A STUDY ON EFFICIENT MARKET HYPOTHESIS BEFORE RECESSION: AN EMPIRICAL TESTING THROUGH RANDOM INVESTING

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ABSTRACT

The Indian stock market is unpredictable phenomenon and has faced many challenges in last decades. It is impossible to accept that it provides complete information about the listed stocks and market. A number of scams of past compel regulators to take corrective action. After each of the crash market corrected itself under the guidance of market regulator. The investments and their returns are directly influenced by the up and down movements of the indices of stock exchanges in which they are listed. Most of the buying and selling securities are been done considering assumption that the securities they are buying are worth more than the price that they are paying, while securities that they are selling are worth less than the selling price. The Efficient Market Hypothesis emphasize that at any given time, security prices fully reflect all available information derived out of various factors and these factors are considered important to predict the future prices of stocks. Thus the core objective of the study is to establish the irrelevance, from the point of view of EMH, of the so called “professionally managed funds” which come at a cost to individual investors. For the purpose BSE 100 stocks for the specific period of 2005-06, 2006-07, and 2007-08 has been taken and stock were pick randomly and grouped together in 20 random portfolios and average returns of the portfolio was calculated. By using equation returns of the portfolio were aggregated and the annualized average returns of the portfolio were computed, then after three-year simple average return was calculated by using the another equation. In last these returns were compared with the three-year average returns of the mutual fund industry and concluding remarks given.

KEY WORDS: BSE Sensex; Stock Index; Stock Market; EMH;; Weak form; Semi strong form; Strong form; Random Walk Theory; M.F;

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