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Stock Market Volatility: Comparative Analysis of Developed and Emerging Stock Markets

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Abstract

Stock price volatility is the source of risk in stock market investment. The inter day variations in share prices show the volatility in share price movements. In this paper an attempt is made to understand the pattern and extent of stock market volatility across time periods and across countries and gorgerins such developed, Latin American Asia Pacific and other. The study measures and compares volatility of different stock exchanges for a period of 18 months from January 2008 to June 2009. Four important regions of the world have Developed countries region, latin American region, Asia-Pacific region been selected for the study. These regions are: developed countries region, Latin American region, Asia-Pacific region and other regions of the world. From each such region, a sample of important countries is chosen for analysis. The data set used for the study is the daily closing values of different stock market indices. The study finds close integration between stock markets within specific regions as well as across different regions of the world. The study has important implications for investment policies and activities. Only a portfolio which is diversified regions can have low risk profile.

I. Introduction

THE PRICES OF shares traded in a stock exchange fluctuate on a continuous basis. Dow theory, proposed by Charles H. Dow, identifies 3 types of movements in the stock markets, namely, primary movements, secondary reactions and minor movements. Primary movement is the long term movement in the market. It represents the price trend in the market. The primary movement is determined by changes in the fundamental factors affecting the performance of the economy, industries and companies. Markets generally move in a cyclical fashion, comprising of alternative phases of up trends and downtrends. Elliot's wave theory also supports this proposition. Minor movements are intra day fluctuations in share prices, caused by changes in demand and supply for different shares during the trading hours. The changes in demand and supply are triggered by the flow of information during trading.

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