



## Comparative Analysis of S&P SENSEX V/S NIKKEI 225

Prof. Krunal Maheta  
T. N. Rao College,  
Rajkot, Gujarat (India)

**Abstract:** *Stock market is of the most important indicator of the nation's growth and development. It would always difficult to predict and measure the movement of all the stocks at a time. That is why index is used to show the exact picture of the growth story. Index includes stocks of the major player of the different industries, private as well as the public sector. The Stock index is a barometer of nation's economic health as market prices reflect expectation about the economy's performance. However, it measures overall market sentiment through a set of stocks that are representative of the market and provides investors information regarding the average share price in the market. The market index reflects expectations about the behavior of economy as a whole. It is a pioneer of economic cycles. A well constructed index shows the behavior of the market and it also represents the return obtained by a typical portfolio investing in the market. Index indicates the direction towards which economy of the nation is moving. Here in this paper comparative analysis is made of the two countries sock index. Out of which one is Japan one of the developed country having the capitalist economy and on the contrary India which is one of the fastest moving economy of the world having mixed economic system. Here NIKKEI 225 is taken as a representative of the Tokyo Stock Exchange and S&P SENSEX represents the Bombay Stock Exchange. This paper consists the historical development of both the stock exchanges and indices along with the present scenario of the stock market.*

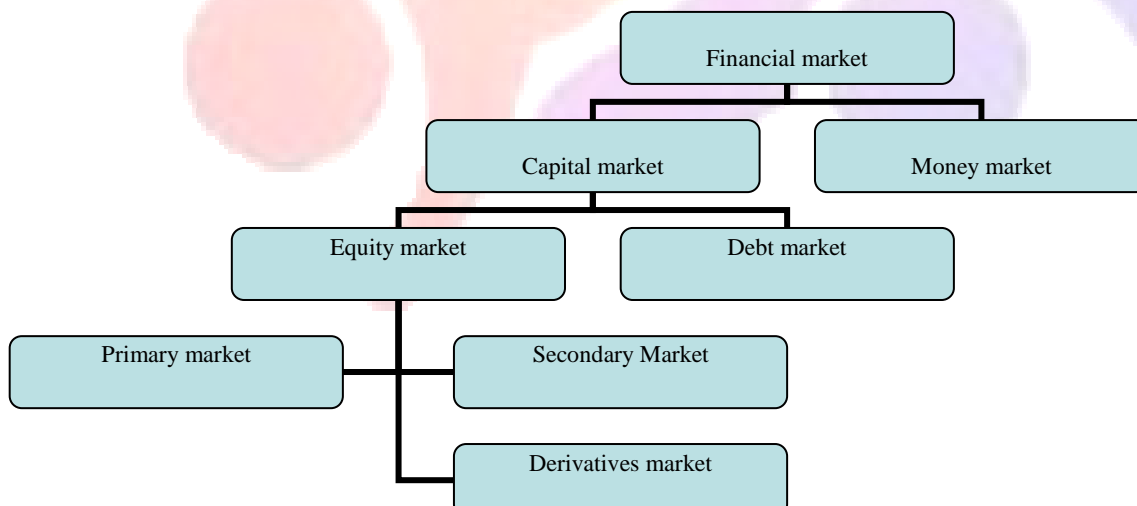
**Keywords:** *S & P SENSEX, NIKKEI 225, Economic System, Economic Cycle, Bombay Stock Exchange, Tokyo Stock Exchange..*

### I. INTRODUCTION

We know that, money always flows from surplus sector to deficit sector. That means persons having excess of money lend it to those who need money to fulfill their requirement. Similarly, in business sectors the surplus money flows from the investors or lenders to the businessmen for the purpose of production or sale of goods and services. So, we find two different groups, one who invest money or lend money and the others, who borrow or use the money. Now the question is that how these two groups meet and transact with each other? The financial markets act as a link between these two different groups. It facilitates this function by acting as an intermediary between the borrowers and lenders of money. So, financial market may be defined as 'a transmission mechanism between investors (or lenders) and the borrowers (or users) through which transfer of funds is facilitated'. It consists of individual investors, financial institutions and other intermediaries who are linked by a formal trading rules and communication network for trading the various financial assets and credit instruments.

### II. TYPES OF FINANCIAL MARKET

Financial market is broadly classified in to two as Capital market and Money market. Capital market is also divided into two Equity market and Debt market. Money market is for short term credit while capital market is for medium term and long term credit. Let see both the market.



