The influence of capital flows on stock price fluctuations

Jimin Cai

Shanghai Institute of Visual Arts, Shanghai, China

Email: 13714758866@163.com

ABSTRACT. In the stock market, the capital flow index, as a measure and measurement tool, is a common reference index for stock investors in the process of investment. On the one hand, it can provide technical advice for stock investors to make investment decisions. On the other hand, it can provide theoretical basis for financial managers to formulate policies. This paper makes a theoretical analysis of the relationship between capital, capital flow information and capital and stock price, and discusses the relationship between main capital, transaction capital and Shenzhen component index price. Empirical findings show that capital flow is positively correlated with stock price volatility. Based on the above research conclusion, in order to promote the healthy development of Chinese stock market, this paper puts forward the following relevant policy recommendations: Second, strengthen the supervision of the securities market, improve the quality of listed companies, optimize the ecology of the stock market, effectively protect the legitimate rights and interests of small and medium-sized investors, and cultivate the long-term investment and value investment concept of individual investors.

Keywords: Capital flow; Stock price; market

1 Introduction

Research question: The influence of capital flow on stock price volatility.

At present, the stock market belongs to the capital-driven market in some aspects, and the stock price is closely related to the fund flow. To some extent, the flow of funds represents the degree of confidence of stock investors in the bearish or bullish view of a certain sector. Inflows and outflows actually reflect the strength of supply and demand in the long and short term.

At the same time, in the stock market, the capital flow decided by institutional investors, namely the main capital, has a much greater impact on stock price volatility than retail investors, so the main capital flow has a very obvious impact on stock price volatility.

Significance of the project: Through the analysis of capital flow, the trend of the index can be predicted, which has a positive impact on the return rate of investors.[1]

A. Bhunia et al. (eds.), *Proceedings of the 2023 International Conference on Finance, Trade and Business Management (FTBM 2023)*, Advances in Economics, Business and Management Research 264,
https://doi.org/10.2991/978-94-6463-298-9_56

2 Literature review

After reading Wu Shuang's Study on the Impact of Net Capital Inflow on Stock Price Fluctuation, based on the literature of China Securities 800 Stock data, I found that the current research could not reflect the latest situation. This paper does not only study the impact of net capital inflow on stock price, but also studies the impact of net capital inflow and net capital outflow on stock price from the perspective of fund flow. On the one hand, it can provide technical advice for stock investors to make investment decisions. On the other hand, it can provide theoretical basis for financial managers to make policies and has very important practical significance.

Insufficient: The flow of funds is affected by human factors, market sentiment factors and policy factors, and there is an unstable problem.

3 Overview of relevant theories

3.1 Definition of funds

Capital is one of the indispensable factors of our economic development, which is usually expressed in the form of currency. For the stock market, capital contains information about the demand for stocks in various forms such as stock, flow, increment and growth rate. Compared with other information, capital can better reflect investors' demand for stocks, that is, capital reflects investors' investment preference.

3.2 Influence relationship between capital and stock price

The stock market and general commodity market have similar rules. The price of a product is generally determined by its value, and the fluctuation of the price is easily affected by the relationship between supply and demand. When the market demand is greater than the supply, the product value rises and the price rises. When the quantity demanded in the market is less than the quantity supplied, the value of the product goes down and the price goes down, as does the stock market. From the perspective of trading, the stock holders are the supply side, and the capital holders who want to buy stocks are the demand side. When the demand side increases, the capital entering the stock market will also increase, and the stock quantity is certain. At this time, there will be a phenomenon that the demand is greater than the supply and the stock price will rise. For example, 2021.

Global rare metal resource prices have risen sharply, many investors want to take the opportunity to make a small fortune in the stock market, in a short period of time into the stock market to buy rare metal related stocks, there is a phenomenon of oversupply, rare metal sector continued to rise, the corresponding stock prices continue to rise. However, under the influence of external environment, investor sentiment and other factors, the number of demand side for stocks decreases, and the capital entering the stock market also decreases accordingly. Under the condition of a certain number of stocks, there will be a phenomenon that the demand is less than the supply, and the stock price drops, such as the Russia-Ukraine conflict in 2022, investors will feel confused about the future market development. In order to ensure the safety of funds, They pulled back from the stock market, causing all.

The stock prices of the sector plummeted. Thus, capital is the core factor affecting stock prices.

