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Revival Strategies to be followed during Stock Market Crash

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Abstract:

The stock market is a volatile place. There have been times when share markets have crashed and caused huge losses to investors. The present paper adds to the literature of stock market crashes, effects of political, social, economic, psychological factors and financial crises in stock market. The study implies that the Russia–Ukraine War has affected the behavior of Indian stock market to a great extent. The one thing is certain when geographical events take hold ia that uncertainty runs life. During the War situation, the market volatility picks up and emotional investors tend to head for the exit. The stock market has recovered on every occasion. Investors should not fear buying shares with a bit of patience. This study would be intending to investigate how the recent market crashes has affected the Indian stock market over the time. The results of the study and strategies to overcome from market crashes might be useful for investors, corporate executives, portfolio managers and policy makers in framing business policies and for the appraisal and management of present portfolios.

Keywords: *Market crash, Volatile market, Fundamental Analysis, Blue Chip Share*

Introduction:

The stock market is where people can buy and sell shares and stocks of any listed company. A share signifies part ownership of a company. The stock is the entire collection of its shares. When investors buy shares of a company listed in the stock market, he/she can make profits when they perform well and vice versa. Stock market is significant part of the economy of a country. The stock market affects the economy of the country to a gigantic degree. Stock market in Indian economy effect on wealth, pensions, Investments, Bond markets etc. Healthy functioning of stock markets has considerable effects on growth of an economy in a developing country. There has been large number of studies conducted around the globe by many researchers since last few decades on the subject of stock market efficiency. Stock market is the cheerfully pleasant endeavor for the standard man as it offers an opportunity to place assets into professionally directed portfolio. Due to fear of further fall in stock market, investors sell out their holding without waiting having patience. This leads to a heavy loss to their portfolio.

Share Market Crash:

Share market crash is usually defined as a double digit fall in indices. However the share markets have always recovered and impacts of market crash have lasted for couple of days, months or even years. Share market crash is usually defined as a double digit fall in indices. However the share markets have always recovered and the effects of market crash have lasted months or even years. There are several reasons why the stock market crash, few of these are economic changes, geographical issues, external economic events etc. In long history of Indian Stock trading, there have been a few stock market crashes affecting the shareholders financially. If the investors want to invest in shares, it is important to know the reasons for previous crashes in India's stock market.

Stock market failures are commonly influenced by wide money supply, budgetary need bound from political security. Stock market crash is a rapid and often unanticipated decline in stock prices. A stock crash can be a side effect of major events, economic crisis. Reactionary investors become panic at a stock market crash as they sell the stock that depresses prices.

Review of Literature regarding Market's Reaction to Historical Tensions: www.cnbb.bank

History tells us periods of uncertainty like we are seeing now are usually when stocks suffer the most. In 2015, researchers at the Swiss Financial Institute looked at US military conflicts after World War II and found that in cases where there is a pre-war phase, an increase in the war like hood tends to decrease stock prices, but the ultimate outbreak of a war increases them. However, in cases when war starts as a surprise, the outbreak of war decreases stock prices.

Mark Armbruster, the president of Armbruster Capital Management, studied the period from 1926 through July 2013 and found that stock market volatility was actually lower during periods of war. Investor would expect the uncertainty of the geopolitical environment to spill over into the stock market.

According to Financial Education by Country National Bank Uncertainty from geographical tensions (Eg: Russia and Ukraine War) creates worry, during these times risk assets tend to sell off. "History tells that the fall and negative impact on risk assets has always proven to be temporary. As a time moves forward, markets assess the risk and adjust their expectations. If we take examples of some global geopolitical issues, the Gulf War saw equities rise 5 months after it began, while the 9/11 Terrorist attacks and the Ira War saw the market rebounding after 2 and 3 months respectively".

"During a geopolitical event, the perceived safe assets of gold and US Treasuries have held up best, while risk assets, namely equities, can fall into correction , historically at least 10% drop is registered".