#### A. Money market:



The money market is a market for short-term funds, which deals in financial assets whose period of maturity is up to one year. It should be noted that money market does not deal in cash or money as such but simply provides a market for credit instruments such as bills of exchange, promissory notes, commercial paper, treasury bills, etc. These financial instruments are close substitute of money. These instruments help the business units, other organisations and the Government borrows the fund to meet their short term requirement.

## **B. Capital market:**

Capital market is defined as the market dealing in medium and long term fund. It is an institutional arrangement for borrowing medium and long-term funds and which provides facilities for marketing and trading of securities. So it constitutes all long-term borrowings from banks and financial institutions, borrowings from foreign markets and raising of capital by issue various securities such as shares debentures, bonds, etc. In the present chapter let us discuss about the market for trading of securities. The market where securities are traded known as Securities market. It consists of two different segments namely primary and secondary market. The primary market deals with new or fresh issue of securities and is, therefore, also known as new issue market; whereas the secondary market provides a place for purchase and sale of existing securities and is often termed as stock market or stock exchange.

### **i. Primary market:**

Primary market consists of the arrangement of the fresh capital from the market for long term by the companies by making fresh issue of shares and debentures. As we all know that companies make fresh issue of shares and/or debentures at their formation stage and, if necessary, subsequently for the expansion of business. It is usually done through private placement to friends, relatives and financial institutions or by making public issue. In any case, the companies have to follow a well-established legal procedure and involve a number of intermediaries such as underwriters, brokers, lead managers, credit rating agency, advertisement agent etc. who form an integral part of the primary market.

### **ii. Secondary market / Stock market:**

Secondary market refers to the market where the listed securities are bought and sold. It is well known as the stock market. It has an equally important role in mobilizing long-term funds by providing the necessary liquidity to holdings in shares and debentures. It provides a place where these securities can be encashed without any difficulty and delay. It is an organized market where shares, and debentures are traded regularly with high degree of transparency and security. In fact, an active secondary market facilitates the growth of primary market as the investors in the primary market are assured of a continuous market for liquidity of their holdings. The major players in the primary market are merchant bankers, mutual funds, financial institutions, and the individual investors; and in the secondary market you have all these and the stockbrokers who are members of the stock exchange who facilitate the trading.

## **III. BRIEF HISTORY OF STOCK EXCHANGE IN INDIA & JAPAN**

### **Bombay Stock Exchange:**



The Bombay Stock Exchange is the oldest exchange in India. It traces its history to 1855, when four Gujarati and one Parsi stockbroker would gather under banyan trees in front of Mumbai's Town Hall. The location of these meetings changed many times, as the number of brokers constantly increased. The group eventually moved to Dalal Street in 1874 and in 1875 became an official organization known as 'The Native Share & Stock Brokers Association'. In 31st August, 1957, the BSE became the first stock exchange to be recognized by the Indian Government under the Securities Contracts Regulation Act. In 1980 the exchange moved to the Phiroze Jeejeebhoy Towers at Dalal Street, Fort area. In 1986 it developed the BSE SENSEX index, giving the BSE a means to measure overall performance of the exchange. In 2000 the BSE used this index to open its derivatives market, trading SENSEX futures contracts. The development of SENSEX options along with equity derivatives followed in 2001 and 2002, expanding the BSE's trading platform.

Historically an open outcry floor trading exchange, the Bombay Stock Exchange switched to an electronic trading system in 1995. It took the exchange only fifty days to make this transition. This automated, screen-based trading platform called BSE On-line trading (BOLT) had a capacity of 8 million orders per day. The BSE has also introduced the world's first centralized exchange-based internet trading system, BSEWEBx.co.in to enable investors anywhere in the world to trade on the BSE platform.

### **BSE at present:**

Bombay Stock Exchange (BSE), is a stock exchange located on Dalal Street, Mumbai, Maharashtra, India. It is the 11th largest stock exchange in the world by market capitalisation as of 31 December 2012. Established in 1875, BSE Ltd. (formerly known as Bombay Stock Exchange Ltd.), is the India's second oldest Stock Exchange (Oldest being the Calcutta Stock Exchange (CSE) located at the Lyons Range, Kolkata) and one of India's leading exchange groups. Over the past 137 years, BSE has facilitated the growth of the Indian corporate sector by providing it an efficient capital-raising platform. Popularly known as BSE, the bourse was established as "The Native Share & Stock Brokers' Association" in 1875.



