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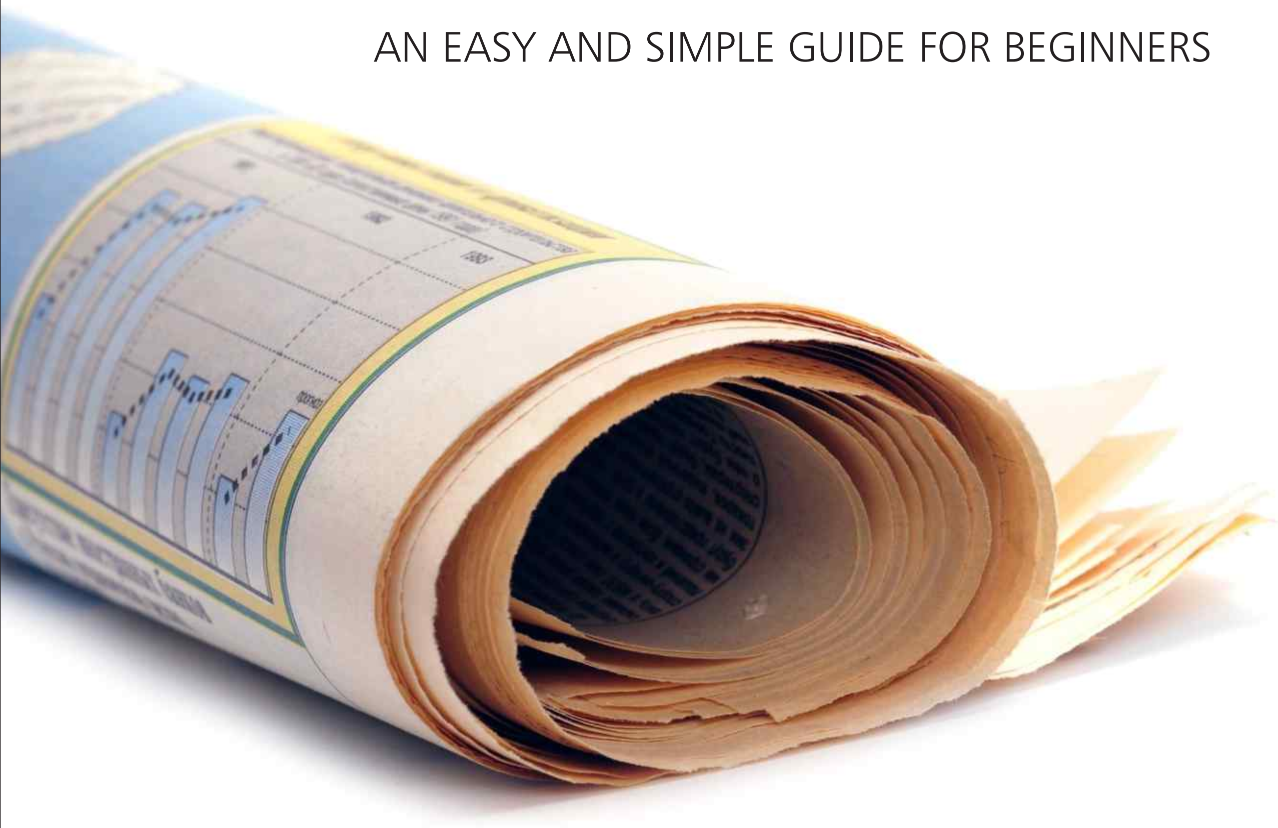
your money, our ideas

STOCK MARKET BASICS

AN EASY AND SIMPLE GUIDE FOR BEGINNERS



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About DreamGains

DreamGains Financials India Private Limited Established in 2004 as an independent and privately Owned Company is built upon the principles of teamwork and partnership. It is a trusted name in the financial Service arena and provides you with an entire gamut of services under one roof. It today has emerged as a premium Indian stock consultancy, with an absolute focus on Business and a commitment to provide "Real value for money" to all its clients.

We differentiate ourselves by tailoring our services to support the needs of our clients, not just delivering a standard impersonal service. We commit our resources to help you with your requirements, working closely with you as a part of your team. We strongly believe that our people make the difference. We invest heavily in their training, future career progression and creating a harmonious and stimulating work environment. Most of our team are professionally qualified and have many years of experience in stock industry. We encourage all our employees to constantly update and extend their professional qualification.

The organization has been formed with an aim to explore the potential of the index based future trading. We provide recommendations for stock cash and F and O traded in NSE and BSE, providing our clients with vigorous and reliable solutions to satisfy all their financial needs.

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Products/Services

We provide recommendations for Stock Cash, Stock Futures, Nifty Futures, Commodities, F & O traded in NSE, providing our clients with vigorous and reliable solutions to satisfy all their financial needs. We mix market psychology with technical analysis and provide you with finest stock market tips.

Our services are personal, confidential and tailored to specific client's requirement.

Nifty Futures:
We have designed this product in such a way that it takes into consideration the trader's view as well as the client's feedback, thereby creating a high value for the clients in the fluctuating Indian stock markets.

