CHAPTER 1: INVESTMENT BASICS

SYNOPSIS

INVESTMENT: The savings when used to get return in future is called Investment.

Why should one Invest?
One needs to invest to:

- earn return on your idle resources
- generate a specified sum of money for a specific goal in life
- make a provision for an uncertain future

INFLATION:

- Inflation is the **rate** at which the **cost of living increases**.
- Inflation **causes money to lose value** because it will not buy the same amount of a good or a service in the future as it does now or did in the past.
- If the after-tax return on your investment is less than the inflation rate, then your assets have actually decreased in value; that is, they won't buy as much today as they did last year.

When To Start Investing:
The three golden rules for all investors are:

- Invest early
- Invest regularly
- Invest for long term and not short term

Twelve Important Steps To Investing.
Before making any investment, one must ensure to:

1. Obtain written documents explaining the investment
2. Read and understand such documents
3. Verify the legitimacy of the investment
4. Find out the costs and benefits associated with the investment
5. Assess the risk-return profile of the investment
6. Know the liquidity and safety aspects of the investment
7. Ascertain if it is appropriate for your specific goals
8. Compare these details with other investment opportunities available
9. Examine if it fits in with other investments you are considering, or you have already made
10. Deal only through an authorised intermediary
11. Seek all clarifications about the intermediary and the investment.
12. Explore the options available to you if something were to go wrong, and then, if satisfied, make the investment.

Interest: When we borrow money, we are expected to pay for using it - this is known as Interest.

- Interest is an amount charged to the borrower for the privilege of using the lender's money.
- Interest is usually calculated as a percentage of the principal balance (the amount of money borrowed).
- The percentage rate may be fixed for the life of the loan, or it may be variable, depending on the terms of the loan.

Factors determine interest rates.
The factors which govern these interest rates are mostly economy related and are commonly referred to as **macroeconomic factors**. Some of these factors are:

- Demand for money
- Level of Government borrowings
- Supply of money Inflation rate

- The Reserve Bank of India and
- The Government policies

which determine some of the variables mentioned above.

Various Options For Investment:

- **Physical assets** like real estate, gold/jewellery, commodities etc.
- **Financial assets** such as fixed deposits with banks, small saving instruments with post offices, insurance/provident/pension fund etc. or securities market related instruments like shares, bonds, debentures etc.

Short-Term Investment Options:

1. **Savings Bank Account** is often the first banking product people use, which offers low interest.
2. **Money Market or Liquid Funds** are primarily oriented towards protecting your capital and then, aim to maximise returns.
   These are specialized form of mutual funds that invest in extremely short-term fixed income instruments.
   ADVANTAGES:
   a. provide **easy liquidity.**
   b. Money market funds usually yield **better returns** than savings accounts, but lower than bank fixed deposits.
3. **Fixed Deposits**/ term deposits: Fixed Deposits with banks are for investors with **low-risk appetite**
   Can be considered for 6-12 months investment period.
   Interest on less than 6 months bank FDs is likely to be lower than money market fund returns.
   Advantage: Fixed Deposits with banks are for investors with low-risk appetite.

Long -Term Investment Options:

- **Post Office Savings:** Post Office Monthly Income Scheme is a low risk saving instrument, which can be availed through any post office. It provides an interest rate of 8% per annum, which is paid monthly.
- **Public Provident Fund**: A long term savings instrument with a maturity of 15 years and interest payable at 8% per annum compounded annually. A PPF account can be opened through a nationalized bank at any time during the year and is open all through the year for depositing money.
- **Company Fixed Deposits**: These are short-term (six months) to medium-term (three to five years) borrowings by companies at a fixed rate of interest which is payable monthly, quarterly, semi-annually or annually. They can also be cumulative fixed deposits where the entire principal along with the interest is paid at the end of the loan period.
- **Bonds:** A bond is generally a promise to repay the principal along with a fixed rate of interest on a specified date, called the Maturity Date. It is a fixed income instrument issued for a period of more than one year with the purpose of raising capital. The central or state government, corporations and similar institutions sell bonds.
- **Mutual Funds:** These are funds operated by an investment company which raises money from the public and invests in a group of assets (shares, debentures etc.), in accordance with a stated set of objectives. It is a substitute for those who are unable to invest directly in equities or debt because of resource, time or knowledge constraints.

Benefits of investing in Mutual Funds

a. Benefits include professional money management, buying in small amounts and diversification.
b. Mutual Funds are usually long term investment vehicle though there some categories of mutual funds, such as money market mutual funds which are short term instruments, so investor can choose
c. Mutual funds issue units to the investors. The appreciation of the portfolio or securities in which the mutual fund has invested the money leads to an appreciation in the value of the units held by investors. Such appreciation increases investors wealth.
d. The investment objectives outlined by a Mutual fund in its prospectus are binding on the Mutual Fund scheme, so it is a fair and transparent investment option.
e. Investors also benefit by getting dividends, which are declared periodically by the mutual fund, or by participating in capital appreciation of the scheme.

STOCK EXCHANGE: Stock Exchange is a body of individual, whether incorporated or not, constituted for the purpose **of assisting, regulating or controlling the business of buying, selling or dealing in securities.**

EQUITY/SHARE: Total equity capital of a company is divided into **equal units of small denominations;** each called a share. The holders of such shares are members of the company **and have voting rights**.

DEBT INSTRUMENT: Debt instrument represents a contract whereby **one party lends money to another** on predetermined terms with regards to rate and periodicity of interest. In the Indian securities markets, the **term bond'** is used for debt instruments issued by the **Central and State governments** and public sector organizations and **the term debenture'** is used for instruments issued **by private corporate sector**.

DERIVATIVE: Derivative is a product whose value is derived from the value of one or more basic variables, called **underlying**. The underlying asset can be equity, index, foreign exchange (forex), commodity or any other asset.

INDEX:

- An Index shows how a specified portfolio of share prices are moving in order to give an indication of market trends. It refers to a statistical measure of change in a securities market.
- It is a basket of securities and the average price movement of the basket of securities indicates the index movement, whether upwards or downwards.

DEPOSITORY: A depository is like a bank wherein the deposits are **securities** (viz. shares, debentures, bonds, government securities, units etc.) in **electronic form.**

DEMATERIALIZATION: Dematerialization is the **process by which physical certificates** of an investor **are converted** to an equivalent number of **securities in electronic form** and credited to the investor's account.

