

ASM – A Stock Market Up Lifter or a Wreck?

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ABSTRACT: *Securities exchange is a standout amongst the most adaptable segments in thesecurities related framework, and Stock Market assumes a vital job in monetary advancement. Securities and Exchange Board of India (SEBI) and Exchanges so as to improve showcase honesty and defend enthusiasm of speculators, have been presenting different upgraded pre-emptive observation estimates, for example, decrease in value band, occasional call closeout and exchange of securities to Trade for Trade portion now and again. In continuation to different observation estimates effectively executed, SEBI and Exchanges, in accordance with discourses in joint reconnaissance gatherings, have chosen that alongside the previously mentioned measures there will be Additional Surveillance Measures (ASM) on securities with reconnaissance concerns dependent on target parameters viz.*

KEYWORDS: *Additional Surveillance Measures, Volatility, Volume Traded, Price Bands and High Low Return.*

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I. INTRODUCTION

ASM is a surveillance method in which exchanges impose trading curbs on highly volatile stocks in the Indian market. Securities and Exchange Board of India (SEBI) and Exchanges in order to inflate market integrity and protect interest of investors, have been initiating various enhanced pre-emptive surveillance measures such as periodic call auction, reduction in price band and transfer of securities to Trade for Trade segment from time to time. In prolongation to various surveillance measures already executed, SEBI and Exchanges, pursuant to discussions in joint surveillance meetings, have come to a conclusion that along with the aforesaid measures there shall be Additional Surveillance Measures (ASM) on stocks with surveillance concerns based on objective parameters, Volatility, Price/Volume variation etc.

Initially the list under ASM comprised 36 stocks consisting both high beta scripts and scripts with low volume levels. The Existing investors profit will be negatively impacted and the short term fluctuations do not affect long-term investors. The ASM measures helps uninformed investor as it reduces speculation in the stock market. Advantages of ASM to Traders and Investors were with the aim of protecting interests of investors. And thus there would be limited profits or losses as the share prices of ASM shortlisted stocks cannot go up or down by more than 5%, there is less scope for speculation in the market as the investors can keep a check on the stocks due to the ASM framework and the long term investors who do not believe in such short term fluctuations, may continue to invest in such stocks for long term benefits.

II. REVIEW OF LITERATURE

In the following paper, the researcher assessed the multidimensional structure of securities exchange volatility and also the aspect of stock market volatility inclusive of the measurement and the impact of volatility using economic documentations. The universal exchange and securities exchange volatility is contrarily related as in unpredictability decreases the volume of exchange and expands current record and capital record shortages.

(Bhowmik, October 2013)

Volatility of a benefit is estimated by the inconstancy in the cost after some time estimated as the fluctuation or the standard deviation of the profits on the benefit. The exploration attempt to uncover the basis for these bizarre developments and look at the fundamentalist view set forward by financial specialists who contend that unpredictability can be clarified by Efficient Market Hypothesis.

(Chowhan & Shukla, 2000)

A money related framework in an institutional plan, in which budgetary surpluses are moved from the units that are producing surplus pay, to the units, that need it. The money related framework assumes an imperative job in assembling the assets from providing units to the requesting units. Monetary instruments like budgetary organizations, money related administrations, money related market, and budgetary resources set up

the money related framework. The exercises of the money related framework involved trade and holding of budgetary resources or fiscal assets, as monetary foundations, banks and different mediators. The investigation recommends shows a long constancy of unpredictability in Indian securities exchange particularly National Stock Exchange (NSE) of India.

