Chapter 5

Derivatives and
Stock Market
Indicator Series in
BSE
Thanks to the path of reforms and the concomitant impact of
globlisation and technology, India has been able to catch up with
the latest, despite being a new entrant. It earlier happened with the
screen-based trading and institution of mechanisms like credit
rating and regulator on the lines of Securities and Exchange
Commission, USA. (SEC). While the developed markets like the
US have undergone the whole cycle to evolve to the present state,
India could conveniently embrace the latest framework without
having to go through the same cycle. Financial markets have
always been the frontrunners and foremost users of technology.
With screen-based trading replacing the open out-cry system, it
was only a matter of time for internet-driven trading to arrive in
India. And so it did. The battleground is getting ready with players
of different colors gearing up as also with the massive price wars.
Internet will get inextricably intertwined with the way the
business is done. This seamless integration is inevitable in the
case of stock broking too. There is also room for caution. Margin
trading that has thus far been confined to select few clients of
brokers is likely to spread its net wider with the emergence of e-
broking. Trading hours have increased as has transparency. This
has lead to greater investor interest too, both among individuals
and institutional investors. From a time when dabbling in stocks
was the bastion for a chosen few, today things are so simple that
even a common man can trade on the markets. In term of systems
too, things have changed, with international money coming in,
slowly and steadily, the Indian markets are moving towards
achieving international standards. Hence the urgency to have a
proper hedging facility in place is heightened. The institutions
require a facility to allow them to hedge against the movements in
the stock markets. Players claim that a proper hedging system would help catalyze higher volumes on the Indian bourses.

Since the country’s doors were opened to foreign investment, Foreign Institutional Investors have been asking for a hedge. Many claim that its non-availability is restricting their exposure to India. International experience has shown that the launch of derivatives leads to a substantial improvement in market quality of the underlying equity market with a corresponding increase in liquidity and market efficiency; despite its vast benefits, it must not be forgotten that a derivative instrument is like a gun. Though a protective instrument could kill if misused\(^2\) unlike the cash market, trading in derivates is purely speculative and cash-based without delivery. Slowly but steadily, India is defiantly moving ahead to get aligned with the world markets. It will improve the markets ability to direct resources towards projects and industries where the rate of return in the highest. By improving the locative efficiency, a given stock of investible funds will be better used in procuring the highest GDP growth in the country.\(^3\) This is something that everyone has been looking for.

**Derivatives: Nature and Growth**

Derivates are financial instruments, which are derived from equities, bonds, currencies, and commodities. Annual turnover in Derivates financial instruments including options and futures traded on international organized exchanges rose from 146 million contracts in 1986 to 453.9 million in 1992 and 1329.3 million in 1998.\(^4\) Further warrants, swaps, swaptions, collars, Caps, Floors, circuses, and scores of other products are collectively known as derivatives. All these constitute tools for the management of financial risk.
Derivates are used by banks, securities firms companies and investors to hedge risks, to gain access to cheaper money and to make profits. Derivates are likely to grow even at a faster rate in future. They are first of all cheaper to trade than the underlying securities, be they bonds, currencies, commodities or equities.

The three key characteristics of financial Derivates are:

(i) Their value is derived from an underlying instrument such as stock index (Futures and options based on them), currency or interest rates.

(ii) They are vehicles for transferring risk.

(iii) They are leveraged instruments.

There are several risk instruments in financial transactions. Derivates allow to manage these risks more efficiently by unbundling the risks and allowing either hedging or taking only one (or more if desired) risk at a time. Derivates are used by corporations to hedge currency risk and inventory risk. They are used by individual investors for speculation, hedging and yield enhancement. Institutional investors (mutual funds, pension funds, and insurance companies) for hedging, asset allocation, yield enhancement and avail arbitrage opportunities. Finally dealers (Securities firms, market makers and banks) use them for hedging, exploiting inefficiencies (arbitrage) and earning dealers spreads.

Forward Contracts:

A Forward contract is a customised contract between two parties, where settlement takes place on a specific date in future as a price agreed today.

The main features of forward contracts are:
They are bilateral contracts and hence exposed to counter party risk.

Each contract is unique in terms of contract size, expirations date, and the asset type and quality.

The contract price is not available in Public domain.

The contract has to be settled by delivery of the asset on expiration date.

