Basic of Stock Market

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FREE STOCK MARKET EDUCATION

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Investment is important….???

Let assume you are earning ₹ 30,000/- per month and you spend Rs. 20,000/ towards your cost of living which includes housing, food, transport, shopping, medical etc. The balance of Rs.10,000/- is your monthly surplus and You are saving it, around 33% of your total monthly income ie. Rs.10,000/- you save per month.

- Your salary/income increases 10% per year
- You are 30 years old and plan to retire at 45
- Here is how the cash balance will look like in 15 years as per Table

YEARS	INCOME	EXPENSES	SAVING
1	360000	240000	120000
2	396000	263973	131986
3	435600	290370	145185
4	479160	319408	159704
5	527076	351348	175674
6	579783	386483	193241
7	637761	425132	212566
8	701538	467645	233822
9	771691	514409	257204
10	848861	565850	282925
11	933747	622435	311217
12	1027122	684679	342339
13	1129834	753147	376573
14	1242817	828462	414231
15	1367099	911308	455654
TOTAL SAVING IN 15 YRS			38,12,321

CHART-I

You saved ₹ 38,12,321/- in 15 yrs of your carrier, this amount is good but after 15 yrs the value this amount is really enough for us…???

Let's see chart-II before making any decision….

Cash invested at 15% per annum…

YEARS	INCOME	EXPENSES	SAVING	INVESTED @ 15% PER ANNUM
1	360000	240000	120000	849084
2	396000	263973	131986	812081
3	435600	290370	145185	776776
4	479160	319408	159704	743005
5	527076	351348	175674	710699
6	579783	386483	193241	679797
7	637761	425132	212566	650244
8	701538	467645	233822	621971
9	771691	514409	257204	594928
10	848861	565850	282925	569063
11	933747	622435	311217	544320
12	1027122	684679	342339	520654
13	1129834	753147	376573	498017
14	1242817	828462	414231	476365
15	1367099	911308	455654	455654
TOTAL SAVING IN 15 YRS				95,02,665

CHART-II

Here you can check the difference between Chart-I and Chart-II. If you just saved money for 15 yrs you will get around Rs. 38,12,321/- but you keep investing your capital for next 15 years you will get compound interest on every year so you will get Rs. 95,02,665/-.

So, you will get **extra Rs.56,90,344/-** if you invested regularly.

So, **Investment plays very important role** in life for better future.

When to Start Investing

The sooner one starts investing the better. By investing early you allow your investments more time to grow, increases your income, by accumulating the principal and the interest or dividend earned on it, year after year, year after year.

Three golden rules for all investors are:

1.Invest early

2.Invest regularly

3.Invest for long term

Types of investments:-

1. Fixed income instruments
2. Equity
3. Real estate
4. Commodities

1. Fixed income instruments-

- Fixed deposits of banks
- Bonds issued by the Government of India
- Bonds issued by Government related agencies
- Bonds issued by corporate

2. Equity-

Investment in Equities means buying of **shares/Stocks** in listed companies. equity investment are extremely attractive. Indian Equities have generated returns close to 15-20% CAGR (compound annual growth rate) over the past 15 years.

3. Real estate-

Real Estate investment involves buying and selling commercial and non commercial land/ Houses/ Apartments /Buildings.

4. Commodities-

Gold and silver are considered one of the most popular investments. Investments in these metals have yielded a CAGR return of approximately 8-10% over the last 20 years. There are several ways to invest in gold and silver. One can choose to invest in the form of jewelry or Exchange Traded Funds (ETF).

As per past few years history-

1. Investing in fixed income get average rate of 9% per annum,
2. **Investing in equities get average rate of 15% per annum,**
3. Investing in Real estate is good option, but it requires huge amount of cash in hand initially this is not possible to everyone. Liquidity is also another problem;

You always have to wait for the right time and the right buyer or seller to transact with you.

4. Investing in commodities at an average rate of 8-10% per annum.

Things to Know Before Investing

1. **Higher the risk, higher the return**. Lower the risk, lower is the return.