(D, December 2018)

In the following research we understand that the Stock costs are changed each day and effectively affecting the market. Then again, if more individuals need to move a stock, there would be more supply (merchants) than interest (purchasers) - the cost would begin to fall. In the bullish market, the offer costs take off high and in the bearish piece of the overall industry costs tumble down and these good and bad times decide the arrival and unpredictability of the share trading system. An expansion in securities exchange instability brings a huge stock value change of advances or decreases. (Queensly, May 2009)

Securities exchange is a standout amongst the most adaptable segments in the money related framework, and Stock Market assumes a vital job in monetary advancement. At the end of the day, Stock Market is a stage for exchanging different securities and subordinates with no boundaries. The investigation would encourage the peruser to comprehend the past, current and future parts of Indian Stock Market. (Sameer, April 2017)

III. RESEARCH DESIGN

3.1 Title – Asm – A Stock Market Up Lifter Or A Wreck?

3.2 Statement of Problem

Making an investment decision in the stock market is always difficult due to high volatility in the stock prices and, an assured positive return on such an investment is not certain, however, to curb such volatility was the technique, Additional Surveillance Measures (ASM), introduced by SEBI to impose restrictive price bands of 5% on movement of stock prices upward or downward on selected stocks.

3.3 Objective of Study

- ✓ To study the impact of restrictions placed on ASM stocks from the parameters agreed upon by SEBI in lieu with fulfillment of its objectives of alerting and advising investors to be extra cautious while dealing in such securities and also to advice market participants to carry out necessary due diligence while dealing in such securities.
- ✓ To evaluate the impact of revision of margin requirements and price bands on traders by comparing the Pre-ASM and In-ASM period using parameters like Price Band Hits, High Low Range Analysis, Volatility Measurement and Volume Effect(Intra Day and Delivery) of the selected stocks under the study that are listed under ASM guidelines.

3.4 Methodology

For purpose of understanding effect of ASM on stocks, this research include following parameters –

- Volatility Measurement :

Volatility is statistical measure of dispersion of returns for a given security. Sometimes it is also referred to as risk/uncertainty of a stock.

We have computed volatility using Standard deviation which is derived using Log function/returns.

Standard Deviation Formula

Standard Deviation Formula

$$\sigma = \sqrt{\frac{1}{N} \sum_{i=1}^N (x_i - \bar{x})^2}$$

Annualized Volatility = (Standard Deviation) * (15.87451)

→ **Square Root of 252 = 15.87451**

- Price Band Hits (Circuit Breakers) :

Usually movement in prices of a stock in a trading day it restricted to a percentage of previous closing price which is fixed by SEBI. To curb the volatility and high price movements, price bands of ASM Shortlisted securities is fixed at +5% & -5%. If it hits the said percentage, trading is suspended for the entire day.

- **High – Low Range Analysis:**

It is to check how much movement a stock has made in the pre fixed duration, its impact on wealth and return to an investor.

Following formula has been applied –

Low High Return - $(\text{Max Value} - \text{Min Value}) / \text{Min Value} * 100$

High Low Return - $(\text{Min Value} - \text{Max Value}) / \text{Max Value} * 100$

- **Volume Effect (Intra Day and Delivery) :**

Here we are trying to check the effect of ASM on Volume of a stock traded. We have taken two Volume parameters.

1. Delivery
2. Total Volume

We have taken average (Mean) of Delivery/Total Volume figures for the period to ascertain the normal volume which is transacted during the period and then it is compared If Delivery Volume is high it means ASM has significantly affected the traders who trade for short duration due to restrictions on margin and on price bands.

3.5 Sources of Data

Secondary Data has been taken for the purpose of this research paper.

The historical stock data has been collected from the following websites:

1. <https://www.nseindia.com>
2. www.moneycontrol.com
3. <https://www.investopedia.com>
4. <https://in.finance.yahoo.com>

3.6 Limitations of the Study

- Direct impact of ASM on prices of respective stocks cannot be quantified.
- Price effects could have probable effect due to factors which aren't a resultant of ASM.
- The trading of a few stocks was suspended due to reasons which weren't obtainable