3.3 Fund flow information

In each trading day, the funds of institutional investors play games with the funds of many individual investors. The process of the money game is the process of information transmission. Institutional investors are relatively rich in information and have advantages, so they often act as signal transmitters, while individual investors are information receivers due to the relative lack of information. Affected by the difference in time of receiving information, individual investors lag behind in trading decisions. In general, when the major players get good information, they buy some stocks at a lower price beforehand and then buy a lot of retail shares in a short period of time. When the stock price is out of the cost area, the abnormal information such as the stock price and trading volume will attract the attention of other investors, who start to follow the trend and buy, further promoting the stock price rise. When the stock price rises to a certain area, institutional investors again use their advantages in information, capital and technology to control the stock price. When the good news is delivered and the stock price reaches A high, the main force will gradually sell the stock to achieve the purpose of buying low and selling high, which explains the reason why the stock price range of A shares falls after the good news comes out. After the withdrawal of the main funds, the negative news began to release, most retail investors rushed to sell due to panic, resulting in accelerated decline in stock prices, to complete a cycle of stock ups and downs. [2]

4 Basic concepts of net capital inflows and stock price fluctuations

4.1 Concept of net capital inflow

Net capital inflow is a common reference index used by stock market investors in the process of investment decision-making and enterprise management, as a tool to measure and measure capital flow. When stock prices rise, the resulting market turnover is the force driving the index, known as inflows. When stock prices fall, the resulting market turnover is the force driving down stock prices, and this portion of market turnover is known as capital outflow. The difference between the two can be understood to mean that the net force driving the index up and down offsets the net force driving the index up, defined as the net inflow of money into a sector or individual stock for the day.[3]

Among them, when the stock price rises, the resulting market turnover of more than 1 million market turnover is the core force to promote the continuous rise of the index, namely the so-called main capital inflow. When stock prices fall, the resulting market turnover of more than 1 million each is the core force driving the index down, namely the so-called main capital outflow. The difference is defined as the main net inflow of money into a sector or stock for the day. The net inflow of main capital is a mature index of technical ability. In China, the net inflow of main capital can significantly affect the stock market and even control the short - and medium-term trend of the stock market. At the same time, this paper defines the difference between the net capital inflow of a certain sector or individual stock and the net capital inflow of the main fund of the day as the net capital inflow of non-main fund. The behavior of retail investors has an important impact on China's stock market and can cause drastic fluctuations in the stock market.[4]

Under normal circumstances, the trend of fund flow is roughly the same as that of the rise and fall of the index, but there are also individual cases. In the following two different cases, the fund flow index has an obvious guiding significance:

(1) The capital flow on that day is opposite to the rise and fall trend of the index. For example, the rise or fall of a certain sector or individual stock index on the day is generally up, but the net inflow of funds on the day is negative.

(2) The capital flow on that day has a large deviation from the rise and fall of the index. For example, the index of a sector or individual stock rose or fell a lot on the day, but the net inflow of money on the day was very small.

When the flow of funds and the rise and fall of the index occur in the above two situations, the flow of funds can better reflect the actual situation of the stock market than the rise and fall of the index.

4.2 Basic forms of capital flow and stock price fluctuation

There are many factors affecting the rise and fall of stock prices, but in the final analysis, these factors are more or less related to the flow of capital, leading to the rise and fall of stock prices. Capital flow and stock price rise and fall can be divided into the following six forms:

(1) Capital outflow from rising stock prices.

Share prices have risen sharply and money has flowed out. This phenomenon is usually caused by the momentum and inertia of previous stock price increases, but institutional investors have been selling stocks in large quantities. At this time, the K line was dayang line, the volume of long red, stocks to buy and sell, whether it is on the disk or K chart are difficult to correctly distinguish this situation.

(2) Capital inflows from rising stock prices.

Generally speaking, capital inflows are the main force driving up stock prices, so rising stock prices and capital inflows are very common situations in the stock market. At this time, the K chart is usually a continuous dayang line, and the volume continues to increase.

(3) Capital inflows from falling stock prices.

It is also a special situation in the stock market that capital continues to flow into the market despite falling stock prices. At this time, the shape of the K line shows a large negative line. It is difficult to judge this situation only from the observation of the trend of the K line.

(4) Capital outflow from falling stock prices.

It is very common in the stock market that the stock price falls and the capital flows out. At this time, the K chart shows a continuous negative line, and the volume continues to decrease.

(5) Stock prices steady capital inflows.

The usual manifestation of this situation is that the stock price is not big, the index is relatively stable, and the capital inflows are not big.

(6) Stock prices stabilize capital outflows.

In fact, stock prices usually go up or down in small increments. Institutional investors usually adopt certain strategies to sell stocks at higher prices. Keeping prices stable while capital flows out is a common way for bookmakers to reduce positions. [5]

4.3 Foreign research on stock price fluctuations

It is difficult to speculate on the fluctuation of stock price, so foreign scholars have carried out a lot of research. Hirshleife (r2004) Taking the trading data of the US stock market from 1964 to 2002 as the research sample, he conducted an empirical study and found that the operating income of the enterprise had a significant positive impact on the stock price fluctuation. At the same time, the important factors affecting the stock yield also include the asset-liability ratio [6]. Bundoo (2006) conducted an empirical study on the Mauritius stock market data from 1997 to 2003 by constructing the Grach model, and the results showed that the market risk premium does not well reflect the stock price volatility of [7]. Chen (2010) through the introduction of company market value, the company working capital, earnings per share, sales profit growth, net profit margin 18 explanatory variables to study the factors affecting China's stock market volatility, research shows that earnings per share, sales profit growth, net profit margin financial indicators of stock price volatility has significantly affect [8].

