IMPACT OF ELECTIONS ON SHAREHOLDER VALUE CREATION IN INDIAN MARKETS

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ABSTRACT
The stock market plays an important role for economic growth of a country and is a reflection of the status of the affairs of a country at any given point of time. In recent years, the Indian stock market has been impacted by many factors including political factors, economic factors and technological factors to name a few. We are in technological world where news could be spread across the globe within a short span of time thereby enabling investors to swiftly analyse market related news. Political events usually tend to have a great impact on the stock market especially in a country like India where the mass population associates themselves with some or the other political parties. The current research aims at analysing the impact of the Lok Sabha Elections on the Indian Stock Market. The study concludes that over the years elections have created value for the shareholders. With the looming economic situation in the country and elections round the corner, if history repeats itself, the 2019 Lok Sabha elections would definitely create wealth for the Indian Shareholders.

Keywords: *Stock market, Lok Sabha, elections, wealth, shareholders*

I. INTRODUCTION

History has demonstrated that stock markets play a vital role in economic growth of a country. Political events usually have grand impact on the stock market movements. In many cases, the stock market fluctuates because of political announcements such as regulation promulgation, law amendments and national elections. Moreover the 2019 Lok Sabha elections are one of the most important elections in the Indian political history. In a democracy like India where in the mass population is deeply connected with various political parties, the election result day is very important for the equity markets. A decision mandate, irrespective of whose favour it is in provides direction to market. An indecisive or fractured mandate causes the stock market to tumble. It is ultimately the chemistry between various political parties that drives the Indian equity markets.

Markets very often work on speculation, news or anticipation of something positive or negative. Elections tend to reflect what's in store for next five years. Although this might not be true in reality but the very fact that markets move on perception, makes the general elections an evident driver of the Indian stock market. The positive buzz around the government always helps in bringing back the interests of the retail investors and Foreign Institutional Investors. A more economy focused government will always yield wonderful returns for the market in the long run. A lot of companies benefit from the increased allocation towards infrastructure and other sectors like transportation, health amongst others. So basically, the whole chain of economic activity gets a boost. What government does in its budget is also significant for the companies as regards to taxation and the sector wise allocation of the funds. The stock market is basically a sentiment game and once the mood is upbeat and confident, even the bad news is discounted.

II. LITERATURE REVIEW

Kumar Deva B., Sophia Sharon and Jucunda Evelyn Maria (2015) attempted to study the effects of the Lok Sabha Elections on Stock Market Performance. The study mainly focused on effects of the 16th Lok Sabha election on stock market performance in India. Various factors which affect the stock market performance during election period were analysed and significant relationship between Lok Sabha elections and stock market performance has been found to exist. Sentimental analysis about the companies as well as Portfolio optimization for the companies which are listed on BSE SENSEX was conducted for the study period. The research established a significant relationship between Loksabha elections and the stock market performance.

Yi-Hsien Wang, Mei-Yu Lee and Che-Yang Lin (2008) utilised event study and panel data to examine the effects of general election and political change in developed stock markets. The analytical results demonstrate that there is inverse information during the campaign. Furthermore, the results provide evidences that political change was originally intended as an incumbent party impetus to create opportunities for progress. This has caused great political party distress, creating political change with an inverse stock market relationship in developed countries.

James Ndungu Kabiru, Duncan Elly Ochieng and Hellen Wairimu Kinyua (2015) made an attempt to analyse the effect of general elections on stock returns at the Nairobi Securities Exchange. Empirical results have given inconsistent results on whether general election events negatively or positively impact the stock returns. The study found that market reaction to elections is highly negative or positive depending on the volatility of the election environment. Analysis of the cumulative abnormal returns (CAR)