BASICS OF STOCK MARKET

TODAY TRADE

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Chapter 1

Introduction

Chapter 1

Introduction

> *You do not need a big amount of investment to start investing in stock market.*

The enticement of earning good returns have always attracted investors to invest in the stock markets. But, it is important to understand that while you can make big bucks in stock markets, you can also lose a lot of money in the markets if you are not careful while investing or trading in the markets.

Apart from patience and discipline, you require a good amount of research and understanding in order to make money from the stock markets.

Also, you do not need a big amount of investment to start investing in the stock market. As a beginner, it makes more sense to start with a small amount and increase your investment amount gradually as you gain more understanding of the market behaviour and learn to analyse stocks.

Chapter 2

What Is A Stock Market?

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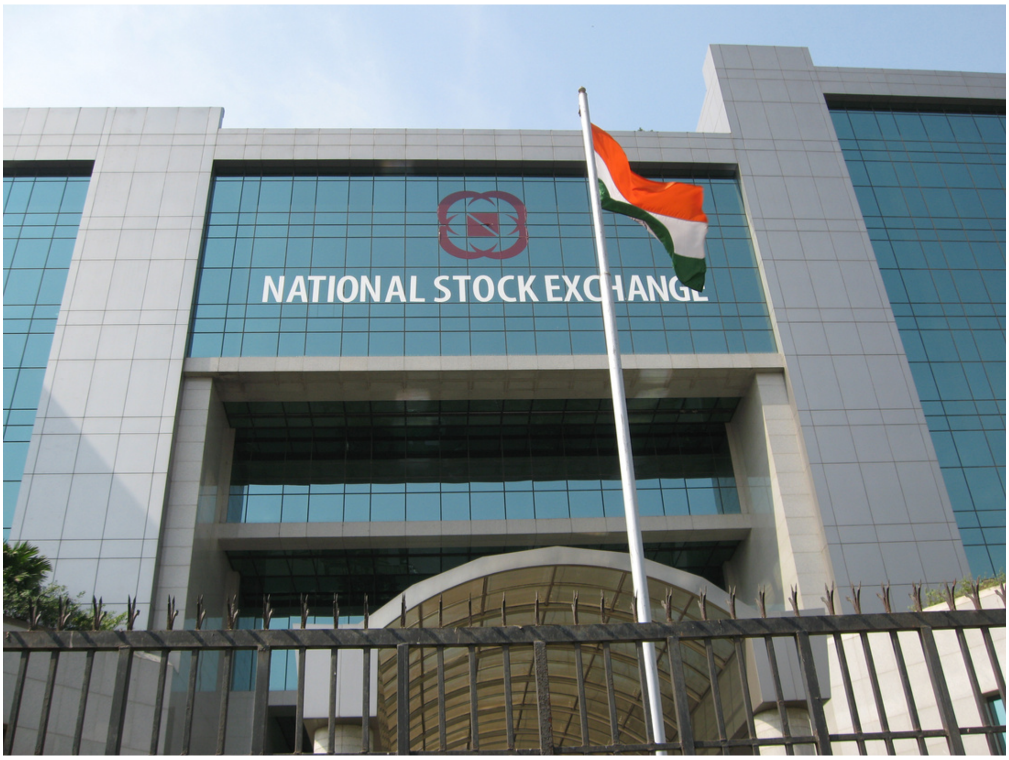
What is a Stock Market?

A Stock Market is a marketplace where you buy and sell shares. In India, you cannot buy and sell shares directly in the share market all by yourself. Hence, you will have to buy or sell shares through registered stock brokers.

There are many share brokers in India through whom you can invest and trade in the stock market. However, the services and service charges of the brokers vary. You will need to know how to select the right broker for yourself.



Chapter 3

An Overview Of The Indian Stock Markets

Chapter 3

The Overview of the Indian Stock Markets

In India, there are primarily two stock exchanges namely: The National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE).

Apart from these two, there a few national and regional stock exchanges. However, most of the trading happens through NSE and BSE.

80 percent of the trading takes place at the NSE and BSE only. They both are almost similar in terms of daily traded volume and most of the key shares have been listed on both the exchanges so that the investors can buy from any of them.

