

# **Why is the Share Market Down**

A stock market crash is a phenomenon that witnesses a steep decline in stock prices, often triggered by economic conditions, catastrophic events, or market manipulation.

Stock markets function as secure and regulated arenas where interested participants can engage in transactions involving shares and other financial instruments. Nevertheless, involvement in the stock market carries a certain level of risk. Share markets can be volatile. The foremost apprehension shared by every investor pertains to stock market crashes and the potential implications for their investments.

## **How does the stock market work?**

The Indian stock market operates through two main exchanges: the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). Regulated by the Securities and Exchange Board of India (SEBI), it ensures transparency and investor protection. Investors participate by opening Demat and trading accounts with brokers. They place buy or sell orders, which are matched electronically by the exchanges.

The market consists of two segments: the primary market, where new securities are issued through Initial Public Offerings (IPOs), and the secondary market, where existing securities are traded. Major indices like the BSE Sensex and NSE Nifty 50 track market performance.

Trading follows a T+1 settlement cycle, meaning transactions are settled one day after the trade. Investors can trade various instruments, including equity shares, bonds, mutual funds, and derivatives. Market activities occur within set timings: pre-open session (9:00-9:15 AM), normal trading (9:15 AM-3:30 PM), and post-closing session (3:30-4:00 PM). SEBI's regulations and periodic disclosures by

companies maintain market integrity, ensuring a fair and efficient trading environment.

## **Causes of a stock market crash**

Stock prices are subject to complex factors that collectively influence the market dynamics of supply and demand. To address the pertinent query of “Why is the Indian stock market falling today?”, let us delve into these influencing elements.

### **1. Excessive leverage**

The leverage here refers to borrowed money. Leverage trading has the potential to turn significant profits with limited capital. However, at the same time, it is also risky and can easily turn into a loss. A big position will hurt more if you are a trader and the market moves against you. Trading on excessive leverage across the market can potentially bring about dramatic falls as it can cause worsening disparities. With a fall in market prices, investors and businesses under debt may be forced to exit the market, causing further decline.

### **2. Inflation rate**

In general, a higher interest rate increases the cost of borrowing. This slows purchases in the market, and, as a result, equities in the market decline. For example, if the automobile loan rate increases to 10%, car sales might decline, resulting in a drop in automaker stocks.

### **3. Political environment**

Political risks and events like coups and conflicts are the opposite of what the financial markets desire. The market likes stability and dislikes uncertainty. Events like these tend to hurt investor sentiments and discourage more investments.

### **4. Tax changes**

When a government deducts the inflation-related part of income from the tax base, real taxable income decreases while nominal taxable income stays the same. This can lead to higher deficits and reduced government revenue. In turn, this causes investors to lose confidence, which can cause stock prices to drop sharply

and potentially cause a stock market crash. Besides this, if there is uncertainty in an economy about future tax policy changes, it can further hurt investor trust, worsening the market decline.

A company's fiscal well-being and ability to generate profits play a prominent role in whether the share market goes up or down. In addition, the broader economic landscape has a considerable impact on investor sentiment. Metrics like Gross Domestic Product (GDP) growth, unemployment rates, and inflation can influence the market's mood. Alterations in interest rates directly affect borrowing costs for both companies and individuals. Also, the impact of company-specific events cannot be avoided. Announcements regarding product launches, mergers, acquisitions, shifts in management, or legal entanglements hold the potential to considerably impact a company's stock price. Besides these, the global stage, rife with geopolitical events, international conflicts, and macroeconomic trends, introduces another element of unpredictability.

### **What should you do when the share market is down?**

It's essential to approach the share market's decline with a calm and strategic mindset. Here are some steps to consider.

#### **1. Stay calm and avoid emotional reactions**

When the market goes down, the typical reaction of an investor is to panic and think about selling their position. With the market filled with anxiety, it is a normal reaction to not want to accumulate more losses. Feeling uneasy during market downturns is natural, but making impulsive decisions based on fear or panic can lead to greater losses. During such times, the best strategy is to hold your position. Even though a stock may be in a loss-making position, it will recover eventually. Avoid making emotional reactions like selling off all your investments hastily. Market crashes usually will not last more than a few days, and you may be able to recover your investment in a few months if you successfully exercise patience and hold your position.

## **2. Review your portfolio**

Look closely at your investment portfolio. Assess the sectors and individual stocks that are most affected by the downturn. Consider whether your initial investment thesis still holds true or if any adjustments are needed.

## **3. Diversification matters**

A well-diversified portfolio is less susceptible to extreme price changes from the share market going down. Ensure your investments are spread across different sectors, industries, and asset classes to mitigate risk. Even when a stock market crashes, there is a small chance that all sectors will be equally affected. If your portfolio is diverse, with assets spread across different classes and sectors, it will help mitigate the risk of the price crash more effectively. This, in turn, may help you remain calm and ride through the volatility.

## **4. Focus on the long term**

Remember that investing is a long-term endeavour. Market downturns are often temporary, and history has shown that markets tend to recover over time. Stay focused on your long-term financial goals rather than short-term fluctuations. One of the key traits of successful traders is that they remain invested even when markets fall and patiently wait for recovery to book profits.

## **5. Rebalance if necessary**

A market downturn might cause your asset allocation to drift from your intended targets. Constantly monitoring the market is important to understand how to modify your portfolio according to price fluctuations. Consider rebalancing your portfolio by selling some of the investments that have performed well and allocating funds to those that have declined. This will help stabilize the impact of the stock market crash and help you calmly assess opportunities for market re-entry.

## **6. Buy more shares**

While it may seem like contrary advice to everything we have discussed, if you get the timing of your market entry right, it can lead to big profits. As prices in the overall stock market decline, shares of companies that are highly valued can

also fall. This presents a unique buying opportunity and can enable you to purchase more shares. A popular strategy is to buy shares regularly instead of all in one go as a price reversal is uncertain. Ideally, you should pick companies that have historically had strong fundamentals and financials as they have a higher probability of recovering quickly.

## Conclusion

If you're wondering why the share market is going down, you must remember that stock market crashes can stem from a complex interplay of factors. These include market manipulation, economic downturns, global events, unexpected policy shifts, and investor sentiment. The history of stock market crashes illustrates how vulnerabilities in financial systems, coupled with external shocks, can lead to sharp declines. Recognizing these factors and their potential impact is crucial for investors, regulators, and policymakers to mitigate risks and promote stable market conditions.



# Share Market Easy