Stock Cash:
This service is basically designed for the traders dealing in NSE and BSE stock cash. As a day trader in stock cash with our tips you can earn profits regularly both in the rising and falling markets.

Stock Futures:
This service is especially for future market traders. Stock futures trading can provide new opportunities for managing the price risks inherent in volatile stock markets as well as profiting from expected price movements in these markets.

Commodity tips:
We make predictions on the basis of quantitative and qualitative research of the market trends and the commodity situations in the world. We provide you with the latest minute by minute information making your trading life simple and tension free.

COMEX/ NYMEX:
COMEX originally known as Commodity Exchange Inc is a division of the New York Mercantile Exchange. The main focus of COMEX is options trading that have to do with precious metals. Based in the New York City in the U.S, COMEX provides investment opportunities to investors all over the world.

Options and Forex:
DreamGains offer recommendations on options for intraday and positional, FOREX services for the benefits of the traders of all kinds to take advantage of our expert guidance and trade well.

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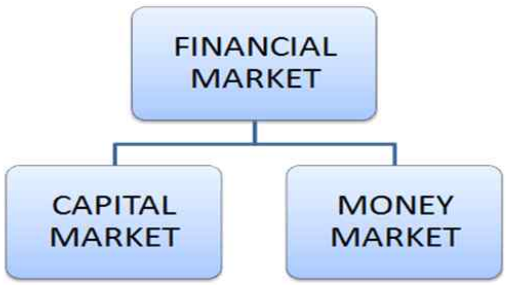
CHAPTER 1: An Introduction to Indian Financial Market

What is a Financial Market?

A Financial Market like any other market is a System where Trading in Financial Instruments takes place. This System is now completely automated through Electronic Interfaces and consists of Many Buyers and Sellers with their individual objective of Entering in Financial Markets. This System is a Government Recognized System. It is a place where you give your money to a financial asset which can fetch you more returns or sometimes more safety than a conventional Bank account.



Capital Market operates through recognized exchanges whereas Money Market operates through phone lines, computers and internet.

Instruments for Capital Market - Equities, Bonds, Mutual Funds, Derivatives, Commodities, Currencies

Instruments for Money Market – Call Money, Repo (Reverse-Repo), T-Bills, Commercial Paper, Certificate of Deposit, Inter Corporate Deposits

Both money market and capital market have their own importance and benefits as one is primarily designed for long term planning and the other one for meeting short term commitments.

CHAPTER 2A: Market Fundamentals - Participants of Market

I. Regulator is a body which regulates and overlook to the smooth Functioning of Financial Market Systems, they do recognize, allow, dis-allow other financial intermediaries for working in financial markets, redresal for the Investors, Creates / Modifies rules and regulations in financial markets.

A. SEBI: Securities Exchange Board of India is the Big Boss of Financial markets and the main regulator in the Capital Markets, SEBI regulates Equity Markets and Currency Derivative segments, came into power in 1992

B. RBI: Reserve Bank of India mainly controls the Banking and monetary systems in the Country making Monetary policies, looking after the working of Banks. They regulate Currency Derivative Segment along with SEBI

C. FMC: Forward Market Commission is the regulator for Commodity Derivatives in India

II. Exchanges provide a facility for Traders to exchange (Buy/ Sell) Securities, Commodity, Currency via an electronically driven platform.

A. Equity Exchanges
NSE- National Stock Exchange
BSE- Bombay Stock Exchange

B. Commodity Exchanges
MCX-Multi Commodity Exchange
NCDEX- National Commodity and Derivative Exchange

C. Currency Exchanges
MCX- SX
NSE Currency Derivative USE

III. Brokers/ Intermediaries are the body which acts as an interface between the Client and the Financial System and facilitates the proper trading in Financial Products like India Infoline, JM Financial, Sharekhan, Religare, ICICI Direct, Angel Broking, SMC Global Reliance Money to name a few.

Sub Broker: A sub broker is like a ' Franchisee' of a stock broker registered with SEBI and can act like and on behalf of a Broker i. e. Open Trading account and service clients, in turn he gets a sharing out of the total brokerage earned from the clients trading under the Sub Broker.

IV. Investors and Traders: These are the makers of the market, the real end client for whom the whole system exists. All the products and systems in Financial Markets are designed keeping in mind these real Investors and Traders of the System. These comprise of all the Indian Retail, HNIs, Institutional and Foreign Direct and Institutional Clients (FII) trading in the Indian Financial Markets for this Category of Participant in the Markets.

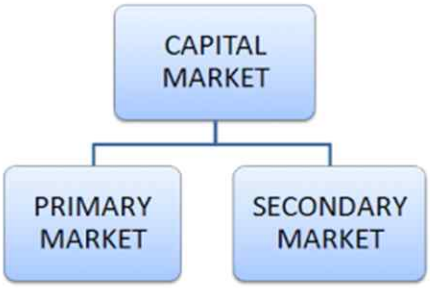
CHAPTER 2B: Market Fundamentals - Types of Capital Market

Primary Markets

The market system where the promoter/promoter group of the company sells his/their shares for the first time to the public

IPO: Initial Public offer is the process of selling the shares of company from the primary or the initial owner to the public.