Both the markets work for 5 days a week and remain closed on Saturdays, Sundays and on all national holidays.

Transactions in shares are done through online computerised systems. The trading system of BSE is known as BOLT (BSE Online Trading) and that of NSE is known as NEAT (National Exchange Automated Trading).

The online trading system has facilitated the traders with more transparency, efficiency, automatic order matching, and speedy processing of the transactions in comparison to the earlier systems of traditional offline trading.

- **Market Indices:**

The Market Indices help us to determine whether the markets are up or down.

The S&P BSE Sensex is the primary index of BSE. It consists of 30 stocks.

The Nifty 50 Index comprising of 50 stocks is the market index of NSE.

Both the indices are calculated based on the market capitalization and include heavily traded shares from key sectors.

Market Regulator:

SEBI - Securities and Exchange Board of India is the main governing body that regulates the functioning of all the stock exchanges, brokers, depositories, mutual funds and other market participants in India.

Chapter 4

What Are Shares Or Stocks?

Chapter 4

What are Shares or Stocks?

Every company needs money to carry on its operations. For that purpose, companies reach out to banks or investors for loan and to borrow money from common people by issuing bonds. But, in both the cases, the company must pay a huge amount of interest.

So, to avoid huge costs of interest, companies can raise money from the market by issuing its share to the public with no obligation of paying interest.

A share issue involves selling a part of the company to people or institutions who have money to invest. When you buy a share, you get shares and have to give your money. The company gives the share to you and gets the money.

Why should you invest in shares?

By investing your money in shares, you will get an ownership of the company. The percentage of ownership will be proportional to the number of shares you bought. This will also entitle you to receive dividends, i,e, a share in the profits which the company earns by doing business.

Apart from dividends, shareholders also enjoy capital appreciation. The share prices of the company increase as the company's profit grows. Hence, you can sell your shareholding at a price greater than the purchase price and earn a profit.

Chapter 5

Pre-requisites For Starting Trading In Share Markets In India

Chapter 5

What are the pre-requisites to start trading in Share Markets in India?

Here are the essentials that you need to start trading in share market:

Pan Card:

You need to have a Permanent Account Number (PAN) to do any financial transaction in India. It is required for opening a bank account, make investments, filing income tax returns, etc. It is a unique number assigned by the Tax authorities to an individual for assessing his tax liabilities in all financial transactions.

Bank account:

You also need to have a bank account for all transactions in the share market;

Broker:

As mentioned earlier, no transaction in the share market can be made by you directly in the stock exchange. You need to open a share trading account with a broker who is registered with SEBI and the stock exchanges.

ICICI Direct, Sharekhan, Axis Direct, etc. are some of the popular share brokers of India.

Get a Demat and trading account:

Apart from the Bank Account, you will need to open a Demat Account wherein you can hold all your shares and securities in your name. Nowadays, you cannot hold share certificates. Hence, having a Demat Account is necessary to hold all your securities in an electronic (dematerialized) form.

You will also need a trading account for buying and selling the shares.

Generally, all this is taken care by the broker. So, once you approach a broker, your Demat account and trading account are also opened simultaneously.

Chapter 6

How to select a good Broker?

Chapter 6

How to select a good broker?

Here are the tips to select the right stock broker for yourself:

- **Conduct an extensive research:**

Firstly, you need to carry out a thorough research about various brokers based on the reviews of their customers. It is important since the broker will be the one who will be responsible for providing various investment services to you, and will also help you to place orders for buying or selling shares. Having a good broker will ensure that you have a good experience of transacting in the stock market. A broker with a good customer service will make sure they provide you with great service, and most importantly, execute your order on time.

- **Offers multiple investment options:**

You can invest in various other financial products other than shares in share market. These include mutual funds, futures and options, etc.Your stock broker should give you access to these investment products so that you do not have to go elsewhere to buy these.

- **Quality of services provided:**

If you decide to go with an online broker, then you need to make sure that their website works efficiently. Also, the website should be able to handle huge traffic during the peak hours.