2. Investment in Equities is a great option. Historically equity investment has generated returns close to 15-20%.

Why Trade In Stock Market

1. You do not need a lot of money to start making money, unlike buying property and paying a monthly mortgage.

2. It requires very minimal time to trade -unlike building a conventional business

3. It's 'fast' cash and allows for quick liquidation (You can convert it to cash easily, unlike selling a property or a business).

4. It's easy to learn how to profit from the stock market.

But You need to have your basics clear. Unless you do….you will be wasting your time and losing money. You need to be crystal clear of each and every aspect of Investments, stock options, Stock Trading, Company, Shares, Dividend & Types of Shares, Debentures, Securities, Mutual Funds, IPO, Futures & Options, What does the Share Market consist of? Exchanges, Indices, SEBI , Analysis of Stocks –How to check on what to buy?, Trading Terms(Limit Order, Stop Loss, Put, Call, Booking Profit & Loss, Short & Long), Trading Options –Brokerage Houses etc

WHAT IS STOCK MARKET

Stock market is an electronic market place. Buyers and sellers of shares meet and trade their point of view.

In a share market, shares are bought and sold. The stock market is a share market, however besides shares of companies, other instruments like bonds, mutual funds and derivative contracts too are traded in the stock market

INDIA **USA**

There are two kinds of share markets:-

Primary share market

A company enters the primary market to raise funds. It is in the primary market that a company gets registered to issue shares to the public and raise money. Companies generally get listed on the stock exchange through the primary market route. In case a company is selling shares for the first time it is called an **Initial Public Offering or IPO**, after which the company becomes public. While going for an IPO, the company has to provide details about itself, its financials, it promoters, its businesses, stocks being issued, price band and so on.

Secondary share market

In the secondary market, investors trade already listed securities by buying and selling them. Secondary market transactions are transactions where one investor buys shares from another at the prevailing price. Normally, these transactions are conducted through a broker.

Difference between Primary and Secondary Market is-

In Primary Market securities are offered to public for subscription for the purpose of raising capital or fund Secondary Market is an equity trading venue in which already existing/pre-issued securities are traded among investors.

INDIAN STOCK MARKET SUB-TYPES

1. Equity Market- NSE/BSE
2. Commodity Market -MCX

Exchanges Type-

NSE (National Stock Exchange)

- It is the largest stock exchange of India.
- Pre-market timing 09:00 am to 09:15 am
- Trading timing 09:15 am to 03:30 pm
- Also known as nifty

BSE (Bombay Stock Exchange)

- ➢ It is the oldest stock exchange of asia
- ➢ Pre-market timing 09:00 am to 09:15 am
- ➢ Trading timing 09:15 am to 03:30 pm
- ➢ Also known as sensex

Commodity Market –MCX

- ➢ Trading timing 09:00 am to 11:30 pm
- ➢ It is totally depend on global market