BSE is a corporatized and demutualised entity, with a broad shareholder-base which includes two leading global exchanges, Deutsche Bourse, Fuse and Singapore Exchange as strategic partners. BSE provides an efficient and transparent market for trading in equity, debt instruments, derivatives, mutual funds. It also has a platform for trading in equities of small-and-medium enterprises (SME). More than 5000 companies are listed on BSE making it world's No. 1 exchange in terms of listed members. The companies listed on BSE Ltd command a total market capitalization of USD Trillion 1.32 as of January 2013. BSE Ltd is world's fifth most active exchange in terms of number of transactions handled through its electronic trading system. It is also one of the world's leading exchanges (3rd largest in December 2012) for Index options trading (Source: World Federation of Exchanges).

#### **Tokyo Stock Exchange:**



#### **Prewar history:**

The Tokyo Stock Exchange was established on May 15, 1878, as the Tokyo Kabushiki Torihikijo under the direction of then-Finance Minister Okuma Shigenobu and capitalist advocate Shibusawa Eiichi. Trading began on June 1, 1878. In 1943, the exchange was combined with ten other stock exchanges in major Japanese cities to form a single Japanese Stock Exchange. The combined exchange was shut down and reorganized shortly after the bombing of Nagasaki.

#### **Postwar history:**

The Tokyo Stock Exchange reopened under its current Japanese name on May 16, 1949, pursuant to the new Securities Exchange Act. The TSE runup from 1983 to 1990 was unprecedented, in 1990 it accounted for over 60% of the world's stock market capitalization (by far the world's largest) before falling precipitously in value and rankings today, but still remains one of the 3 largest exchanges in the world by market capitalization of listed shares.

The current TSE building was opened on May 23, 1988, replacing the original TSE building from 1931, and the trading floor of the TSE was closed on April 30, 1999, so that the exchange could switch to electronic trading for all transactions. A new facility, called TSE Arrows, opened on May 9, 2000. In 2010, the TSE launched its Arrowhead trading facility. [7]

In 2001, the TSE restructured itself as a stock company: before this time, it was structured as an incorporated association with its members as shareholders.

#### **Tokyo Stock Exchange at present:**

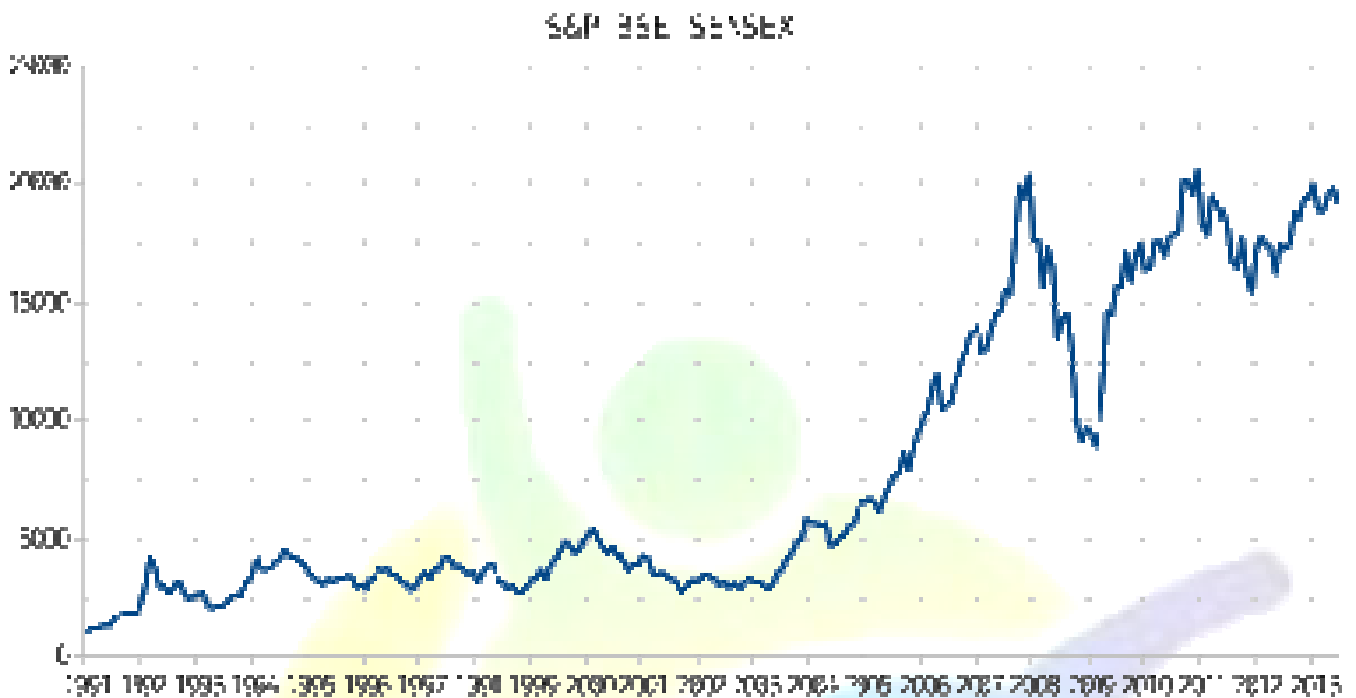
The Tokyo Stock Exchange which is called Tōshō or TSE for short, is a stock exchange located in Tokyo, Japan. It is the third largest stock exchange in the world by aggregate market capitalization of its listed companies. It had 2,292 listed companies with a combined market capitalization of US\$3.3 trillion as of December 2011.

