

A Study on Individual Investor Interest in Intra-Day Trading

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Admission Number: 23GSOB2010530

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CHAPTER 1:INTRODUCTION

In recent years, there is a notable upsurge in the prominence of day trading as a financial pursuit in the world of finance. The world has witnessed a huge popularity of day trading or we can state as IntraDay Trading. Day traders are individuals who rapidly buy and sell financial instruments, such as stocks, currencies, or commodities, in the short term to profit from short-lived price fluctuations. Day trading entails executing trades within a single trading day, refraining from holding any positions overnight. Day traders employ a range of techniques and tools to identify short-term opportunities, including technical analysis, chart patterns, and market indicators. Diverging from long-term investors, day traders aim to capitalize on intraday price movements, leveraging both upward and downward market trends. Intraday trading, also known as day trading, encompasses the practice of purchasing and selling stocks or securities within the same trading day. Statistical data reveals that only a small fraction of day Traders achieve success, with the majority experiencing financial losses. Consequently, intraday trading can be defined as follows: "It is a form of share trading wherein individuals engage in the buying and selling of shares over the internet within a single day's trading, aiming to profit from minute price fluctuations." While day trading is often mistakenly perceived as a straightforward pathway to wealth, this notion is far from accurate. Distinguishing itself from other trading styles, day trading rarely involves holding positions overnight or during market closures. As an intraday trader, one's focus lies not in market direction, sentiment, or the fundamental strength of individual companies, but rather in predicting whether stock prices will experience sharp rises or falls within the course of a day. The traditional rules of trading no longer apply in this realm, as intra day trading operates under a distinct set of rules and dynamics.

Moreover, when it comes to selecting stocks or securities, the day trader must make decisions based on their potential performance within the specific trading day, as there is no luxury of waiting until the following day to observe chart patterns or allocate capital. Intraday trading carries significant risks due to the necessity of squaring off positions within the same day. Like any trading approach, intraday trading has its own advantages and disadvantages. With intraday trading, one is not required to block invested amounts after trading hours, and the profits earned per traded share tend

to be minimal, reflecting the daily volatility of the stocks. However, increased volatility in financial markets stemming from event scan result in substantial swings in portfolio returns within a single day. Intraday trading, characterized by its demanding nature, necessitates thorough research and the formulation of a well-defined strategy. While position traders may observe trends unfolding over the course of a month, intraday traders base their decisions on trends that last no longer than an hour. Trading patterns within this style typically endure for a mere 5 to 15 minutes, and traders

may find themselves executing trades as frequently as every thirty seconds. All intraday trading adheres to a uniform commission structure, characterized by low minimum transactions and generous trader payouts. In the realm of equity investments, decision-making processes can be rational, with investors carefully analyzing market information. However, irrational decisions can also arise, as investors may overlook certain available information or exhibit a limited cognitive capacity to process the vast array of data. Additionally, investors tailor their decisions to align with their risk tolerance levels. While equipped with diverse analytical methods and tools, the stock market remains a complex arena where numerous factors must be considered when selecting equities for investment or trading purposes. Socio economic, demographic, and attitudinal factors serve as pivotal drivers in shaping investment decisions.

Many investors experience insecurity when managing their investments in the stock market, given the difficulty of

identifying companies with promising growth prospects. Investors with a higher risk appetite often seek novel and exotic products in the pursuit of diversification, resulting in the emergence of new options within existing or untapped asset classes. A broader range of products is now available within each asset class, including equities, mutual funds, gold, and real estate.

It is an undeniable reality that traders can exhibit irrational behavior, a phenomenon extensively studied by researchers. These scholars delight in the fact that actual traders do not conform to the "rational" assumptions upheld by traditional finance theories. Instead, traders are guided by their emotions and prone to cognitive errors. They may lack self-control, display over confidence in their abilities, misinterpret information, overreact, or mindlessly follow the crowd without critical thinking. Such cognitive biases and behavioral errors can manifest as market anomalies, leading to speculative bubbles and other market distortions.

KEY POINTS ON TRADING BEHAVIOUR

Astute traders who have achieved success in the financial realm demonstrate remarkable capacity for extracting valuable insights and knowledge from the errors and missteps they encounter throughout their trading endeavors. These discerning individuals possess a keen ability to assimilate lessons learned from past mistakes, integrating them into their decision-making processes and strategies, thereby enhancing their overall trading prowess and increasing their chances of continued success.

The deep passion for trading and a strong desire to succeed in the competitive financial world are powerful motivators for individuals involved in trading.

The trading style an individual embraces tends to be consonant with their distinct personality traits and character attributes, as these factors intertwine to shape their approach to financial markets.

The mitigation of anxiety and stress levels holds significant importance in the pursuit of successful trading outcomes.

