of whether you have a success or an investment failure, but especially the errors you must still learn and unlearn, play an important part.Recency: if anyone assumes that current incidents — also known as the hot hand fallacy — ought to happen in the future, it is by far the most damaging mistake. It would appear to be a logic that you have never experienced any bear market before, but for someone who has experienced both the Dotcom bust and the Subprime crisis era a statement like, "Stocks have been rising in the last 10 years so they will continue to climb."

Understand the Products You're Investing In

After the crisis, "extremely liquid products" turned illiquid, triggering heightened casualties in the ETF world, including those funded by US treasuries deemed unchallenged by the market.

When you decide if you are investing in any financial product, research for an hour and, most importantly, what can and will go wrong at some stage.

Although it is hard to make money in investing over your lives, instead of outsourcing your financial success to third parties, you will have a better chance to navigate the markets yourself. The biggest choice I have ever taken was for banking, money management and markets to be involved in. It's a wilderness ride, but you're not going to regret it.

Impact of COVID 19 pandemic on Stock Market

Regarding the financial sector, 2020 was eventful.In China in December 19, the first detected Coronavirus was Covid-19, spreading exponentially across the globe. Although different coronavirus strains such as SARS, MERS, Ebola have preceded it in the past. Covid-19 is spreading even more quickly than ever.The black swan occurrence for the financial markets was not a worldwide outbreak of the Coronavirus; what was surprising was that the whole economy needed to be bottled up internationally. The world economy came to a halt for 3 months, closing down businesses and factories. The worst case for the country is that so many businesses and individuals now have virtually zero profits because the employment cuts make it impossible for corporations and individuals to pay back loans. The financial network will collapse, and the flow of cash will come to a complete standstill.However, it seems that this scenario was avoided. In the USA, the FR launched a major plan for the purchasing of bonds that protects financial markets from panic. In India, the RBI initially announced an extension of 3 months in the loan moratorium.The moratorium ended in a change in repayment of six months. Essentially, the fact that wages have changed within 6 months is the explanation for the slowdown. No factory was destroyed, no houses destroyed, unlike a physical war or natural calamity. Both properties remain as they are, only a 3-month lockdown of profits ceases. This may not be such an unfortunate scenario.There was still no widespread starvation in India. India's first "economic package" was to provide free food grain.That's probably why I think

the highs of Mar-20 are behind the fast market recovery.One thing however is clear – the global and Indian economies will probably slow down for a few years. Customers won't shop for big tickets like a motorcycle, a home, a huge flat screen TV etc. Consumers are going to go as much as possible to delay prices. It's going to be really tough 18 months for the banks and finance firms It goes without saying that when the economy is back to work, how many will be able to completely repay their debt?If there is a 2nd outbreak of Coronavirus, there will be no lockout because there are still too many sick people. There will be partial lock-ups and for a time the market will have to navigate speed breakers.There is a strong possibility that another market sale could take place in the near future.

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