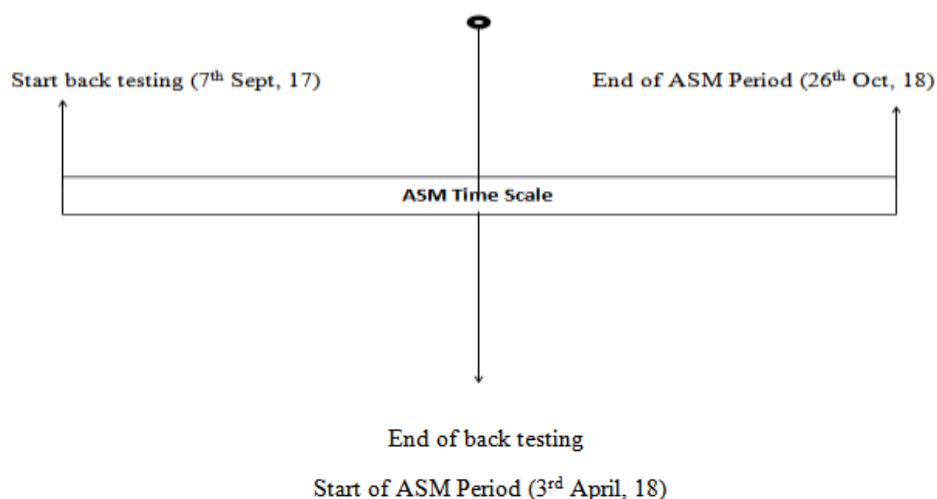
IV. DATA ANALYSIS AND INTERPRETATION

To understand the effect of ASM on listed equities which are included in surveillance framework, it is very essential to procure relevant data & use it in such way which enhances its relevancy to our research. In this research we have used price & volume data for the companies included in ASM during a given period and applied various statistical and mathematical tools on this data to make it useful for our analysis and interpretation purpose. Additional Surveillance Measure was notified vide circular NSE/SURV/37253 on 21st March, 2018 and was effective on shortlisted stocks thereafter. For purpose of our research, we have used companies which were notified & shortlisted on 3rd April, 2018 and continued to be in ASM till 26th October, 2018 after which ASM Framework was revised.

For purpose of understanding effect of ASM on stocks, this research includes following parameters –

1. Price Band Hits (Circuit Breakers)
2. High – Low Range Analysis
3. Volatility Measurement
4. Volume Effect (Intra Day and Delivery)

4.1.1 Time Scale Representation



Pre - ASM

Inside - ASM

Total Days – 206 = Total Days – 206
 Trading Days - 142 = Trading Days – 142

4.2.1 - Brfl

Sr. No	Particulars	Parameters	Before ASM	During ASM
1	Price Band Hits			
a)	Total Circuit Hits	Times	72	99
b)	Percentage of Total Trading Days	%	50.70%	69.72%
2	High - Low (Range) Analysis			
a)	Highest Attained Value	Rs.	231.65	41.65
b)	Lowest Attained Value	Rs.	39.00	12.80
c)	Low to High Returns	%	493.97%	225.39%
d)	High to Low Returns	%	-83.16%	-69.27%
3	Volatility Measures			
a)	Standard Deviation	Unit	0.04	0.04
b)	Annualized Volatility	%	66.67%	59.34%
4	Volume Effect			
a)	Delivery Volume	Qty	2,20,341.78	1,04,912.94
	Average Delivery Volume			
	Percentage Change in Avg Delivery Volume	%	-	-52.39%
b)	Total Volume (Intra Day + Delivery)	Qty	5,88,622.80	19,42,994.84
	Average Total Volume			
	Percentage Change in Total Volume	%	-	107.77%

- Price band was revised to 5% in order to curb volatility & market manipulation, we can observe that although price movement is restricted, but the number of times it hitting the band has increased. So, instead of reduction in price movement in a trading day, it has significantly increased.
- Both positive & negative return generating capacity of stock has reduced; stock which was attractive earlier is no more appealing to market players.
- Framework was successful in curbing volatility, but at the cost of disappointment of market players.
- Here, more traders are entering; investors who take long positions are discouraged.

