



INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, IT AND MANAGEMENT

CONTENTS

| Sr. No. | TITLE & NAME OF THE AUTHOR (S) | Page No. |
|---------|---|----------|
| 1. | RESPONSIBILITY ACCOUNTING IN SMALL AND MEDIUM SCALE INDUSTRIES MANUFACTURING AUTO COMPONENTS <i>ANIRUDDHA THUSE & DR. NEETA BAPORIKAR</i> | 1 |
| 2. | LIBERALIZED FINANCIAL SYSTEM AND ECONOMIC DEVELOPMENT IN NIGERIA <i>LOWE, OLUSEGUN</i> | 6 |
| 3. | AN INVESTIGATION ON HIGHER LEARNING STUDENTS SATISFACTION ON FOOD SERVICES AT UNIVERSITY CAFETERIA <i>SARAVANAN RAMAN & SUBHASENI CHINNIHAH</i> | 12 |
| 4. | IDENTIFYING AND PRIORITIZING THE MAIN BARRIERS TO KNOWLEDGE MANAGEMENT <i>DR. S. ALI AKBAR AHMADI, MOHAMAD ALI AFSHARI & HAMIDEH SHEKARI</i> | 17 |
| 5. | PERFORMANCE EVALUATION OF PRIVATE AND PUBLIC SPONSORED MUTUAL FUNDS IN INDIA <i>NOONEY LENIN KUMAR & DR. VANGAPANDU RAMA DEVI</i> | 24 |
| 6. | TALENT MANAGEMENT PRACTICES IN IT SECTOR <i>DR. K. JANARDHANAM, DR. NIRMALA M. & PRATIMA PANDEY</i> | 36 |
| 7. | FREQUENT PATTERN MINING USING DYNAMIC PROGRAMMING <i>V. G. RAJALEKSHMI & DR. M. S. SAMUEL</i> | 41 |
| 8. | PRICE AND LIQUIDITY CHANGES AFTER STOCK SPLITS - EMPIRICAL EVIDENCE FROM INDIAN STOCK MARKET <i>DHANYA ALEX, DR. K. B. PAVITHRAN & EAPEN ROHIT PAUL</i> | 45 |
| 9. | THE IMPACT OF REVERSE CULTURAL SHOCK AMONG REPATRIATES <i>N. PADMAVATHY & DR. N. THANGAVEL</i> | 50 |
| 10. | BRAND LOYALTY'S INFLUENCE ON WOMEN'S BUYING BEHAVIOR WITH SPECIAL REFERENCE TO PERSONAL CARE PRODUCTS <i>R. SUNDARI & DR. M. SAKTHIVEL MURUGAN</i> | 57 |
| 11. | ANALYSIS OF COTTON TEXTILE INDUSTRY IN KARUR DISTRICT, TAMILNADU <i>DR. N. RAJASEKAR & M. GURUSAMY</i> | 63 |
| 12. | ANALYSING THE TRADING ACTIVITIES OF MUTUAL FUNDS TO IDENTIFY THE TREND OF THE INDIAN STOCK MARKET <i>M. JEEVANANTHAN & DR. K. SIVAKUMAR</i> | 69 |
| 13. | VIABILITY OF ORGANIC PRODUCTS' BUSINESS AMONG THE NON-ORGANIC PRODUCT CONSUMERS – A DESCRIPTIVE STUDY <i>DR. R. DHANALAKSHMI</i> | 75 |
| 14. | EMPLOYEES PERCEPTION TOWARDS ENVIRONMENTAL CHALLENGES: AN EMPIRICAL STUDY ON VEDANTA LTD. IN ODISHA <i>DR. B. CHANDRA MOHAN PATNAIK, DR. IPSEETA SATPATHY & DEEPAK KUMAR SINGH</i> | 79 |
| 15. | CASH CONVERSION CYCLE AND CORPORATE PROFITABILITY – AN EMPIRICAL ENQUIRY IN INDIAN AUTOMOBILE FIRMS <i>DR. A. VIJAYAKUMAR</i> | 84 |
| 16. | A STUDY ON BEST PRACTICES IN FINANCIAL SERVICES AT A PUBLIC SECTOR COMPANY AT BHOPAL <i>DR. N. SUNDARAM & AJAY KUMAR SHARMA</i> | 92 |
| 17. | AN EMPIRICAL STUDY OF FIRM STRUCTURE AND PROFITABILITY RELATIONSHIP: THE CASE OF INDIAN AUTOMOBILE FIRMS <i>DR. A. VIJAYAKUMAR</i> | 100 |
| 18. | PERCEPTION OF BANK EMPLOYEES TOWARDS ADOPTION OF INFORMATION TECHNOLOGY IN PRIVATE SECTOR BANKS OF INDIA <i>BINDIYA TATER, DR. MANISH TANWAR & NAVRATAN BOTHRA</i> | 109 |
| 19. | KEY SKILLS IDENTIFICATION AND TRAINING NEED ANALYSIS @ SMALL AND MEDIUM RETAILERS IN DELHI AND NCR <i>POOJA MISRA, NEHA JOSHI & RAHUL GOYAL</i> | 118 |
| 20. | STRATEGIES FOR MERGERS AND ACQUISITIONS – CASE STUDIES OF SELECTED BUSINESS HOUSES <i>DR. PREETI YADAV & DR. JEET SINGH</i> | 127 |
| 21. | MANAGEMENT OF NPAS IN DCCBS IN INDIA – AN EMPIRICAL ASSESSMENT <i>DR. A. DHARMENDRAN</i> | 136 |
| 22. | IMPACT OF MOBILE MARKETING ON THE PURCHASE DECISION OF CONSUMERS: A STUDY OF JALANDHAR REGION <i>HARENDRA SINGH, SALEEM ANWAR & SHUJA QAMMER SHAH</i> | 141 |
| 23. | A STUDY ON LEADERSHIP STYLE AND THEIR IMPACT IN PUBLIC SECTOR – TAMIL NADU <i>N. PRABHA</i> | 146 |
| 24. | PARAMETERS OF RATING OF INDIAN COMMERCIAL BANKS – A CRITICAL ANALYSIS <i>DR. MUKTA MANI</i> | 149 |
| 25. | IMPACT OF INTERNET BANKING ON CUSTOMER SATISFACTION: A COMPARATIVE STUDY OF PUBLIC SECTOR BANKS, PRIVATE SECTOR BANKS AND FOREIGN SECTOR BANKS <i>RITU SEHGAL & DR. SONIA CHAWLA</i> | 156 |
| | REQUEST FOR FEEDBACK | 164 |