There is no doubt that technical difficulties might arise sometimes. so your broker should provide you with an alternative option to place your orders during those times. Moreover, they should offer this facility at no additional costs;

- **Extra services:**

Apart from just managing your portfolio and providing share trading services, your online broker may sometimes provide advisory services too. They should provide you with good recommendations, so that you know what to share to trade and what not.

They should also keep you updated with the market sentiments and how it will affect the various industries. This helps you in better and informed decision while trading in the market.

Full-service brokers or discount brokers:

If you are new to share markets, then it is advisable that you should go with a full-service broker.

A full-service broker makes sure to advise you at each and every transaction you make in the stock market. They assist you in every possible way and guide you to transact successfully in share market.

Gradually, when you become accustomed to trading in share market, you can opt for discount brokers and invest your money yourself. They do not offer any other help apart from just executing your trades.

Even though the full-service brokers charge you a higher commission, still it is better to go with them for limiting your losses in initial days of trading;

Chapter 7

Understanding The Online Trading Platforms

Chapter 7

Understanding the Online Trading Platforms

Online trading platforms allow you to trade via the internet by using the trading software provided by the broker. As a beginner, the trading platform might confuse you but it is essential to have a thorough understanding of the trading platform so as to efficiently use the various tools provided by these platforms. You can even transfer your funds from your bank account to your share trading account instantly by just a click of a mouse.

Features of an online trading platform:

- Provides you with an independent automated trading platform;
- You can view the balances in your Bank and Demat Accounts, and can transfer money from your bank to trading account, and vice versa.
- Provides access to various online tools to perform technical analysis of stocks;
- You can have a full and direct control over his portfolio;
- You can trade on both the markets i.e. NSE and BSE simultaneously by using the same account;
- Keeps you informed about the latest market news and movements;
- Trading happens fast and without any significant delay.

But, make sure to check the speed and features of the online trading platform, and the and the quality of services provided by your broker. You can check the online reviews for this purpose.

Getting started with the online trading platform:

User ID and password:

- Your online trading account is protected by a login ID and password. Login ID is provided by the broker and the password needs to be set up by you. You should change your password frequently for the safety of your account. Also, make sure to opt for additional security measures available for your account so as to ensure the safety of your account.

Indices display:

- The online trading platform will also display the market indices at an appropriate location on your screen. This helps you to know the movements in the all the indices primarily Sensex and Nifty. In most platforms, you will be able to customise the screen to display all the indices you want to follow. This helps the investors in getting an overall insight of the market sentiments so as to execute his trades accordingly;

Market Watch:

It is an essential screen in your trading account. It gives you an insight about the current market position of the selected stocks in a tabular format. Each row presents the data regarding one share and displays the script name, the last traded price, last traded quantity, best bid and offer rate, total transacted volume, etc.

You can configure the market watch window and decide which column you wish to view and which not. Even you can also change the way table looks in term of colours, size and whether to use a separator between row and columns or not.

All the information on the market watch window is updated dynamically in the real time and gives you live market updates without refreshing the screen. Understanding the market screen might sound intimidating in the beginning but you will find it easy to use eventually. It is the prime controlling window in your trading account to initiate all your trading actions. You can trade in shares by just simply clicking on the market watch window.

Charts:

All the trading platforms provide the charting facility nowadays. These charts enable the investor to:

- Create intraday charts with data for only the current trading day.
- Create historical charts with data of past days.
- Open multiple charts simultaneously.
- Allows you to create different types of charts such as line, bar and candlestick;
- You can use technical analysis tools like MACD, RSI, Williams % R and other indicators useful for analysing the stocks;
- In some platforms, you can also save the charts offline on your computer,

Reports:

At any time, you will be able to access various reports related to your market activities. These reports include the order book, trade book, margin, net positions, exercise book and the portfolio. Even, these reports are dynamically updated as soon as any transaction is executed without any need of refreshing them. You can perform various trading actions in the reports itself. These reports can be saved offline as well in a text or CSV format.

Market analyser:

This feature provides you with the information regarding top traded, top gainers and top losers with the percentage change in total volume and value. It provides you with the names of the shares that have touched their highest and lowest prices in the past 52 weeks. It helps in identifying the large trades and give you an insight into the scrip activities happening in the market.