In case the party wishes to reverse the contract, it has to compulsorily go to the same counter party, which being in a monopoly situation can command the price it wants.

**Futures Contract:**

A futures contract is plainly 'a contract'. It is a contract to take delivery of a product in the future, at a price fixed now. It is not equity in a stock of commodity. For instance, if a farmer decides in April to buy 5 Kgs of tomatoes for Rs. 10 from a tomato trader to be delivered when ripe in July, the farmer is said to have entered into futures contract.

The futures contract has certain standardised specification:

- Quantity of the underlying.
- Quality of the underlying (not required in financial futures).
- The date and the month of delivery.
- The units of price quotation (not the price itself) and minimum change in price (tick size).
- Location of settlement.
Further markets have their roots in agriculture, but today futures and options are traded on a wide range of products right from wheat to natural gas, the stock indices, precious metals and currencies. A stock index future is an indicator for a cash settlement of a futures contract.

Futures should be distinguished from options. Futures create an obligation to make or take delivery at some further date while options confer a right but not the obligation to do the same. Options on futures can be linked to insurance. An option buyer (the insured) pays a premium to an option seller (the insurance company) for the right to buy or sell, a futures contract at a specific price. Premium paid on options is non-refundable. Portfolio managers use futures and options to reduce the risk to their business associated with volatile prices. The futures and options market also provides the economy with the price discovery. The futures prices are determined by supply and demand. An exchange itself does not set the price. It simply provides a place where the buyers and the sellers can negotiate. If there are more buyers than sellers, the price goes up and vice versa, the price falls. The price discovered through future market offers valuable economic information's on the supply and demand situation in a competitive business environment.

Like stocks, gains and losses in futures trading are the result of price changes. For instance one has sold a futures contract and the price falls, the trade shows a profit. To profit on a futures trade one could first buy low and then sell high; or reverse the order and sell high and buy low. Options on futures are different from futures themselves in that the most a buyers could lose is the cost of purchasing the option, known as the premium along with
the transaction cost. An option seller, however, has unlimited risks.  

**Index Futures:**

Index futures are future contracts where the underlying asset in the index. This is of great help when one wants to take a position on market movements. Suppose you feel that the markets are bullish and the sensex would cross 5000 points. Instead of buying shares that constitute the index you can buy the market by taking a position on index future. Both BSE & NSE launched Index futures in June 2000. Margin money is like a security deposit or insurance against a possible future loss of value. Aim of margin money is to minimise the risk of default by either counter party.

**Long / Short Positions:** In simple terms, long and short positions indicate whether you have a net over-bought position (long) or over-sold position (Short).

**Gearing (or Leveraging):** Measures the value of given position as a ratio of the value of the risk capital actually invested. In case of index futures, if the margin requirement is 5%, the gearing possible in 20 times as a given fund availability, an investor can take position 20 times size.

**Clearing House:** The clearinghouse of the exchange acts as an intermediately in future transactions. It guarantees the performances of the parties to each transaction. The clearinghouse has member to whom the brokers channel their business. The members are required to maintain a margin account with the exchange, which is known as clearing margin. The main task of the clearinghouse is to keep track of all transaction that take place during a day so that it can accumulate the net position of each of
its members. The clearinghouse matches the transactions, reconciles sales and purchases and does daily settlement. It is also responsible for risk management of its member and does inspection and surveillance, besides collection of margins, capital etc.

**Price Risk and different types of price risk:**

Price Risk is defined as the standard deviation of returns generated by any asset. This indicates how much individual outcomes deviate from the mean. For example, an asset with possible returns of 5%, 10% and 15% is more risky than one with possible return of -10%, 1% and 25%. The different types of prices risk are: Diversifiable risk (Unsystematic / Non-market Risk) of a security arises from the security specific factors like strike in factory, legal claims, non availability of raw materials, etc. This component of risk can be reduced by diversification.

Non-Diversifiable risk (Systematic / Market Risk) is an outcome of economy related events like diesel price like, budget announcement, etc. that affect all the companies. This risk cannot be diversified.

**Merit of Index Futures:**

- Institutional and other large equity holders need a portfolio hedging facility. Hence index based derivatives are more suited and more cost effective than derivatives based on individual stocks.

- Stock index is more difficult to manipulate than individual stock prices, because an individual stock has a limited supply which can be cornered.
Stock index futures enjoys distinctly greater popularity and are therefore, likely to be more liquid than all other type of equity derivatives.

