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Editorial

Lesson from Stock Market Volatility

Indian stock markets began the year 2008 on a very optimistic note. Sensex crossed the 21000 points for the first time. The liquidity was ample on account of big foreign inflows. But the optimism did not last long. The Indian Stock Markets crashed from 21000-level of mid-January to 15000-level by March end. This downfall was mainly due to deeper financial problems in US which led to all global markets falling sharply. The Indian markets became highly volatile after the sharp melt down. The volatility seems the only to be thing that seems predictable in today's stock market. The share prices are swinging up and down more violently than they have done any time in the past five years. Sensex has risen by 19.68 per cent in the Financial Year 2007-08, its second highest returns in the last four years. Sensex was at 120 levels in 1979 April. Today it is at 16500 + level. It is significant that Rs 1000 invested in the Sensex in 1979 would be equal to Rs 1.47 lakh today. This almost equals the annualized returns of 20% without considering dividends. It is unfortunate that most of the small investors (retail investors) do not have proper strategy to tackle the volatility. As a result, the investors become nervous, anxious and panicky they take illogical decisions under pressure. They abandon their long term plans and redeem their funds under panic and incur losses. In the midst of volatility, it is important to remember that over the long-term growth in equity, prices follow earnings growth. Therefore, as long as the fundamentals of the economy remain unchanged, the economic growth story would continue to the fuel inflation eating into the returns from equities. However, it is historically proved that over the long run, the stock markets are the best avenues for enhancing one's wealth to take on the inflationary onslaughts. In other words, Indian stock markets will continue to reward the investors handsomely.

The eighth issue (Vol: 4, No: 2) of the SMART Journal of Business Management Studies comprises of 11 articles, written by authors of repute, on different themes of contemporary relevance. I hope readers find it academically challenging and strategically stimulating.

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