SHARE	DERIVATIVES
Total equity capital of a company is divided into **equal units of small denominations**; each called a share.	Derivative is a product whose value is derived from the value of one or more basic variables, called underlying. The underlying asset can be equity, index, foreign exchange (forex), commodity or any other asset

Companies use equity shares to raise capital / funds from the public	Derivative products initially emerged as hedging devices against fluctuations in commodity prices

A. MUTIPLE CHOICE QUESTIONS:

1 Which of the following is not a security?

a) Shares

b) Government Securities

c) Derivative products

d) Fixed deposit

2. The full from of NSE is _________________ .

a) National Stock Exchange

b) Nation Stock Expert

c) National Share Export
d) National Share Exchange

3. Which of the following is true for Inflation?
a) Cost of living decreases
b) Cost of living increases
c) Cost of living remains the same
d) None of the above

4. Which one of the following is called Physical Asset?
a) Real Estate
b) Fixed Deposits
c) Equity
d) None of these

5. Debt instrument represents a contract whereby one party lends money to another on **predetermined terms such as____________**. Which of the following statement is correct?
a) Principal Amount
b) Periodicity of interest
c) Underlying assets
d) Both a and b

B		**Very Short Answer Questions VSA (1 Mark)**	**Level**
1		What is Investment ?	U
2		What is Inflation ?	MD
3		Name the physical assets which can be considered while investing.	U
4		What is the minimum investment period for bank Fixed Deposit account?	H
5		__________________ can be considered as a financial intermediary in the investment business that collects funds from the public and invest on behalf of the investors.	C
C		**Short Answer Questions SA (2/3 Marks)**	**Level**
1		List down the factors that determine the interest rate.	U
2		What is the difference between a bank and a depository?	MD
3		Explain Dematerialization.	H
4		Explain any one short term and long-term financial investment option.	U
5		What is a bond? Why is it called a kind of debt instrument?	MD
D		**Long Answer Questions LSA (5 Marks)**	**Level**

1		Explain Mutual Funds as an investment option. Also, discuss its benefits.	MD
2		“We need to invest wisely to meet the cost of Inflation.” Explain with an example.	C
3		Explain any 3 long term financial option available for investment.	U
4		List the twelve important steps of investing.	MD
5		Discuss the various short-term financial options available for investment.	H

CHAPTER2: SECURITIES

Introduction:

SECURITIES: Savings are linked to investments by a variety of intermediaries, through a range of financial products, called ‘Securities’.

Securities Markets is a place where buyers and sellers of securities can enter into transactions to purchase and sell shares, bonds, debentures etc.

IMPORTANCE OF STOCK MARKETS/ SECURITIES MARKETS

1. It performs an important role of enabling corporates, entrepreneurs to raise resources (money/ capita) for their companies and business ventures through public issues (of shares/ debentures etc).
2. Transfer of resources from those having idle resources (investors) to others who have a need for them (corporates) is most efficiently achieved through the securities market.
3. Securities markets provide channels for reallocation of savings to investments and entrepreneurship.

WHICH ARE THE SECURITIES ONE CAN INVEST IN?

+ Shares
+ Government Securities
+ Derivative products
+ Units of Mutual Funds etc.

are some of the securities investors in the securities market can invest in.

Give reason why Securities Market need Regulators?

1. The absence of conditions of perfect competition (market conditions where demand and supply side balances automatically) in the securities market makes the role of the Regulator extremely important.
2. The regulator ensures that the market participants (investors, brokers & corporates) behave in a desired manner so that securities market continues to be a major source of finance for corporate and government and the interest of investors are protected.

Who regulates the Securities Market?

The responsibility for regulating the securities market is shared by

1. Department of Economic Affairs (DEA),
2. Department of Company Affairs (DCA),
3. Reserve Bank of India (RBI) and
4. Securities and Exchange Board of India (SEBI).

What is SEBI and what is its role?

+ The Securities and Exchange Board of India (SEBI) is the regulatory authority in India established under Section 3 of SEBI Act, 1992. SEBI Act, 1992 provides for establishment of Securities and Exchange Board of India (SEBI) with statutory powers.
+ **Objectives of SEBI**

(a) protecting the interests of investors in securities
(b) promoting the development of the securities market and
(c) regulating the securities market.

SCOPE OF SEBI- Its regulatory jurisdiction extends over corporates (listed companies) in the issuance of capital and transfer of securities, in addition to all intermediaries and persons associated with securities market.

Functions of SEBI

SEBI has been obligated to perform the aforesaid functions by such measures as it thinks fit. In particular, it has powers for: Regulating the business in stock exchanges and any other securities markets.

1. Registering and regulating the working of stock-brokers, sub-brokers etc.
2. Promoting and regulating self-regulatory organizations.
3. Prohibiting fraudulent and unfair trade practices
4. Calling for information from, undertaking inspection, conducting inquiries and audits of the stock exchanges, intermediaries, self-regulatory organizations, mutual funds and other persons associated with the securities market.

Who are the participants in the Securities Market?

The securities market essentially has three categories of participants, namely,

1. the issuers of securities,
2. investors in securities and
3. the intermediaries, such as merchant bankers, brokers etc.

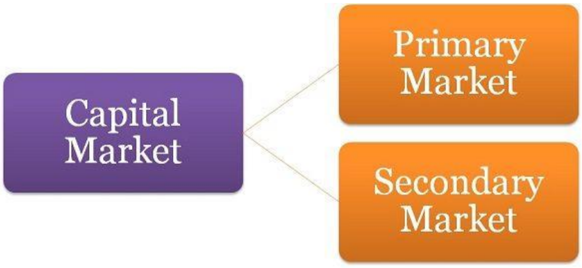
While the corporate and government raise resources from the securities market to meet their obligations, it is households that invest their savings in the securities market.

Is it necessary to transact through an intermediary?

+ It is advisable to conduct transactions through an intermediary. For example, you need to transact through a trading member (stock-broker) of a stock exchange if you intend to buy or sell any security on stock exchanges.
+ You need to maintain an account with a depository if you intend to hold securities in demat form.
+ You need to deposit money with a banker to an issue if you are subscribing to public issues. You get guidance if you are transacting through an intermediary.

Caution: Choose a SEBI registered intermediary, as he is accountable for its activities. The list of registered intermediaries is available with exchanges, industry associations etc.

What are the segments of Securities Market?



Basis	Primary market	Secondary market
Meaning	It means the market where corporate sector, government and public bodies issue securities to raise funds from the public.	It means the market where listed shares, debentures and other securities are traded for investment and speculative purposes.
Nature of securities dealt in	In primary market, new securities are traded.	In secondary market, second hand securities are traded.
Alternate name	It is also known as 'new issues market'.	It is also known as 'stock exchange'.
Capital formation	It promotes capital formation directly as funds flow directly from savers to investors.	It promotes capital formation indirectly.
Pricing	Prices are determined and decided by the management of the company.	Prices are determined by demand and supply for the security.

