TASK 1: Stock Market Basics Research Report

Short report (approx. 800-1000 words)

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Stock Market Basics: A Short Research Report

The stock market is a regulated marketplace where shares — ownership units of publicly traded companies — are bought and sold. It enables companies to raise capital by issuing equity and gives investors opportunities to participate in corporate growth, earn dividends, and realise capital gains. Stock markets also serve as a barometer of economic sentiment: prices reflect information, expectations and aggregate investor demand for risk and return. Key participants include retail and institutional investors, brokers, market makers, exchanges, and regulators who together ensure trade execution, price discovery and market integrity.

Primary Market vs Secondary Market

The primary market is where securities are created and sold for the first time. When a company decides to raise equity capital from the public, it issues shares through mechanisms such as an Initial Public Offering (IPO) or follow-on public offerings. Funds flow from investors directly to the issuing company; the company uses proceeds for expansion, debt repayment or other corporate needs. Price-setting in the primary market typically involves book-building, fixed-price offerings or auctions.

The secondary market, by contrast, is where existing securities change hands among investors after the initial issuance. Stock exchanges (such as the National Stock Exchange — NSE and Bombay Stock Exchange — BSE in India) provide the platform for secondary trading. Trades in the secondary market determine the market price of a security, and liquidity here is crucial because it enables investors to enter and exit positions without affecting the issuing company’s balance sheet. While the primary market allocates capital to issuers, the secondary market provides continuous price discovery and liquidity.

How Prices are Determined and Market Functions

Market prices reflect the interaction of supply and demand. Buyers place bids and sellers post asks; trades occur when bids meet asks. Prices incorporate public information — earnings, macroeconomic data, policy news, analyst ratings — and private information as it becomes public. Exchanges and electronic trading systems ensure transparency by publishing order books, last traded prices and historical data. Market functions extend beyond trading: exchanges list companies (setting listing standards), facilitate settlement and clearing to reduce counterparty risk, and provide indices (such as the Sensex or Nifty) to summarise market performance.

Role of a Regulator: SEBI in India

The Securities and Exchange Board of India (SEBI) is the primary market regulator in India. SEBI’s mandate is to protect investor interests, promote fair and efficient markets, and regulate market intermediaries. It issues rules for disclosure in IPO prospectuses, controls insider trading, monitors fraudulent and manipulative practices, and enforces compliance among brokers, mutual funds, rating agencies and listed companies. SEBI also frames rules to enhance corporate governance, standardise reporting and improve transparency in derivative and equity markets. By supervising listing, trading, clearing and settlement, SEBI reduces in formation asymmetry and strengthens investor confidence – a critical prerequisite for well-functioning capital markets.

Market Instruments and Participants

Apart from common equity, markets trade preferred shares, bonds, exchange-traded funds (ETFs), derivatives (futures and options) and mutual fund units. Institutional participants – pension funds, insurance companies and mutual funds – dominate volumes and influence price moves. Retail investors contribute to market depth and diversification of ownership. Brokers and custodians facilitate transactions and safekeeping, while rating agencies and auditors provide third-party assessments that shape investor perception.

Risks and Investor Protections

Equity investing carries risks: price volatility, company-specific risk, liquidity risk and macroeconomic exposures. Diversification, understanding time horizon and risk tolerance, and due diligence (reading financial statements, understanding business models and management quality) are critical safeguards. SEBI’s investor education initiatives, complaint redressal mechanisms and disclosure norms are designed to mitigate information gaps. Additionally, circuit breakers and margin requirements help contain systemic risk during episodes of extreme volatility.

Conclusion

The stock market is an efficient mechanism that channels savings to productive uses while enabling wealth creation through capital appreciation and dividends. The distinction between the primary and secondary markets highlights the lifecycle of securities from issuance to trading. In India, SEBI’s regulatory oversight ensures orderly markets, investor protection and transparency – all of which are essential to foster trust and participation among investors. For anyone planning to invest, a measured approach combining research, diversification and awareness of regulatory safeguards will increase the odds of successful long-term outcomes.