▶·A company can raise funds through 2 modes namely Equity and Debt.
▶·Hence, when one studies the balance sheet of any company, the capital structure will have two components namely Equity and Debt.
▶·The market in which the company can raise funds is the primary market.
▶·In the primary market the transaction of securities is unidirectional i.e. Company sells and the investor buys.
▶·Suppose the company wants to raise funds through the equity mode, It is usually done through a public issue or an IPO (initial Public offer).
▶·The companies have to follow a well-established legal procedure and involve a number of intermediaries such as underwriters, brokers, etc. who form an integral part of the primary market.
▶The process of an IPO is not important in this training program but it is important to know that the IPO of a company is done through a collaboration with an underwriter(investment banker) and through this collaboration, the company releases a prospectus known as the DRHP (Draft Red herring prospectus).
▶In brief the DRHP states all important details of the company like the future prospects, financial valuation, inherent risks, capital structure, future revenue sources, etc.
▶These details are extremely important to be disclosed to the public prior to raising funds as mandated by SEBI. This is lieu with the complete disclosure norms set by SEBI to protect investors from fraudulent companies.



Secondary Markets

As the name suggests Secondary Markets is a market place where the trading of Equity share of a company takes place Second time, earlier in primary markets the seller was the Promoter group of the company now here the seller as well as the buyer are investors and the ownership of the share is in public's domain.

Secondary markets are synonym to Stock exchanges in India as all the Secondary market activity takes place in Stock Exchanges.

CHAPTER 2C: Market Fundamentals - Exchanges and Indices (Equity)

Stock Exchange

A stock exchange or share market is a corporation or mutual organization which provides facilities for stock brokers and traders, to trade company stocks and other securities. Stock exchanges also provide facilities for the issue and redemption of securities as well as other financial instruments and capital events including the payment of income and dividends.

There are 2 recognized Stock Exchanges in India for Share Trading:

A. **BSE** (Bombay Stock Exchange) is the oldest stock exchange in Asia with a rich heritage, now spanning three centuries in its 133 years of existence. What is now popularly known as BSE was established as "The Native Share & Stock Brokers' Association" in 1875, there are around 5000 + shares listed on BSE.

B. **NSE** (National Stock Exchange) was incorporated in November 1992 and currently has around 1500 shares listed and has a trading facility for Cash, Derivative and Currency derivative products. The highest turnover in Indian Equity markets happen on NSE currently. These are an Electronic platform based trading exchanges graduated from the traditional OTC (over the counter) mode of trading.

Stock Market Index

A stock index or stock market index is a measurement of the value of a section of the stock market. It is computed from the weighted average prices of selected stocks. It is a tool used by investors and financial managers to describe the market, and to compare the return on specific investments.

Sensex and **Nifty** are the two major indices of Indian Share Market. The Sensex is an indicator of all the major companies of the BSE. The Nifty is an indicator of all the major companies of the NSE. If the Sensex goes up, it means that the prices of the stocks of most of the major companies on the BSE have gone up. If the Sensex goes down, this tells you that the stock price of most of the major stocks on the BSE have gone down. Same goes for Nifty and NSE.

Besides Sensex and the Nifty there are many other indexes. There is an index that gives you an idea about whether the mid-cap stocks go up and down. This is called the “BSE Mid-cap Index”. There is an index for the metal stocks. There is an index for the FMCG stocks. There is an index for the automobile stocks etc. There are many other types of indexes.

CHAPTER 2D: Market Fundamentals - Market Timings

Trade time: The normal trading time for Equity Market is between 09:15 am to 03:30 pm, Monday to Friday.

Pre-open session: This session is basically to decide the opening price of the markets in Normal trading session, where trading for only Nifty 50 shares takes place the session is from 09:00 am to 09:15 am, Monday to Friday.

Closing price calculation: The closing price of a stock is not the LTP (Last traded price) of the stock but the average price between 03:00 pm to 03:30 pm, this calculation takes place between 03:30 to 03:40 pm, Monday to Friday.

Post close trading: The post close trading happens between 03:40 pm to 04:00 pm, basically used for squaring off some positions created by mistake, the prices in this segment do not change and trading is done only on the adjusted closing prices.

Trade time: The normal trading time for Commodity (MCX) Market is between 10:00 am to 11:30 pm, Monday to Friday.

Trade time: The normal trading time for Agri-Commodity (NCDEX) Market is between 10:00 am to 05:00 pm, Monday to Friday.

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CHAPTER 2E: Market Fundamentals - Bulls, Bears, Chickens and Pigs

On Dalal Street, the bears and bulls are in a constant struggle for profits.

The Bulls - A bullish market indicates that economy is running good, GDP (Gross Domestic Product) is growing, people are finding jobs, and stocks are rising. If a person is optimistic and believes that stocks will go up, s/he is called a "bull" and is said to have a "bullish outlook".