Stock index futures being an average, is much less volatile than individual stock prices. This implies much lower capital adequacy and margin requirements, the lower margins will induce more player to join the market.

Index futures do not represent a physically deliverable asset, they are cash settled all over the world on the premise that the index value is derived from cash.

Regulatory complexity is likely to be less in the case of stock index future.

The introduction of Stock index futures requires a large market with substantial volatility. There must be sizeable cash market to impart liquidity to the further market. There should be genuine demand for heading by a large number of investors. The index stocks are held by government or multinational or few development financial institutions. They are not interested in short term trading or investment gains. Actully the shares available to public are few and varied. Even tracking the index portfolio would not be efficient because the shares do not have high correlation with the index.

Hedging:

It is a mechanism to reduce price risk inherent in open positions. Derivatives are widely used for hedging. A Hedge can help lock in existing profits. Its purpose is to reduce the volatility of a portfolio, by reducing the risk. Please note hedging does not
mean maximisation of return. It only means reduction in variation of Return. It is quite possible that the return is higher in the absence of the hedge, but so also is the possibility of a much lower return.

The basic logic is “If long in cash underlying – short future and If short in cash underlying – Long Future” e.g. If you bought 100 shares of company A and want to hedge against market movements, you should short an appropriate amount of index future. This will reduce your overall exposure to events affecting the whole markets (Systematic risk). In case a war breaks out, the entire market will fall (most likely including company A). So loss in company A would be offset by the gains in short position in Index Futures.

Options:

An option is a contract, which given the buyer (holder) the right, but not the obligation, to buy or sell specified quantity of the underlying assets, at a specific (Strike) price or on before a specified time. (Expiration date). The underlying may be physical commodities like wheat / rice / cotton / Gold / Oil or financial instruments like equity stocks / stock index / bonds etc.

Option premium is the amount paid by the buyer to the seller to acquire the right to buy or sell. The strike or exercises price is the specified / per-determined price of the undertaking asset at which the same can be bought or sold if the option buyer exercises his right to buy / sell on or before the expiration date. On the expiration date, either the option is exercises or it expires worthless. In case of European options the exercise date is the same as the expiration date while in case of American options, the
options contract may be exercised any day between the purchase of the contract and its expiration date.

**Call Options:**

A call option gives the buyer/holder (one who is long call), the right to buy underlying asset at the strike price on or before expiration date. The seller (one who is short call), has the obligation to sell the underlying asset if the buyer exercises his option to buy.

**Put Options:**

A put option gives the holder/buyer (one who is long put), the right to sell specified quantity of underlying asset at the strike price on or before a expiry date. The seller of the put options (one who is short put) has the obligation to buy the underlying asset at the strike price if the buyer decides to exercise his option to sell.

**The significant difference in future and options are as under**

- In future the buyer and seller are obligated to buy/sell the underlying asset. In case of options the buyer enjoys the right and not the obligation, to buy or sell the underlying asset.

- The futures contracts prices are affected mainly by the prices of the underlying asset. The price of option are however affected by the prices of the underlying asset, time remaining for expire of the contract and volatility of the underlying asset.

- It costs nothing to enter into a future contracts whereas there is a cost of entering into an options contract, termed as premium.
An option is said to be ‘at the money’ when the options strike price is equal to the underlying asset price. This is true for both puts and calls.

A call option is said to be ‘in the money’ when the strike price of the option is less than underlying asset price. And a call option is ‘out of the money’ when strike price is greater than underlying asset price. A put option is said to be ‘in the money’ when strike price is greater than underlying asset price and ‘out of the money’ when the strike price is less than underlying asset price.

Besides offering flexibility to the buyer is the form of right to buy or sell, the major advantage of options is their versatility.

Some of the benefits of options are as

- High leverage as by investing small amount of capital in the form of premium one can take exposure in the underlying asset of much greater value.
- Pre-Known maximum risk for an Option buyer
- Large profit potential and limited risk for option buyer.
- By paying a relatively small premium an investor knows that no matter how far the stock drops, it can be sold at the strike price of the put option anytime until the put expires.  