"29 geographical crises events around the Globe starting with World War II, it was found that US equity market was on average 2 % higher 3 months after an event"

One of the great observation that was made when looking specifically at US War period(World War II, Korean War, Vietnam War and Gulf War)Vs long term Historic Averages(1929-2013), the volatility of asset classes was lower during the War periods than for the full period.

Objectives:

1. To review the factors that might affect the stock markets in India.
2. To study the effects of Russia-Ukraine War on Indian stock market.
3. To study what major things to understand before investment in stocks.
4. To suggest the revival strategy in post market crash.

Research Methodology:

For the present research only secondary data has been used. For the study of companies having consistent Roe and RoCE, selected renowned companies are selected to check their concerned ratios. The required data identified with Indian Stock Markets NSE and BSE have been gathered from different sources for example research papers, news and articles on related topic, release of RBI, information dispersed by Ministry of Commerce, NSE, BSE, Money control, investopedia, etc.

Major Market Crashes in India

1. **Market Crash of 1865:** Frist stock market crash in 1865 due to speculation about the results of the American Civil War had led to irrational increases of stocks of new Indian Companies. Shares of the Back Bay (face value Rs 5000) touched Rs 50000 and those of Bank of Bombay (face value Rs 500) touched Rs 2850. Banks loaned money to speculators further. The market crashed in May 1865 when the civil war ended. Shares of the Back Bay reclamation fell by 96% and a number of members went bankrupt.
2. **Market Crash of 1982:** The bear lobby of Bengal started short selling. Stocks of Reliance armed 1100000 was short sold. The value of shares decreased significantly. The BSE was shut down 3 consecutive days.
3. **Market Crashes during 1991-2001:** In 1991, government of India adopted LPG i.e. Liberalization, Privatization and globalization. The stock market in 1991 saw a number of cycles of booms and busts, some related to scams such as those occurred by players such as Harshad Mehta and Ketan Parekh, some due to circular trading, rigging of prices and the irrational

excitement.

The 1992 scam was a systematic fraud committed by Harshada Mehata which let to complete collapse of security systems. He single-handedly caused the 1992 stock market crash, the largest in terms of percentage. He was a broker who planned the securities scam and manipulated the stock market and committed a fraud by borrowed huge amount from banking system to buy stocks on BSE. Total 27 criminal charges were there against him. BSE falls 12.77 % due to this scam. This financial scandal valued at 100 billion.

Ketan Parekh involved in Indian stock market manipulation. This scam occurred from late 1998 to 2001. Parekh artificially rigged prices of certain chosen securities using large sums of money borrowed from banks. After many investigations by SEBI, Ketan Parekh was found guilty of rigging share prices of 10 companies i.e. K-10 scam.

The terrorist attack on Sept 11, 2001 was marked by a sharp plunge in the stock market, causing a $ 1.4 trillion loss in market value.

4. **Market Crash of 2004:** BSE Sensex fell by 15.52 %, its largest fall in history in terms of percentage. The BSE benchmarked Sensex crashed by 842 points during intraday trade, which led to temporary stoppage of trading twice on both the BSE and the NSE.SEBI investigated this incident to discover and found that UBS carrying out a large amount of selling orders for anonymous client who was a prominent overseas institutional investor.
5. **Market Crash of 2007:** It is one of the worst stock market crashes in India, with long –lasting effects. Sensex fell by 617 points on 2nd April 2007. It witnessed another fall of 615 points on 1st august 2007. The stock market continued to crash regularly for rest of the year, too.
6. **Market Crash of 2008:** The great recession hit world in 2008. the effects of which appeared as a fall of 1408 points in BSE, leading to one of the largest erosions in investor's wealth. Mortgage crisis, credit crises, bank collapse, government bailoutetc these were the words frequently appeared in the headlines during the market fall of 2008. Sensex experienced a dip of 875 points on 22nd Jan 2008 and another 834 points on 11th Feb 2008 and again on 24th Oct 2008 by 1070 points. Many analysts gave variety of reasons like global investment climate, fear of US economy going into recession, FIIs and foreign hedge funds selling in order to reallocate their funds from risky emerging market to stable developed markets, a cut in US interest rates.
7. **Flash Crash of 2015:** On 23rd/ 24th August 2015 BSE Sensex crashed by 1624 points. At the same time NSE also fell by more than 490 points. The reasons for this crash were a ripple effect due to fears over a slowdown in China, as the Youn had been devalued leading to fall in the currency rates of other countries and rapid selling of stocks in china and India. Asian and European stocks were trading aggressively lower prior to US open. The Chinese Shanghai

Composite Index dropped.