Chapter 8

Buying And Selling Of Shares Using Various Types Of Orders

Chapter 8

Buying and selling of shares using various types of orders

You can easily buy and sell shares using the online trading account. There are various types of orders that can be placed in the market. You need to understand all the orders before you start buying and selling the share. Here are the features of the various types of orders available:

Limit orders:

In this type of order, you need to specifically enter the price at which you want to buy or sell the share. You will get an option to notify that whether you are placing the market or limit. If you decide to place a limit order, then you will have to expressly enter the price of your choice.

Market orders:

In the case of a market order, you do not enter a specific limit price. Instead, you can get the order executed at the current price that is prevailing in the market at the time of the trade.

Stop loss order:

In a stop loss order, you need to enter a price to trigger the order. So, such orders are activated once the trigger price mentioned in the order is reached or surpassed. This order helps in minimising the loss to a pre-determined amount. Such orders are always placed in pairs. Firstly, you need to place the normal order i.e. market or limit order and then, a stop loss order to restrict the maximum loss.

For example, if you place an order to buy a stock at Rs. 100 and do not wish to take a loss more than Rs. 2, then you can place a stop loss order to sell the share at 98.

IOC orders:

IOC stands for 'Immediate Or Cancel'. In this case, you place an order with the intention to get it executed instantly otherwise the order is cancelled. If the order gets partially traded then the remaining part of the order gets cancelled automatically. You cannot place the stop loss order as IOC orders. Only the normal orders can be places as IOC.

Placing a buy or sell order:
Once you enter all the information correctly i.e. the quantity and type of order, you can go ahead with placing an order by clicking on the “Submit” button. It creates an order and displays it to you. Then, you need to confirm if the order has been created correctly by clicking on the “confirm button” and right after that your order is sent to the broker. A unique numbered Id is created for your order and each order is time stamped.

The broker’s server sends an acknowledgement as soon as the order is received by it. Then, the broker verifies all the details of the order and put it in the queue for sending it to the exchange. Then, the exchange verifies the particulars of the order and accepts the order if there are no errors.

You can also modify you online order to buy or sell the shares once your original order is accepted by the exchange but not executed so far. Once, the order is executed you cannot make any changes to your order.

Things to keep in mind while placing a buy or sell order:

- Quantity box:

You need to necessarily fill the quantity box while placing an order. The quantity in share market is generally in lot size but most of the shares generally have the lot size of 1. Make sure to enter a correct quantity in the box to avoid any errors;

- Disclosed Quantity:

Placing an order with this condition allows you to disclose only part of the order and the order gets processed in batches. For example, if you placed an order to buy 2000 shares with a disclosed quantity of 200 shares, then firstly the order of 200 shares is displayed in the market and then, the next 200 and so on till the whole order is executed.

This box can be left blank and if you want to fill it, the disclosed quantity has to be a minimum of 10% of the order quantity.

Chapter 9

How To Start Investing In Stock Markets?

Chapter 9

How to start investing in Stock Markets?

Remember that not all stocks are good for investing. Some are overvalued or some may have weak fundamentals or any other issue. So, as a beginner, it is important for you to learn how to evaluate the stocks and pick the right ones for yourself.

You must know how to identify the shares that can help you earn some profits either in terms of dividend or capital appreciation through stock analysis. It is not rocket science; a little bit of knowledge and practice will make things easier for you.

Firstly, you need to learn how to read the financial statements of a company. It represents the financial position of the company. The objective is to invest in only fundamentally or financially strong companies.
Ideally, the investors will be more interested in investing in the companies with higher profits since it means that the company will pay higher dividends. But, some of the companies instead of sharing profits as dividends might retain it for expansion and growth. But, this eventually helps the company to earn even higher profits in coming years.

Also, higher retained earnings will reduce the dependence of the company on the outside debt which reduces the interest expenses and increases profitability.

A higher profitability increases the market prices of the share.
You should look at the Earning Per Share (EPS) for the company for past few years to understand the improvement in the market prices of the share.