In July 2012 a planned merger with the Osaka Securities Exchange was approved by the Japan Fair Trade Commission. The resulting entity, the Japan Exchange Group (JPX), was launched on January 1, 2013

### **IV. BRIEF HISTORY AND DEVELOPMENT OF S&P SENSEX & NIKKEI225**

#### **S&P SENSEX:**

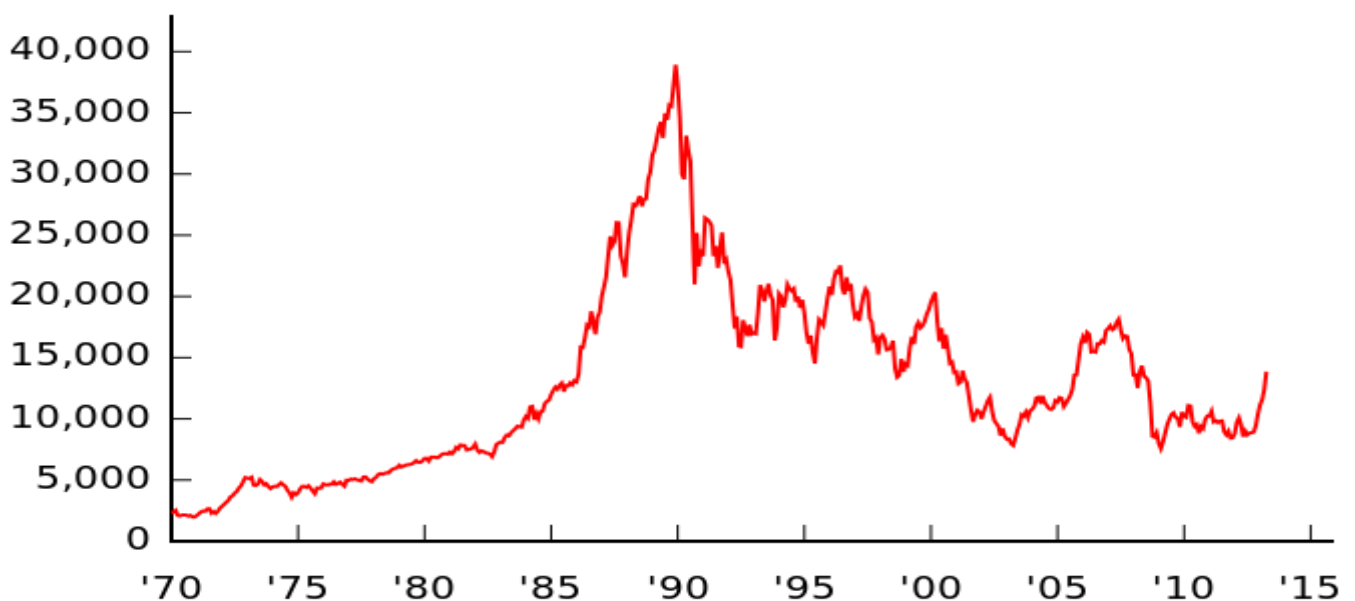
The launch of SENSEX in 1986 was later followed up in January 1989 by introduction of BSE National Index (Base: 1983-84 = 100). It comprised 100 stocks listed at five major stock exchanges in India - Mumbai, Calcutta, Delhi, Ahmedabad and Madras. The BSE National Index was renamed BSE-100 Index from 14 October 1996 and since then, it is being calculated taking into consideration only the prices of stocks listed at BSE. BSE launched the dollar-linked version of BSE-100 index on 22 May 2006. BSE launched two new index series on 27 May 1994: The 'BSE-200' and the 'DOLLEX-200'. BSE-500 Index and 5 sectoral indices were launched in 1999. In 2001, BSE launched BSE-PSU Index, DOLLEX-30 and the country's first free-float based index - the BSE TECK Index. Over the years, BSE shifted all its indices to the free-float methodology (except BSE-PSU index). BSE disseminates information on 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 are updated on real time basis during market hours and displayed through the BOLT system, BSE website and news wire agencies. All BSE Indices are reviewed periodically by the BSE Index Committee. This Committee which comprises eminent independent finance professionals frames the broad policy guidelines for the development and maintenance of all BSE indices. The BSE Index Cell carries out the day-to-day maintenance of all indices and conducts research on development of new indices, popularly known as BSE.