MUTIPLE CHOICE QUESTIONS

1.	Which of the following is not responsible for regulating the securities market			
	a	Department of External Affairs	**b**	Department of Company Affairs
	c	Reserve Bank of India	**d**	Securities and Exchange Board of India
2.	It is a place where buyers and sellers of securities can enter into transactions to purchase and sell shares, bonds, debentures etc. Identify.			
	a	Primary market	**b**	Resource market
	c	Securities Markets	**d**	Secondary market
3.	Which are the securities one can invest in?			
	a	Gold	**b**	Real estate
	c	Derivatives products	**d**	All of the above
4.	Who amongst the following not a participant in the Securities Market?			
	a	investor	**b**	government
	c	issuers	**d**	brokers
5.	Identify the function of SEBI from the following.			
	a.	Registering and regulating the working of companies.	**b.**	conducting inquiries and audits of the stock exchanges,
	c.	Registering membership for SEBI	**d.**	All of the above

B		**Very Short Answer Questions VSA (1 Mark)**	**Level**
1		Define Securities.	U
2		Describe the role of securities market in an economy.	MD
3		List the participants of securities market.	U

4		Name the two segments of securities market.	H
5		Why is it required to regulate the stock market.	C
C		**Short Answer Questions SA (2/ 3Marks)**	**Level**
1		Describe how would you trade on Stock exchange through an intermediary/ broker.	U
2		State the objectives of SEBI.	MD
3		Compare Primary market and Security market.	H
4		Who regulates the Securities Market?	U
5		State the powers of SEBI.	MD
D		**Long Answer Questions LSA (5 Marks)**	**Level**
1		Discuss the role and functions of SEBI in India.	MD
2		What are securities markets? Discuss its role and importance in a country.	U
3		Draw a comparison between primary and secondary market of stock exchange.	H

CHAPTER 3: PRIMARY MARKET

NOTES

Primary market: Primary market is where new securities are issued.
What is the role of the 'Primary Market'?

- ✓ Government as well as corporates can raise equity or debt securities.
- ✓ securities may be issued at face value, or at a discount/premium

Face Value of a share (also called issue at par value or simply par)/debenture
Shares- original cost of the stock shown on the certificate.
Bonds- the amount paid to the holder at maturity.

When a security is sold above its face value, it is said to be issued **at a Premium** and if it is sold at less than its face value, then it is said to be **issued at a Discount**.

Issue of Shares/ Why do companies need to issue shares to the public?

- Most companies start privately by their promoter(s). However, the promoters' capital and the borrowings from banks and financial institutions may not be sufficient for setting up or running the business over a long term.
- So, companies invite the public to contribute towards the equity and issue shares to individual investors.
- The way to invite share capital from the public is through a 'Public Issue'.

What is Public Issue? / Public issue: a public issue is an offer to the public to subscribe to the share capital of a company.

While public and rights issues involve a detailed procedure, private placements or preferential issues are relatively simpler.

- ✓ **Initial Public Offering** (IPO) is when an unlisted company makes either a fresh issue of securities or an offer for sale of its existing securities or both for the first time to the public. This paves way for listing and trading of the issuer's securities.
- ✓ A follow-on public offering (**Further Issue**) is when **an already listed company** makes either a fresh issue of securities to the public or an offer for sale to the public, through an offer document.

Rights Issue-

1. It is when a listed company which proposes to issue fresh securities to its existing shareholders as on a record date.
2. The rights are normally offered in a particular ratio to the number of securities held prior to the issue.
3. This route is best suited for companies who would like to raise capital without diluting stake of its existing shareholders.

Preferential issue:

- It is an issue of shares or of convertible securities (eg: convertible preference shares) by listed companies **to a select group of persons** under Section 81 of the Companies Act, 1956 which is neither a rights issue nor a public issue.
- This is a faster way for a company to raise equity capital.

Issue price: The price at which a company's shares are offered initially in the primary market is called as the Issue price.

Market Capitalisation: It is calculated by multiplying its current share price (market price) by the number of shares in issue is called as market capitalization.
market price of a share Company x the number of shares in issue million shares in issue.

What is the difference between public issue and private placement?

PUBLIC ISSUE	PRIVATE PLACEMENT
When the issue is open to the general public and any other investor at large.	The issue is made to a select set of people, it is called private placement. This means an issue can be privately placed where an allotment is made to less than 50 persons.

- ✓ The sale of securities can be either through **book building or through normal public issue.**
- ✓ The company and merchant banker are however required to give full disclosures of the parameters which they had considered while deciding the issue price.
- ✓ Two types of issue:

1. **fixed price**: When company and Lead Merchant Banker fix a price.
2. **Price discovery process**: The company and the Lead Manager (LM) stipulate a **floor price or a price band** and leave it to market forces to determine the final price.

What does 'price discovery through Book Building Process' mean?
Book Building is basically a process used in IPOs for efficient price discovery. It is a mechanism where,

1. during the period for which the IPO is open,
2. bids are collected from investors at various prices, which are above or equal to the floor price.
3. The offer price is determined after the bid closing date.

What is the main difference between offer of shares through book building and offer of shares through normal public issue?

NORMAL PUBLIC ISSUE	BOOK BUILDING PROCESS
In case of offer of shares through normal public issue, price is known in advance to investor.	Price at which securities will be allotted is not known in case of offer of shares through Book Building
Investors have to apply for shares at the price set.	Investors bid for shares at the floor price or above and after the closure of the book building process the price is determined for allotment of shares.
In case of the public issue the demand is known at the close of the issue.	In case of Book Building, the demand can be known everyday as the book is being built.

Cut-Off Price vs floor price

- In a Book building issue, the issuer is required to indicate either the price band or a floor price in the prospectus.
- The actual discovered issue price can be any price in the price band or any price above the floor price. This issue price is called "Cut-Off Price".
- The issuer and lead manager decides this after considering the book and the investors' appetite for the stock.

- Floor price is the minimum price at which bids can be made.

What is a Price Band in a book-built IPO?

- The prospectus may contain either the floor price for the securities or a price band within which the investors can bid.
- The spread between the floor and the cap of the price band shall not be more than 20%.

Can the price band be revised?

- The price band can have a revision and such a revision in the price band shall be widely disseminated by informing the stock exchanges, by issuing a press release and also indicating the change on the relevant website and the terminals of the trading members participating in the book building process.
- The bidding period shall be extended for a further period of three days, but the total bidding period shall not exceed ten days.

- ✓ It is up to the company to decide on the price or the price band, in consultation with Merchant Bankers.
- ✓ During book building a bid should remain open for 3days.
- ✓ Allotment should be completed with 8 days from the issue close date.
- ✓ Within next 2 working days details should show in demat account or in case of refund, dispatch order must be released. So an investor should know in about 11 days' time from the closure of issue, whether shares are allotted to him or not.
- ✓ It takes 12 working days to list a company on a stock exchange after the closure of the book built issue.
- ✓ NSE bidding system called NEAT IPO enables trading members (stock brokers) to enter bids directly from their offices through a sophisticated telecommunication network.

Offer document	Draft offer document	Prospectus	Red herring Prospectus	Abridged prospectus
It has all the relevant information to help an investor to make his/her investment decision.	The draft offer documents are filed with SEBI, atleast 30 days prior to the registration of prospectus with ROC (registrar of companies) for SEBI to specify changes	'Prospectus' is a document with information regarding the size of the issue, the current status of the company, its equity capital, its current and past performance, the promoters, the project, cost of the project, means of financing, product and capacity etc. It also contains lot of mandatory information regarding underwriting and statutory compliances.	It is filed with the registrar before the issue and hence does not have any information such as number of shares issued or issue price etc.	It is a shorter version of the Prospectus and contains all the salient features of a Prospectus.
It means Prospectus in case of a public issue or offer for sale and Letter of Offer in case of a rights issue	Its purpose is to fetch reviews of SEBI and make changes thereafter.			It accompanies the application form of public issues.