The Bears - A bearish market indicates that economy is bad, recession is looming and stock prices are falling. In bearish markets some investors make money by short selling whereas others wait until they feel that the bear market is nearing its end, and then buy in anticipation of a bull market. If a person is pessimistic, believing that stocks prices are going to fall down, s/he is called a "bear" and is said to have a "bearish outlook".

The Chickens - Chickens are afraid to lose everything. Their fear tops their need to make profits and so they invest only in money market securities or get out of the markets entirely.

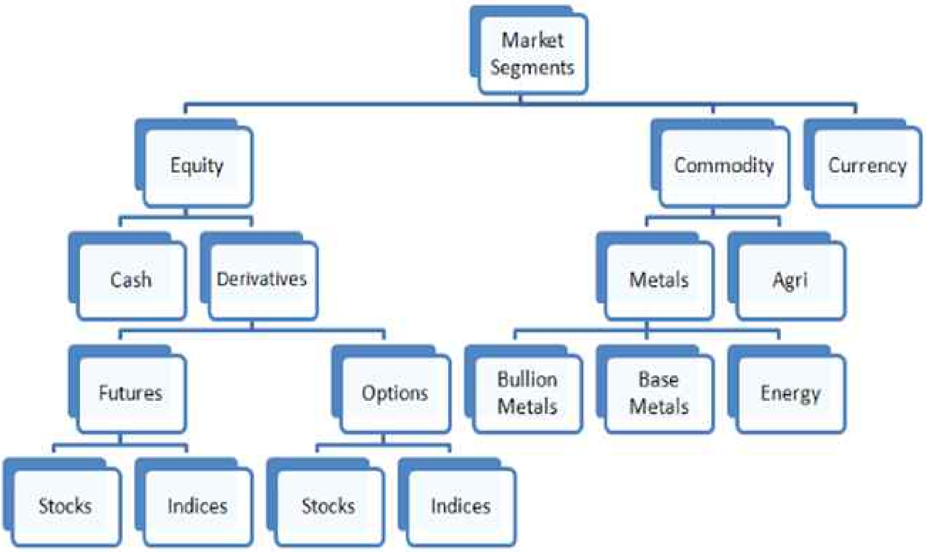
The Pigs - Pigs are high-risk investors looking for that one big shot in a short span of time. Pigs buy on hot tips and invest in companies without doing their due diligence. They are impatient, greedy, and emotional about their investments, and they usually invest in high-risk securities. Professional traders love the pigs, as it's often from their losses that the bulls and bears reap their profits.

What Type of Investor Will You Be?

There are ample of investment strategies in market. The bulls and bears constantly struggle, but they both make money with changing trends in the market. Even the chickens see some returns, though not a lot. The only loser in this market is the pig.

You have to make sure what type of investor will you be. Always remember the saying: "Bulls make money, bears make money, but pigs just get slaughtered!"

CHAPTER 2F: Market Fundamentals - Segments of Market



As we see, market segments can be classified into Equity, Commodity and Currency. We will study each market step by step.

Equity

Points of Difference	Cash Segment	Derivatives Segment
Contract Trading	No contract trading exists, Position can be held life-long	Trading happens in contracts, 3-month contract cycle exists
Lots	Trading happens in unit shares	Trading happens in unit lots (i.e. bundle of shares)
Short Sell	Short Selling is allowed only for Intraday (i.e. NO STBT)	Short Selling is allowed for both Intraday and Delivery
Index Trading	Index trading is not possible	Index trading is possible

I. DERIVATIVES, as the name suggests is an instrument which is derived from some Underlying Asset and its movement depends on the movement of the underlying Asset. The price of underlying asset is known as Spot price.
A derivative is a product whose value is derived from the value of an underlying asset, index or reference rate. The underlying asset can be equity, forex, commodity or any other asset. Currently the highest turnover in Derivative segment happens on NSE Derivative segment

II. Why have derivatives?
A derivative transaction helps cover risk, which would arise on the trading of securities on which the derivative is based and a small investor too can take part in the Derivative instrument to Hedge his risk or speculate on market conditions.

III. 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. Index futures are all futures contracts where the underlying is an Index (Nifty or Sensex) and helps a trader to take a view on the market as a whole.

In India we have index futures contracts based on S&P CNX Nifty and the BSE Sensex. 3 months duration contracts are available at all times. Each contract expires on the last Thursday of the expiry month and simultaneously a new contract is introduced for trading after expiry of a contract. If last Thursday is a holiday the expiry would fall on the previous trading day.

III A. NIFTY Future - Nifty future is the most traded contract on NSE Derivative segment, with a lot size of 50 shares.

III B. Bank NIFTY - Bank Nifty future contract is derivative from the Bank nifty spot Index which represents the Banking sector stocks, lot size being 25 shares.

III C. Stock Future - Future contracts on Stocks are called Stock futures. Currently there are 200+ Future contracts in NSE Derivative segment.

