Analytical Study on Stock market Correction: A Golden opportunity to invest in Indian Equities.

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Abstract:-

A Stock market correction is generally defined as a 10 percent or greater decline in the price of stocks from its most recent peak. Corrections can occur in individual stocks, indexes, commodities, currencies or any asset that is traded on an exchange.

Although market corrections can be challenging, and a 10 percent or more drop may be significant for many investment portfolios.

Corrections are considered healthy for both the market and for investors. For the market, corrections can help to readjust asset valuations that may have become unsustainably high. For investors, corrections can provide both the opportunity to take advantage of discounted asset prices as well as to learn valuable lessons on how rapidly market environments can change.

This research paper will help to understand the Indian share market behavior with respect to correction & its returns after correction.

Keywords : Indian stock market, Correction , Investment opportunities, Indian Securities , returns .

Introduction:-

A Brief History of Indian Stock Market Corrections.

In the observation, when we look at the journey of SENSEX, we'll find that it has been moving in an upward direction. From the base value of 100 in 1979, it took 40 years to touch a peak of around 39,200 in 2019.

But the journey has never been a smooth ride. It had its own events of ups and downs which led to a lot of stock market corrections.

On a few occasions, it lost more than 50% of its worth. Whereas in many cases, it shed off around 20-30% of its value while reacting to the uncertainty in the domestic or global factors. At the same time, it has multiplied the investors' wealth at a CAGR of 14-15% since inception.

Objectives:-

- To understand the concept of market correction.
- To know the indication & the importance of market correction.
- To learn the logical concept of Investing.
- To find relationship between Retunes & Corrections.

Research Methodology:-

This research is based on secondary data. Data were collected from various web sites as well as drawn from technical Charts. To analyze the market correction, data were collected from Jan -2008 to April 2019.

Hypothesis Formulation:
Null Hypothesis (Ho): There is no significant relationship between Retunes & Corrections.
Alternative Hypothesis (Ha): There is Negative relationship between Returns & Corrections.

Data Collections:-

Month-wise historical data of the index from the BSE Website *(since Jan-2008)* and collected the points where the market corrected mildly, healthily, severely and barely during the period 2008-2019.

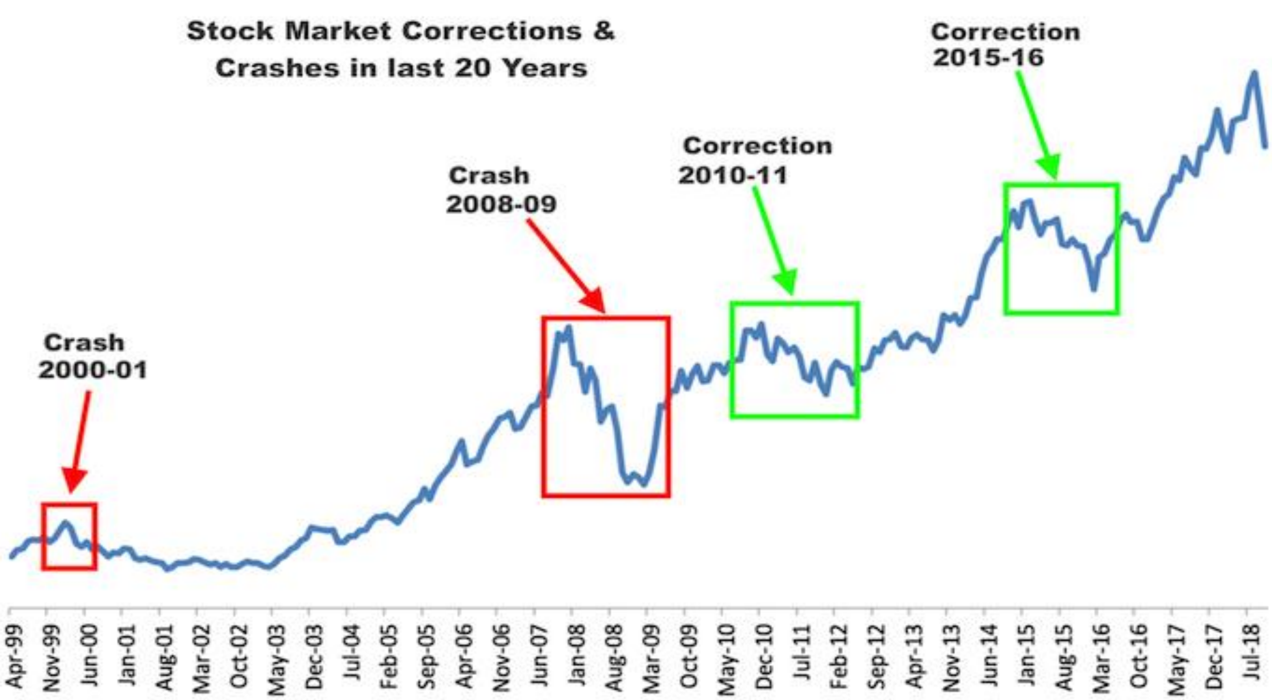
Time period	Market Down (%)	Market Behavior
Jan-2008 –Oct-2008	-59%	Bear Market
Jan 2010 - Feb 2010	-11%	Healthy Correction
Jan 2011 - Feb 2011	-15%	Healthy Correction
May 2011 - June 2011	-8%	Healthy Correction
Jul 2011 - Dec -2011	-20%	Severe Correction
Mar 2012 - Jun 2012	-11%	Healthy Correction
Jul 2013 - Aug 2013	-12%	Healthy Correction
Mar 2015 - Jun 2015	-11%	Healthy Correction
Aug 2015 - Sep 2015	-12%	Healthy Correction
Oct 2015 - Feb 2016	-16%	Healthy Correction
Nov 2016 - Dec 2016	-7%	Mild Correction
Jan 2018 - Apr 2018	-9%	Mild Correction
Aug 2018 - Oct 2018	-13%	Healthy Correction
When drawdown of 0-10% is observed, a Mild Correction is defined.		
When drawdown of 10%-20% is observed, a Healthy Correction is defined.		
When drawdown of 20%-30% is observed, a Severe Correction is defined.		
When drawdown of above 30% is observed , a Bear Market is defined		