8. **Market Crash of 2016:** BSE experienced four consecutive falls of over 1600 points in Feb 2016 as the market crashes continued. It occurred due to the increasing number of Non-Performing-Assets (NPAs) in India's banking industry and other global events. The move of demonetization has affected the purchasing power and this decrease in purchasing power. The government had announced the demonetization of the high –valued bank notes of Rs 500 and 1000. A number of investors have started to withdraw their capital from share market.
9. **Market Crash of 2018:** BSE Sensex had fallen by 570 points and NSE by 190 points. The market fell more than 9% . This was due to Finance Minister's proposal in budget speech to introduce 10% long term capital gain tax(LTGC) on equity shares sold after 12 months. It marked as the worst December since 1931.
10. **Market Crash of 2019-2020:** On 1st Feb, Union Budget was presented in lower house of parliament, Nifty fell by 3% and Sensex by 2%. On 28th Feb again Sensex lost 1448 points – Nifty fall by 432 points due to global tensions caused by Corona. 4 & 6 th March security market fell by 1000 points, when the YES bank crisis took place and YES bank was taken by RBI under its management and merged into SBI. On 9thMarch 2020, the Sensex fell by 1941.67 points, where Nifty 50 broke down by 538 points. The fear of COVID-19 outbreak has created havoc all over the globe and India is no exception. The crash continued in the Indian stock market due to the signs of economic slowdown and low quarterly earnings.

General Effects of a Stock Market Crash:

When the stock market bubble bursts, it leads to a bear market, during which the investors sell off stocks and there is a higher decline in the stock market value without any improvement. Significant drops in stock prices can lead to insolvency and recession as the growth of affected companies slows down. They stop generating enough revenues, resulting in employee layoffs. Investors also suffer losses if the stock market condition does not improve quickly.

Effect of Russia-Ukraine War on Commodity Market:

Russo-Ukrainian War is an ongoing war. Russia invaded Ukraine on 24th February 2022. The Indian share market tumbled as investors' dumped risky assets after Russian troops fired missiles at Ukrainian cities. The worst possible impacted on commodity prices. India is the world's third largest importer of oil. Oil prices jump 5 % as Russia launched attack on Ukraine Brent hits $100 for first time since 2014.

Table 1: Effect of War on Commodity Prices

Commodity	Price	Change	% change
Gold	52260.00	1881.00	3.73

Silver	67440.00	2855.00	4.42
Cotton	37050.00	250.00	0.68
Crude oil	7492.00	613.00	8.91
Natural Gases	371.20	30.60	8.98

Source: Business Standard, dnaindia.com

Russia's growing war in Ukraine has sent commodity and energy prices climbing, boosted safe ports and hampered Euros common currency and its stock markets. Russia's war in Ukraine pushes up commodity market prices. Raw material are treated and traded as global commodities, war between Russia and Ukraine has sent other prices sharply up and stock markets down. Prices of raw material from wheat to various metals like copper, Aluminums, Nickel and palladium have increased as Air and Sea shipment of commodities produced and exported by Russia.

Russia and Ukraine are two of the world's biggest exporter of wheat, which 14 years peak on Friday having gained nearly 40% since Russia invaded Ukraine on Feb 24, 2022. Russia is also a supplier of metals. The prices of Aluminum was all time high on Friday. Russia supplies 3.5% of world's copper supplies.

While talking about Energy and Gas, Crude prices rose by 21% and closed at their highest since last 9 years ie from 2013. European Gas prices notched an astonishing 120% weekly gain, to hit 208 Euros per megawatt hour. Its gigantic high all the time.