III D. Some Technical Terms:

- ·Open Interest: The total number of outstanding contracts which are yet to be squared-off as on date.
- ·Roll over: A process of squaring off the current open position and taking the same directional position in the next series of the Future contract. Ex: A trader has Long 5 lots of Bank Nifty Future on 27th Nov'14 (Expiry day), he is still bullish on the contract, he sells his November month contract and simultaneously buys 5 lots Bank Nifty in December month.
- ·Ban Period: Exchanges have prescribed a MWPL (Market wide position limit) of every future contract in the Exchanges. If the open interest of the contract crosses 95% of the MWPL limit, fresh positions in the underlying are banned and penalized. Traders can square off their existing positions but fresh positions cannot be take until the open interest falls below 80% of the MWPL.

III E. Advantages of Future segment:

- ·Lower Margin
- ·No Delivery obligation
- ·High Liquidity & high profit potential
- ·Trading in Index allowed

III F. Risks in Future segment:

- ·Huge loss due to leverage positions
- ·High Volatility
- ·Difficult for retail investors to manage trades

IV. The OPTIONS contract - The biggest limitation of Future contract is high margin requirement and unlimited loss potential, which sometimes makes it difficult for a retail trader to hedge/ trade in Futures contracts. Options, as the name suggests gives huge kind of options to choose while the trader wants to trade in derivative contracts. Similar to the Future contract we have same Index and stock option contracts for the same underlying in the options segment with same expiry cycle. Premium is the price paid by the buyer of an option to own the right of that option.

IVA. Options

- ·Gives right but not the obligation for the option buyer
- ·Has the same contract cycle and underlying Asset (Stock & Indices) as in Future Contracts
- ·Limited loss ,Unlimited profit to the option buyer
- ·Full premium amount has to be paid upfront for buyer
- ·Seller has to pay margin
- ·Different strike prices available in a particular Contract Cycle
- ·Useful in all kinds of markets Bullish, Bearish, Volatile, Stable

IV B. Types of Options:

- ·Call option - A Call option is a contract between two parties giving the taker (buyer) the right, but not the obligation, to buy a lot of shares at a predetermined price possibly on, or before a predetermined date. To acquire this right the taker pays a premium to the writer (seller) of the contract. When you expect prices to rise, then you take a long position by buying calls. You are bullish. When you expect prices to fall, then you take a short position by selling calls. You are bearish.
- ·Put Option - A Put Option gives the holder of the right to sell a specific number of shares of an agreed security at a fixed price for a period of time. When you expect prices to fall, then you take a long position by buying Puts. You are bearish. When you expect prices to rise, then you take a short position by selling Puts. You are bullish.

IV C. Why Trade in options?

- Low Investment required
- Limited Loss
- Can trade for Bullish and Bearish views
- No Delivery obligations

Commodity

Commodity trading in India is from the primitive times which transformed from the old barter system to the current modern derivative form. Commodity trading in India is done in physical markets (mandis) and through Electronic Trading platforms like MCX, NCDEX.

The Regulator for this segment is FMC – Forward Market commission.

Types of commodities:

- Agriculture commodities - All those commodities which are produced via agricultural activities like Wheat, Guar, Soya-bean, cotton, turmeric, etc.
- Base Metals - Metal commodities used mainly in industrial production units like Copper, Zinc, Aluminum, Nickel, and Lead.
- Precious Metals - Commodities which are used as an investment and are precious in nature like Gold, and Silver.
- Energy - Commodities which are used as energy source like Crude Oil and Natural Gas.

Commodity	Price Quotation	Lot Size	Tick Size in Rs.	Mini Lot
Gold	Per 10 grams	1 Kg (100 units)	1	10, 8, 1 grams
Silver	Per 1 Kg	30 Kgs	1	5, 1 Kgs
Crude Oil	Per barrel	100 barrel	1	NA
Natural Gas	Per mmbtu	1250 mmbtu	0.10	NA
Copper	Per Kg	1000 Kgs	0.05	250 Kgs
Nickel	Per Kg	250 Kgs	0.10	100 Kgs
Aluminium	Per Kg	5000 Kgs	0.05	1000 Kgs
Lead	Per Kg	5000 Kgs	0.05	1000 Kgs
Zinc	Per Kg	5000 Kgs	0.05	1000 Kgs

Commodity	Price Quotation	Symbol	Tick size	Trading Unit	Lot size
Barley	1 Quintal	BARLEYJPR	0.50	10 MT	100
Chana	1 Quintal	CHARJDDEL	1.00	10 MT	100
Maize	1 Quintal	MAIZYRNZM	1.00	10 MT	100
Wheat	1 Quintal	WHTSMQDELI	1.00	10 MT	100
Gur	40 Kg	GURCHMUZR	0.50	10 MT	250
Cardamom (MCX)	1 Kg	CARDOMOM	0.10	100 Kg	100
Pepper	1 Quintal	PPRMLGKOC	5.00	1 MT	10
Chilli	1 Quintal	CHLL334GTR	2.00	5 MT	50
Coriander	1 Quintal	DHANIYA	1.00	10 MT	100
Turmeric	1 Quintal	TMCFGRNZM	2.00	5 MT	50
Jeera	1 Quintal	JEERAUNJHA	2.50	3 MT	30
Ref. Soya Oil	10 Kg	REFSOYOIL	0.05	10 MT	1000
Soybean	1 Quintal	SYBEANIDR	0.50	10 MT	100
Mustard seed	1 Quintal	RMSEED	1.00	10 MT	100
Castor seed	1 Quintal	CASTORDSA	1.00	10 MT	100
Guargum	1 Quintal	GARGUMJDR	0.10	1 MT	100
Guarseed	1 Quintal	GARSEDJDR	1.00	1 MT	100
Kapas (MCX)	20 Kg	KAPAS	0.10	4 MT	200
Cotton (MCX)	1 Bale	COTTON	1.00	25 bales	25
Mentha Oil (MCX)	1 Kg	MENTHA OIL	0.10	360 Kg	360
Potato	1 Quintal	POTATO	0.10	15 MT	150
Potato (MCX)	1 Quintal	POTATO	0.10	30 MT	300