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ANALYSING THE TRADING ACTIVITIES OF MUTUAL FUNDS TO IDENTIFY THE TREND OF THE INDIAN STOCK MARKET

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ABSTRACT

Mutual funds are money managing institutions set up to professionally invest the money pooled in from the public. These schemes are managed by Asset Management Companies (AMC), which are sponsored by different financial institutions or Companies. Looking into the Indian economy the GDP is growing at the rate of 7 – 9 percent in last few years. These indication shows that there is a growth in Indian Stock Market. Taking into picture from 2001 – 2010, the Indian stock market has risen by almost by 6 times. The Indian Mutual fund industry is dominated by the Unit Trust of India, which has a total corpus of Rs.700bn collected from more than 20 million investors. This growth has attracted investors to invest in the Indian stock market through FII and DII. The Stock Market is influenced by many factors like production, monsoon, climate, Forex, political situation, demand, supply, GDP, etc... It is very much important for the traders and the investors to indentify the trend of the market before taking any investment decisions, even though Fundamental and Technical Analysis are the major tools for any investors and the traders to make decision before investing money in the stock market. Here in this paper the researcher tries to identify the major market trend by analyzing the net buying and net selling activities of the mutual funds in India. The researcher used the historical data of mutual funds activities of Indian stock market which was collected from January 2006 to March 2011. With this data, the researcher tries to analyze whether one can find any prior indication of trend for short, middle and long term or whether one can get any trend reversal indication.

KEYWORDS

20 EMA, AMC, CMFI, FII, NIFTY.

INTRODUCTION

Our Economy is a growing economy where we are witnessing a momentous growth in different types industries. Indian economy is growing at the rate of 7 – 9 percent since last few years. These are some positive indication which shows the very good picture of the Indian Stock Market. From 2001 – 2010, our market rises by almost by 6 times. Our market is recovering from the recession and the market had given tremendous gains to the investors and as a result of it, we are considering that our market is attracting huge funds from FIIs and DIIs. At present in the people of India are aware of the moves of the Indian stock market and they are also making some direct and indirect investments. A Stock Market influenced by many factors including production, monsoon, climate, forex etc... A stock market / share market is a public market for the trading of company stock and derivatives at an agreed price and these are securities listed on a stock exchange as well as those only traded privately. The movements of the prices in a market or section of a market are captured in price indices called stock market indices, of which there are many, e.g., the S&P, the FTSE and the Euro next indices. Such indices are usually market capitalization weighted, with the weights reflecting the contribution of the stock to the index. The constituents of the index are reviewed frequently to include/exclude stocks in order to reflect the changing business environment. It is very much important for the traders and the investors to indentify the trend of the market before taking any investment decisions. The movement of the indices represents the trends of the stock market. The trend may be upward (Bullish) or downward (Bearish). The National Stock Exchange (NSE), NIFTY (National Fifty) is very popular indices for representing the trend of the Indian stock market. Fundamental and Technical Analysis are the major tools for any investors and the traders to make decision before investing money in the stock market. By using Fundamental analysis, one can identify the trend of the market with the help of quantitative and qualitative information which are related with EIC analysis (Economy, Industry and Company). But Technical analysis is uses the historical data of prices and volume and then prepare charts for the same. Apart from this two, certain statistical indicators were also used to determine the trend of the market. In this paper, the researcher tries to finding out the major market trends by analyzing net buying and selling activities of the all the mutual funds of India. As per the requirement of SEBI all the AMCs those who are offering different schemes of mutual funds had to be submit their investment detail to the SEBI on daily basis and SEBI will publish that on its website on daily basis. Based on this, one can able to identify, whether mutual funds are net buyers or net sellers on a particular day. At present the investors are suffering losses due to the fluctuations in the Indian stock market. So, with this data, the researcher tries to analyze whether one can find any prior indication of trend for short and middle term or whether one can get any trend reversal indication.

OBJECTIVES

- (1) To find out the stock market trend (upward or downward) by analyzing the trading activities of the various Asset Management Companies (AMCs) which is managing various mutual funds in India.
- (2) To recognize the trend reversal indicators for Indian Stock Market based on trading activities of different Asset management Companies (AMCs).
- (3) The study also highlights how the investments in MFs lead to change in the trend of the Indian Stock market in different market conditions.

