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REVIEW ARTICLE

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Study on Price Behavior in Domestic Markets

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Return behavior in GDR markets reveals that out of 1070 serial correlation coefficients, 427 (39.91 per cent) were positive and 549 (51.31 per cent) were negative values. While the remaining, 94 (8.78 per cent) had experienced zero coefficients signifying the absence of interdependence of any trend for GDR stock returns. As inferred in the earlier sections, dominance of negative serial correlation coefficient values points to the depressed stock prices in this context too. In addition, 183 (17.10 per cent) serial correlation coefficients were considered significant at 5 per cent level of significance. Such a higher incidence of significant correlation coefficients points towards the traces of interdependence of stock return. At higher level of significance (1 per cent) this interdependence has appeared to reduce substantially (9.44 per cent). It implies that the lower incidence of the magnitude of correlation coefficients under reference. When the magnitude of serial correlation coefficients examined in relation to their probable error, it reveals that 681 coefficients were less than the respective probable errors. It points to the lower magnitude of serial correlation coefficients. On the whole, results presented above, points towards the market efficiency of stocks in the GDR markets in a broader perspective. It was also noted the significance of 66 coefficients were significant at 5 per cent level with one week lags. It implies the serial dependence in stock returns. The traces of such dependence were also discerned up to the lag of 7-week period. This is a profound demonstration of week form of stock market efficiency with very little fad and bubbles. Therefore, it may be inferred that the GDR markets are relatively more efficient as compared to their domestic counterparts.

The information generated for GDR markets reveal that only in one case (NEPC India Ltd.) significant trend in GDR stock prices was discerned at 5 per cent level of significance. This position obtained when the runs were computed from the median value of the underlying stock prices. Runs counted in reference to the mode, hardly makes any departure there from. The traces of trend were discovered in the GDR markets for stock returns were identical to that for stock prices. However, when runs were counted with reference to the mean of underlying stock price, the significant trend in 4 stock prices were noted at 5 per cent level of significance. In the case of JCT Ltd. stock prices, the significant trend was discovered even at 1 per cent significance level. Thus, randomness in stock prices in the GDR markets is vehemently demonstrated in the study under consideration. On the whole, it can be inferred from the aforesaid discussion that random behavior in stock prices has transcended the geographic boundaries. However, the assortment of randomness in the GDR stock prices profoundly demonstrator as compared to that in the domestic markets.

The behavior of stock returns around result announcement revealed that 10 GDR stocks have experienced significant excess returns in the announcement week and the following one-week in domestic markets with no indication of superior return in any of 12 preceding weeks. However, a notice able return shift was experienced in the 12th week succeeding the result announcement week at 5 per cent level of significance. Similar situation obtained at one per cent significant level that 7 stocks experienced significant excess return in the result announcement week. The instances of excess abnormal returns were relatively higher in the post-announcement period as compared to the period before it. It implies the absence of insider trading in the pre-announcement period. The relatively higher returns in the post announcement period may be explained as re-rating of stocks for investment on account of superior corporate announcements. On the whole, the results reported indicate the informational efficiency of holing stocks markets in its semi- strong form in Indian markets.

In case of GDR markets, 9 cases of excess abnormal returns were experienced in the result announcement week as well as one week preceding. The equal instances of excess abnormal return prior to the result announcement points to the market inefficiency. On this basis, it may be explained that earnings estimates by the analyst more frequently matches the results announcement. A higher incidence of abnormal excess return was noted in the tenth week pre- and post -result announcement week. It was curious to note that highest incidence of excess returns (11 cases) were observed in the second week following the result announcement. It can be inferred that GDR markets quickly absorbs

new information. On the basis of results, it can be claimed that Indian stock markets are more informational efficient in semi-strong form than their GDR counterparts.

The GDR markets are considered more efficient in semi-strong form of market efficiency in their reaction to the relevant corporate announcements. This phenomenon is widely acknowledged in the literature and experienced by the market participants widely. It was noticed in the present study that only twenty return observations were found significant in the entire event window. It was also noticed that instances of excess abnormal returns were scattered widely in the event window. Visualized in this context, the stock price behavior appears to moving randomly in entire horizon of the event window. In other words, information efficiency of the GDR markets holds in its semi-strong form. In nutshell, the GDR stock prices had experienced identical movements in the domestic as well as GDR stock markets. These markets were considered informational efficient in its semi-strong form based on the information inputs generated as a prelude and/or consequence of stock split and/or bonus announcements. The evidence generated on stock returns in this regard were relatively considered better in the GDR markets compared to the domestic markets.

The stock return in the GDR markets is also expected to behave in the same manner as in the domestic markets. The study found that all the portfolios could beat the market in the terminal two years of the study but no portfolio could do so in the year 1998. It was curious to note that large portfolios consistently could beat the market proxy in the 1995-97 and exhibited a relative edge in performance. This performance bias for one-year holding period appears to have little significance and none of the portfolio return considered significant during the period of study. For two-year holding period, positive returns were noted across all size groups. It was curious to note that all portfolios could generate excess return during the study periods except medium and small size portfolios in the year 1997-98. Three year holding period portfolio returns have been marginalized to a large extent. In case of four-year holding period, portfolios have beaten the benchmark portfolio return but it was insignificant. The present study failed to document any evidence of significant abnormal return for different holding periods. It may be concluded that GDR markets were remarkable efficient in the near-strong form similar to the domestic markets. Hence, it may be concluded that the domestic as well as GDR markets were equally efficient in near-strong form of market efficiency.

In GDR markets, in relation to one year holding period return, again large portfolios have consistently generated positive return except the year 1998. But small portfolios were laggards except for the year 1999. In nutshell, portfolios consistently failed to register superior return during the study period. It was also observed that smaller portfolios have registered better performance in the two-year holding period during the study. It is curious to note that the portfolios constructed on the stock prices exhibited superior performance bias for three-year holding period. Lastly, in case of four year holding period, portfolios returns were substantially better than those obtained from benchmark portfolio. But the positive superior performance bias was not considered significant statistically in the GDR as well as in domestic markets. It vehemently points to the near-strong efficiency of GDR as well as domestic markets.

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