1 Quintal = 100 Kgs
1 MT (metric ton) = 1000 Kgs

Need of Commodity Trading:

Hedging tool for producers/farmers
Speculative instrument
Investment opportunity in Precious metals
Arbitrage opportunity between Domestic and Foreign commodity markets

Currency

Currency Derivative started in India back on 29th August 2008 by NSE currency derivative segment, currently there are 4 contracts traded in the Currency Derivative segment. RBI and SEBI are the regulators for this Product in India.

Currencies Traded in Indian Currency segment:

- US Dollar-Indian Rupee (USDINR)
- Euro-Indian Rupee (EURINR)
- Pound Sterling-Indian Rupee (GBPINR)
- Japanese Yen-Indian Rupee (JPYINR)

In India all the currencies are pegged to INR and the traders cannot trade in cross currency. GBP vs USD or EUR vs JPY is still not allowed in Indian Currency derivative markets. USDINR is the most widely traded currency.

RBI reference rate - RBI declares a reference rate daily at 12 noon, which acts as the spot price for currency derivative contracts.

Spread/ PIP - Spread is the minimum difference between buyer and seller also known as 'Percentage in point' in International Forex exchanges.

Lot Size – USD, EUR, JPY and GBP, all have a lot size of 1000 and a tick size of 0.0025.

CHAPTER 3: Stock Fundamentals

A stock is a type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. It is also known as "shares" or "equity".

Grouping of Shares:
Stock exchanges have divided the stocks in several groups on the basis of their market capitalization, compliance, volatility etc.

'A' Category shares - The top 200 shares on the basis of merit as prescribed by BSE
'B' Category shares - The remaining shares other than A, Z and T category shares
'T' Category shares - Also known as Trade to Trade (T 2 T) category shares; are those shares which cannot be traded on an intra-day Basis and only a delivery trade can be done in the Equity cash segment
'Z' Category shares - Those shares which have failed to comply with listing requirements, failed to resolve investor complaints or have not provided for their dematerialization of shares to CDSL, NSDL

Trading Volume - In capital markets, volume, or trading volume, is the amount of a security (or a given set of securities, or an entire market) that was traded during a given period of time.
Today's Low - The lowest price at which a stock trades over the course of a trading day is known as Today's Low.
Today's High - The highest price at which a stock trades over the course of a trading day is known as Today's high.
Opening Price - The price at which trading on the securities exchange starts on a particular day, is known as the Opening Price for that day.
Last Traded Price (LTP) – The last price, at which a stock traded at the end of a trading day, is known as the Last Traded Price (LTP).
Closing Price - The closing price of a stock is [not the LTP (Last Traded Price) of the stock but] the average price between 03:00 to 03:30 pm. This calculation takes place between 03:30 to 03:40 pm daily.
Gap-up Opening - If the opening price of a Stock/Index is more than the previous Day's closing prices, it is known as a Gap-up Opening.
Gap-down Opening - If the opening price of a Stock/ Index is less than the previous Day's closing prices, it is known as a Gap-down opening.
Tick size - The minimum movement allowed for a share on either side is called the Tick Size. The tick size in Equity markets is 0.05.
Dividend - A distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders is known as Dividend. Dividends may be in the form of cash, stock or property. Most secure and stable companies offer dividends to their stockholders. Their share prices might not move much, but the dividend attempts to make up for this. High-growth companies rarely offer dividends because all of their profits are reinvested to help sustain higher-than-average growth.

Circuit Breakers: In order to prevent HNI or Super HNI traders take undue advantage of their money power and to reduce the chances of artificial price manipulations, exchanges have put in a price band/ market protection limit or circuit limits on every stock on the exchanges which is calculated on the last closing price of the stock on a daily basis. Daily price bands are applicable on securities as below -
Daily price bands of 5% (either way), daily price bands of 10% (either way) and price bands of 20% (either way). No price bands are applicable on scripts on which derivative (F&O) products are available or scripts included in indices on which derivative products are available.

Example: The closing price of a stock on Friday was 500, the price band currently applicable to the stock is 10%, the upper circuit limit for the stock would be 550 (110% of 500) and lower limit would be 450 (90% of 500).