METHODOLOGY

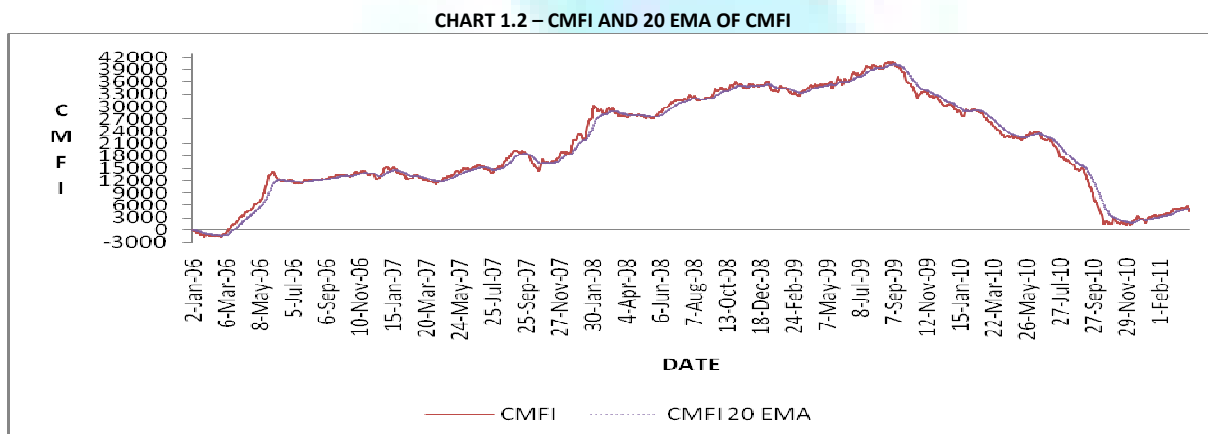
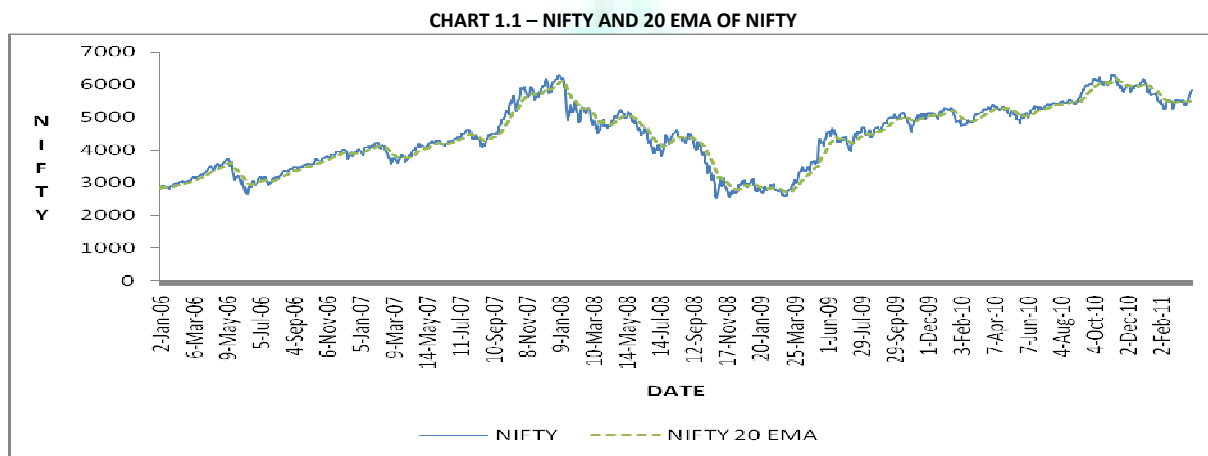
In this Study, historical data of daily investment activities of different AMCs which offers and administers Mutual Fund and NIFTY (NATIONAL FIFTY) which is a chief index of the Indian Stock Market has been collected from January 2006 to March 2011. The past data of NIFTY is being collected from its official website (www.nseindia.com). The data of daily investment activities of different AMCs are collected from the official website (www.sebi.gov.in) of Security Exchange Board of India (SEBI). The Cumulative Mutual Fund Investment (CMFI) is being calculated for every day during January 2006 to March 2011. Then 20 Day Exponential Moving Average (20 EMA) of NIFTY and Cumulative Mutual fund Investment (CMFI) has been calculated. Afterwards, all the data's has been plotted in the appearance of line charts. The basis behind selecting the 20 EMA to find the trend is that, it is a very popular and widely followed indicator for deciding trends as per theory of Technical Analysis.

In the above paragraph it's mentioned 20 EMA which includes 20 EMA of NIFTY and 20 EMA of CMFI. Both the 20 EMA of NIFTY and 20 EMA of CMFI are plotted in the trend line. In case of NIFTY, if price maintains above 20 EMA line, it means that NIFTY is in "Uptrend" and if price sustains below 20 EMA line, it means that NIFTY is in "Downward Trend". In case of Cumulative Mutual Fund Investment (CMFI), if the value of CMFI remains above the 20 EMA, it means that different AMCs are strappingly performing buying activities in the Indian stock market, they are bullish on market and NIFTY is expected to go up. But, if the value of CMFI sustains below 20 EMA, it means that overall different AMCs are strongly performing selling activities in the Indian stock market, they are bearish on market and NIFTY is expected to go down.

Correlation has also been calculated to confirm whether the strength of the indication's of trend reversal indications. Apart from this, 50 EMA and 200 EMA of Cumulative Mutual Fund Investment (CMFI) also calculated to check the overall positions of different AMCs, especially in recent days. For all the calculation purpose, Microsoft Excel is used.

ANALYSIS AND INTERPRETATION

1. ANALYSIS FOR THE YEARS JANUARY 2006 – MARCH 2011



The Chart 1.1 and 1.2 represents the overall trend of NIFTY and Cumulative Mutual Fund Investment (CMFI), it was also prepared to understand the yearly basis trend.

Chart 1.1 results reveal that, from January 2006 to June 2007, NIFTY lies broadly between the ranges of 2500 to 4000. It was observed that during this time period the activities of Mutual Funds are performed by buying activities. Their holdings get increased in these periods. From the chart no 1.2, one should note that holdings of the mutual funds show a positive trend and at last it shows a negative trend and then it starts increasing. From January 2008 to November 2008 NIFTY goes downward trend. It falls by almost 59% during this time period. From March 2009 to November 2010, the NIFTY increased by almost 144%. Similarly from March 2006 to September 2009, CMFI is getting increasing. Even though in the correction of January 2008, the CMFI is not gone down much. For clear understanding, let us look into the yearly analysis of both the NIFTY and CMFI.