Humility and humbleness play a pivotal role in the journey of successful traders as they actively suppress their ego and pride.

The fundamental pillars of effective trading encompass meticulous strategic planning, thorough preparation, steadfast patience, and unwavering discipline, serving as the linchpins for achieving financial success.

Having a deep respect for the inherent risks and uncertainties is crucial when making sound financial decisions.

Implementing robust risk and money management practices is paramount for traders seeking sustainable success in the financial arena. It is essential for traders to adopt effective risk and money management practices to ensure long-term success in the financial industry.

Successful traders prioritize the pursuit of profitability over the need to be proven right in their trading decisions.

Finding a balance and gaining a broader perspective in life are important goals for individuals seeking

happiness and fulfillment.

CHAPTER 2: OVERVIEW OF STOCK MARKET

The capital market encompasses the trading and exchange of medium-term and long-term financial assets. When we refer to medium-term and long-term, we are specifically addressing a time frame extending beyond one year. Therefore, the capital market primarily operates as a platform where financial assets with a maturity period of one year or more are typically transacted. A Secondary Market is a type of Capital market. The secondary market, often referred to as the stock market, is a market place where pre-existing securities are bought, sold, or exchanged. In India, the secondary market encompasses recognized stock exchanges that operate under government-approved rules, by-laws, and regulations. These stock exchanges establish an organized platform for the trading of securities issued by central and state governments, public bodies, and joint-stock companies. According to the definition provided in Section 2(3) of the Securities Contracts (Regulation) Act, of 1956, a stock exchange is described as a collective entity, whether incorporated or not, established with the purpose of facilitating, regulating, or governing the activities of purchasing, selling, or dealing in securities.

Functions of the Stock Market The secondary market performs several essential functions, which are as follows:

Facilitating liquidity and marketability: The secondary market plays a crucial role in enhancing the liquidity and marketability of existing equity and debt instruments. By providing a platform for the buying and selling of these securities, it enables investors to easily convert their investments into cash.

Contributing to economic growth: Through the process of disinvestment and reinvestment, the secondary market contributes to economic growth. It allocates funds to the most efficient channels, allowing capital to flow towards businesses with promising prospects, thereby fostering economic development.

Providing instant valuation of securities: The secondary market offers a mechanism for promptly valuing securities based on changes in the internal environment, including company-wide and industry-wide factors. This valuation assists in determining the cost of capital and measuring the rate of

return for economic entities at a micro level.

Ensuring safety and fair dealing: The secondary market plays a crucial role in safeguarding investors' interests by promoting safety and fair dealing practices. By adhering to established regulations and promoting transparency, it creates an environment where investors can trust that their interests are protected.

Encouraging performance improvement: The stock exchange market price reflects a company's performance, making it readily available to investors. This incentivizes companies to strive for improved performance as they understand that their market price is a direct reflection of their success.

ORIGIN AND DEVELOPMENT OF THE STOCK MARKET IN INDIA

The origin of the stock market in India can be traced back to the late eighteenth century with the issuance

of long-term negotiable securities. However, the true impetus came in the mid-nineteenth century after the enactment of the Companies Act in 1850, which introduced the concept of limited liability and kindled investor enthusiasm for corporate securities.

In 1875, the Native Share and Stock Brokers' Association, now recognized as the Bombay Stock Exchange (BSE), was established in Bombay (now Mumbai). This was followed by the formation of additional associations and exchanges in Ahmedabad in 1894, Calcutta (now Kolkata) in 1908, and Madras (now Chennai) in 1937. To facilitate systematic development and regulation of the stock

market, the Indian government introduced the Comprehensive Securities Contracts (Regulation) Act, of 1956.

During the 1960s, the Calcutta Stock Exchange (CSE) held a dominant position as the largest stock exchange in India. In 1961, there were a total of 1,203 listed companies spread across various stock exchanges in the country, with the CSE boasting 576 listings and the BSE having 297. However, in the latter half of the 1960s, the CSE's prominence waned while the BSE experienced a significant surge in influence.

POST REFORMS IN STOCK MARKET

Following the implementation of reforms in 1991, the Indian secondary market adopted a four-tier structure, consisting of the following:

Regional stock exchanges

The National Stock Exchanges (BSE and NSE) The Over the Counter Exchange of India (OTCEI) The Inter-Connected Stock Exchange of India (ISE)

The National Stock Exchange (NSE) was established in 1994 and marked a significant milestone in the modernization of the Indian stock market. It introduced new technology, trading practices, institutions, and products, setting the stage for a more advanced and efficient market ecosystem.

In 1992, the Over the Counter Exchange of India (OTCEI) was established as a stock exchange, specifically catering to small and medium-sized companies. It aimed to provide these companies with a platform to raise capital. The OTCEI drew inspiration from the model of the National Association of Securities Dealers Automated Quotation (NASDAQ) in the United States but incorporated modifications to suit the unique conditions of the Indian market.