Source: wikipedia

#### NIKKEI225:

The formal name of the index is the "Nikkei Stock Average". It is comprised of the 225 highly liquid stocks of the Tokyo Stock Exchange First Section and the constituents are selected by considering the weights of the industrial sectors. In the long history of more than 60 years, the index has been widely followed as a barometer of the market or the state of the economy. It has been used for the popular financial products such as the index futures contracts or index funds. The Nikkei225 is the major index for the financial products for the Japanese equity market. The commencement date of the calculation was September 7th, 1950, which had been retroactively calculated in the past on the end-of-day basis, to May 16th, 1949. The Nikkei 225 is currently calculated every 15 seconds while the Tokyo Stock Exchange opens. The Nikkei Stock Average, the Nikkei 225 is used around the globe as the premier index of Japanese stocks. More than 60 years have passed since the commencement of its calculation, which represents the history of Japanese economy after the World War II. Because of the prominent nature of the index, many financial products linked to the Nikkei 225 have been created and are traded worldwide while the index has been sufficiently used as the indicator of the movement of Japanese stock markets. The Nikkei 225 is a price-weighted equity index, which consists of 225 stocks in the 1st section of the Tokyo Stock Exchange.



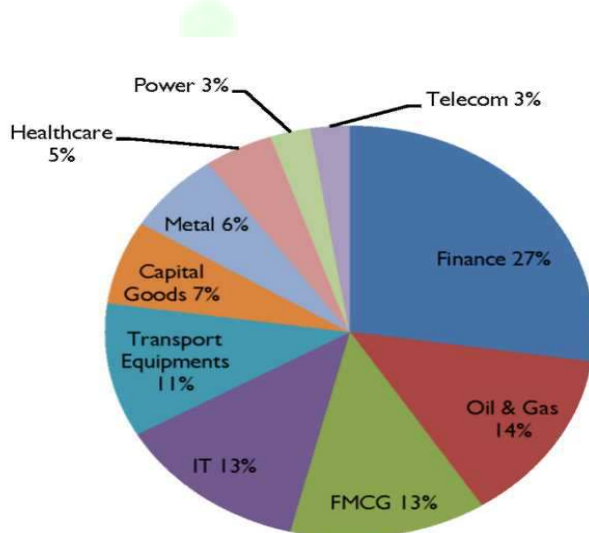
Source: Wikimedia Commons

### V. SECTOR COMPOSITION OF S&P SENSEX & NIKKEI225

The ideal Index of any of the stock exchange of the world should consist several important sectors of the country. In the same way here both of the index has been constructed from various crucial sectors.