2. ANALYSIS FOR THE YEARS 2006

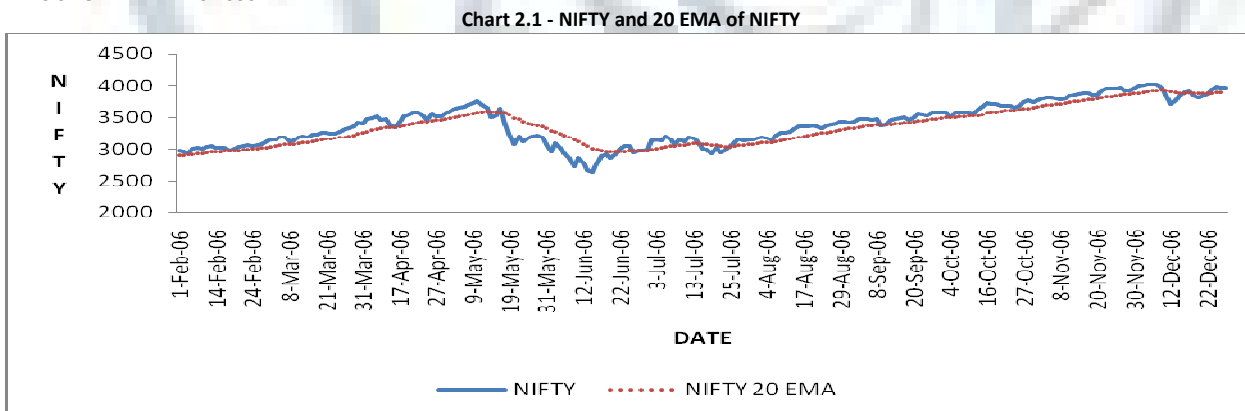
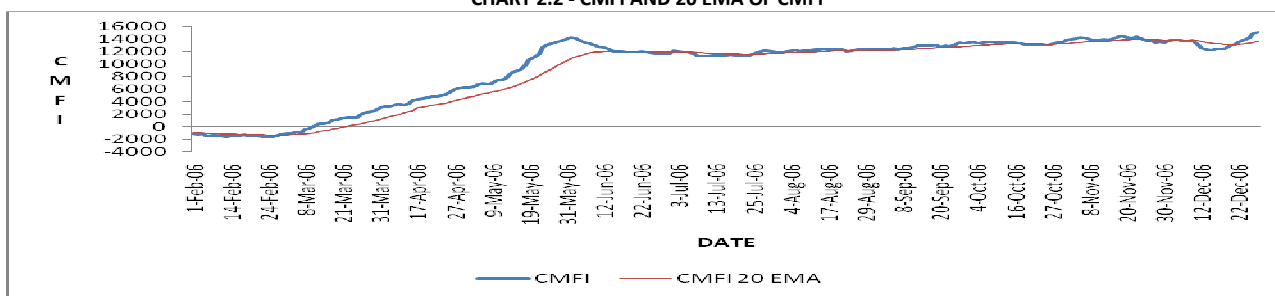


CHART 2.2 - CMFI AND 20 EMA OF CMFI



During January 2 to March 8, NIFTY gives gain and remains above the 20 EMA but during the same time for CMFI, it shows that it consolidating near 20 EMA in the beginning and then it starts raise and remains above 20 EMA. So during this time, a positive correlation (+0.45) was established between NIFTY and CMFI. So, here one can observe a raise in NIFTY from around 3130 to 3755 (about 20%). During March 9 to May 10, both NIFTY and CMFI tend to remain above 20 EMA and a positive correlation (+0.95) establishes between them. During May 18 to June 8, NIFTY lies below its 20 EMA but during the same period CMFI was raised and then it remained below 20 EMA. So, during this time NIFTY and CMFI had negative correlation (-0.49). So, it is observed here that NIFTY was raised from around 2777 to 3197 (about 15%) during June 12 to July 5. During July 26 to December 29, NIFTY remains above the 20 EMA but in the middle for a few days it was below its 20 EMA but CMFI was consolidating near and above to 20 EMA. Thus, they are positively correlated (+0.80). Then in the next year one can see that NIFTY has raise tremendously.

3. ANALYSIS FOR THE YEARS 2007

Chart 3.1 - NIFTY and 20 EMA of NIFTY

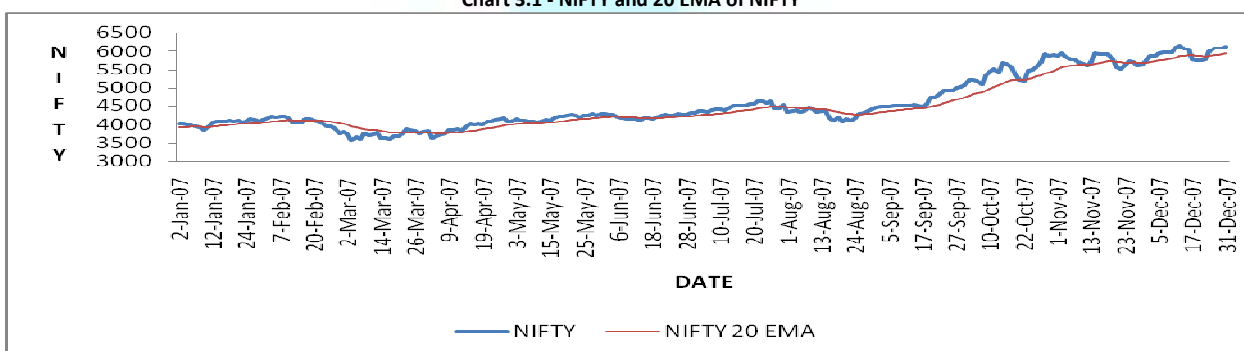
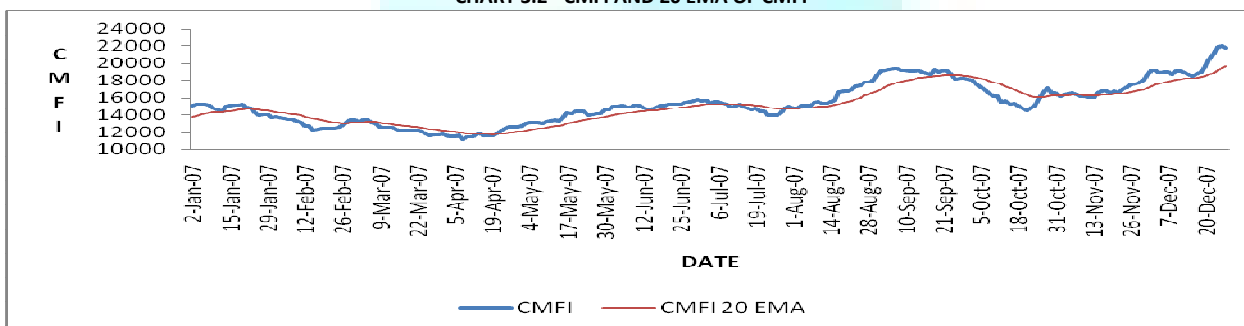