Factors affecting option values:

The three prime factors that influence the value of an option are the expected variance in price or return of the underlying stock, the time remaining to expiration of the option contract and the level of interest rates. The greater the expected variance of price
changes for a stock the higher should be the option values from that stock. Observations of the values of options over time confirms that option on higher – risk stock persistently tend to have greater value than those in lower risk stocks. The value of an option is primarily determined by the variance of the return. Time remaining to expiration of the option increases the variances of the distribution of returns or price changes. Conversely, the reduction of the time to maturity reduces the value of auction-Higher interest rates result in increase in value of options while lower interest rates lead to lower value of options.12

Need for Options trading in India:

The Indian stock market although largely insulated from the international markets has been characterised by high price volatility. The upswing of 1000 points in the BSE sensitive index within a short span of two months followed by the “securities scam” and the associated crash by 1200 points in 1991-92 clearly reflects the highly speculative tendencies in the Indian stock markets. Stock markets need speculation since it is the driving force, which builds up activity and ensures sustained interest of investors in the market. But speculation has to be controlled and regulated as excessive speculation leads to haphazard price movements unrelated to fundamentals. Despite such high volatility in the market, still Indian invertors find equity as the most viable and perhaps the most attractive form of investment.

There are several factors, which contribute to excessive volatility in the stock market. Overtrading by stockbrokers on their account, insider trading, large-scale manipulation of the market and shortage of adequate floating stock of good scrips are some of them. With good regulation, in place, listed option trading can
definitely reduce the volatility. It was observed in Chicago Board Options Exchange that Options reduced price fluctuations.\textsuperscript{13}

An investment portfolio comprising mainly equity that exposes the investor to tremendous market and price risk. The price risk for most part can be managed by holding a diversified portfolio and limiting the volume of investment in any one of the stocks or industry. The other type of risk i.e. Market risk or systematic risk is something more difficult to contend with. The price of the stocks has an inherent tendency to move up or down together and consequently the market risk cannot be diversified away. The market offers no risk instrument that allows the investors to manage and minimise risk. Fund managers and very sophisticated investors may try to hedge market risk by offsetting long positions in one stock with short positions in others.

To meet the requirements of different kinds of investors the market has to be segmented so that small investors and big time players each have a distinct playing field. Shortening of settlement cycles should necessary be followed with the introduction of a derivatives instrument like option which allows the big market players as well as small investors to hedge against risk and reduce violent price fluctuations.\textsuperscript{14}

The economic effect of options and futures trading relates to allocation of risk between investors who are willing to take risk and investor who are averse to risk. Options provide investors with the opportunity to hedge investment in the underlying shares and reduce the overall risk. Studies in USA have been found that share turnover increases in the shares of those companies in respect of which options have been launched.\textsuperscript{15}
As options purchased permit investors to control more shares than they could possibly control under any realistic set of stock margin requirements.

Like stocks, options and futures contracts are also traded on any exchange. In BSE, Stocks are traded on BSE on line trading (BOLT) system, and options and futures traded on Derivatives Trading and Settlement System (DTSS). The underlying for the index options in the BSE 30 sensex, which is benchmark index of India capital markets, comprising of 30 scrips. BSEs first index options in based on BSE 30 sensex. The sensex option would be European style options i.e. the option would be exercised only on the day of expiry. They will be premium style i.e. the buyer of the option will pay premium to the options writer in cash at the time of entering in to the contract. The difference between the strike price and the spot price at the time of expiry will be quoted in sensex points. The contract multiplier for sensex option is INR 50 which means that monetary value of the premium and settlement value will be calculated by multiplying the sensex points by 50. For e.g. If premium quoted for sensex options in 50 sensex points, its monetary value would be Rs. 2500. The expiration day for sensex option is the last Thursady of contract month. If its holiday, the immediately preceding business day will be the expiration day.

**Specific Portfolio Analysis of risk (SPAN):**

SPAN is a world wide acknowledged risk management system developed by Chicago Mercantile Exchange (CME). It is a portfolio-based margin calculating system adopted by all major derivatives exchanges. SPAN identifies overall risk in a complete portfolio of futures and options. It determines the largest loss that
a portfolio might suffer with in the period specified by the exchange i.e. May be day (or) two. BSE has licensed SPAN from CME for calculating margin requirements at their exchange level. At the same time members can also calculate Margin requirements of their clients by using PC - SPAN.  

