

Market Indices

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Definition: Any index that is used to capture price changes of an overall market.
Examples Nasdaq, BSE Sensex, Nifty

Indian Stock Market Indices

The following are the two popular indices

- (i) **BSE Sensex**: The Bombay Stock exchange (Mumbai) Sensex is based on a basket of 30 large and liquid representative stocks
- (ii) **NSE Nifty**: National Stock Exchange's NIFTY is based on 50 well-diversified stocks and is representative of 24 sectors of the economy

History of the Sensex

For the premier Stock Exchange that pioneered the stock broking activity in India, 125 years of experience seem to be a proud milestone. A lot has changed since 1875 when 318 persons became members of what today is called "Bombay Stock Exchange Limited" by paying a princely amount of Re1.

Since then, the stock market in the country has passed through both good and bad periods. The journey in the 20th century has not been an easy one. Till the decade of eighties, there was no measure or scale that could precisely measure the various ups and downs in the Indian stock market. Bombay Stock Exchange Limited (BSE) in 1986 came out with a Stock Index that subsequently became the barometer of the Indian Stock Market.

BSE-SENSEX, first compiled in 1986 is a "Market Capitalization-Weighted" index of 30 component stocks representing a sample of large, well established and financially sound companies. The base year of BSE-SENSEX is 1978-79. The index is widely reported in both domestic and international markets through print as well as electronic media. **BSE-SENSEX** is not only scientifically designed but also based on globally accepted construction and review methodology. The "Market Capitalization-Weighted" methodology is a widely followed index construction methodology on which majority of global equity benchmarks are based.

The growth of equity markets in India has been phenomenal in the decade gone by. Right from early nineties the stock market witnessed heightened activity in terms of various bull and bear runs. More recently, the bourses in India witnessed a similar frenzy in the 'TMT' sectors. The BSE-SENSEX captured all these happenings in the most judicial manner. One can identify the booms and bust of the Indian equity market through BSE-SENSEX.

The launch of BSE-SENSEX in 1986 was later followed up in January 1989 by introduction of **BSE National Index (Base: 1983-84 = 100)**. It comprised of 100 stocks listed at five major stock exchanges in India at Mumbai, Calcutta, Delhi, Ahmedabad and Madras. The BSE National Index was renamed as BSE-100 Index from October 14, 1996 and since then it is calculated taking into consideration only the prices of stocks listed at BSE.

With a view to provide a better representation of the increased number of companies listed, increased market capitalization and the new industry groups, the Exchange constructed and launched on 27th May, 1994, two new index series viz., the 'BSE-200'

and the 'DOLLEX-200' indices. Since then, BSE has come a long way in attuning itself to the varied needs of investors and market participants. In order to fulfill the need of the market participants for still broader, segment-specific and sector-specific indices, the Exchange has continuously been increasing the range of its indices. The launch of BSE-200 Index in 1994 was followed by the launch of BSE-500 Index and 5 sectoral indices in 1999. In 2001, BSE launched the BSE-PSU Index, DOLLEX-30 and the country's first free-float based index - the BSE TECK Index taking the family of BSE Indices to 13.

The Exchange also disseminates the Price-Earnings Ratio, the Price to Book Value Ratio and the Dividend Yield Percentage on day-to-day basis of all its major indices.

The values of all BSE indices (except the Dollar version of indices) are updated every 15 seconds during the market hours and displayed through the BOLT system, BSE website and news wire agencies.

All BSE-Indices are reviewed periodically by the "Index Committee" of the Exchange. The committee frames the broad policy guidelines for the development and maintenance of all BSE indices. The Index Cell of the Exchange carries out the day to day maintenance of all indices and conducts research on development of new indices
Scrips Replacement:

Milestones

10000: Feb 6, 06
9000 : Nov 28, 05
8000 : Sep 8, 05
7000 : Jun 20, 05
6000 : Feb 11, 00

Foreign Stock Market Indices

- (i) Nasdaq : The NASDAQ-100 Index includes 100 of the largest domestic and international non-financial securities listed on The Nasdaq Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. It does not contain securities of financial companies including investment companies
- (ii) S & P : Standard and Poor's 500 Index tracks 500 companies in various fields. It is considered by many to be the most accurate reflection of the US market today

Some more definitions

Market Capitalization : It is defined as the product of current market price of the stock and the number of total shares issued by the company. Based on the different slabs, stocks are divided into large-cap, mid-cap etc

Blue Chip companies: Also known as bellweather issues, blue chip stocks are those that are perceived to be safe and with a sound financial performance. e.g. Wal Mart, Coca-Cola etc

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Disclaimer:- The views expressed are strictly my own and neither me nor IIM Calcutta will be responsible for a possible error.

Students are welcome to discuss their doubts on this topic with me via mail.
Suggestions are also welcome 😊.