4.2 .2- Visesh Infotecnics Limited

- Price band was revised to 5% in order to curb volatility & market manipulation, we can observe that

Sr. No	Particulars	Parameters	Before ASM	During ASM
1	Price Band Hits			
a)	Total Circuit Hits	Times	53	141
b)	Percentage of Total Trading Days	%	37.32%	99.30%
2	High - Low (Range) Analysis			
a)	Highest Attained Value	Rs.	0.35	0.20
b)	Lowest Attained Value	Rs.	0.05	0.05
c)	Low to High Returns	%	600.00%	300.00%
d)	High to Low Returns	%	-85.71%	-75.00%
3	Volatility Measures			
a)	Standard Deviation	Unit	0.20	0.31
b)	Annualized Volatility	%	322.63%	485.33%
4	Volume Effect			
a)	Delivery Volume			
	Average Delivery Volume	Qty	3,03,78,273.60	49,79,274.75
	Percentage Change in Avg Delivery Volume	%	-	-83.61%
b)	Total Volume (Intra Day + Delivery)			
	Average Total Volume	Qty	1,32,42,838.43	60,94,844.89
	Percentage Change in Total Delivery Volume	%	-	-53.98%

- although price movement is restricted, but the number of times it hitting the band has increased. So, instead of reduction in price movement in a trading day, it has significantly increased.
- Both positive & negative return generating capacity of stock has reduced; stock which was attractive earlier is no more appealing to market players.
- ASM Framework was not able to contain volatility. It has increased significantly from Pre-ASM period; hence objective of ASM was not fulfilled.
- Both Investors and traders are discouraged, since both trading volume and delivery volume has dipped. Hence, SEBI's market enhancement objective is contained

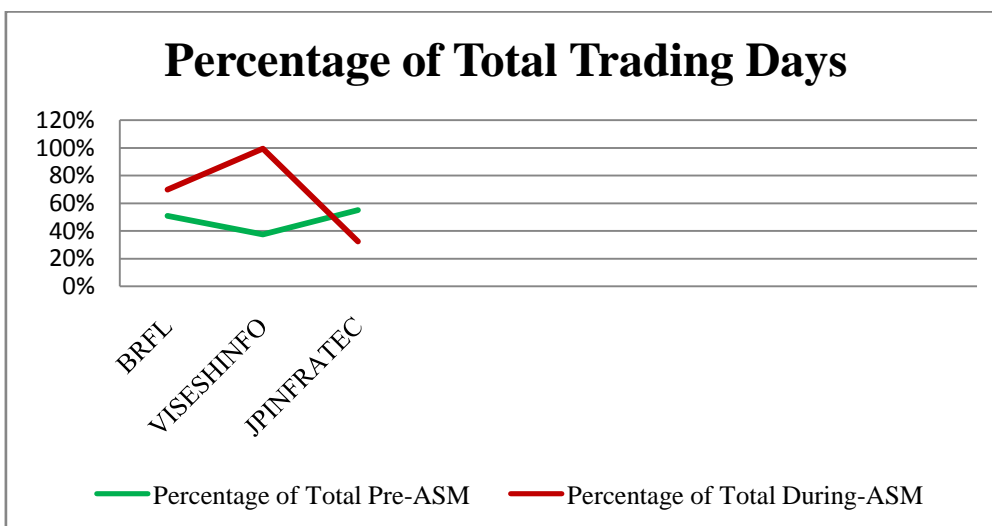
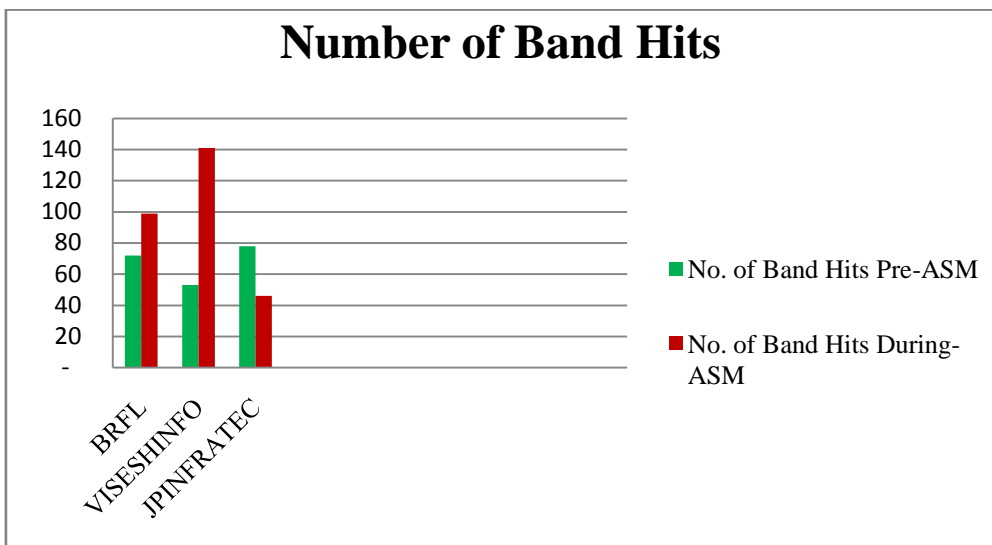
4.2.3 Jaypee Infratech Limited