CHART 3.2 - CMFI AND 20 EMA OF CMFI



During January 2 to February 9, NIFTY remains above the 20 EMA but during the same time for CMFI, it was above the 20 EMA in the beginning and then it starts falls below the 20 EMA. So during this time, a high negative correlation (-0.67) was established between NIFTY and CMFI. So, it is observe a fall in NIFTY from 4058 to 3698 (around 8%) during Feb 12 to March 20. During March 21 to June 5, NIFTY remains above the 20 EMA, CMFI was consolidating near and above to 20 EMA. Thus, they are positively correlated (+0.87). Here, it is observed that NIFTY is raised from 4192 to 4619 (about 10%) during from June 6 to July 26. During June 19 to July 26, NIFTY remains above the 20 EMA but CMFI was lies above its 20 EMA in the initial days and then it lies below its 20 EMA. During this time a high negative correlation (-0.79) was established between NIFTY and CMFI. So, it is observed that there is a fall in NIFTY from 4445 to 4075 (around 8%) during July 27 to August 21. From July 27 to August 27, NIFTY remains below the 20 EMA but CMFI was lies below its 20 EMA in the initial days and then it lies above its 20 EMA. During this time a high negative correlation (-0.77) was established between NIFTY and CMFI. Here, it is observed that there is a raise in NIFTY from 4321 to 5668 (around 31%) during August 28 to October 16. During October 17 to November 20, NIFTY remains above the 20 EMA but CMFI was lies below its 20 EMA in the initial days and then it lies above its 20 EMA. During this time a high positive correlation (0.92) was established between NIFTY and CMFI. Here, it is observed that there is a raise in NIFTY from 5561 to 6139 (around 10%) during November 21 to December 31.

4. ANALYSIS FOR THE YEARS 2008

CHART 4.1 - NIFTY AND 20 EMA OF NIFTY

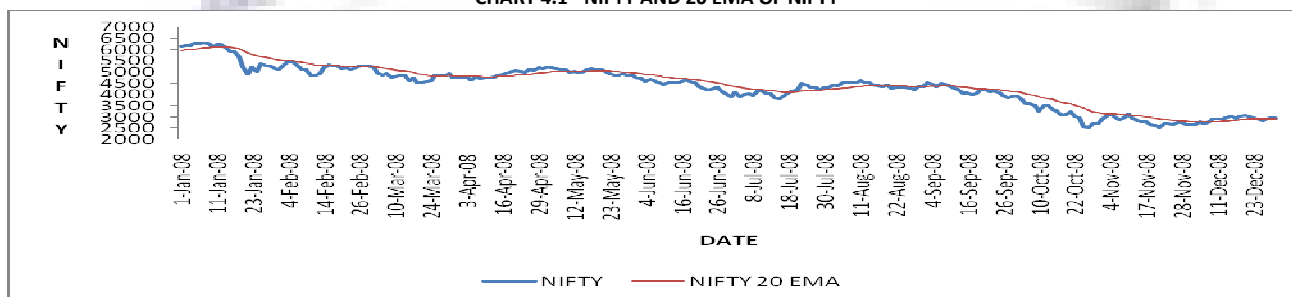
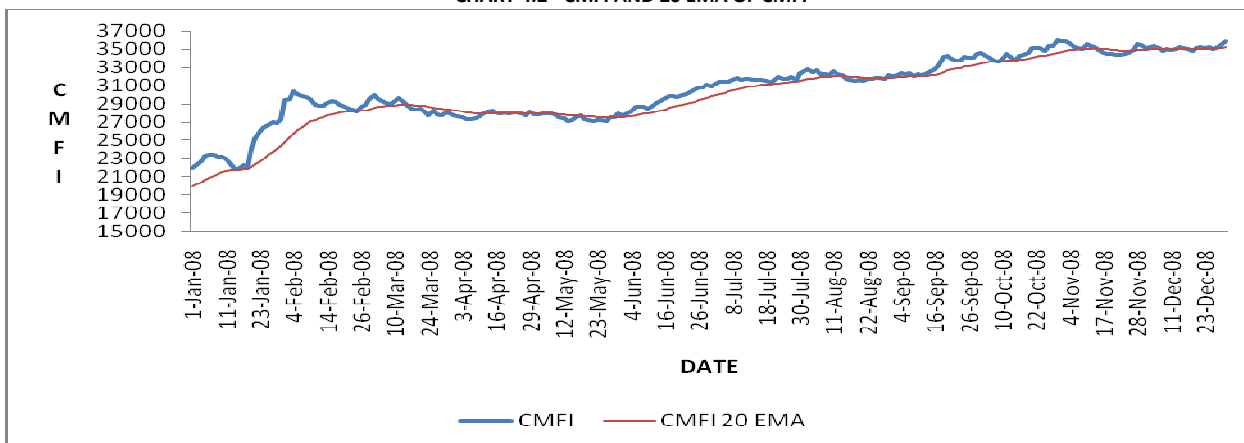


CHART 4.2 - CMFI AND 20 EMA OF CMFI



During January 15 to February 12, NIFTY remains below the 20 EMA but during the same time for CMFI, it was above the 20 EMA. So during this time, a high negative correlation (-0.63) was established between NIFTY and CMFI. So, here it is observed that a value of NIFTY is raised from 4929 to 5223 (around 6%) during February 13 to February 28. During March 3 to March 12, NIFTY remains below the 20 EMA and CMFI lies above for a few days and then it lies below its 20 EMA. During this time NIFTY and CMFI had a positive correlation (0.30). So, it is observed here that NIFTY falls down from 4624 to 4533 (around 2%) March 13 to March 18.