It Is the Market Allow You to Buy/Sell Commodity Like

- CRUDE OIL
- GOLD
- SILVER
- NATURAL GAS
- ALUMINIUM
- ZINC

How to Invest In Market

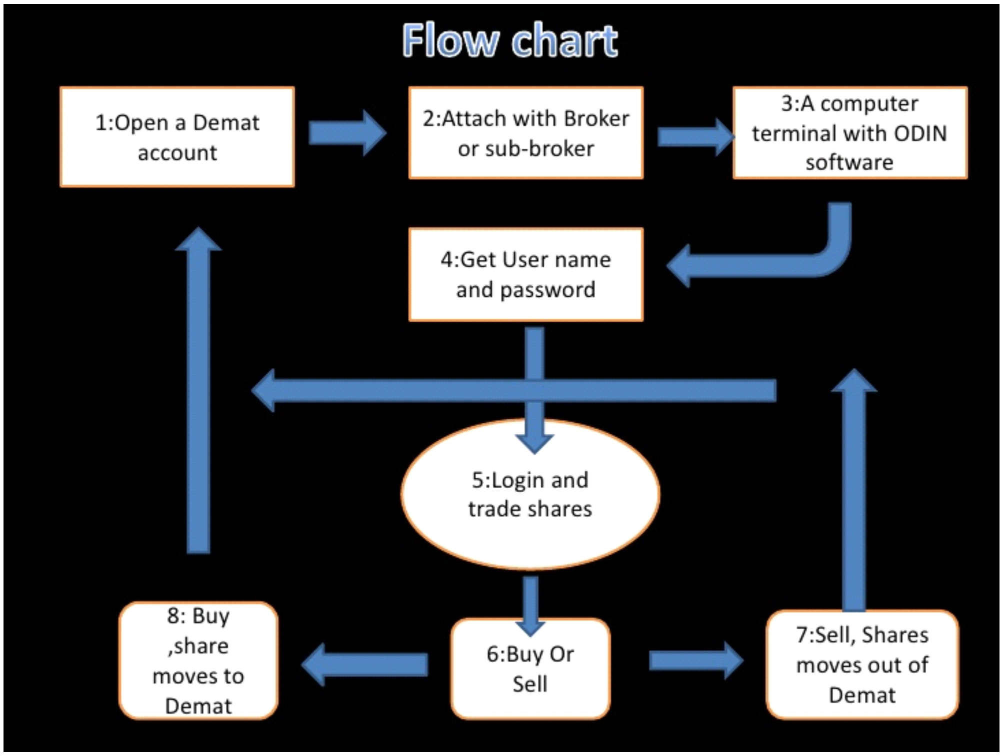
First requirement is broker, as we know we can not open account and keep money directly in reserve bank same here we can not open directly account in nse/bse exchanges.

WHAT IS BROKER

- ➢ Broker is a party that mediates between buyer and seller
- ➢ Stock broker buy and sell shares on behalf of investor/traders.

- Top brokers in india- zerodha, upstox, alice blue, Fyers, Astha etc

HOW WE CAN TRADE



WHAT IS INDEX

- Mirror of market
- Average of how top companies performing

EXAMPLES:

- NIFTY 50 (contain 50 large cap stocks)
- SENSEX (contain 30 large cap stocks)
- NIFTY BANK (Contain all PSU+ PVT Banking stocks)
- NIFTY IT
- NIFTY PHARMA
- NIFTY INFRA
- NIFTY METAL
- NIFTY REAL ESTATE

What is a share?

- If you own a share, you own a portion of a company. In the same way you can see your ownership of a company as a slice of pie, cut out of a bigger pie.
- Someone who owns one or more shares is called a shareholder.
- Shareholders may receive cash flows (dividends) if a company's board of directors declare that the company has performed well and has enough profit to distribute to its shareholders.
- A share in the company gives you the right to vote on decisions affecting the company.
- You can also call a share, 'equity' or 'stock'.

What is the share price?

- The share price is the price at which a particular share can be bought or sold. The share price is determined by the supply and demand for a particular company's shares. Factors affecting the share price • When you have more buyers than sellers for a particular company's shares, share prices usually rise because these shares are in demand.
- When you have more sellers than buyers for a particular company's shares, share prices usually fall because there are more of these shares available.
- If a company is very profitable, a share in that company will become more valuable because more people think that it is a good investment.
- Factors such as economic and political events also influence share prices.

How do I know which company to invest in?

- Do research on the stock market through regular reading of financial literature, attending investment courses and seeking a qualified expert's (like a stockbroker) advice.

- Assess the company's financial wellbeing by looking at their financial statements and reading analyst reports on the company.
- This will enable you to make educated decisions on which companies to invest in.
- Determine how much risk you want to take on, how much return(profit) you expect and which investment products meet your needs. Consult a stockbroker if you need additional advice.
- Try to be committed to this investment objective. Always remember that you should invest for the long run, e.g. have a 5 year investment objective.
- Determine how long you are prepared to wait for a return on this investment and be patient. If a share does not perform you may need to review your strategy.
- Invest with money that you do not need in the short run and can afford to lose, i.e. your disposable income after all your day to day needs have been taken care of.
- Although investing allows you to make a good profit you should also be aware of the risk of losing money in the short run.

Can I minimize the risk of my investment?

- You can minimize your investment risk by diversifying your investment.
- To 'diversify' means to invest in a variety of different investments. To protect your investment you should avoid putting all your 'eggs' in one 'basket'. When one company's share price doesn't perform well, you can still benefit when your other company's share price does well.
- Consider choosing your investments from a variety of sectors, companies and investment products.
- To help you with this decision consider regularly reading financial literature, attending investment courses and seeking a qualified expert's advice.

