SECONDARY MARKET

SECONDARY MARKET:

* Securities are traded after being initially offered to the public in primary market or stock exchange
* Seller and Buyer meets directly
* Equity Markets and Debt markets

Role:

* Equity markets serve as a monitoring and controlling conduit – by facilitating value- enhancing control activities, enabling implementation of incentive-based management contracts, and aggregating information (via price discovery) that guides management decisions
* Stock exchange
* Safe

Difference between primary market and secondary market:

* In primary market, securities are offered for the purpose of raising capital or funds.
* Investors and issuers are in direct contact for purchase and sales of security
* In secondary market, investors are in contact with each other
* In secondary market, it could be either stock exchange or over the counter

STOCK EXCHANGE:

* SEBI creates a platform
* Electronic platform
* Computerized or internet based

DEMUTUALIZATION:

* Legal structure of exchange whereby the ownership, the management and trading rights at the exchange are segregated from one another

Earlier brokers control, manage and own the stock exchange which leads to many problems.

To prevent such conditions government has introduced demutualization which is separation of ownership and control of stock exchange

Difference between mutual exchange and demutualized exchange:

* In mutual exchange, ownership, management and trading are concentrated in single group, in demutualized exchange they are in separate hands
* In mutual exchange, the broker members are both owners and traders

STOCK TRADING

Screen based trading:

* In order to provide efficiency, liquidity and transparency , NSE introduced a nationwide, online , fully automated SBTS
* A member can punch into computer the quantities of a security and the price at which he would like to transact
* The transaction is executed as soon as matching sell or buy order from a counter party is found

NEAT:

National exchange of automated trading is a state-of-the-art client server-based application

* Trading information is stored in-memory database to achieve minimum response time and maximum system availability for users.
* UPTIME RECORD :99.7%
* Uniform response time is less than 1 sec.

Orders can be placed by going to brokers office or by placing order on the phone/internet/SMS or a model agreement.

How to place orders with broker?

* Investors should get in touch with the brokers
* Username and password is provided

OTHER MEANS OF TRADING:

* Personal meeting
* Phone
* Placing order
* SMS

CONTRACT NOTE:

Is a confirmation of trades done on a particular day on behalf of the client by a trading member .

* Legal membership b/w client and trading member
* Settle disputes
* Contract note should contain:

Details of trade

Stamped with requisite value

Duly signed by authorised signatory

* Duplicate copies are with trading member and client

Details in a contract note:

* Name, address and SEBI registration number
* Name of partner
* Address
* Constituent name
* Order number, time
* Trade number, time
* Quantity and kind of security
* Brokerage and purchase sale rate
* Signature of stock broker
* Appropriate stamps `



Maximum brokerage:

* Mot more than 2.5%

Trading at exchange offers investors the best prices prevailing at the time of market

* Lack of counter party risk
* Access to investor grievance
* Redressal mechanism of stock exchange
* Protection upto prescribed limit

Why should one trade on a recognized stock exchange only for buying/**selling shares?**

* Registration certificate by SEBI
* Broker – INB
* Sub broker -INS
* SEBI WEBSITE

**What precautions must one take before investing in the stock markets?**

USEFUL POINTERS

* Broker is registered with SEBI
* Receive contract notes within one working day
* Know about the risk
* Do not mislead by market , ads , hot tips
* Study fundamentals of company
* Sources of knowing about the company

Annual reports

Economic magazines

Databases

Financial advisor

* Do not invest in a company without being firm
* Do own research
* Do not get attracted
* Investing at low does not yield high results
* Be cautious

DO’S AND DON’T S:

* Broker has valid SEBI registration
* Terms and conditions
* Know your client
* Risk disclosure document
* Contract note
* Is signed by authorised signatory
* Trade verification on NSE
* Correct account
* Cross check
* Do not take on behalf of others
* Demand slip on your own account
* Do not sign blank delivery slip
* Do not give money as deposit against assurance of returns
* Do not part your funds
* Funding from authorised intermediaries are not covered under settlement guarantee mechanism of exchange
* Do not accept trades under some other client code

When you are authorising someone through ‘Power of Attorney’ for operation of your DP account, make sure that:

* Your authorization is in favour of registered intermediary
* Only for limited purpose
* Verify DP statement periodically
* Report
* Do not accept duplicate contract note
* Do not accept signed by unauthorised person
* Do not delay payment
* Prompt rectification in case of disputes
* In case of disputes inform to main broker or bring attention to “Investor Service Cell” of NSE
* Submit documents to “Investor Service Cell”