Sr. No	Particulars	Parameters	Before ASM	During ASM
1	Price Band Hits			
a)	Total Circuit Hits	Times	78	46
b)	Percentage of Total Trading Days	%	54.93%	32.39%
2	High - Low (Range) Analysis			
a)	Highest Attained Value	Rs.	25.55	9.60
b)	Lowest Attained Value	Rs.	8.40	2.20
c)	Low to High Returns	%	204.17%	336.36%
d)	High to Low Returns	%	-67.12%	-77.08%
3	Volatility Measures			
a)	Standard Deviation	Unit	0.04	0.03
b)	Annualized Volatility	%	62.99%	55.06%
4	Volume Effect			
a)	Delivery Volume			
	Average Delivery Volume	Qty	22,46,418.18	42,96,577.55
	Percentage Change in Avg Delivery Volume	%	-	91.26%
b)	Total Volume (Intra Day + Delivery)			
	Average Total Volume	Qty	42,58,027.29	26,25,772.39
	Percentage Change in Total Delivery Volume	%	-	-38.33%

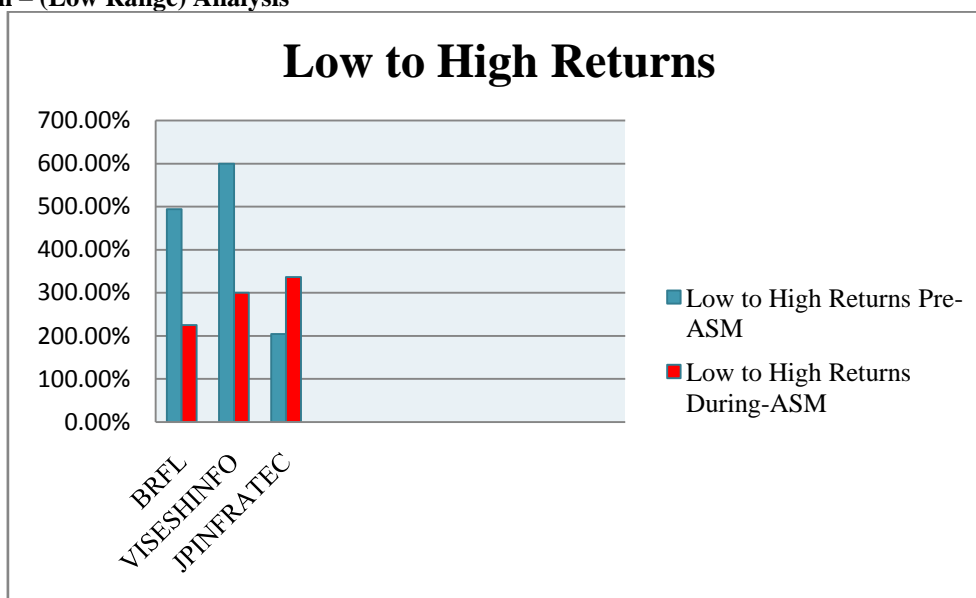
- Framework has successfully reduced the volatility & movement in this stock. But, on contrary traders are affected since they are not able to generate higher price movements & returns in a trading day.
- It has become attractive for investors, since the returns given by this stock are higher when compared to Pre – ASM period.
- Framework was successful in curbing volatility, but at the cost of disappointment of market players.
- It has discouraged traders who take margin and invest, where as investors inflow has increased.