During April 15 to May 8, NIFTY lies above its 20 EMA but CMFI was consolidated near its 20 EMA. In this period, a negative correlation (-0.45) was established between NIFTY and CMFI. Here, it is observed that NIFTY falls down from 4982 to 4450 (around 11%) during May 9 to June 10. From May 22 to July 16, NIFTY lies below its 20 EMA and CMFI lies below 20 EMA in the initial stage and then it raises above its 20 EMA. During this period, a high negative correlation (-0.94) was established between NIFTY and CMFI. So, here it is observed that a value of NIFTY is raised from 3947 to 4620 (around 17%) during July 17 to August 11. During September 11 to December 8, NIFTY lies below its 20 EMA but CMFI is lies above its 20 EMA. Here the Chart represents that a high negative correlation (-0.73) was established between NIFTY and CMFI. From the chart it is observed that NIFTY increase from 2928 to 2959 during December 10 to December 31.

5. ANALYSIS FOR THE YEARS 2009

CHART 5.1 - NIFTY AND 20 EMA OF NIFTY

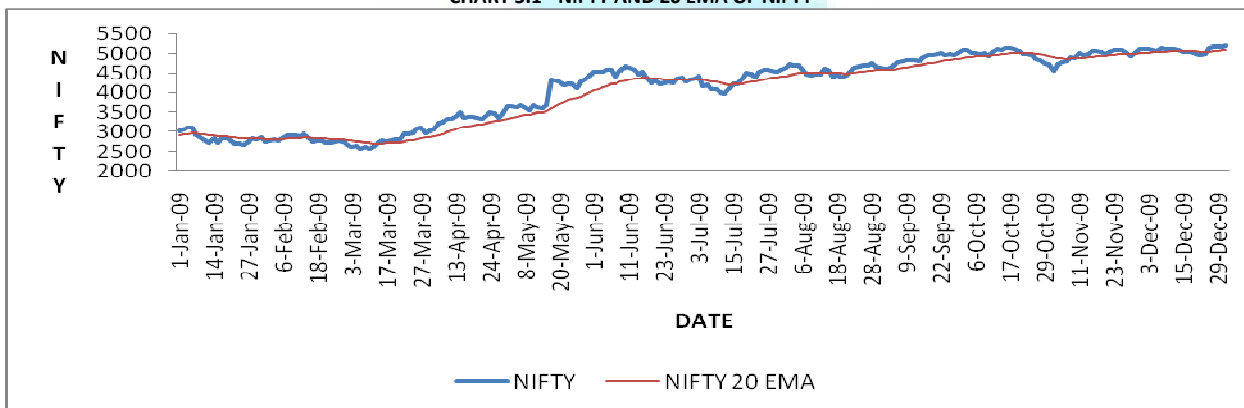
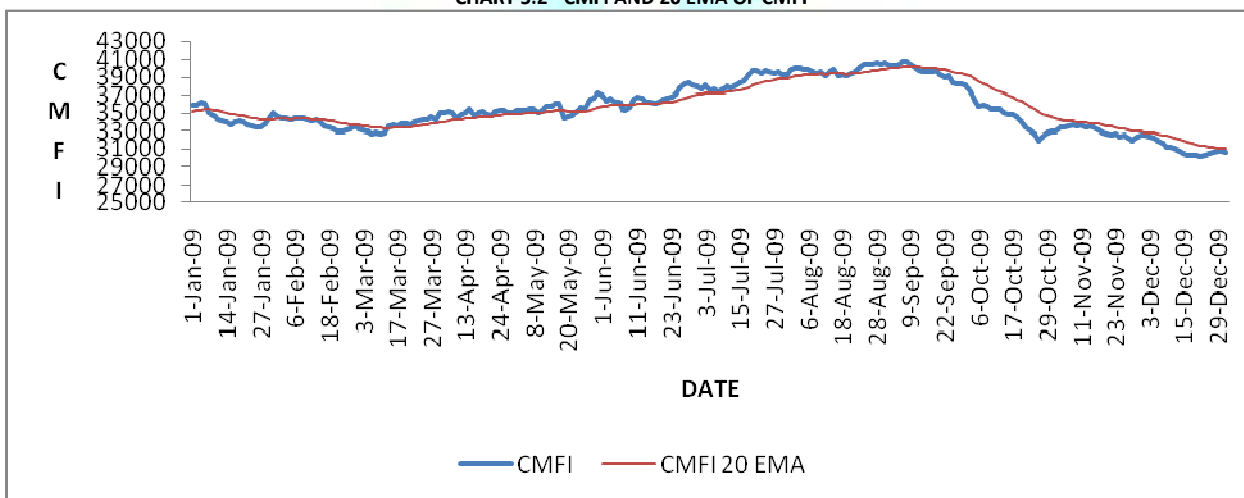


CHART 5.2 - CMFI AND 20 EMA OF CMFI



During March 16 to April 28, NIFTY and CMFI remains above their 20 EMA. So during this time, a positive correlation (+0.90) was established between NIFTY and CMFI. So, here one can observe a rise in the value of NIFTY from 3474 to 4638 (34%) during April 29 to June 11. During June 18 to June 30, a NIFTY lies below the 20 EMA but CMFI lies above its 20 EMA. During this time NIFTY and CMFI had a high positive correlation (0.60). So, it is observed here that NIFTY was lies downward from 4341 to 3974 (around 8%) during July 1 to July 13. During July 16 to August 6, NIFTY and CMFI remains above their 20 EMA. Thus, they are having high positive correlation (0.84). The chart shows that NIFTY lies upward from 4438 to 5142 (around 16%) during August 10 to October 16. During October

22 to November 6, NIFTY and CMFI remains below their 20 EMA, Thus, they are negatively correlated (-0.10). Here, it is observed that NIFTY is rises from 4898 to 5201 (around 6%) during from November 9 to 31 Dec.