- ✓ These documents are prepared by the merchant bankers.
- ✓ 'Lock-in' indicates a freeze on the sale of shares for a certain period of time.

Listing of securities:

- Listing means admission of securities of a company for trading on a stock exchange through a formal agreement (between company and the stock exchange).
- It provides liquidity and marketability to securities,
- Also, helps company to have effective control and supervision on trading of its shares/ securities.

Role of SEBI (in the issue process at primary market)

1. Any company planning to come up with public issue or any company planning to come with rights issue of more than 50 lakhs must get Sebi approval.
2. For this the company must prepare Draft offer document and submit it to Sebi for their review. Sebi after reviewing would give its observations.
3. Company must come up with its issue within 3 months of this approval by Sebi.
4. Sebi ensures that the required disclosures are made by the company in the draft offer document. Sebi DOES NOT recommend any issue or validate what is mentioned in the disclosures.

Foreign Capital Issue

Indian companies can raise money from foreign countries in 2 ways

1. foreign currency convertible bonds more commonly known as 'Euro'
2. issue of ordinary shares through depository receipts- GDR/ ADR.

ADR/ ADS: An American Depositary Share ("ADS") is a U.S. dollar denominated form of equity ownership in a non-U.S. company. ADR represent a bunch of shares issued by an Indian company which wants to raise capital from U.S. The holders of ADR are entitled to dividends as when declared by the Indian company. But they are not entitled to vote. Also the custodian bank would hold the securities with it and issue depository receipts to these investors. These ADRs can be traded on the US stock exchange like any other US company share.

A. MUTIPLE CHOICE QUESTIONS:

1 What is not true for primary market?
a) companies issue shares
b) Government issue Government Securities
c) Companies and government securities can be traded
d) All of the above

2. _________________ is when a listed company which proposes to issue fresh securities to its existing shareholders as on a record date. .
a) Rights Issue
b) Preferential issue
c) Private placement
d) listed issue

3. The market value of a quoted company, which is calculated by multiplying its current share price (market price) by the number of shares in issue is called as _____________.
a) Offer on sale
b) market capitalisation
c) issue capital
d) None of the above

4. Who decides the issue price of a share?
a) Sebi
b) Company through fix price method

c) Lead manager in the investment company through book building process
d) Company and lead manager through book building process.

5.The issue price is also called_______
a) market price
b) listed price
c) issue price
d) traded price

B		Very Short Answer Questions VSA (1 Mark)	Level
1		What is Primary market?	U
2		What is offer of sale of securities?	MD
3		What is ADR/ADS?	U
4		Name the two ways of deciding the issue price of any share.	H
5		When is draft offer document submitted to SEBI for their review?	C
C		**Short Answer Questions SA (2/3 Marks)**	**Level**
1		Explain the advantages of Book Building through the NSE system.	U
2		What are the SEBI guidelines on allotment of shares?	MD
3		What is market capitalization? What is its significance?	H
4		Differentiate between preferential issue and rights issue.	U
5		Differentiate between IPO and FPO.	MD
D		**Long Answer Questions LSA (5 Marks)**	**Level**
1		Explain the Book Building process of price fixation of a share.	MD
2		What is the role of SEBI in an new issue / fresh issue of shares?	C
3		Explain ADR as a Foreign Capital Issuance security.	U
4		What is listing of securities? What is its significance? What is delisting of securities?	MD

UNIT 4: SECONDARY MARKET

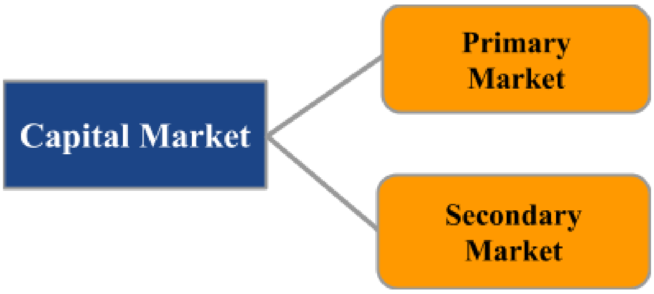
SYNOPSIS:

- Secondary market is where securities are traded after being **initially** offered to public in the Primary market and **listed** on the stock exchange.
- comprises of equity markets and the debt markets

Role of secondary market?

- Provides an efficient platform for trading in securities. (for the investor)
- Facilitates value enhancing control activities for management of company. (for the company)
- Enabling implementation of incentive-based management contracts. (for the company)

Difference between primary and secondary market?



Primary Market	Secondary 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.

Role of stock exchange in buying and selling shares?
Or
How does buying and selling happens on Stock Exchange?

- Buyers and sellers do not meet at any physical location to trade.
- Investors do screen based trading through NSE's electronic platform called NEAT.
- The stock exchanges in India are under the overall supervision of the regulatory authority, the Securities and Exchange Board of India (SEBI).

Demutualisation of stock exchanges?
It means dividing the legal structure of an exchange in different sets having ownership, management, and trading rights with different groups of people. Earlier these three were merged.

How is demutualised exchange different from a mutual exchange?

MUTUALIZED STOCK EXCHANGED	DEMUTUALIZED EXCHANGE
In mutual exchange three functions of ownership, management and trading concentrated into a single group.	A demutualised exchange, on the other hand, has all these three functions clearly segregated, i.e. The ownership, management and trading are in separate hands.

Open Outcry system

- **Meaning**: Under the open outcry system, brokers assemble at a central location usually the exchange trading ring, and trade with each other.
- **Disadvantages** of Open Outcry system:

1. time consuming,
2. inefficient and
3. imposed limits on trading volumes and trading hours.

What is screen-based trading?

- Under this system, fully automated screen-based trading system (SBTS), a trading member can punch /enter in the computer, the number of securities and the prices at which he would like to transact.
- The transaction is executed as soon as it finds a matching sell or buy order from a counter party.

Benefits of trading through an exchange:

1. Investors get the best prices prevailing at the time in the market.
2. Any counterparty risk is assumed by the clearing corporation.
3. Get access to investor grievance and redressal mechanism of stock exchanges.
4. Get protection upto a prescribed limit, from the Investor Protection Fund etc.

NEAT - National Exchange for Automated Trading.

- It is a state-of-the-art client server-based application.
- It has uptime record of 99.7%
- For all trades, uniform response time of less than one second.

How to place orders with the broker?

You may go to the broker's office or place / phone / through Internet.

How does an investor get access to internet-based trading facility?

- There are many brokers of the NSE who provide internet-based trading facility to their clients.
- It enables an investor to buy/sell securities through internet.
- Investors need to get in touch with an NSE broker providing this service to avail of internet-based trading facility.

Contract note.

- Confirmation of trades done on a particular day on behalf of client by a trading member.
- It imposes a legally enforceable relationship between the client and the trading member.
- should be in the prescribed form, contain the details of trades, stamped with requisite value and duly signed by the authorized signatory.
- Contract notes are kept in duplicate, the trading member and the client should keep one copy each.

What details are required to be mentioned on contract note issued by the stockbroker?