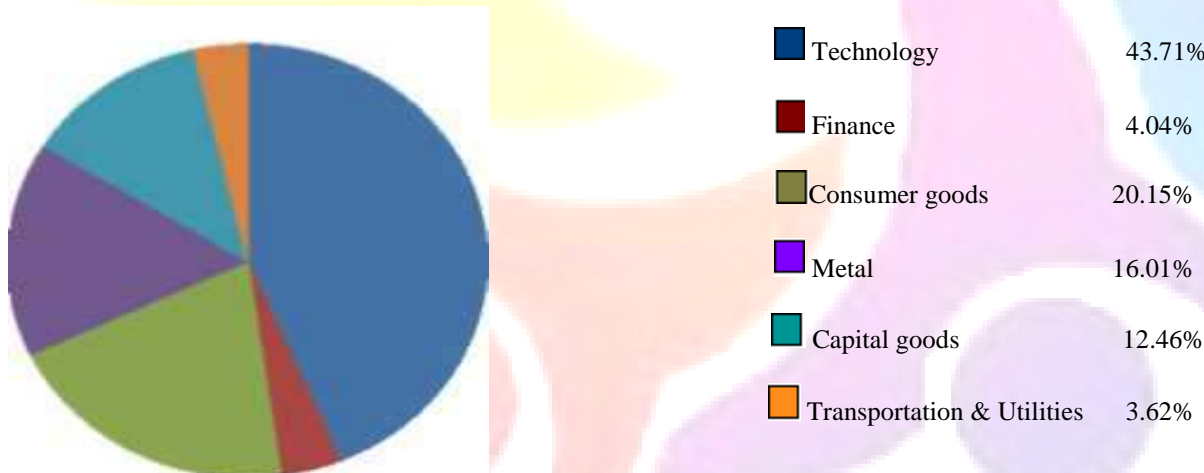
#### S&P SENSEX:

There are 10 most important sector are taken for the construction of the S&P SENSEX. The well established and financially sounds companies across key sectors of the country.



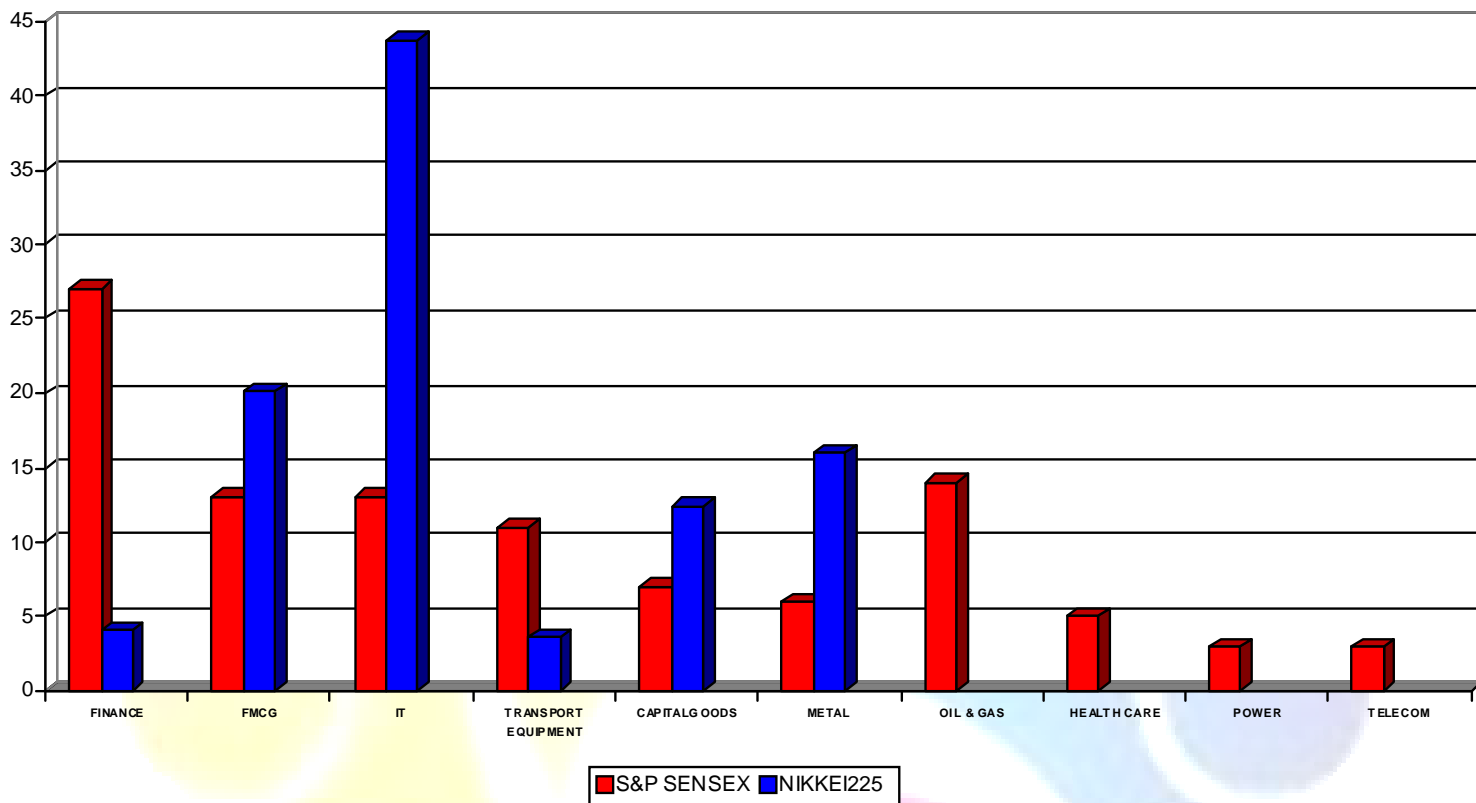
#### NIKKEI 225:

In NIKKEI 225 there are six sectors are taken in which the companies are chosen on the basis of the trading volume and the industry balance.



Source: <http://indexes.nikkei.co.jp/>

**VI. SECTOR COMPARISON OF S&P SENSEX & NIKKEI 225**

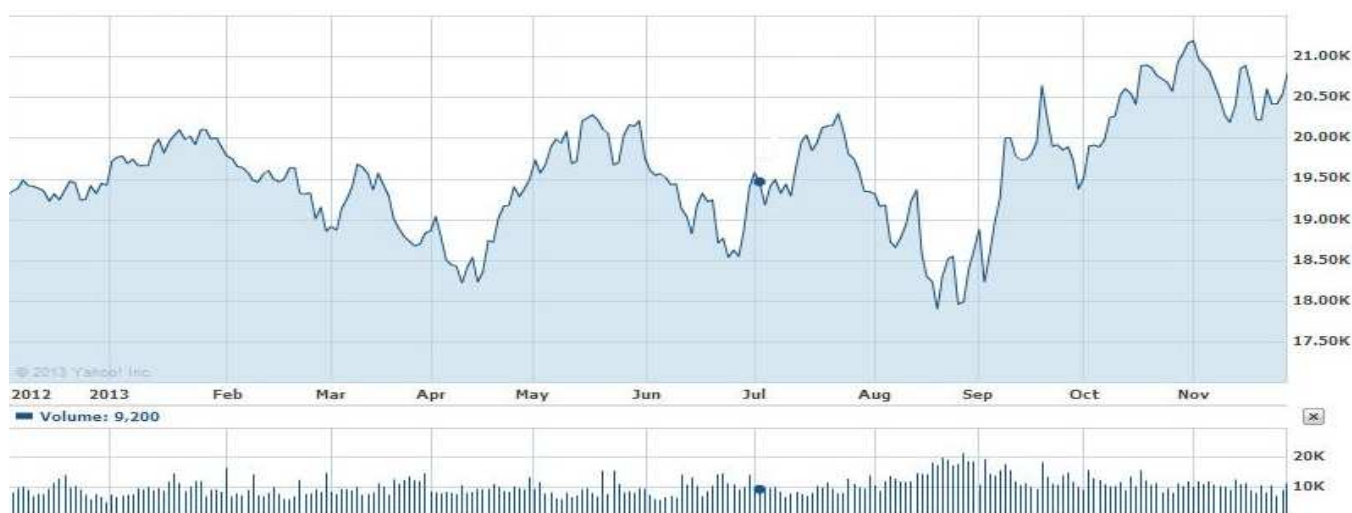


**Comparison:**

- Here in NIKKEI225 only 6 sectors are included while in S&P SENSEX 10 important sectors are covered.
- In NIKKEI225 Information & technology Industry are overemphasized. While some of the important sectors are not taken to measure the overall market condition.
- In S&P SENSEX only 30 companies are taken to represents the entire Indian Equity Market. So almost 3 company from each sector which is quit less.