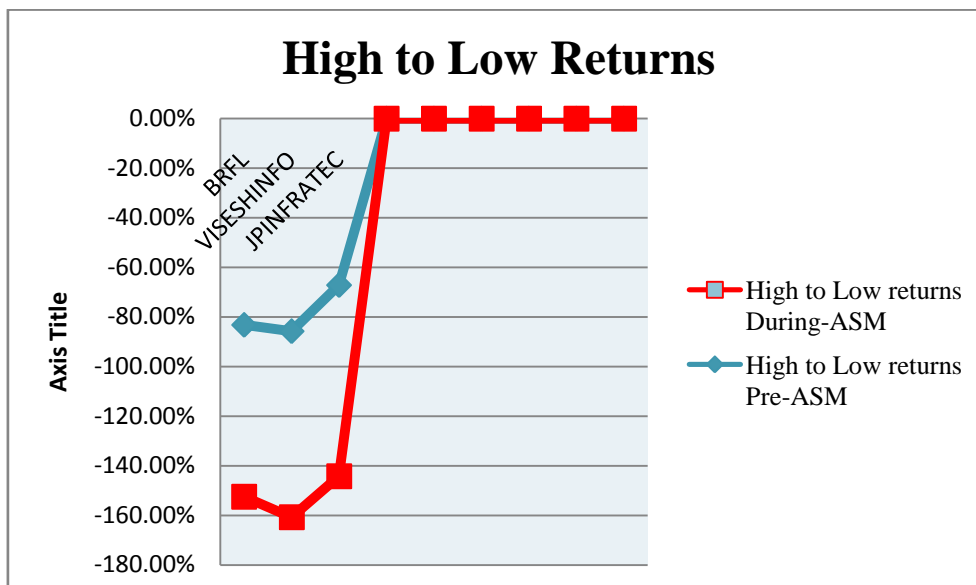
4.3 Graphical Representation of Parameters