An Investor has to register himself with a broker who is a member of BSE Derivatives segment. If he wants to buy on option, he can place the order for buying a sensex call or put option with the broker. The premium has to be paid up in cash. He can either hold on to the contract till its expiry or square up his position by entering into a reverse trade. If he closes out his position, he will receive premium in cash, the next day. If the investor holds the position till expiry day and decides to exercise the contract, he will receive the difference between option settlement price and the strike price in cash. If he does not exercise his option, it will expire worthless.

**STOCK MARKET INDICATOR SERIES:**

Price movements for the market as a whole are measured by market indicator series. The indicator series constitute a composite report on market performance. Market indicator series constitute a benchmark to judge the performance of an individual portfolio. Indicator series help investors develop index portfolios. It is used as proxies for the shares or debenture markets while examining the factors that influence aggregate price movements, also used to analyse the relationship among stock and bond returns of different countries and the stock price movements.

A Price index such as the stock market index is an average of changes in the price of the individual securities in the market. It reflects the overall price or return movements of a group of
securities. Movements in an index are determined by sample, weighting and computation procedure.

In case of sample technique for the stock market index desired characteristics are used to select sample shares rather than by completely, random selection. Major criterion for selection are market activity, due representation to various industrial groups and to the major stock exchanges. Three principal Weighing schemes are used. These are Price Weighed, Value Weighed and Equally Weighed Schemes

(i) **Price weighed series**: Are calculated as an arithmetic average of the current prices of the sample securities. Dow Jones Industrial Average (DJIA) is the best known and is the oldest of that stock market indicator series. In India the index numbers complied by Financial Express, Economic Times, Reserve Bank of India are price weighed series.

Economic Times ordinary share price index is simple arithmetic average of the price relatives’ average of the price relatives of 72 scrips. A price relative is simply the stock price this week divided by stock price last week. It stock price this week is Rs. 330/- and the stock price last week was Rs. 315/- the price relative is 330/315 = 1.047619. Price relatives for each day are obtained by dividing the daily quotations by the corresponding average price of the base year 1984-85.

RBI Complies a index number of security prices with base year 1980-81. The index covers 338 scrips listed on Bombay, Calcutta, Madras, Delhi, and Ahmedabad stock exchanges.

Financial Express Equity Index with 1979 as the base covers 100 equity issues. Price relations are worked out by dividing the
closing quotations of the day by its corresponding average daily price in 1979 and multiplying it by 100.

(ii) **Value weighed series:** It an indicator calculated as the total market value of the securities is the sample. It is based on the initial total market value of all stocks in the sample, which is assigned a base index value of 100. From trading day to trading day a new aggregate market value is computed for all securities in the index and compared to the initial base valve. The percentage change is multiplied by the beginning index value to obtain the indicator for the day. The importance of individual scrips or the weight of each scrip is the sample is proportional to the total market value of the sample. Companies with large market capitalization have a greater impact on the index then the same change for small companies. Standard and Poor (S & P) in USA was the just company to employ a market value index in U.S.A. S & P computed separate index for industrial stocks, utilities and transportation terms along with 500 stock composite index, NASDAQ series, NYSE stock Exchange indexes are computed on the basis of value weighted method.

(iii) **Equally Weighed price indicator series:** All stocks are equally weighed regardless of price or value. And the index is affected equally by the performances of each security in the sample. In computing percentage change, geometric average is taken rather than arithmetic average.

**Bombay Stock Exchange Series:**

Sensex, National Index, BSE 200 and Dollex complied by the BSE are value weighted series. They follow the methodology used by S&P in USA.
1) **The BSE Sensex / sensitive index**, was first compiled in 1986 is a “Market Capitalisation Weighted” index of 30 component stocks with the base April 1979=100 representing a large, well-established and financially sound companies. The index is widely reported in both, the domestic and international, print and electronic media and is widely used to measure the performances of the Indian stock markets. Sensex is the benchmark index of the Indian capital market, with largest social memory and pulse of Indian stock markets. Base year average is changed as per the formula.

\[
\text{New Base year} = \frac{\text{Old base year Average} \times \frac{\text{New Market Value}}{\text{Old Market Value}}}{\text{Average}}
\]

BSE started publishing the index on 2\textsuperscript{nd} January 1986 and currently calculates and updates it every two minutes.\textsuperscript{18} In arriving at an index figure, BSE starts by multiplying the price of each share by the number of shares outstanding in that stocks. These market valve figures are then added, giving the aggregate market value of the stocks covered (the current market value). This aggregate is expressed as a percentage of the average market value using the fiscal year 1978 – 79 as a base.

