

A BEGINNER'S GUIDE TO THE STOCK MARKET

Investing in the stock market can seem fearsome, especially during the beginner's phase because of the complexity and the risks involved in the market. But a careful understanding can guide you through the right path in your nurture stage.

Here is brief guide that will help you in your investing journey.

What is a Stock Market?

1. The stock market refers to public markets that exists for issuing, buying, and selling stocks that trade on a stock exchange or over the counter. Stocks, also known as equities, represent fractional ownership in a company, and a stock market is a place where investors can buy and sell ownership of such investable assets.
2. The two primary stock markets in India are the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). The NSE is by far the largest, with over 90% of cash trades.
3. All activities as well as participants of the stock markets including day-to-day trades, instruments being traded, exchanges that enable the financial instruments to be traded, are regulated by the Securities and Exchange Board of India (SEBI).
4. The most common indices in India are the NIFTY and SENSEX. NIFTY is a basket of top 50 stocks by market capitalization listed on the NSE. The SENSEX is a similar index of 30 companies listed on the BSE.
[Explained | The Stock Market | FULL EPISODE | Netflix](#)

What is the purpose of the Stock Market?

The stock market serves two very important purposes:

1. The first is to provide capital to companies that are listed in the stock market so that they can use it to fund and expand their businesses.

Like- If a company issues one million shares of stock that initially sell for \$10 a share, then that provides the company with \$10 million of capital that it can use to grow its business.

2. The stock market serves to give investors – those who purchase stocks – the opportunity to share in the profits of publicly-traded companies.

Like- if an investor buys shares of a company's stock at \$10 a share and the price of the stock subsequently rises to \$15 a share, the investor can then realise a 50% profit on their investment by selling their shares.

How to invest in the Share Market?

You cannot buy or sell directly on the stock market. For this, you must go through brokers who are authorised to trade on the market or stock brokerage companies that allow you to trade using their platform. The process is simple:

1. To begin investing, you must open a trading account with a broker or a stock brokerage platform. A trading account is where you actually “trade” or place buy or sell orders.
2. The broker or the stock brokerage platform opens a Demat account for you. A Demat account holds the financial securities in your name.
3. These two accounts are then linked to your bank account.
4. To open a trading and Demat account, you need to provide Know Your Customer (KYC) documentation that includes verification via government-authorised identity cards such as the PAN card or your Aadhar.
5. Most brokers and brokerage platforms now have an online KYC process that allows you to open an account in a couple of days by submitting your verification details digitally.
6. Once open, you can trade with your broker or brokerage company online via a portal or offline via phone calls.

How does the Stock Market work?

The concept behind how the stock market works is pretty simple:

1. The stock market lets buyers and sellers negotiate prices and make trades.
2. You may have heard of the Bombay Stock Exchange or the BSE. Companies list shares of their stock on an exchange through a process called an initial public offering or IPO.
3. Investors can then buy and sell these stocks among themselves, and the exchange tracks the supply and demand of each listed stock.

4. That supply and demand help determine the price for each stock or the levels at which stock market participants — investors and traders — are willing to buy or sell.
5. Buyers offer a “bid,” or the highest amount they’re willing to pay, which is usually lower than the amount sellers “ask” for in exchange. This difference is called the bid-ask spread.
6. For a trade to occur, a buyer needs to increase his price, or a seller needs to decrease hers.

[How does the stock market work? - Oliver Elfenbaum](#)

What can you invest in the Stock Market on?

The key financial instruments offered by the stock market are:

1. **Equity shares:** Issued by companies, equity shares entitle you to receive a claim to any profits paid by the company in the form of dividends.
2. **Bonds:** Issued by companies and governments, bonds represent loans made by the investor to the issuer. These are issued at a fixed interest rate for a fixed tenure. Hence, they are also known as debt instruments or fixed income instruments.
3. **Mutual Funds (MFs):** Issued and operated by financial institutions, MFs are vehicles to pool money which is then invested in different financial instruments. Profit from the investments is distributed between the investors in proportion to the number of units or investments they hold. These are called “actively” managed products where a fund manager takes calls on what to buy and sell on your behalf to generate better returns than the benchmark (like the NIFTY).
4. **Exchange-Traded Funds (ETFs):** Increasingly gaining popularity, ETFs essentially track an index like the NIFTY or the SENSEX. Once you buy a unit of the ETF, you hold a part of the 50 stocks in the NIFTY in the same weightage that the NIFTY holds them. These are called “passive” products, which are typically much lower in cost than MFs and give you the same risk or return profile as the index.
5. **Derivatives:** A derivative derives its value from the performance of an underlying asset or asset class. These derivatives can be commodities, currencies, stocks, bonds, market indices and interest rates.

What does it cost to invest in the Share Market?