- Name address and SEBI registration number of member broker.
- Name of partner
- Dealing office address
- Client name
- Trade number and time
- Order number and order time
- Quantity and kind of securities
- Service tax rates
- Brokerage

What is the maximum brokerage that a broker can charge?

It should not be more than 2.5 % of the value mentioned in the respective purchase or sale note.

Importance of contract note

- It legally enforces relationship between the client and the trading member with respect to purchase/sale of securities.
- It also helps to settle disputes/claims between the investor and the trading member.
- It is a prerequisite for filing a complaint or arbitration proceeding against the trading member in case of a dispute.

How to know if the broker or sub broker is registered?
A broker's registration number begins with letter 'INB' and that of a sub broker with the letter 'INS'.

What precautions one must take before investing in stock markets?
- Make sure your broker is registered with SEBI.
- Receive contract note for all your transactions your broker.
- Investors should always know the risk.
- Do not be misled by market rumours.
- Spend some time checking out about the company before investing.
- Do not be attracted by announcement of fantastic results.
- Do your own research before investing in any stock.
- Investing in very low-priced stock does not guarantee high returns.
- Be cautious about stocks which show a sudden spurt in price or trading activity

Products in the Secondary Markets
The main financial products dealt in the Secondary market can be divided broadly into Shares and Bonds:

Shares:

- **Equity Shares**: An ordinary share, represents the form of fractional ownership in a business venture.
- **Rights Issue/ Rights Shares**: The issue of new securities to existing shareholders at a ratio to those already held.
- **Bonus Shares**: Shares issued by the companies to their shareholders free of cost based on the number of shares the shareholder owns.
- **Preference shares:**
    1. Owners of these kind of shares are entitled to a fixed dividend.
    2. They also enjoy priority over the equity shareholders in payment of surplus.
    3. But in the event of liquidation, their claims rank below the claims of the company's creditors, bondholders/debenture holders.
- **Cumulative Preference Shares**: A type of preference shares on which dividend accumulates if remained unpaid.
- **Cumulative Convertible Preference Shares:** A type of preference shares where the dividend payable on the same accumulates, if not paid. After a specified date, these shares will be converted into equity capital of the company.

Bond: It is a negotiable certificate evidencing indebtedness. A bond investor lends money to the issuer and in exchange, the issuer promises to repay the loan amount on a specified maturity date.

- Zero coupon bonds are **bonds that do not pay interest during the life of the bonds**. Instead, investors buy zero coupon bonds at a deep discount from their face value, which is the amount the investor will receive when the bond matures.
- Convertible Bond: A bond giving the investor the option to convert the bond into equity at a fixed conversion price.
- Treasury Bills: Short-term (up to one year) bearer discount security issued by government as a means of financing their cash requirements.

Why should one invest in equities in particular?
- They are most rewarding when compared to other investment options for a long term.

- Equities are high risk investments. Though higher the risk, higher the potential returns,
- Before investing we need study equity markets and stocks in which investments are being made carefully.

Which are the factors that influence the price of a stock?
Broadly there are two factors: (1) stock specific and (2) market specific.

- **The stock-specific** factor (related to company) is related to people's expectations about the company, its future earnings capacity, financial health and management, level of technology and marketing skills.
- **The market specific** factor (related to stock market) is influenced by the investor's sentiment towards the stock market. This factor depends on the environment rather than the performance of any company. The effect of market-specific factor is generally short-term. Despite ups and downs, price of a stock in the long run gets stabilized based on the stock specific factors.

What is meant by the terms Growth Stock/Value Stock?

- **Growth Stocks:** Companies whose potential for growth in sales and earnings are excellent, are growing faster than other companies in the market are called the Growth Stocks. These companies usually pay little or no dividends and instead prefer to reinvest their profits in their business for further expansions.
- **Value Stocks**: Value investors look to buy stocks that are undervalued, and then hold those stocks until the rest of the market realizes the real value of the company's assets.

What is Bid and Ask price?
- The 'Bid' is the buyer's price**.** It is this price that you need to know when you have to sell a stock. Bid is the rate/price at which there is a ready buyer for the stock, which you intend to sell.
- The 'Ask' (or offer) is what you need to know when you're buying i.e. this is the rate/ price at which there is seller ready to sell his stock. The seller will sell his stock if he gets the quoted "Ask' price.

What is a Portfolio?
A Portfolio is a combination of different investment assets mixed and matched for the purpose of achieving an investor's goal. Items that are considered as a part of portfolio include shares, debentures, bonds, mutual fund.

What is Diversification?
It is a risk management technique that mixes a wide variety of investments within a portfolio. It is designed to minimize the impact of any one security on overall portfolio performance.

What are the advantages of having a diversified portfolio?

- If you spread your investments across various types of assets and markets, you'll reduce the risk of your entire portfolio getting affected by the adverse returns of any single asset class.
- Diversification is possibly the best way to reduce the risk in a portfolio.
- The simple practice of "not putting all your eggs in one basket." yields the best result.

What are the features of debt instruments?
Debt instrument has three features: Maturity, coupon and principal.

Maturity:
- It is the date on which the borrower has agreed to repay the principal
- Maturity of a bond refers to the date, on which the bond matures
- The term to maturity of a bond can be calculated on any date, as the distance between such a date and the date of maturity which is also called as the term or the tenure of the bond.

Coupon:

- The periodic interest payments made by the borrower is termed as coupon.
- Coupon rate is the rate at which interest is paid and is represented as a percentage of the par value of a bond.

Principal:

- Principal is the amount that has been borrowed and is also called the par value or face value of the bond.
- The coupon is the product of the principal and the coupon rate.

What are the Segments in the Debt Market in India?

- There are three main segments in the debt markets in India, viz., (1) Government Securities, (2) Public Sector Units (PSU) bonds, and (3) Corporate securities.
- Government Securities comprises the Centre, State and State-sponsored securities. In the recent past, local bodies such as municipalities have also begun to tap the debt markets for funds
- Some of the PSU bonds are tax free.
- Corporate bond markets comprise of commercial paper and bonds. These bonds typically are structured to suit the requirements of investors and the issuing corporate.

Who are the Participants in the Debt Market?

- Debt Market is predominantly a wholesale market, with dominant institutional investor participation.
- The investors in the debt markets are mainly banks, financial institutions, mutual funds, provident funds, insurance companies and corporates.

Are bonds rated for their credit quality?

- Most Bond/Debenture issues are rated by specialised credit rating agencies.
- Credit rating agencies in India are CRISIL, CARE, ICRA and Fitch.
- The yield on a bond varies inversely with its credit (safety) rating. The safer the instrument, the lower is the rate of interest offered.

How can one acquire securities in the debt market?

Through issues made by the government/corporates in the primary market

or can purchase the same from the secondary market.