4.3.1 Price Band Hits

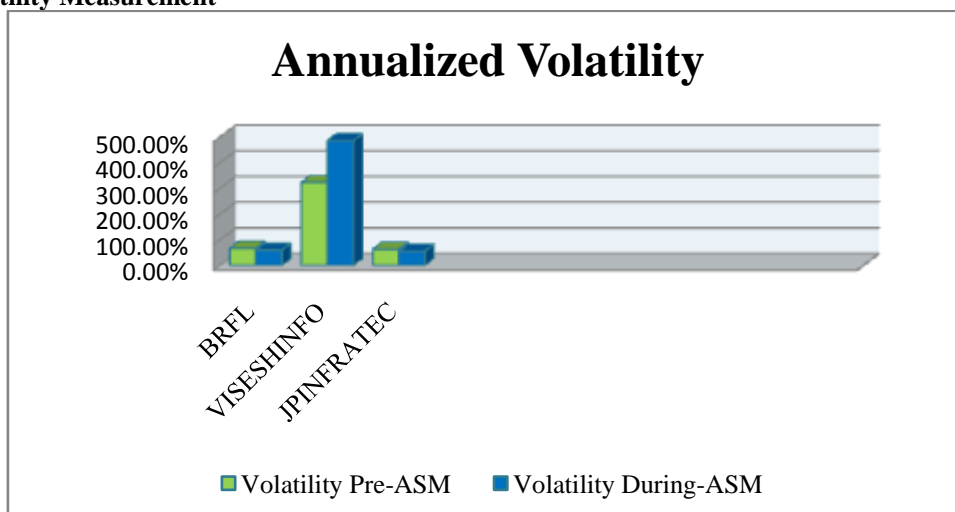


4.3.2 High – (Low Range) Analysis

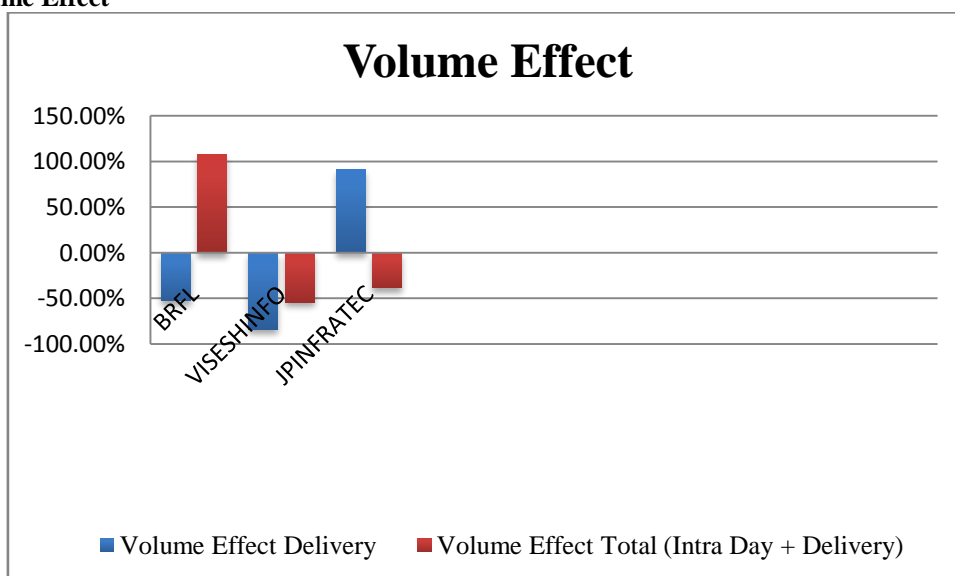




4.3.3 Volatility Measurement



4.7.4 Volume Effect



V. FINDINGS

Following report represents the overall effect on selected parameters. Whether induction of ASM has discouraged market players or has it brought in revolutionary changes in market system.

Strike Rate Report

Stock Name	Band Hits	Low-High Return	High - Low Return	Volatility	Delivery Volume	Total Volume
BRFL	Increased	Decreased	Increased	Decreased	Decreased	Increased
Visesh Infotecnics	Increased	Decreased	Increased	Increased	Decreased	Decreased
Jaypee Infratech	Decreased	Increased	Decreased	Decreased	Increased	Decreased
Strike Rate						
Increased	2	1	2	1	1	1
Decreased	1	2	1	2	2	2
No Effect	-	-	-	-	-	-
Percentage						
Increased	66.66%	33.33%	66.66%	33.33%	33.33%	33.33%
Decreased	33.33%	66.66%	33.33%	66.66%	66.66%	66.66%
No Effect	-	-	-	-	-	-