There are a few types of charges that you will usually pay:

1. **Transaction costs:** All brokers are paid a brokerage, which is a fee they take to facilitate a trade for you. They also collect taxes and dues paid to the government on each transaction, such as the Securities Transaction Tax (STT), SEBI charges, Goods and Services Tax (GST), among others.
2. **Demat charges:** Demat accounts are operated by central securities depositories such as NSDL or CDSL, under the government’s jurisdiction to safeguard your

interest. You are expected to pay nominal annual charges to maintain your Demat account.

3. **Taxes:** You pay a percentage of your profit from your investments to the government as taxes. For stocks, if you hold them for longer than a year, you pay long-term capital gains tax, which is 10%, and if you hold for less than a year, you pay short-term capital gains tax, which is 15%.

Some Important Stock market terminologies to know

STOCK

A stock (also known as equity) is a security that represents the ownership of a fraction of a corporation. This entitles the owner of the stock to a proportion of the corporation's assets and profits equal to how much stock they own. Units of stock are called "shares."

EXCHANGE

An exchange is a marketplace where securities, commodities, derivatives, and other financial instruments are traded.

For example, Paytm buys tickets for you from IRCTC which is an exchange where tickets are sold. Same way your broker is panelled with BSE where stock are traded, thus whenever you buy or sell stock, your broker buy/sells them on your behalf on BSE/NSE.

STOCK EXCHANGE

A stock exchange, securities exchange, or bourse is an exchange where stockbrokers and traders can buy and sell securities, such as shares of stock, bonds, and other financial instruments. Stock exchanges may also provide facilities for the issue and redemption of such securities and instruments and capital events including the payment of income and dividends.

BID

The term "bid" refers to the highest price a buyer will pay to buy a specified number of shares of a stock at any given time.

ASK/OFFER

The term ask refers to the lowest price at which a seller will sell the stock. The ask price is always a little higher than the bid price. You'll pay the ask price if you're buying the stock, and you'll receive the bid price if you are selling the stock.

SPREAD

The spread refers to the difference between two prices, rates, or yields. In one of the most common definitions, the spread is the gap between the bid and the ask prices of a security or asset, like a stock, bond, or commodity. A high spread means there is a large difference between the bid and the ask price.

TRADING ACCOUNT

A trading account is often mistaken for a Demat account. A trading account is used to buy or sell orders in the stock market. While a Demat account is used to store this.

For ex: You have Rs.100 in your wallet. You go to a shop and tell the seller that you want a packet of chips, you check the price, and finalize the transaction. Then, you take the money out of your wallet and give it to the seller. In this case, the wallet acts as the Demat account, while you act as the trading account.

BROKER

A broker is an individual or firm that acts as an intermediary between an investor and a securities exchange.

So basically whenever you go out for buying train tickets you have to use an app like Paytm, MMT which buys the ticket on behalf of you, Similarly whenever you want to buy a share, you have to use an app like Zerodha which acts as a broker for buying the shares on behalf of you.

YIELD

Yield refers to the earnings generated on an investment over a particular period. It is expressed as a percentage.

$$\text{Yield} = (\text{Net return} / \text{Principal}) * 100$$

VOLATILITY

Volatility is a statistical measure of the dispersion of returns. Or in other words, volatility measures the risk of a stock. Higher the volatility, higher the risk.

BULL & BEAR MARKET

A bull market is when the stock market rises or is expected to rise. It means the market sentiment is very positive.

A bear market is when the stock market falls or is expected to fall. It means the market sentiment is very negative.

To know more: <https://youtu.be/0wqgEDedZwI>, <https://youtu.be/myFWEUiEelw>

EQUITY

Equity represents the value that would be returned to a company's shareholders if all the assets were liquidated and all of the company's debts were paid off. Equity is the ownership of any asset after any liabilities associated with the asset are cleared. For example, if you own a car worth \$25,000, but you owe \$10,000 on that vehicle, the car represents \$15,000 equity.

To know more: <https://youtu.be/Fr5oHEYrT2A>

IPO (INITIAL PUBLIC OFFERING)

An initial public offering (IPO) alludes to the proceeding of vending shares of a private corporation to the public in a new stock issuance. An IPO empowers a company to exalt capital from public investors. The transition from a private to a public company can be an eminent time for private investors to extensively apprehend gains from their investment as it customarily encompasses a share premium for contemporary private investors. Meanwhile, it also legitimatizes public investors to partake in the offering.

To know more: <https://youtu.be/5BHsTftE3ng>

MARKET CAPITALIZATION

Market capitalization appertains to the total dollar market value of a company's outstanding shares of stock. Recurrently referred to as "market cap", it is enumerated by multiplying the total number of a company's outstanding shares by the current market price of one share.