A. MUTIPLE CHOICE QUESTIONS:

1 Name the issue of shares or of convertible securities by listed companies to a select group of persons under Section 81 of the Companies Act, 1956.

a. Rights Issue

b. A Preferential issue

c. Initial Public Offering

d. A follow on public offering

2. What is meant by Secondary market?

a. Market for newly issue securities

b. Market for existed securities

c. Market for unlisted securities

d. Market of delisted securities

3. NSE is the first exchange in the world to use satellite communication technology for trading. Name Its trading system.

a. SBTS (Screen based trading system)

b. NEAT (National Exchange for automated Trading)

c. BOLT (BSE Online Trading)

d. ODIN (Open Dealer Integrated Network)

4. What is a confirmation bill of trades done on a particular day on behalf of the client by a trading member?

a. Purchase / Sale Note

b. Contract Note

c. Market price Bill

d. Cash memo

5. Which of the following is not a type of shares?

a. Right issue

b. Bonus

c. Bonds

d. Preference shares

6. Write the full form of ISIN.

a International Securities Index Number

b International Stock Index Number

c Indian Stock Index Number

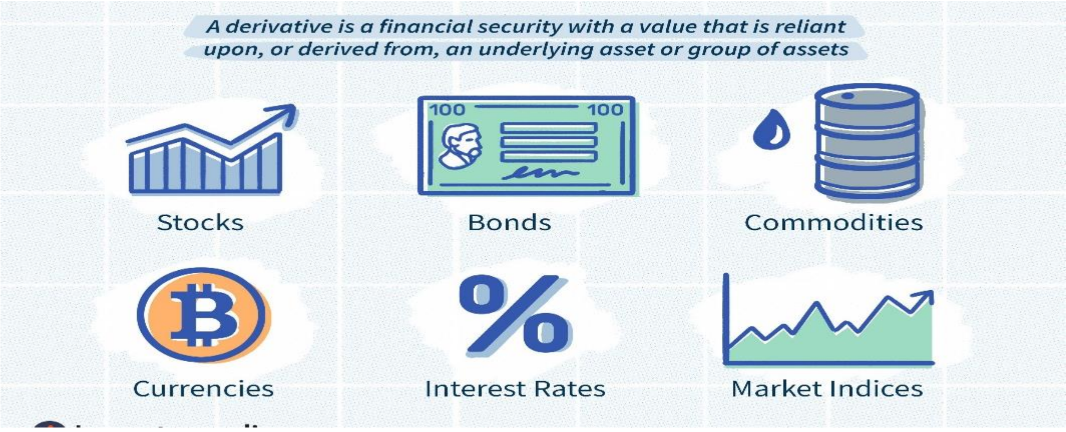
d Indian Securities Index Number

B		Very Short Answer Questions VSA (1 Mark)	Level
1		What is Secondary market?	U
2		How do you know if your Broker or Sub Broker is registered with SEBI?	MD

3		Define Equity Shares.	U
4		Give the definition of 'Coupon Rate'.	H
5		What is meant by 'Bid Price'?	C
6		Name the term that refers to 'the legal structure of an exchange whereby the ownership, the management and the trading rights at the exchange are segregated from one another'.	
7.		In which direction do the Bond Price and Interest Rate move?	
C		**Short Answer Questions SA (2/3 Marks)**	**Level**
1		State the role of Stock Exchange.	U
2		Give the meaning of a 'Broker'.	MD
3		List any six functions of 'Secondary market'.	H
4		What is Screen Based Trading System? Write its advantages.	U
5		What is the difference between Equity shareholders and Preferential shareholders?	MD
D		**Long Answer Questions LSA (5 Marks)**	**Level**
1		What is a Contract Note? What details are required to be mentioned on the contract note issued by the stockbroker?	MD
2		What precautions must one take before investing in the stock markets?	C
3		Define the Following: a. Bid and Ask Price b. Bonus Shares c. SBTS d. Zero Coupon Bonds e. Treasury Bill	U
4		Explain the different types of shares available in the Secondary Market.	MD
5		What is debt instruments? Write its features.	

CHAPTER 5: DERIVATIVES

Introduction:



TYPES OF DERIVATIVES

- **Forwards:** A forward contract is a customized contract between two entities, where settlement takes place on a specific date in the future at today's pre-agreed price.
- **Futures: Its special type of forward fund.** A futures contract is an agreement between two parties to buy or sell an asset at a certain time in the future at a certain price.
- **Options:** An Option is a contract which gives the right, but not an obligation, to buy or sell the underlying at a stated date and at a stated price.

  Options are of two types - Calls and Puts options.

- **'Calls'** give the buyer the right but not the obligation to buy a given quantity of the underlying asset, at a given price on or before a given future date.
- **'Puts'** give the buyer the right, but not the obligation to sell a given quantity of underlying asset at a given price on or before a given future date.
- **Warrants:** Longer dated options are called Warrants and are generally traded over the counter.
- **Option Premium:** The premium is the price for acquiring the right to buy or sell.
  - It is price paid by the option buyer to the option seller for acquiring the right to buy or sell.
  - Option premiums are always paid upfront (Upfront payments are a type of transaction in which a customer pays for part or entire service before completed.)
- **What is meant by 'Commodity'?**
  -FCRA Forward Contracts (Regulation) Act, 1952 defines "goods" as "every kind of movable property other than actionable claims, money and securities".
  -All goods and products of agricultural (including plantation), mineral and fossil origin are allowed for futures trading.
- **What is 'Commodity Exchange'?**
  -A Commodity Exchange is an association, or a company of any other body corporate organizing futures trading in commodities.

-It includes any organized marketplace where trade is routed through one mechanism, allowing effective competition among buyers and among sellers

- **Commodity Derivatives Market:** Commodity derivatives market trade deals with commodities which includes agricultural commodity like wheat, soybeans, cotton, etc. or precious metals like gold, silver, etc.
- **What is the difference between Commodity and Financial derivatives?**

Financial derivatives contracts are cash settled.	-Commodities are bulky and need special facility for storage. Due to the bulky nature of the underlying assets, physical settlement in commodity derivatives creates the need for warehousing.
The concept of varying quality of asset does not really exist as far as financial underlyings are concerned.	The quality of the asset underlying a contract can vary in case of commodity.
Underlying asset is a financial asset	Underlying asset is a commodity.
There is no need of warehouse	Due to the bulky nature of the underlying assets, physical settlement in commodity derivatives creates the need for warehousing.

A. MUTIPLE CHOICE QUESTIONS:

1. _______________ give the buyer the right, but not the obligation to sell a given quantity at a given price on or before a given future date

a) Calls

b) Puts

c) Warrants

d) Futures

2. What are longer dated options called?

a) Forward

b) Warrants

c) Calls

d) Puts

3.. Commodity Exchange allows effective competition among ___________ .

a) Traders and dealers

b) Wholesalers and retailers

c) Buyers and sellers

d) All of them

4. Which one is NOT included in Commodity Derivative Market.

a) Wheat

b) Gold

c) Silver

d) Shares

5. How are most of the contracts in financial derivatives settled?

a) Settled by Cash

b) Settled by Card

c) Settled by exchanging commodities

d) None of the above

B		**Very Short Answer Questions VSA (1 Mark)**	**Level**
1		What are types of derivatives?	U
2		Currently where are NSE futures and options are traded?	MD
3		What is premium?	U
4		Name the two types of Options.	H
5		How long are most of the options traded on Exchange ?	C
C		**Short Answer Questions SA (2/ 3Marks)**	**Level**
1		Explain Options and its types.	U
2		Discuss the difference between Commodity and Financial Derivatives.	MD
3		Elaborate on the term 'Commodity' as defined in Forward Contracts (Regulation) Act, 1952.	H
4.		How can Commodity Exchange allow effective competition among buyers and among sellers?	U
5.		Analyze forward and future contract.	H
D		**Long Answer Questions LSA (5 Marks)**	**Level**
1		What are the types of Derivatives? Explain each in detail.	MD

CHAPTER 5: DEPOSITORY

Introduction

How is a depository similar to a bank?