- Price bands were introduced to restrict price movement in a trading day to a certain range. This was introduced by SEBI in ASM framework at 5%, so that price movement in a day is restricted to this limit either way – Upwards or Downwards. But, in most cases it is seen that price movement has clocked 5% or more, when compared to Pre ASM period. Hence, motive of restriction of price movement has failed, as price band has hit more number of times in “Inside ASM” compared to “Pre ASM” period. Therefore, volatility has increased in certain fixed price range.
- Low - High data gives us idea about positive return or upward movement of a particular stock. Here, 66.66% of the time, return was decreased, that is a market player if invested same amount in “Inside ASM” period would have received less return when compared to “Pre ASM” where return generation capability was relatively high. So, ASM has reduced return an investor could/can earn. Hence, these ASM Stocks turns out to be very unattractive, since the return was optimum when it was not in ASM.
- High – Low data gives details about how much price has dipped from the top price attained. Also, negative return generated by the particular stock. We can observe that High – Low strike rate is 66.66%; this is a sign of limitation of downtrend. Stocks in ASM fall less when compared to “Pre-ASM” Period. Hence, loss encountered by an investor would be comparatively less.
- 2 out of 3 times volatility has decreased. It was one of the objectives of ASM framework (Reduction of Volatility) which it has achieved. But this achievement can be offset by discouragement and dissatisfaction among the traders – who love volatility. They like to ride on volatility to maximize their returns. Also, when we compared volatility with another parameter of low-high return, volatility reduction has also reduced return generation capacity of stocks.
- Delivery volume basically tells us about the stocks which are purchased for long term- usually by investors. Intra-day volume is not a part of this volume figure. 2 out of 3 times, delivery volume has decreased. It

clearly shows that, stocks which are part of ASM don't interests market players. Inclusion of stock in ASM Framework has an adverse effect on the stock. ASM was brought in to control malpractices of price manipulation by operators and to safeguard interests of retail players. But, when we obtain a bird's eye view of this measure, we can say that ASM has an adverse effect on stock, wherein market players are riding of this particular stock and does not seem to like invest here.

- Total volume has also decreased; it clearly shows that a particular stock is not favored by both investors and traders. ASM has left this stock with not many major players or price drivers. ASM which was supposed to drive away operators and major price riggers, have driven off genuine players also.

VI. CONCLUSION

The main purpose of ASM was to –

- ✓ Alert and Advise investors to be extra cautious while dealing in such securities.
- ✓ Advice market participants to carry out necessary due diligence while dealing in such securities.

Following parameters were brought in for selection of stock for ASM Framework -

- ❖ High Low Variation
- ❖ Client Concentration
- ❖ Close to Close Price Variation
- ❖ Market Capitalization
- ❖ Volume Variation
- ❖ Delivery Percentage

Following restrictions were placed on ASM Stock –

- 100% Margin required to trade.
- Price bands restricted to 5%. If price band is hit once, trading is suspended for entire day.

Our Research tries to study the impact of such restrictions from the parameters agreed upon by SEBI in lieu with fulfillment of its objectives. We were able to conclude the following after carrying out our research diligently.

1. Although, ASM was brought in to make market players aware & cautious about their investments in selected companies. Such measure has brought in **adverse effect** on the stocks which form part of ASM time to time.
2. Revision of margin requirements and price bands has left honest traders quite unhappy. Since, traders like to take big exposure in order to maximize their return with less investment; this move has left them disappointed. SEBI's motive was to make investors cautious, but this move has left traders unhappy.
3. ASM was inducted to safeguard market player's interest & make them cautious, but this move had led to bad perception of even good company which is well managed and there are not lapses in corporate governance.
4. The parameters adopted by market regulatory and exchanges, does not include qualitative factors or parameters. It includes only quantitative parameters. Qualitative parameters such as Corporate Governance, Investor Policies, Internal leakage of information, background of Management and Board of Directors, Number of cases pending in courts, clarification and steps taken to fulfill investor's expectations etc. are not taken into consideration.
5. Return generation capacity of a stock has significantly fallen, motive of making investors cautious has adversely affected the returns which and investors could have earned.
6. Market players are moved away from this stock, Companies business, growth, profitability, revenue etc. attract investors to a particular stock, but a simple step by SEBI and Exchange drives away all the investors and traders. Instead of hard core business model and type, these surveillance measure, keep investors away even from a good company and changes its narrative completely.
7. Although, price bands got revised, but the movement within price bands has significantly increased. It has hit more circuits than before, leaving trading suspended for entire day. A move to make market players cautious has led to suspension of trading.

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