6. ANALYSIS FOR THE YEARS 2010

CHART 6.1 - NIFTY AND 20 EMA OF NIFTY

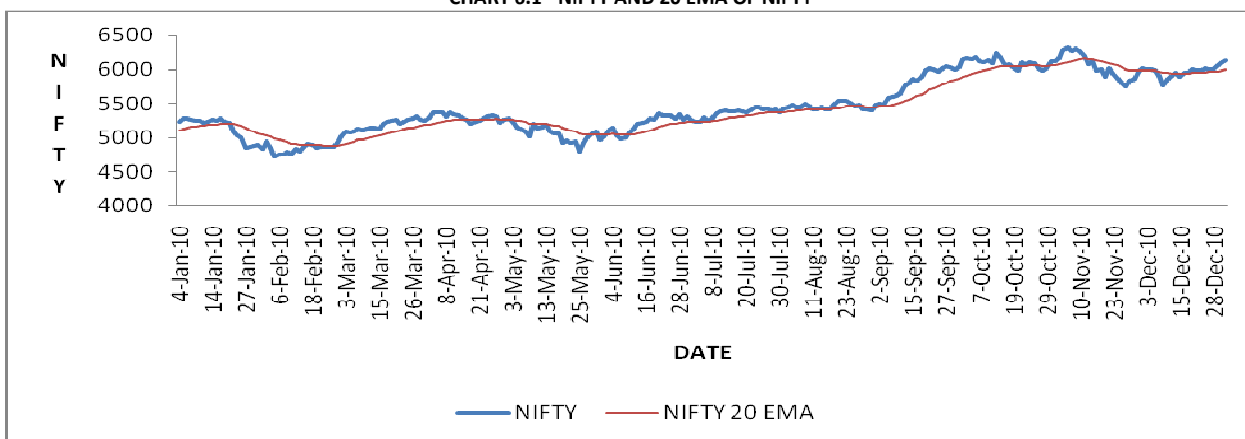
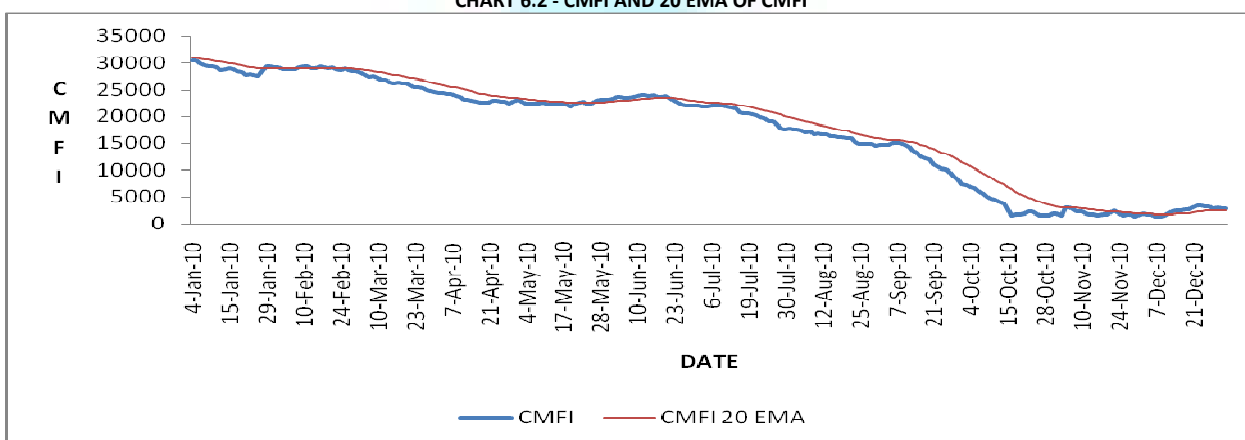


CHART 6.2 - CMFI AND 20 EMA OF CMFI



From January 19 to February 16, the value of NIFTY lies below its 20 EMA but CMFI lies below and then rises above its 20 EMA. During this period a negative correlation was identified between NIFTY and CMFI (-0.57). So, here it is observe that it leads to upward movement of NIFTY from 4914 to 5322 (8%) during the period 17 Feb to 13 Apr. From April 19 to May 7, the NIFTY and CMFI was lies below their respective 20 EMA. During this period NIFTY and CMFI had a positive correlation (0.79). So, one can observe a further fall in the value of NIFTY from 5018 to 4806 (around 4%) during May 7 to May 25. During May 31 to October 18, NIFTY remains above its 20 EMA but CMFI falls below its 20 EMA. In this period there was a high negative correlation (-0.95) existed between NIFTY and CMFI. Here it is known that Nifty falls from 6027 to 5767 (around 4%) during October 19 to December 9.