As per the statistics, there have been one occurrence (*during The 2008 Depression)* when the index fell beyond 50%. Moreover, the index witnessed 9 occurrences of healthy corrections when it lost its value between 10-20%. Besides, one can expect a mild correction in a span of 1 or 2 years.

Corrections & Returns

Period of Correction	Correction (%)	6 months later	1 Year Later	2 Year Later	3 Year Later	5 Year Later
Jan-2008 –Oct-2008	-59%	34%	101%	140%	93%	129%
Jan 2010 - Feb 2010	-11%	15%	14%	10%	25%	85%
Jan 2011 - Feb 2011	-15%	-2%	-1%	13%	17%	42%
May 2011 - June 2011	-8%	-13%	-9%	13%	38%	53%
Jul 2011 - Dec -2011	-20%	11%	27%	37%	88%	75%
Mar 2012 - Jun 2012	-11%	21%	24%	52%	74%	95%
Jul 2013 - Aug 2013	-12%	16%	42%	57%	56%	110%
Mar 2015 - Jun 2015	-11%	-5%	1%	18%	34%	
Aug 2015 - Sep 2015	-12%	-1%	14%	28%	55%	
Oct 2015 - Feb 2016	-16%	21%	23%	56%		
Nov 2016 - Dec 2016	-7%	21%	27%			
Jan 2018 - Apr 2018	-9%	7%				
Aug 2018 - Oct 2018	-13%	+13%				
**Returns as on April 2019.*						

The table above shows the historical corrections since 2008. It is evident that a sharp fall like the one during 2008, Translated into great returns, later. But if we look at the recent years, we have not seen corrections like that. Corrections in the recent years ranged between 7% and 12%. But here's the good news – even those falls, if used to average efficiently, would have perked up your returns.



Data Interpretation :-

Hypothesis Result :

To study the relationship between Corrections in index and returns obtained after 1 year, regression analysis is applied to study the goodness of model, and following linear equation is framed:

$$Y = a + bX$$

Where Y = Returns; X = Corrections

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	-.866[a]	.750	.723	15.54993

a. Predictors: (Constant), Correction

The above table gives the R value i.e. correlation of -0.866, R Square i.e. 0.750 and Adjusted R Square of 0.723, which states that this is strong model and returns are 72.3% dependent on correction. Also the R value obtained is -0.866 which proves that there is negative relationship between the two variables.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6538.706	1	6538.706	27.042	.001[b]
	Residual	2176.203	9	241.800		
	Total	8714.909	10			

a. Dependent Variable: 1 Yearly Returns
b. Predictors: (Constant), Correction

The above ANOVA table gives the F – value of 27.042 and sig. value i.e. p-value obtained is 0.001 which is less than the alpha value of 0.05 ($p < 0.05$), which states that there is significant association between the two variables.
Hence, the following linear equation is framed:

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-5.185	7.300		-.710	.496
	Correction	-1.758	.338	-.866	-5.200	.001

a. Dependent Variable: 1 Yearly Returns

Returns = -5.185 - 1.758 Correction

Interpretation:-

- R value i.e. correlation of -0.866, R Square i.e. 0.750 and Adjusted R Square of 0.723, which states that this is strong model and returns are 72.3% dependent on correction.
- R value obtained is -0.866 which proves that there is negative relationship between the two variables.
- ANOVA table gives the F – value of 27.042 and sig. value i.e. p-value obtained is 0.001 which is less than the alpha value of 0.05.which states that there is significant connection between the two variables.
- Returns can be calculated by **Returns = -5.185 - 1.758 Correction**

Findings:-

- The above data shows that markets periodically provides such opportunities to enter in market at the right time.
- Swings of the market and worry about losing money during the draw downs many investors fail to realize is that the market eventually recovers and touch the new peaks thereafter.
- Many investors are failing to grasp is that these draw downs are the best times when the stocks are available at discounts. As we always want to buy things at discounted prices. But in investing do not applied these strategies.

Conclusion:-

- The purpose of this research paper is to highlight the importance & concepts of market correction. As well as to find out the relationship between correction & returns. The intent is to tell you that even after facing huge draw downs, the Indian stock market never stopped touching new highs. Indian retail investors just need to understand the statistics of past performance of the market to get the right entry at right time to generate the maximum profit. Many investors get panic and sell off their positions in correction, but what they fail to understand is that the process of building wealth is purely related to how one reacts to such situations.

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