Circuit limits on Nifty/ Sensex:
The index-based market-wide circuit breaker system applies at 3 stages of the index movement, either way viz. at 10%, 15% and 20%. These circuit breakers when triggered bring about a coordinated trading halt in all equity and equity derivative markets nationwide. The market-wide circuit breakers are triggered by movement of either the BSE Sensex or the NSE S&P CNX Nifty, whichever is breached earlier.

- In case of a 10% movement of either of these indices, there would be a one-hour market halt if the movement takes place before 01:00 pm.
- If the 10% trigger is reached on or after 01:00 pm but before 02:30 pm, there would be trading halt for ½ hour.
- if the 10% trigger is reached on or after 02:30 pm, there will be no trading halt at the 10% level and market shall continue trading.
- In case of a 15% movement of either index, there shall be a two-hour halt if the movement takes place before 01:00 pm.
- If the 15% trigger is reached on or after 01:00 pm but before 02:00 pm, there shall be a one hour halt.
- If the 15% trigger is reached on or after 02:00 pm, the trading shall halt for remainder of the day.
- In case of a 20% movement of the index, trading shall be halted for the remainder of the day.

CHAPTER 4A: Trading Fundamentals - Trading Mechanism Terminologies

Trading & Demat Account - Any trader who wants to trade in Equity markets need to open a Demat and trading account with a SEBI registered Broker/ Sub Broker by filling up a KYC (Know your client) form with necessary documents.

A Trading account is used for the purpose of trading which stores information regarding the Buy, sell price, average price, Limits, Profit and loss statement of the client.

A Demat account acts as a warehouse to store shares bought through the Trading account of the Client; demat account is an electronic account similar to the bank account the only difference being a demat account is used to store Dematerialized shares of a company. DreamGains customer support team can assist you with opening Demat account. Follow the link for more updates.

Margin/ Trading limit/ Exposure - Every Trader is given leverage on the amount of cash and non-cash margin deposited with the member broker, the leverage could range from 4- 8 times on Intra-day basis. Ex: If a client has 50,000 Credit balance in his Trading account he can get limit up to 4 lakh (8 times 50,000). An offline trader normally gets more limit/ leverage than an online trader.

NCL (Non Cash Limit) - Brokers give trading limit not only on the cash available in the trading account of the client but also on the shares deposited with the broker, remember this is only an intraday limit, useful for HNI clients having huge holding with them.

BTST (Buy Today Sell Tomorrow) – It is a technique mainly used to take the advantage of the movement in the stock for 1 day, especially when a news/event is awaited to happen on a particular stock.

STBT (Sell Today Buy Tomorrow) – In this technique, the trader sells a stock today and buys it tomorrow. This CANNOT be done in Cash segment.

Outstanding Order - Any pending order which is not yet executed is known as Outstanding Order. It can be modified or cancelled as required.

Trade Confirmation - A confirmation of trade sent by the exchange is known as Trade Confirmation. It contains a trade number which proves the execution of order.

Order Modification/ Cancellation - Exchanges provide a facility to either modify the price or quantity or completely cancel the existing pending order, but a trade once executed cannot be modified.

Contract Notes - Every investor has a right to get a contract note which is like a bill of his/her trading for the day which mentions everything regarding the trade done for the day, including the name of the share, quantity, time of trade, brokerage levied, net delivery amount, taxes etc. It is suggested that every investor must keep their contract notes with them.

Support - The price point where a stock witnesses buying (demand) and normally stops to fall is known as Support. There could be multiple support price points stating as S1, S2, and S3.

Resistance - The price point where a stock witnesses selling (supply) and normally stops to rise is known as Resistance. Similar to a support point there could be different resistance points – R1, R2, and R3.

Target - Target, as the name suggest is used to book the profits in a trade at a particular price point. Ex: A trader has bought a share @ 500 and decided 510 as a price point where he will exit out of the stock, thereby stopping the profit per share to Rs. 10.

Stop Loss - Stop loss, as the name suggest is to stop or restrict the losses in a trade to a particular price point. Ex: A trader has bought a share @ 500 and decided 490 as a price point where he will exit out of the stock, thereby stopping the loss per share to Rs. 10. DreamGains always suggests to trade with a Stop-loss.

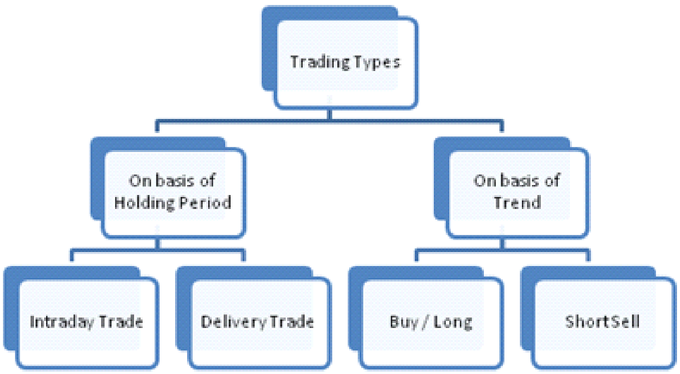
Trigger price - A trigger price is the price which specifies the price point where the order will enter the system and not before that.