In all, there were 20 stock exchanges in India? 15 regional stock exchanges, the BSE, the NSE, the OTCEI, and the Interconnected Stock Exchange (ISE) of India. The ISE was a stock exchange of stock exchanges. The 15 regional stock exchanges are located at Ahmedabad, Bangalore, Bhuvaneshwar,

Kolkata, Cochin, Coimbatore, Delhi, Guwahati, Indore, Jaipur, Kanpur, Ludhiana, Chennai, Pune, and Vadodara. They operated under the rules and by-laws and regulations approved by the government and the SEBI.

CURRENT LIST OF EXCHANGES SOURCE SEBI

ORGANISATIONAL STRUCTURE AND MANAGEMENT OF STOCK EXCHANGES

The organizational structures of the recognized stock exchanges in India were delineated as follows:

The stock exchanges in Bombay, Ahmedabad, and Indore operated as voluntary non-profit-making associations comprising individuals who willingly came together.

The stock exchanges in Kolkata, Delhi, Bangalore, Cochin, Kanpur, Guwahati, Ludhiana, and Chennai adopted the form of public limited companies, allowing for broader participation and

accountability. Coimbatore and Pune opted for the organizational structure of companies limited by guarantee, indicating a distinct approach to their operational framework.

The Over the Counter Exchange of India, established under Section 25 of the Companies Act, 1956, emerged as a corporate entity governing the exchange's functioning.

The regional stock exchanges were administered by a governing body composed of both elected and nominated members. The trading members, responsible for delivering broking services, held ownership, control, and management authority over the exchanges. This governing body was vested with extensive powers, encompassing the election of office-bearers, establishment of committees, admission, and expulsion of members, management of the exchange's properties and finances, resolution of disputes, and oversight of day-to-day affairs.

Distinguished by their demutualized nature, both the OTCEI and the NSE represented exchanges where the ownership and management structures were decoupled from the right to engage in trading activities. Notably, the National Stock Exchange (NSE) stood out as the sole tax-paying entity incorporated under the Companies Act and endorsed by prominent financial institutions and banks.

The primary focus of the study is on NSE (NATIONAL STOCK EXCHANGE) NATIONAL STOCK EXCHANGE

The NSE (National Stock Exchange) is an esteemed institution of national significance that holds a prominent position on the international stage. As a market infrastructure institution, it upholds a reputation for maintaining exemplary corporate governance standards.

Embodying the essence of an indigenous brand with a global outlook, the NSE stands as one of the largest exchanges worldwide, actively propelling India's economic growth. In a groundbreaking feat, the NSE spearheaded the introduction of electronic or screen-based trading in India, commencing operations in 1994. This pioneering adoption of technology has fostered a culture of innovation and substantial investments in advanced systems, ensuring reliability and optimal performance. By cultivating a market ecosystem, the NSE promotes transparency and efficiency.

Powered by a robust, cutting-edge technology platform, the NSE offers unparalleled levels of resilience, security, and stability for trading and investment opportunities across diverse asset classes. This state-of-the-art infrastructure caters to a wide range of investors, ensuring a fair and conducive environment. Moreover, the NSE is deeply committed to investor protection and the disciplined development of India's capital market landscape.

NSE PRODUCT SECURITY DERIVATIVES

The inception of derivative trading on the National Stock Exchange of India Limited (NSE) marked a significant milestone in its history. On June 12, 2000, the NSE introduced index futures, with the underlying asset being the widely followed Nifty 50 Index. This move allowed market participants to engage in futures contracts based on the performance of this benchmark index.

Expanding its offerings further, the NSE introduced trading in index options on June 4, 2001, again based on the Nifty 50 Index. Notably, the NSE became the first exchange in India to launch options trading on individual securities, starting from July 2, 2001. Subsequently, on November 9, 2001, futures on individual securities were introduced. It is worth noting that the eligibility criteria prescribed by the Securities and Exchange Board of India (SEBI) determine the availability of futures and options on specific individual securities.

In addition to index-based derivatives, the NSE has also facilitated trading in futures and options contracts linked to various indices. Currently, market participants have the opportunity to engage in derivative trading on indices such as NIFTY50, NIFTYBank, NIFTYFinancialService, and NIFTYMidcapSelect. This section of the NSE provides a comprehensive insight into the derivatives segment, offering real-time quotes and information on derivative products, trading systems, clearing and settlement processes, risk management, statistics, and more. It serves as a valuable resource for market participants seeking to navigate the dynamic world of derivatives trading on the NSE. Since its initial foray into index derivatives with the Nifty50 Index, the NSE has continued to expand its equity derivatives product portfolio.