


Chapter 9

How Do Financial Constraints and Financial Returns Matter in Investment Management?

Evidence From Brokerage Recommended Stocks of BSE 100 in India

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ABSTRACT

Brokerage houses are financial institutions that assist in buying and selling by acting as a bridge between the buyer and seller. These firms are members of the stock exchange. In India, the two largest stock exchanges are BSE and NSE. These exchanges are regulated by SEBI. In the financial market, there are various types of brokerage firms that are providing a wide range of products and services. The recommendations of buy and sell given by various brokerage houses are of use to various individual investors, fund managers, and academic researchers. Brokerage houses form a large part of financial sector and, as such, demand attention. There are many financial analysts employed by brokerage houses who produce earnings and stock price forecasts and also investment recommendations, and their opinions are reported through various channels like television, newspaper, magazines, and on social networking sites.

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INTRODUCTION

Brokerage houses are financial institution that assists in buying and selling by acting as a bridge between the buyer and seller. These firms are members of the Stock Exchange. In India, the two largest stock exchanges is BSE and NSE. These exchanges are regulated by SEBI. Nowadays in financial market there are various types of brokerage firms that are providing wide range of products and services.

Presently there are many retail brokers in the financial markets like ICICI Direct, Sherkhan, Motilal Oswal, Angel Broking. All these brokerage houses have their research arm whose aim is to provide extensive research and recommendations. There are certain information that brokers should provide while giving a recommendation like Max continuous loss, Risk reward ratio, Money management rules (Rajendran, 2016).

Processing of information is very costly nowadays. Brokerage firms spend hundreds of millions of dollars annually to analyze stocks and persuade investors that particular stock is less or more attractive than others. Brokerage research is formed on factual sources of company-specific information such as annual reports and earning reports. These reports are primarily evaluative and predictive in nature (Womack, 1996).

The recommendations of buy and sell given by various brokerage houses are of use to various individual investors, fund managers and academic researchers. Brokerage houses form a large part of financial sector and, as such, it demands attention. There are many financial analysts employed by brokerage houses who produce earnings and stock price forecasts, and also investment recommendations and their opinions are reported through various channels like television, newspaper, magazines and now a days on social networking sites.

Opinion that are issued by an analyst working in a brokerage house or investment bank, who advise investors what action to take with regard to a particular stock, sector or market. This opinion is usually supported by statistics and forecasts, and may include target levels for a share price or market index. The opinions framed are usually the result of thorough investigations that are carried out by brokerage firms and analysts as they want to make it easy for investors to make well informed decisions about investments. Although some houses put out simple buy, sell or hold recommendations, others qualify their opinions, recommending for instance, a ““strong buy”” rather than just a ““buy””. Some frame their recommendations differently, for instance gauging whether a stock will ““outperform”” or ““underperform”” the market.

Broker recommendations that are made by brokerage firms (for example, Motilaloswal) and are not an absolute recommendation to buy or sell a particular stock, but instead it gives an indication of how the analyst thinks the company will perform in future in relation to its sector. Their recommendations are issued over a

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