Also, try avoiding the shares that are overvalued even if the company have strong fundamentals. The best way to check the reasonability of the market price of a stock is to use the Price Earnings Ratio (P.E. Ratio) that is obtained by dividing market price with the EPS. There is no standard rule to identify if a company is expensive or not.

However, you can set your own rule. For example, if the P.E. ratio is more than 15, then the stock is over valued and hence, should be avoided.

These are just two indicators. There are many other tools such as dividend yield, current ratios, long term debt ratios etc. that can help you in taking an informed decision.

You should keep yourself updated with the current market news and look out for internal and external indicators that can affect the stock prices. These include changes in government policies, political changes, company's management changes etc.
Here are the various financial ratios that shall help you in taking an informed and well-researched decision while investing in the stock market:

Earnings per share (EPS):

It is the most basic and important financial ratio that you need to know before making an investment in shares. It basically indicates the profits that the company made in the last year divided by the number of shares issued in the market. Preferred shares are not included in the total number of shares while calculating EPS. Hence,

EPS =
Net profits (after deducting the dividends paid to preference shareholder) / equity shares issued in the market.

So, while deciding whether to invest in a stock or not, a higher EPS is considered good. It shows the company has a capability to generate higher profits.

You should check the EPS of the last five years. So, if the EPS has been growing over the past few years, then it is a good sign, but if the EPS has been falling for the past few years, then you should avoid the stock.

Price to earnings ratio (P/E):
It is yet another important the financial ratio while analysing a stock before investment. It helps in ensuring that the stock is not overvalued. A high P/E ratio shows that the stock is overvalued i.e. it is selling for more than its value. Hence, a stock with a lower P/E ratio is considered good.

Price to earnings ratio =
Price per share / earnings per share

You can use the closing price of the previous day and calculate the EPS by the above-mentioned formula to arrive at the P/E ratio for a stock. Usually, a P/E ratio lesser than 15 is considered good. Also, the definition of higher or lower P/E ratio differs from industry to industry. Hence, you cannot compare the P/E ratio of one company from one industry to another.

Price to book ratio:

This is calculated by dividing the current market price of the share by the book value of the share from the last quarter. It helps in determining how much the investor needs to pay for the net assets of the company. The lower P/B ratio indicates that the stock is undervalued, but again like the P/E ratio this definition varies from one industry to another.

Price to book ratio= price per share/ book value per share

Debt to equity ratio:

This helps in measuring the relationship between the borrowed capital (debt) and the shareholder's capital (equity) in a company. Usually, a debt equity ratio lesser than 1 is considered favourable since it indicates that the company has stronger equity position and relies lesser on the outside debt.

Debt to equity ratio =
Total liabilities/ shareholder's equity

Current ratio:

Current ratio is the critical financial ratio to measure the liquidity of the company. It helps in determining how much of current assets the company owns to cover the current liabilities. A current ratio greater than 1 is generally considered good since the company has more current assets than the current liabilities.

Current ratio =
Current assets/ Current liabilities

Price to sales ratio (P/S):

The price to sales ratio helps in measuring the prices of a company's share with respect to the annual sales. It is very similar to the P/E ratio. It is more reliable than other financial ratios since the sales figure cannot be easily manipulated in comparison to the profits, earnings or income figures by using various accounting rules.

Price to sales ratio =
Price per share/ annual sales per share

Return on equity:

This financial ratio calculates the amount of net income that is generated for the equity shareholders. The return on equity ratio helps in measuring the ability of the company to generate profits using the shareholder's money. It basically determines how good is a company at rewarding the equity shareholders. Usually, the ROE that is more than 20% for the past three years is considered good.

Return on Equity =
Net Income/Average Shareholder Equity.

Dividend yield:

This financial ratio helps in calculating the dividend that a share can yield in caparison to the current market price of the share. It is calculated on a percentage basis.

Dividend yield=
Dividend per share/ price per share

Usually, a higher dividend yield is considered good. But, it totally depends upon the individual choice if you want to invest in a higher or a lower dividend yielding company.