BANK	DEPOSITORY
Holds funds in an account.	Hold securities in an account
Transfers funds between accounts on the instruction of the account holder.	Transfers securities between accounts on the instruction of the account holder
Facilitates transfers without having to handle money	Facilitates transfers of ownership without having to handle securities.
Facilitates safekeeping of money	Facilitates safekeeping of shares

- There are two depositories in India which provide dematerialization of securities. The National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL).

Benefits of participation in a depository

- Immediate transfer of securities
- No stamp duty on transfer of securities
- Elimination of risks associated with physical certificates such as bad delivery, fake securities, etc.
- Reduction in paperwork involved in transfer of securities
- Reduction in transaction cost
- Ease of nomination facility
- Change in address
- Transmission of securities is done directly by the DP eliminating correspondence with companies
- Convenient method of consolidation of folios

Depository Participant (DP)

- The Depository provides its services to investors through its agents called depository participants (DPs).
- These agents are appointed by the depository with the approval of SEBI.
- Banks, Financial Institutions and SEBI registered trading members can become DPs.

ISIN: (International Securities Identification Number) is a unique identification number for a security

Custodian: A Custodian is basically an organization, which helps register and safeguard the securities of its clients.

Besides safeguarding securities, a custodian also keeps track of corporate actions on behalf of its clients.

- Maintaining a client's securities account
- Collecting the benefits or rights accruing to the client in respect of securities
- Keeping the client informed of the actions taken or to be taken by the issue of securities

How can one dematerialize securities?

- One has to fill in a Demat Request Form (DRF) which is available with the DP and submit the same along with physical certificates.
- Separate DRF must be filled for each ISIN number.
- Dematerialised shares do not have any distinctive numbers, which means that all the holdings of a particular security will be identical and interchangeable.

Converting electronic holdings into Physical certificates?

- The process is called Rematerialization.
- To get back your securities in the physical form one must fill in the Remat Request Form (RRF) and request your DP for rematerialization.
- We can dematerialize and hold debt instruments, mutual fund units, government securities in a single Demat account.

A. MUTIPLE CHOICE QUESTIONS:

1. With what can depository be compared to ?

a) Bank

b) Company

c) Stock Exchange

d) None of the above.

2. Which of the following is Not a benefit for participating in a depository?

a) No stamp duty on transfer of securities

b) Ease of nomination facility

c) Delayed transfer of securities

d) Reduction in transaction cost

3. Transmission of securities is done directly by the________________

a) Traders and dealers

b) Depository Participant

c) Buyers and sellers

d) Government

4.What is the name of an organization, which helps register and safeguard the securities of its clients.

a) Stock Exchange

b) Bank

c) SEBI

d) Custodian

5. What is the process of converting electronic holding into physical certificate called?

a) Depository Participant

b) Dematerialisation

c) Rematerialisation.

d) Custodian

B		**Very Short Answer Questions VSA (1 Mark)**	**Level**
1		How many depositories are there in India ?	U
2		What is the risk associated with the physical certificate?	MD
3		What is the full form of DP ?	U
4		What is the full form of ISIN?	H
5		Who appoints DP?	C
C		**Short Answer Questions SA (2/ 3Marks)**	**Level**
1		How can one convert physical holding into electronic holding?	U
2		Besides safeguarding securities what are the other functions of a Custodian?	MD
3		Name the two depositories in India ?	H
4.		Who is a Depository Participant	U
5.		Discuss the similarities between Bank and Depository	H
D		**Long Answer Questions LSA (5 Marks)**	**Level**
1		What are the benefits of participation in a depository?	MD
2		What is Custodian? Discuss Dematerialisation and Rematerialisation process.	U

CHAPTER 7: MUTUAL F`UNDS

Regulatory Body for Mutual Funds: Securities Exchange Board of India (SEBI)

Benefits of investing in Mutual Funds:

1. **Small investments:** Even with small investments the investor can get benefit of returns by a portfolio spread across a wide spectrum of companies.
2. **Professional Fund Management:** Professionals having considerable expertise, experience and resources manage the pool of money collected by a mutual fund. They thoroughly analyse the markets and economy to pick good investment opportunities.
3. **Spreading Risk**: The risk is diversified in a mutual fund as the manager will spread the risk by investing a number of sound stocks or bonds which is not possible by single investors' money.
4. **Transparency**: Mutual Funds also provide complete portfolio disclosure of the investments made by various schemes and also the proportion invested in each asset type. This makes this form of investments quite reliable.
5. **Choice:** The large amount of Mutual Funds offers the investor a wide variety to choose from. An investor can pick up a scheme depending upon his risk/return profile.
6. **Regulations:** All the mutual funds are registered with SEBI and they function within the provisions of strict regulation designed to protect the interests of the investor.

NAV (NET ASSET VALUE):

1. It is the cumulative market value of the assets of the fund net of its liabilities.
2. NAV= net value of assets/ the number of units outstanding
3. Buying and selling of the units of the funds is done based on NAV-related prices.
4. The NAV of an open-end scheme is disclosed on a daily basis and the NAV of a close end scheme should be disclosed at least on a weekly basis.

Risks involved in investing in Mutual Funds:

1. Returns of mutual funds are expected not assured, so there an element of risk.
2. Mutual fund derives its value from the performance of the company, if the company defaults any payment related to bonds/ debentures, it affects the fund.
3. Other factors could be – unfavourable government policy

Different types of risks mutual funds are exposed too are:

Market risk: When the stock or bond markets fall due to some economic factors, the value of stock or bond holdings in the fund's portfolio can drop, thereby impacting the fund performance.

Non-market risk: Bad news about an individual company can pull down its stock price, which can negatively affect fund holdings. This risk can be reduced by having a diversified portfolio that consists of a wide variety of stocks drawn from different industries.

Interest rate risk: Bond prices and interest rates move in opposite directions. When interest rates rise, bond prices fall and this decline in underlying securities affects the fund negatively.

Credit risk: Bonds are debt obligations. So, when the funds invest in corporate bonds, they run the risk of the corporate defaulting on their interest and principal payment obligations which can lead to a fall in the value of the bond causing the NAV of the fund to fall.