7. ANALYSIS FOR THE YEARS 2011

CHART 7.1 - NIFTY AND 20 EMA OF NIFTY

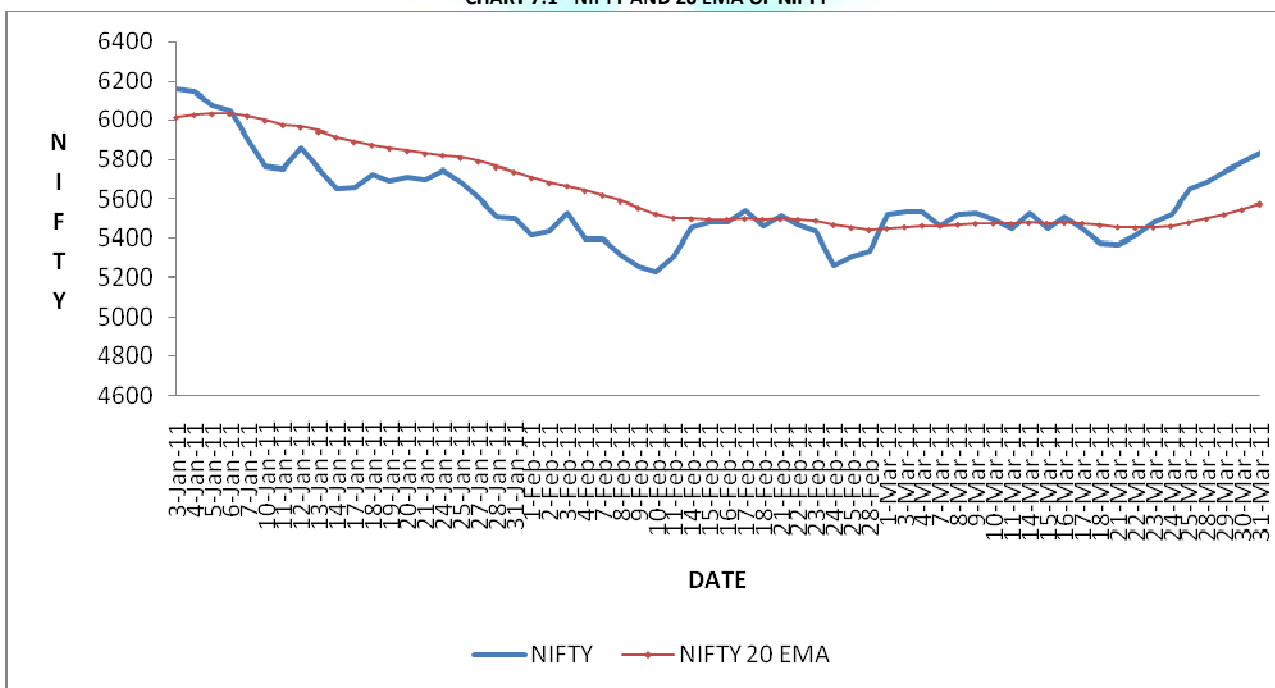
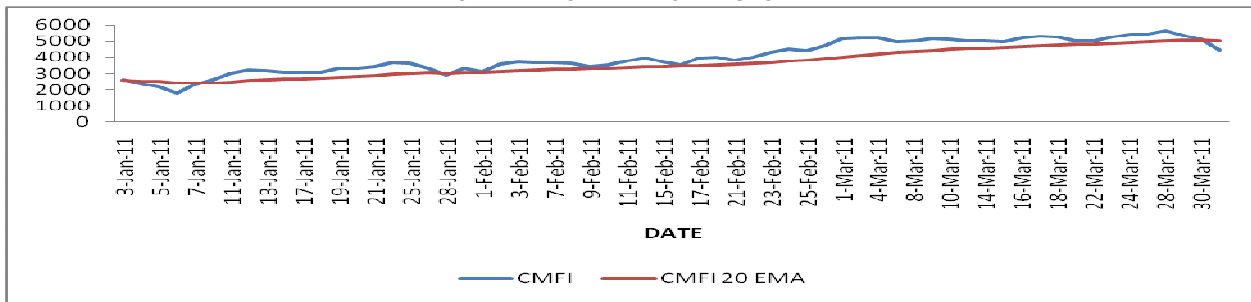


CHART 7.2 - CMFI AND 20 EMA OF CMFI



During January 7 to January 24, NIFTY lies below its 20 EMA but CMFI lies above its 20 EMA. Here NIFTY and CMFI are positively correlated (0.88). Hence, one can observe that there is a fall in NIFTY from 5687 to 5226 (around 8%) during January 25 to February 10. During February 15 to February 24, NIFTY lies below its 20 EMA but CMFI lies above its 20 EMA. In this period, NIFTY and CMFI is correlated negatively (-0.71). Here, it is observed that there is a raise in NIFTY from 5304 to 5834 (around 10%) during February 25 to March 31.

FINDINGS

The major findings based on the above analysis are related with finding out the trend of NIFTY by analysis of daily trading activities of Mutual Funds as under:

| TREND POSITION | CONDITION |
|---|---|
| Beginning of uptrend or trend reversal indication in case of downward trend | NIFTY goes above 20 EMA and a high negative correlation establishes between NIFTY and CMFI in the last downtrend. |
| Continuation of uptrend | NIFTY goes above 20 EMA for more than 3 sessions and NIFTY and CMFI positively correlated in existing upward trend. |
| Beginning of downtrend or trend reversal indication in case of uptrend | NIFTY goes below 20 EMA and a negative correlation establishes between NIFTY and CMFI in the last uptrend. |
| Continuation of downtrend | NIFTY goes below 20 EMA for more than 3 sessions and NIFTY and CMFI positively correlated in existing downward trend. |
| Non Trending Movement | Any condition other than above stated |

CONCLUSION

People who are part of the stock market and investing are always talking about how they could really use a psychic to help them in reaping profit. Analyzing the trend of stock market is one of the most time consuming and grueling parts of being an investor or stockbroker. Most of their days are spent trying to predict the outcome of future days with the market. Thus by having an idea about this paper the investors can analyze the existing movement of the market with its comparative strength and one can also get the trend reversal indication well in advance with its strength of reversal. Overall this study gives a very good indication for confirming the short, middle and long term trend of the market before making any investment.

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<http://www.sebi.gov.in/Index.jsp?ContentDisp=FIITrends> (as on April, 2011)

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Thanking you profoundly

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