MUTUAL FUNDS

A mutual fund is a genus of financial vehicle made up of a pool of money convened from many investors to invest in securities like stocks, bonds, money market instruments, and other assets. Mutual funds are efficaciously monitored and functioned by professional money managers, who apportion the fund's assets and endeavour to yield capital gains or income for the fund's investors. A mutual fund's portfolio is fabricated and sustained to match the investment objectives stated in its prospectus.

To know more: https://youtu.be/8A3s9WP_7l4

PORTFOLIO

A portfolio is an assortment of financial investments like stocks, bonds, commodities, cash, and cash equivalents, encompassing closed-end funds and exchange traded funds (ETFs). People conventionally credence to the syndication of stocks, bonds, and cash within the core of a portfolio.

DIVIDENDS

A dividend is the dissemination of some of a company's earnings to a class of its shareholders, as ascertained by the company's board of directors. Common shareholders of dividend-paying companies are predictably eligible as long as they own the stock before the ex-dividend date.

PORTFOLIO OPTIMIZATION

The strategic proceeding wherein an investor gathers scrupulous enlightenment with respect to the assemblage of assets from the range of other options and in this hypothesis, projects/programs are not esteemed on an individual basis rather the same is values as a part of a discrete portfolio.

BETA

BETA is an appraisalment of the volatility—or systematic risk—of a security or portfolio compared to the market. BETA is utilized in the capital asset pricing model (CAPM), which elucidates the relationship between systematic risk and the predicted return for assets (usually stocks). CAPM is gapingly used as a method for pricing risky securities and for generating estimates of the expected returns of assets, considering both the risk of those assets and the cost of capital.

SHORT SELLING

Traders often use short selling as speculation, and investors or portfolio managers may use it as a hedge against the whole downside risk of a long position in the same security or a related one. Speculation carries the possibility of substantial risk and is an ingenious trading technique. Hedging is the mere transaction involving placing an offsetting position to reduce risk exposure.

INTRADAY TRADING

Intraday or “within the day”, in the financial world, conjures up the securities that trade on the markets whilst regular business hours. These securities embrace stocks and exchange-trades funds (ETFs). Intraday also signifies the highs and lows that the asset crossed throughout the day. Its price movements are particularly significant to short-term or day traders looking to make multiple trades over the course of a single trading session. These busy traders will settle all their positions when the market closes.

To learn more: [What is !\[\]\(3cb60d42b10e53f9522bb0b392c1c4cd_img.jpg\) INTRADAY TRADING in stock market?](#)

MARKET ORDER

A market order is an instruction by an investor to a stock broker to buy or sell a security immediately at the current market price. This is also the best available price in the current financial market. That means that a market order will be completed nearly instantaneously, and this is the default choice for investors.

LIMIT ORDER

A limit order is a type of order to purchase or sell a security at a specified price or better. For buy limit orders, the order will be executed only at the limit price or a lower one, while for sell limit orders, the order will be executed only at the limit price or a higher one. This stipulation allows traders to better control the prices they trade. Also due to these reasons the order execution is not guaranteed as in the case of market order.

STOP-LOSS ORDER

A stop-loss order is an order placed with a broker to buy or sell a security when it reaches a certain price. Stop-loss orders are designed to limit an investor's loss on a position in a security and are different from stop-limit orders. When a stock falls below the stop price the order becomes a market order and it executes at the next available price.

LIQUIDITY

Liquidity refers to the efficiency or ease with which an asset or security can be converted into ready cash without affecting its market price. The most liquid asset of all is cash itself while tangible items are less liquid.

DIVERSIFICATION

Diversification is a risk management strategy that mixes a wide variety of investments within a portfolio. A diversified portfolio contains a mix of distinct asset types and investment vehicles in an attempt at limiting exposure to any single asset. The rationale behind this technique is that a portfolio constructed of different kinds of assets will, on average, yield higher long-term returns and lower the risk of any individual holding or security.

VOLUME

Volume is the amount of an asset or security that changes hands over some period, often over the course of a day.

MOMENTUM

Momentum is the rate of acceleration of a security's price—that is, the speed at which the price is changing. Market momentum refers to the aggregate rate of acceleration for the broader market.

RISK MANAGEMENT

Financial Risk Manager (FRM) is a professional designation issued by the Global Association of Risk Professionals (GARP).

The GARP FRM accreditation is globally recognized as the premier certification for financial risk professionals dealing in financial markets. To earn the FRM certification, candidates must pass two rigorous exams and work two years in the field of risk management.

MARKET PSYCHOLOGY

Market psychology refers to the prevailing behaviours and aggregate sentiment of market actors at any point in time. The term is often used by the financial media and analysts to explain market movement that may not be explained by other metrics, such as fundamentals.

TREND

A trend is the overall direction of a market or an asset's price. In technical analysis, trends are identified by trend lines or price action that highlight when the price is making higher swing highs and higher swing lows for an uptrend, or lower swing lows and lower swing highs for a downtrend.