Chapter 10

Understanding Brokerage

Chapter 10

Understanding Brokerage

The cost associated with the buying and selling of shares is called the brokerage. It can be a little confusing to understand the concept of brokerage. If you ask the broker about the fee they charge, they would say "0.05% for the intraday trades and 0.50% for delivery" and if you negotiate further with them, the cost of brokerage can come down up to "0.01 for intraday and 0.40% for delivery". Apart from this, there are various other costs that are charged but are not disclosed by the brokers. Hence, the effective cost of brokerage becomes different from the rates mentioned above. To have a clear understanding of this, you need to firstly understand the concept of intraday and delivery trading.

In Intraday trading you buy and sell shares on the same day, and earn a profit or loss from the difference in the price at which you transacted. Since you buy and sell within the same day, you don't carry forward any shares, and no share enters or leaves your demat account.

Due to this, brokerage charged for intraday trading is generally quite low.

However, in delivery trading, the position is not closed on the same day and the shares are bought and kept in the demat account. The shares can be held for a number of days, months or even years until you reach your target price,

Generally, the trading cost in India includes the brokerage, securities transaction tax, stamp duty, service tax and some other charges. Here are the details of each cost separately:

Brokerage:

- It is charged on the basis of agreed percentage of the total cost of all the shares bought and sold.

Securities transaction tax (STT):

- It is another significant charge after brokerage. In the case of delivery trading, STT is charged on both the buying and selling of shares but in the case of intraday trading, STT is levied only on the selling of the share. The STT is charged at 0.1% of the total transaction cost of buying or selling in case of delivery trading whereas 0.25% of the total transaction cost while selling the shares in intraday trading.

- **Service tax:**

It is charged both for the intraday trading and delivery trading, it is chargeable only on the brokerage amount and does not include the stamp duty or STT. Currently, the service tax is charged at 15% of the brokerage amount.

- **Transaction charges:**

These charges are levied by the stock exchanges on both the intraday and delivery trading and on both the buying and selling of shares. Presently, NSE charges a transaction fee equal to 0.00325 percent of the total amount whereas BSE charges a 0.00275% of the total amount.

- **Stamp duty:**

It is charged by the state government. Hence, each state has a different stamp duty rates, stamp duty is chargeable both on the buying and selling of shares and is charged on the total amount of transaction.

- **SEBI turnover charges:**

The SEBI charges a turnover charge of 0.0002% of the total amount for both the types of trading and on both buying and selling of shares;

- **Depository Participant Charges:**

In India, there are two depositories, namely National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL). These depositories keep the shares in the electronic form with them. A small fee is hence charged by the depositories in exchange for this service.

Investors are not charged directly by the depository participants but the money is deducted by your broker from your bank account.

A flat rate of depository shares of Rs. 10 to 35 is levied only for the delivery trading. This charge is not applicable on the intraday trading since the transaction is squared off in the same day.
But, it essential for you to review the brokerage and other charges from time to time to make sure that they are in line with the initial offer made by the broker. Hence, you need to keep checking the brokerage charges periodically.

Brokers will also charge an Annual Maintenance Charge for your account every year. You also need to review these charges regularly and make sure that they are not charged multiple times in a year.

Chapter 11

Understanding Capital Gains Tax on Share Trading

Chapter 11

Understanding Capital Gains Tax on Share Trading

Capital Gains Tax is yet another important aspect associated with share trading. There are basically two types of capital gains tax: short-term capital gains tax and long term capital gains tax.

In the case of investments in shares, if you sell a stock after one year of buying the share it is considered as long term investment and there is no income tax on the long term capital gain on selling of shares. Hence, it is more beneficial to hold your investment in shares for more than a year and earn maximum profits.

Whereas in case if the shares are sold within one year of buying then, it is considered as a short-term investment and it is chargeable to income tax at a flat rate of 15% irrespective of the tax slab in which you fall. This is applicable only on the delivery trading, in the case of intraday trading, investors need to pay taxes on the basis of normal slab rates applicable to him.

