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EMPIRICAL STUDY OF VOLATILITY IN STOCK MARKET: APPLICATION OF CAPM MODEL

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Abstract

The ups and downs of the financial markets are always in the news. Wide price fluctuations are a daily occurrence on the world's stock markets as investors react to economic, business, and political events. oflate, the markets have been showing extremely erratic movements, which are in no way tandem with the information that is fed to the markets(Balkrishan and Narta, 2008). It is because of this risk that some people don't want to invest in stocks. Sure, there is always the possibility that a stock will lose some or all of its value, but volatility also makes it possible for investors to make a great deal of money - if they make the right choices(Graham at all,1988). The trading activities include the execution of retail orders; block trades and corporate equity repurchases, all of which occur in a fast-paced and volatile market place. This study analyzes the online trading system and its advantages to the investors. It also analyzes the volatility in stock market due to recessionary trend. The sample in the present study consists of 50 actively traded scripts listed in the National Stock Exchange (NSE). The scripts in the sample are selected from a range of industries. Daily closing prices of these securities have been used to compute the holding period return for each security for the entire 2-year period of the study (from 01-03-2007 to 28-02-2009). The S&P CNX Nifty stock index is used as representatives for the market portfolio (market index) in the study. It help in comparing the market condition in two periods i.e. 01-03-2007 to 29-02-2008 and 01-03-2008 to 28-02-2009. It examines the response of different sectors of the market to change in business cycle. It also deals with the application of CAPM. The present study aims to see whether the Capital Asset Pricing Model (CAPM) offers an appropriate explanation of stock returns in the Indian capital markets and whether higher risk (beta) brings higher level of return. It helps in finding whether securities are overvalued or undervalued.

Key Words: Erratic Movement, National Stock Exchange, Capital Asset Pricing Model, Volatility

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