SEBI SCORES:

When not satisfied with the response of intermediary you have issues with then your complaint is readdressed

“Complaint Registration” under “Investor Corner”

PDF document is attached

Status of complaint online

PRODUCTS OF SECONDARY MARKET:

* Shares
* Bonds

SHARES:

* Equity shares: Fractional ownership of business venture
* Right shares: The issue of new securities to existing share holders at a ratio to those already held at a price
* Bonus shares: Shares issued on free of cost based on number of shares held by share holders
* Preference share: Owners are entitled with fixed dividend

Payment of surplus

* Cumulative preference share: Shares on which dividend accumulates if remained unpaid
* Cumulative convertible preference share: Dividend payable on the same accumulates, if not paid

BOND:

* It is negotiable certificate evidencing ineptness
* Unsecured
* Issued by company , municipality or government agency

Bond investor loads money to the issuer

Issuer repays loan to bond investor

ZERO COUPON BOND:

Bond issued at discount and repaid at a face value

* No interest
* Issue price – redemption price= returns to holder

CONVERTIBLE BOND :

Convert bond into equity at fixed conversion price

TREASURY BILLS:

Short term bearer discount security as a means of financing their cash requirements

EQUITY INVESTMENT:

* Shares are known as equities
* Equity returns overperform
* Equities are more rewarding
* High risk

Dividend is a percentage of the face value of the share that a company returns to its share holders from its annual profit

FACTORS INFLUENCING THE PRICE OF A STOCK:

* Stock specific
* Market specific

Stock specific:

It is related to people’s expectations about the company, its future earnings ,financial health and management , level of technology , marketing skills.

Market specific:

* Depends on environment
* Events favourable to economy, political or regulatory government can fuel excitement resulting boom in market
* War, economic crisis etc., depress the market
* Price gets stabilized

GROWTH STOCK:

Companies whose potential for growth in sales and earnings are excellent, are growing faster than other companies in market or other stocks in same industry are called growth stocks.

VALUE STOCKS:

* Stocks which are overlooked by investors may have hidden value
* Value investors look to buy stocks that are undervalued
* Purchase a stock on relationship between the current market price and certain business fundamentals

How can one acquire equity shares?

* Subscribe to issues by corporates in primary market
* Through public issues or private placements

BID PRICE:

Buyers price

ASK PRICE:

Offer price

Bid ask spread = Price of best bid – price of best ask

Difference low = high traded in stock

PORTFOLIO:

Combination of different investment assets mixed and matched for the purpose of achieving investor goals

Items can include

* Own form shares
* a
* Bonds

DIVERSIFICATION:

* Mixes a wide variety of investments within a portfolio
* Minimize impact of any one security on overall performance of portfolio

ADVANTAGES:

* Mix of asset classes
* Stability
* Reduce risk

DEBT INVESTMENT:

* One party lends money to another
* Government – bond
* Private – debenture

Features:

Maturity: A day on which borrower has agreed to repay the loan

Term to maturity: no of years remaining to repay the loan

* Changes everyday
* Can be calculated on any date
* Distance between such date and date of maturity is called term
* Also called tenure

COUPON:

Periodic interest payments made by the borrower to the lender

* Coupon rate is rate at which interest is paid. Represented as percentage of par value
* Principle: the amount been borrowed. The par value or face value

INTEREST:

* Amount paid by borrower to lender at specific period of time
* Annually, semi-annually, quarterly, monthly

SEGMENTS:

* Government securities – centre, state and state sponsored
* Public sector units – tax-free
* Corporate securities – commercial paper and bonds

PARTICIPANTS:

* Banks
* Financial institutions
* Mutual funds
* Provident funds
* Insurance companies
* Corporates

CREDIT RATING AGENCIES:

* CRISIL
* CARE
* ICRA
* FITCH
* SMERA

How can one acquire securities in the debt market?

* Subscribe issues from primary market
* Purchase from secondary market

Conclusion

Secondary markets, as opposed to primary markets, are regulated markets for dealing in listed securities. Here, the investors buy and sell between themselves and there is no contact between investor and issuer. Stock exchanges are the medium through which these transactions take place. NSE has an online platform, NEAT, which facilitates such trading. Only brokers can trade on stock exchanges. The investor can place the trades through brokers by direct meeting, email, internet, sms or phone. The trade is confirmed through a contract note. There are certain precautions that an investor must take before investing. The securities traded here include equity, bonds, mutual fund units and derivatives. It is advisable to have a diversified portfolio, investing in different asset classes.