Stock Analytics

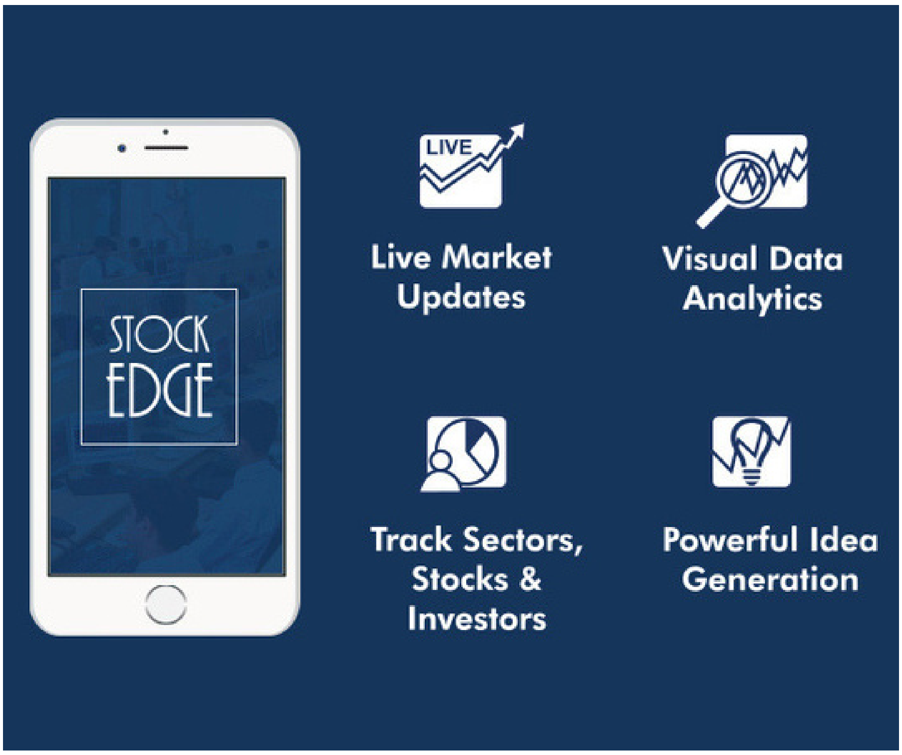
StockEdge

StockEdge

Since you are new to investing in the market, you can take advantage of the StockEdge mobile app. You can simply download this app on your phone and learn about the market movements, latest financial information of all the listed companies, technical analysis and derivatives on the go. All the information is presented in a simple graphical manner using the charts and bars which make it perfect for the new entrants to absorb the information easily.

You can view the stocks across the various industries or sectors and mark your preferred stock as “favourite” to constantly monitor them without having to put in a lot of effort. This app is also equipped with the various tools to help you analyse and track the latest market trend. Also, do check out the latest tutorials in the app which will help you in learning about investing in the market.

By providing complete trading resources under one platform, this a perfect app for the investors, traders as well as analysts.



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Further Learning

Suggested Courses

Suggested Courses

We hope that this book has given you a basic idea about what stock markets are, how they function, and how to look for good stocks to invest in. However, this is just the beginning, and you will have to go deeper into the various concepts and techniques related to the markets.

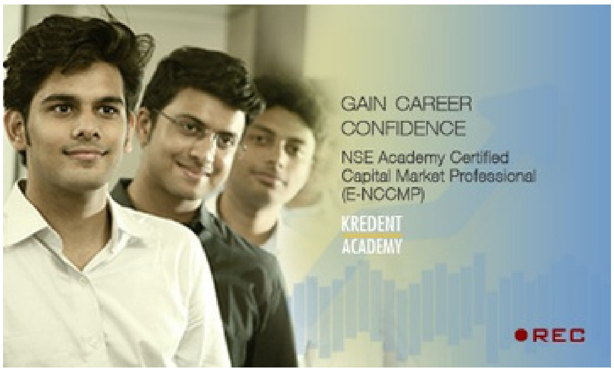
We strongly suggest that you continue your learning by gathering knowledge about:

- Fundamental Analysis
- Technical Analysis
- Futures And Options
- Wealth Management
- Currency and Commodity Markets.

Here are some courses offered by Kredent Academy and Elearnmarkets.com which will enable you to continue your journey further:

Financial Market Expert

By Kredent Academy



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