Strategies during and after a stock Market Crash:

After a stock market crash, the investor should check his/her stocks and determine which shares have been affected the most and recheck whether the portfolio includes more high-risk stocks or safe one. Everyone should remember that the stock market always tends to correct itself in the long run. Methodical and scientific investments in stock market will definitely help the investors to build a significant fortune in a long run. Before investing, it is important tom learn the basic rules of trading and the factors that can affect the market. Investors should at least conduct a company's fundamentals and its current performance in the stock market before buying them.

Blindly selecting stocks without gaining knowledge about their working is very risky. Investors should go for stock market only if they can afford to lose money without exposing to too much loss. Many factors, events, circumstances in the country and outside the country create tensions but investor should always stay sensible.

Table 2: Stocks with consistent RoE.

Companies	**RoE %**	**ROCE %**	**5 years Avg**
Sonata Software Ltd	39.89	57.60	290.99

Tata Consultancy Services	42.02	56.24	220.49
Nestle India Ltd	105.76	147.88	214.94
Pages India Ltd	39.96	55.51	186.11
Crompton Greaves Consumers Electricals Ltd	39.23	35.61	129.47
Britannia Industries Ltd	46.74	46.76	127.20
Hawkins Cooker Ltd	50.83	57.19	118.31
Procter& Gamble Hygiene & Healthcare Ltd	71.64	93.58	111.90
Colgate & Palmolive Ltd	75.00	98.37	58.01
Oracle Financial Services Software Ltd	30.27	39.32	4.21
Castrol India Ltd	42.58	56.78	-39.91

Sources: fortunate.com, www.goodreturns.in, www.moneycontrol.com

Investors, who are not strong at technical analysis, should at least go with Return on Equity (RoE) and Return On Capital Employed (RoCE). Investors need to understand that RoE- the parameter can be used to pick stocks within the same sector only. RoE varies across sectors, so as a thumb rule, investor can pick stocks based on RoE by selecting or targeting a stock with RoE equal to or just above the average for peer group. RoE is important for investors as it enables them to analyze the degree of efficiency with which a company is able to use or employ their invested corpus to generate additional revenues. Higher the RoE , better or more is the company's capacity to generate cash. Next to RoE, RoCE is a good way to measure a company's overall performance. This ratio shows how company use their capital efficiently by examining the net profit it earns in relation to the capital it uses.

Strategies:

1. **Proper selection of stocks :**

   Investor should focus on fundamentally strong stocks for adding them in bucket list. Any rational investor will always wish to add stocks with consistent profits and zero debts and have consistent good returns on equity and returns on capital employed. Before investing, investor should study return on Equity and Return on Capital Employed by the companies. FMCG, Farm, Steel, Petroleum could be some sectors where investor can invest.

2. **Doing nothing is the best strategy:**

   Investors may feel jitter about their portfolio, but if they have selected good securities. If the investors feel that some stocks should not be in their portfolio, such securities should be sold out on the first opportunity even though they are loss making stocks.

3. **Averaging the prices of existing stock:**

   Averaging stock prices means buying the stocks at different price levels to reduce the average buying price. It is always wise to accumulate good stocks at lower level is advisable but this should not be done with loss making stocks. Investors should sell junk stocks.

4. **Cautious about new age firms:**

Many of investors use to invest in stocks of new startups like Paytm, Zomato, Nykaa etc.. Most of these stocks have fallen below their issue prices. Investors should seek to invest in companies which have strong economic health efficient capital allocation, healthy cash flows and a favorable risk reward.

5. **Market shopping:**

Investors should book profit when the markets are overvalued and keep cash handy. This helps the investors in buying stocks at attractive levels when the market crashes. Investor should always keep a bucket list of quality stocks and when these stocks of wish list are available at attractive levels, investor should add them in portfolio.

Conclusion:

After the review of literature, it is clear that every stock market crash has recovered after some period. It is not true that in every market crash, the investor lose all the money. A stock market crash indicates a fall in prices where a majority of investors face losses to some extent, if they become panic and sell off their stocks. Money is lost only when the positions are sold during or after the crash. Stock market is volatile, if it falls today, there is no doubt that will also rise sooner and here the investor should keep the patience.

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