Stock Market Participants category:

1. Domestic Retail Participants
2. NRI's
3. Domestic Institutions
4. Domestic Asset Management Companies (AMC)
5. Foreign Institutional Investors

The Regulator

In India the stock market regulator is called The Securities and Exchange board of India often referred to as SEBI.

How Stock Moves Upward and Downward

The buyer and seller decide the movement of stock in any direction ie. Up, Down & Flat

In short, if buyer are more in number and they want to buy stock at any cost price will go up and if sellers are more in number and they want to sell stock at any cost stock price will go down. This buyer-sellers reaction decide the movement of stock/share price.

There are different types of Traders:

1. Day Trader

A day trader initiates and closes the position during the day. He does not carry forward his positions. He is risk averse and does not like taking overnight risk. For example – He would buy 100 shares of TCS at 2212 at 9:15AM and sell it at 2220 at 3:20 PM making a profit of Rs.800/- in this trade. A day trader usually trades 5 to 6 stocks per day.

2. Scalper

A type of a day trader. He usually trades very large quantities of shares and holds the stock for very less time with an intention to make a small but quick profit. For example – He would buy 10,000 shares of TCS as 2212 at 9:15 and sell it 2212.1 at 9.16. He ends up 1000/- profit in this trade. In a typical day, he would have placed many such trades. As you may have noticed a scalp trader is highly risk averse.

3. Swing Trader

A swing trader holds on to his trade for slightly longer time duration, the duration can run into anywhere between few days to weeks. He is typically more open to taking risks. For example – He would buy 100 shares of TCS at 2212 on 12th June 2014 and sell it 2214 on 19th June 2014.

Types of Trading-

1. **Intraday Trading-** In this type trade is taken in between 9:15 am to 3:30 pm, position hold for few minutes to hours.

2. **Short Term Trading-** In this trade is taken for more than 01 day and it can be hold for few days to few weeks.

3. **Long Term Trading-** In this trade is taken for more than 01 month and it can be hold for few months to few years.

4. **BTST-** In this type trade is taken for one day hold, approximately position taken after 3 pm (near to market close) and position exited on next day morning (after market opens).

There are two popular types of investors.

1. Growth Investors – The objective here is to identify companies which are expected to grow significantly because of emerging industry and macro trends. A classic example in the Indian context would be buying Hindustan Unilever, Infosys, Gillette India back in 1990s. These companies witnessed huge growth because of the change in the industry landscape thereby creating massive wealth for its shareholders.

2. Value Investors – The objective here is to identify good companies irrespective of whether they are in growth phase or mature phase but beaten down significantly due to the short term market sentiment thereby making a great value buy. An example of this in recent times is L&T. Due to short term negative sentiment; L&T was beaten down significantly around August/ September of 2013. The stock price collapsed to 690 all the way from 1200. At 690 (given its fundamentals around Aug 2013), a company like L&T is perceived as cheap, and therefore a great value pick. Eventually it did pay off, as the stock price scaled back to 1440 around May 2014.

Some Events and its Impact on Stock Prices

Dividends are means of rewarding the shareholders. Dividend is announced as a percentage of face value 3.If you aspire to get the dividend you need to own the stock before the ex dividend date 4.

A **bonus issue** is a form of stock dividend. This is the company's way of rewarding the shareholders with additional shares

A **stock spilt is** done based on the face value. The face value and the stock price changes in proportion to the change in face value

Rights issue is way through which the company raises fresh capital from the existing shareholders. Subscribe to it only if you think it makes sense

Buy back signals a positive outlook of the promoters. This also conveys to the shareholders that the promoters are optimistic of the company's prospects.

Monetary policy is one of the most important economic event. During the monetary policy, review actions on repo, reverse repo, CRR etc are initiated

Interest rates and inflation are related. Increasing interest rates curbs inflation and vice versa

Inflation data is released every month by MOSPI. As a consumer, CPI inflation data is what you need to track

The Budget is an important market event where policy announcements and reform initiatives are taken. Markets and stocks react strongly to budget announcements

Corporate earnings are reported every quarter. Stocks react mainly due to the variance in actual number versus the street's expectation.