Different types of Mutual funds:

Mutual funds are classified in the following manner:

(a) On the basis **of Objective**

Equity Funds/ Growth Funds:
Funds that **invest in equity shares are called equity funds**.
Objective- capital appreciation of the investment over the medium to long-term.
Suitability for- investors who are seeking capital appreciation.
There are **different types of equity funds** such as

1. Diversified funds
2. Sector specific funds
3. Index based funds.

Diversified Funds: These funds invest in companies spread across sectors. These funds are generally meant for **risk-averse investors** who want a **diversified portfolio** across sectors.
Sector Funds: These funds invest primarily in equity shares of companies in a **particular business sector or industry**. These funds are targeted at investors who feel that a particular sector/ industry is going to develop fast.

Index Funds: These funds invest in the same pattern as popular market indices like S&P CNX Nifty or S&P CNX 500. The money collected from the investors is invested only in the stocks, which represent the index. The objective is to give a return equivalent to the market returns.

Tax Saving Funds: These funds offer tax benefits such as tax rebates to investors under the Income Tax Act.

Debt/Income Funds: These funds invest in high-rated fixed-income-bearing instruments like bonds, debentures, government securities, commercial paper and other money market instruments. They are best suited for the medium to long-term investors who are averse to risk and seek capital preservation. They provide **a regular income** to the investor.

Liquid Funds/Money Market Funds: These funds invest in highly liquid money market instruments. The period of investment could be as short as a day. They provide **easy liquidity**. They have emerged as an alternative for savings and short-term fixed deposit accounts with comparatively higher returns. These funds are ideal for corporate, institutional investors and business houses that invest their funds for very short periods.

Gilt Funds: These funds invest in Central and State Government securities so, they give a secured return and also ensure safety of the principal amount. They are best suited for the medium to long-term investors who are averse to risk.

Balanced Funds: These funds invest both in equity shares and fixed-income-bearing instruments (debt) in some proportion. They provide a **regular return** and reduce the volatility (NAV going up and down) of the fund while providing some upside for **capital appreciation.** They are ideal for **medium to long-term investors** who are willing to take moderate risks.

On the basis of Flexibility

Open- ended funds	**Close-ended funds**
Such funds are open for subscription and redemption throughout the year	These funds are open initially for entry during the Initial Public Offering (IPO) and thereafter closed for entry as well as exit.
These funds have no fixed date of redemption.	These funds have a fixed date of redemption.
more liquid than closed-ended	less liquid than open-ended

Their prices are linked to the daily net asset value (NAV).	One of the characteristics of the close-ended schemes is that they are generally traded at a discount to NAV; but the discount narrows as maturity nears.
These are not traded on stock exchange	These are listed and traded on stock exchange.

Different investment plans that Mutual Funds offer:

1. **Growth Plan:** A growth plan is a plan under a scheme wherein the returns from investments are reinvested and very few income distributions, if any, are made. The investor thus only realizes capital appreciation on the investment.
2. **Dividend Plan**: Under the dividend plan, income is distributed from time to time. This plan is ideal to those investors requiring regular income.
3. **Dividend Reinvestment Plan:** Dividend plans of schemes carry an additional option for reinvestment of income distribution. This is referred to as the dividend reinvestment plan. Under this plan, dividends declared by a fund are reinvested in the scheme on behalf of the investor, thus increasing the number of units held by the investors.

As per SEBI Regulations on Mutual Funds, an investor is entitled to: (read from the text book)

Fund Offer Document is a document that offers you all the information about a particular scheme and the fund management company It gives information of the risks involved. This must be designed in accordance with the guidelines given by SEBI. It should have the following:

1. Investment objectives
2. Risk factors and special considerations
3. Summary of expenses
4. Constitution of the fund
5. Guidelines on how to invest
6. Organization and capital structure
7. Tax provisions related to transactions
8. Financial information

Investment plan:

- It refers to the services that the funds provide to investors offering different ways to invest or reinvest.
- It determines the flexibility available to the investors.

Rights available to a Mutual Fund holder in India

As per SEBI Regulations on Mutual Funds, an investor is entitled to:

1. Receive Unit certificates or statements of accounts confirming your title within 6 weeks from the date your request for a unit certificate is received by the Mutual Fund.

2. Receive information about the investment policies, investment objectives, financial position and general affairs of the scheme.

3. Receive dividend within 30 days of their declaration and receive the redemption or repurchase proceeds within 10 days from the date of redemption or repurchase.

4. The trustees shall be bound to make such disclosures to the unit holders as are essential in order to keep them informed about any information, which may have an adverse bearing on their investments.

5. 75% of the unit holders can pass a resolution to wind-up the scheme.

6. An investor can send complaints to SEBI, who will take up the matter with the concerned. Mutual Funds and follow up with them till they are resolved.

Fund Offer Document: It is a document that offers all the information about a particular scheme and the fund launching that scheme. That way, before you put in –

A. MUTIPLE CHOICE QUESTIONS:

1 It's a special kind of mutual fund whose prices fluctuate with the demand and supply in the stock market. Identify.
a) Debt funds
b) close-ended funds
c) Diversified funds
d) All of the above

2. These funds invest in Central and State Government securities. These are backed by Government bonds. What kind of investors like ton invest here.
a) Investors looking for capital appreciation
b) Investors looking for handsome return on mutual funds
c) Those who want regular income only
d) Medium to long-term investors who are averse to risk

3. The market value of a quoted company, which is calculated by multiplying its current share price (market price) by the number of shares in issue is called as ______________.
a) Receive Unit certificates confirming title within 6 weeks from the date your request for a unit certificate is received by the Mutual Fund.
b) Receive information about the investment policies, investment objectives, financial position and general affairs of the scheme.
c) Receive dividend within 10 days of their declaration
d) 75% of the unit holders can pass a resolution to wind-up the scheme.

4. Risk to which Mutual Funds are exposed is
a) falling bond prices
b) Default in the redemption of debentures by Company
c) Bad news about an individual company
d) All of the above

5. Buying and selling into funds is done on the basis of ------------related prices.
a) NAV
b) listed price
c) issue price
d) traded price

B		Very Short Answer Questions VSA (1 Mark)	Level
1		What is diversification?	U
2		How do mutual funds spread risks?	MD
3		What is an ETF?	U

4		What is Net Asset Value?	H
5		Who regulates Mutual Funds in India?	C
C		**Short Answer Questions SA (2/3 Marks)**	**Level**
1		Explain the market and non-market risks involved in mutual funds.	U
2		Write a brief note on balanced funds, tax funds, liquid funds.	MD
3		Differentiate between active fund management and passive fund management.	H
4		Differentiate between growth investing style and value investing style.	U
5		Classify and explain the types of mutual funds on the basis of flexibility.	MD
6		Differentiate between diversified funds and sector funds.	
7		Explain the different types of equity funds.	
D		**Long Answer Questions LSA (5 Marks)**	**Level**
1		Explain the features of passive fund management.	MD
2		Describe the benefits of investing in mutual funds.	C
3		"Mutual Fund is subject to market risk; read all documents carefully before invest". You must aware about debt market mutual fund investment risks describe each in brief.	U
4		What are the rights that are available to a Mutual Fund holder in India?	MD
5		This has to be designed in accordance with the guidelines stipulated by SEBI and the prospectus must disclose details important information about the mutual fund. To what do these lines refer to? Name it. Also, write about its significance.	