The index on a day is calculated as the percentage of the aggregate market value of the equity shares of all the companies in the sample on that day to the average market value of the same companies during the base period.
Sensex Futures:
The underlying for the sensex futures is the BSE Sensitive Index of 30 Scrips, the ticker symbol of BSX. The contract multiplies is 50. This means that Rupee notional value of future contract would be 50 times the contracted value. The closing value of sensex of the cash market is taken as the final settlement price of the future contract on the last trading day of the contract for settlement purpose. The profit and losses would depend upon the difference between the price at which the position is opened and the price at which it is closed.

Example:
Position - Long – Buy June Sensex Futures @4,800
Payoff -
Profit - If the futures price goes up.
Loss - If the futures price goes down.
Calculation – The profit or loss would be equal to fifty times the difference in the two rates.
If June Sensex Futures is sold @ 4,900 there would be profit of 100 points which is equal to Rs. 5000 (100 x 50)
However if the June Sensex Futures is sold @ 4,750 there would be a loss of 50 points which is equal to Rs. 2500 (50 X 50)

2) National Index / BSE 100 Index
Is also a market value weighted index, composed of 100 stocks. It uses the fiscal year 1983-84 as a base and started publishing the index on 3 January 1989. BSE redesigned the index and renamed it the BSE 100 Index instead of National Index, effective 14 Oct. 1996.
The current market value for any particular share is obtained by multiplying the price of the share by the
number of shares outstanding. The index for a day is calculate as the percentage of aggregate value of the equity shares of all the companies in the sample on that day to the average market value of the equity shares of the same companies during the base period.

3. **BSE - 200 Index**

   Is another market value weighted index, composed of 200 stocks, uses the fiscal year 1989-90 as a base. BSE started publishing the index on 27th May 1994. The method of compilation like the earlier two indices of BSE is value weighted. The index was also designed to built index base futures contract in due course.

4. **Dollex**

   Dollex is the US$ version of the BSE-200 Index. The US dollar-linked index was launched to facilitate investment evaluation in US dollar terms for foreign investors.

   The base year for Dollex is the fiscal year of 1989-90. The base market value was converted from the rupee denominated base market value of the BSE-200 Index at the average rupee-dollar conversion rate in the base year. The current market value is translated from the rupee-denominated. Current market value at the current exchange rate.

An ORG Survey (agency) conducted in March 1998 revealed that BSE sensex remained the most popular index with approval from 66 percent of retail and 92 percent of institutional investors and the NSE-50 is second with 18 and 7 percent respectively. On reliability 56 percent of institutional investors are for BSE 30 and 29 percent for NSE – 50.
On July 1998, main share price indices have been remained as follows.

- **NSE -50**  
  New name: S & PCN X Nifty
- **Crisil 500**  
  New name: S & PCN X – 500

Main share price Index in famous share Market of the world:

- **Mumbai**  
  - Dolex
  - Sensex
  - S & PCNX
  - Nifty Fifty
- **New York**  
  - Dow Jones
- **Tokyo**  
  - Nikkei
- **Frankfurt (Germany)**  
  - Mid Dax
- **Hongkong**  
  - HangSeng
- **Singapore**  
  - Simex
  - Straits Time

The cash markets seen to be pretty volatile at times, many time price get locked at the upper or lower end of the circuit. Derivatives would certainly help in altering this scenario. In the past, whenever there was panic in the market the investor had no other option but to sell in the cash market, which used to add to the panic.

However, today the investor gets a product like Index futures which allow him to hedge, he may not necessarily repeat his previous act of selling in a panic. While the long-term investors can invest in the cash market, speculators can have a field day in the option market without any fear that their loss will exceed a certain amount. In a way it is good for all concern. There is a
wrong thinking that options will reduce speculation. Far from it, they are in fact very potent weapons for speculation. Investors would do well to quickly adopt themselves to the new developments. After all for one who has understood the Badla system which is a complex hybrid of interest costs, brokerage and capital risk, the options must me much easier. Right now, even if a share was excellent based on fundamental, the personal crisis of a Ketan Parekh would lead to its crashing.

Such extraneous factors would no longer be called into play. Speculators would be playing their game in the options market while long-term investors would be playing theirs in the cash market.
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