**VII. CURRANT YEAR MOVEMENT OF S&P SENSEX**

S&P BSE SENSEX (^BSESN) - BSE  
**20,791.93** ↑ 257.02 (1.25%) 29 Nov 3:39PM

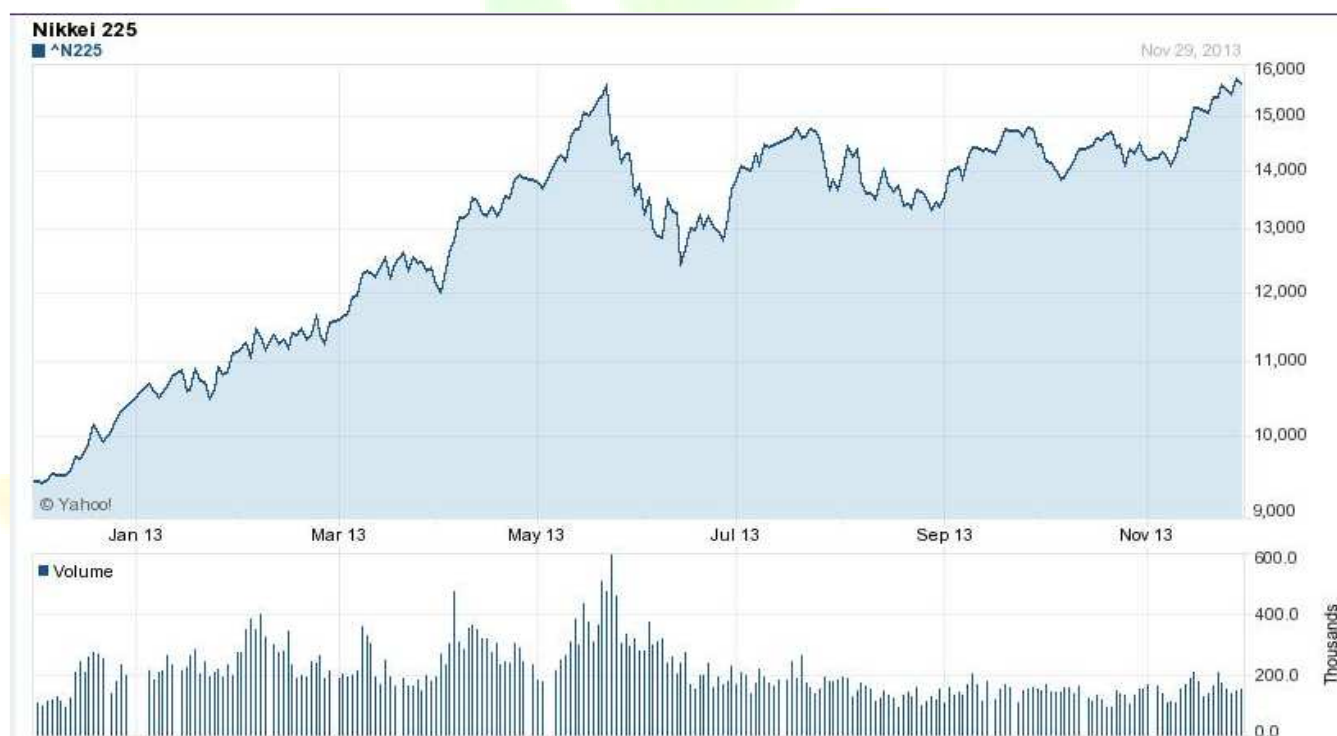


Source: Yahoo Finance

### Findings:

- On the basis of the above chart of S&P SENSEX it seems clear volatility of the year 2013
- In the Dec. 2012 the market was around 19,500 points and in the beginning of the year's first month market has crossed 20,000, a positive sigh
- But from the month of Feb. market started to show the negative trend to mid. of April. Here S&P SENSEX made double bottom and started to reflect the positive attitude up to an end of the month May.
- June was the bearish month, S&P SENSEX arrived near to 18,500.
- In the month of July S&P SENSEX raise to around 20,300. but again in the month of Aug. S&P SENSEX again fall to below 18,000.
- From the September to November market has recovered more than 2,000 points that means more than 10%
- **Market seems positive and can make "ALL TIME HIGH".**

### VIII. CURRANT YEAR MOVEMENT OF NIKKEI225



Source: Yahoo Finance

### Findings:

- As per the above chart of one year, it seems quit clear that NIKKEI225 is there in positive zone.
- From the month of December, 2012 NIKKEI225 have shown a positive trend. One ended movement was there from January to May. A rally of almost 7,000 points just in 5 month.
- NIKKEI225 came in bearish zone in the month of June, around 3,000 points fall.
- From the month of July, a bullish trend is clearly seen.
- In the year 2013, Japan's NIKKEI225 had given **the best return** as compared to major global indices of US, UK, CHINA, BRAZIL, RUSSIA & SOUTH KOREA.
- In the year 2014 also NIKKEI225 is seems to be **bullish**.

### REFERENCES

1. www.bseindia.com
2. www.moneycontrol.com
3. www.yahoofinance.com
4. www.wikipedia.com
5. www.bloomberg.com
6. www.tse.com
7. www.ndtvprofit.com
8. www.indexes.nikkei.co.jn