5 Conclusions and Suggestions

5.1 Conclusion

(1) In the short term, the transaction amount of stocks has a great synchronous co-integration relationship with the Shanghai Composite Index. When the stock market is active, the more funds are bought, the faster the stock price will rise. On the other hand, if market sentiment is low and the market is depressed, stock prices will fall accordingly.

The large purchase has a positive effect on the stock price index, indicating that when a large amount of money enters the stock market, it will have a huge impact on the rise and fall of the stock price. When large funds buy, there will be small capital operations to sell, the market appears short of supply, stock prices rise; Conversely, when a large order is sold and a small order is bought, the market is oversupplied and the stock price falls. It can be seen that capital can dominate the stock price, and a large amount of capital is often concentrated in institutional investors, so the dominant player of stock price is mainly institutional investors. Individual investors are often not dominant in trading, and institutional investors generally have higher returns than individual investors.

(2) Capital inflows, especially major capital inflows, have a positive correlation with stock prices.[9]

(3) Negative market events have an impact on capital inflows.[10]

(4) When the enterprise or the country happens good news, the amount of capital into this industry increases.

5.2 Suggestions

(1) Focus on the introduction of long-term funds. At present, securities funds, social security funds, qualified Foreign Institutional Investors (QFIIs), insurance companies, etc. dominate A-shares. Although this type of long-term funds has certain development prospects, the scale is small, and securities funds, which account for the largest proportion, prefer short-term operation and do not play A role in stabilizing the stock market. Therefore, if A-share wants to introduce more long-term funds and improve investors' behavior standards, we can start from four aspects: first, accelerate the reform of the pension system to promote such funds into the stock market; Second, we should increase the proportion of social security fund, enterprise annuity and insurance funds invested in the stock market and increase the scale of long-term funds. Third, change the structure of investors, establish long-term investment concept; Fourth, pay attention to the introduction of mature external investment institutions, accelerate the process of internationalization. [11]

(2) Ensuring stability of monetary policy The development of the stock market is closely related to the external capital environment. Therefore, management should focus on the impact of monetary policy on the capital market. Monetary managers should gradually and orderly improve the degree of financial project opening, at the same time, for the short-term capital flow easy to induce currency crisis to implement

relatively strict supervision; Establish a temporary capital flow control mechanism, and implement temporary and differentiated control over the type, direction and scale of capital flows under the condition of currency crisis.

(3) Improve the delisting system. At present, the short-term operation of A-shares is frequent and the speculative effect is high, mainly because there is A lack of high-quality companies for long-term investment in the stock market. Therefore, the delisting system of A-share listed companies needs to be further optimized. On the one hand, the registration system that is currently being pushed forward should be continuously and steadily implemented to provide good financing channels for companies in emerging industries, improve the market share of high-quality stocks, and guide investors to make long-term investments. On the other hand, the delisting system should be further improved, and enterprises with deteriorating financial conditions, lack of actual business and illegal operations should be resolutely cleaned up and promptly dealt with to effectively reduce the number of enterprises

The manipulation of some short-term funds on low-performing stocks promotes the sustainable development of the stock market.

REFERENCES

1. Weng Fu. (2019) Capital entry intention and stock price trend relationship. Stock Market Trend Analysis Weekly, 41:55.
2. Jia Jingsheng. (2022) Analysis on the impact of capital flow on stock price - A Share as an example. Investment and Cooperation, 10:19-21.
3. Wu Shuang. (2022) Study on the impact of Net capital Inflow on Stock price fluctuation - Based on the data of China Securities 800 Stocks. Thesis of Anhui University of Technology, 7:62.
4. Deng lianghua, Gao Shaofu. (2015) Research on the influence of capital flow on Stock price Index. Business. 2015(52):154+115.
5. Weng Fu. (2017) The influence of big funds on stock prices. Stock Market Trend Analysis Weekly, 31:61.
6. Hirshleifer D, Hou K, Teoh S H, Zhang Y. Do Investors Overvalue Firms with BloatedBalance Sheets?[J].Journal of accounting and economics,2004(38):297-331.
7. Bundoo S. An Examination of the Time Variation in Systematic Risk on the Stock Exchangeof Mauritius[J].African Finance Journal,2006(150):213-29.
8. Chen X, Kim K A, et al. On the Predictability of Chinese Stock Returns [J]. Pacific - BasinFinance Journal,2010(18):403-425.
9. Wang Yi, Liu Hui. (2011) Research on Short-term Stock Investment Decision based on Fund Flow Analysis. Securities & Futures of China, 09:39-40.
10. He Chengying, Chen Rui, Xue Bing, He Muyuan. (2021) Investor Sentiment, Limited Arbitrage and stock price anomaly. Economic Research Journal, 56(01):58-73.
11. Jin jiancheng. (2018) Fund Flow and stock price Volatility in China A Share Market. Academic Forum, 41(03):83-89.