Commonly Used Jargons

1. **Bull Market (Bullish) –** If you believe that the stock prices are likely to go up then you are said to be bullish on the stock price. From a broader perspective, if the stock market index is going up during a particular time period, then it is referred to as the bull market.

2. **Bear Market (Bearish)** – If you believe that the stock prices are likely to go down then you are said to be bearish on the stock price. From a broader perspective, if the stock market index is going down during a particular time period, then it is referred to as the bear market.

3. **Trend -** A term 'trend' usually refers to the general market direction, and its associated strength. For example, if the market is declining fast, the trend is said to be bearish. If the market is trading flat with no movement then the trend is said to be sideways.

4. **Face value of a stock –** Face value (FV) or par value of a stock indicates the fixed denomination of a share. The face value is important with regard to corporate action. Usually when dividends and stock split are announced they are issued keeping the face value in perspective. For example the FV of Infosys is 5, and if they announce an annual dividend of Rs.63 that means the dividend yield is 1260%s (63 divided by 5).

5. **52 week high/low –** 52 week high is the highest point at which a stock has traded during the last 52 weeks (which also marks a year) and likewise 52 week low marks the lowest point at which the stock has traded during the last 52 weeks. The 52 week high and low gives a sense of the range within which the stock has traded during the year. Many people believe that if a stock reaches 52 week high, then it indicates a bullish trend for the foreseeable future. Similarly if a stock has hits 52 week low, some traders believe that it indicates a bearish trend for a foreseeable future.

6. **All time high/low –** This is similar to the 52 week high and low, with the only difference being the all time high price is the highest price the stock has ever traded from the time it has been listed. Similarly, the all time low price is the lowest price at which the stock has ever traded from the time it has been listed.

7. **Long Position –** Long position or going long is simply a reference to the direction of your trade. For example if you have bought or intend to buy Biocon shares then you are said to be long on Biocon or planning to go long on Biocon respectively. If you have bought the Nifty Index with an expectation that the index will trade higher then essentially you have a long position on Nifty. If you are long on a stock or an index, you are said to be bullish.

8. **Short Position –** Going short or simply 'shorting' is a term used to describe a transaction carried out in a particular order.

9. **Square off –** Square off is a term used to indicate that you intend to close an existing position. If you are long on a stock squaring off the position means to sell the stock. Please remember, when you are selling the stock to close an existing long position you are not shorting the stock!

10. **Intraday position –** Is a trading position you initiate with an expectation to square off the position within the same day.

11. **OHLC –** OHLC stands for open, high, low and close. We will understand more about this in the technical analysis module. For now, open is the price at which the stock opens for the day, high is the highest price at which the stock trade during the day, low is the lowest price at which the stock trades during the day, and the close is the closing price of the stock. For example, the OHLC of ACC on 17th June 2014 was 1486, 1511, 1467 and 1499.

12. **Volume –** Volumes and its impact on the stock prices is an important concept that we will explore in greater detail in the technical analysis module. Volumes represent the total transactions (both buy and sell put together) for a particular stock on a particular day. For example, on 17th June 2014, the volume on ACC was 5, 33,819 shares.

13. **Earnings per share (EPS)-** is the portion of a company's profit that is allocated to each outstanding share of common stock, serving as an indicator of the

company's financial health. In other words, earnings per share are the portion of a company's net income that would be earned per share if all the profits were paid out to its shareholders. EPS is used typically by analysts and traders to establish the financial strength of a company, and is often considered to be one of the most important variables in determining a stock's value. In fact, it is sometimes known as "the bottom line" – the final statement, both literally and figuratively, of a firm's worth.

14. **The price-to-earnings ratio (P/E)**- helps investors determine the market value of a stock compared to the company's earnings. In short, the P/E ratio shows what the market is willing to pay today for a stock based on its past or future earnings. A high P/E could mean that a stock's price is high relative to earnings and possibly overvalued. Conversely, a low P/E might indicate that the current stock price is low relative to earnings.

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