CHAPTER 4B: Trading Fundamentals - Trading Modes

Types of Trading

Trading style can be broadly classified into 2 categories:

On the basis of Holding period - Investors/ Traders according to their trading capacity of their analysis either trade and square off their positions Intraday or take a Delivery of the stock.



Intraday Trade - When a trader squares off (closes the transaction) his position during the same trading session, it is known as Intraday trading. Here the trader would get an intraday trading limit/ leverage / exposure on his deposited amount.

Delivery Trade - A trade where the investor does not square off his trading position intraday and carries over his trade for the next trading session, is known as Delivery trading. Normally the client needs to pay full amount of the transaction value and no leveraging benefit is available here. The brokerage too is more than that of Intraday.

On the basis of Trend - Traders can buy or sell the shares and then square off their positions gradually on the basis of trend they perceive on a stock.

Buy/ Long - A trader with a bullish (upward movement) view on the stock buys the share first and then sells. Ex: A trader is bullish on Reliance Industries trading @ 1000, he buys 200 shares at 10:30 am @ 1000 and then sells 200 shares @ 02:00 pm at 1010 (remember it is not always that a client can sell his shares on a profit).

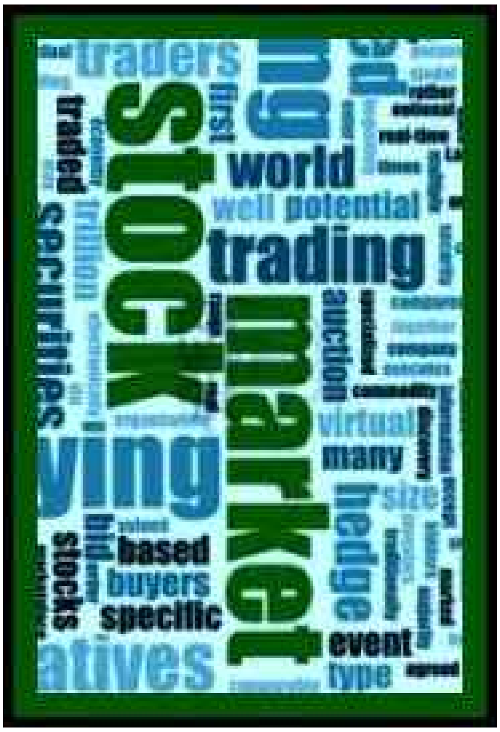
Short Sell - This is a very unique concept, where a trader sells a share first (without having that share in his demat account) and then buys it back. The trader has a bearish view on the stock here. Ex: A trader is bearish on DLF limited, which is currently trading at 250; he sold 800 shares @ 250 at 10:30 am and bought back 800 shares @225 at around 03:00 pm, making a profit of Rs 5000. Here trader has to square off his trading position before the close of market.

Online Trading - Brokers have now developed their in-house Online trading software, which allows the traders to trade from their home, office, travelling etc via a normal computer and internet connection.

Mobile Trading - Now traders who have a mobility access and WAP facility can trade online via their hand held devices like mobile, tablets etc. Every Trading system is connected to Exchange servers via broker's internal server and Risk Management System. Exchanges have clearly prescribed for a dual password mechanism which has a login and a trading password which expires every 14 days.

Offline Trading - Traders who don't wish to trade online or cannot operate computers, visit their broker's dealing room or calls their broker for trading, where a Dealer punches orders for them.

Difference b/w Online and Offline Trading accounts Points of Difference	Online	Offline
Trade execution	Self	Dealer
Trade mode	Desktop/ laptop/Mobile	Phone/ physical visit
Options available	Trading, reports, fund transfer etc	Only trading
Time saving	Huge	Later order punching



CHAPTER 4C: Trading Fundamentals - Types of Order

Order Matching Criteria

Order matching process is a price/ time priority order matching mechanism, where priority is given to price and then time. Ex: Trader 'A' enters an order of buying 100 shares of ABC @ 100 at 09:30 AM and Trader 'B' enters an order of buying 100 shares of ABC @ 100.05 at 10:00 AM.

Here the order of Trader 'B' will get the priority of execution over Trader 'A', but if the price of both Traders would have been equal the time priority would have placed Trader 'A' on top.

Types of Orders

Limit Order - An order (buy/sell) which clearly specifies the price at which the trader wishes to trade is known as Limit Order. DreamGains suggests "Buy Above / Sell Below" (Limit Order) strategies.

Market Order - An order where trader doesn't specifies the prices, and wishes to buy/ sell at the current prevailing market price, is known as Market Order.

SL Order - A Stop Loss Order is used where the trader wishes the order to enter the system when a certain price level occurs on the trading system. Stop loss as the name suggests, is to stop or restrict the losses in a trade to a particular price point.

Ex: A trader has bought a share @ 100 and decided 97 as a price point where he will exit, thereby stopping the loss per share to Rs. 3/share.

Trigger Price - Every stop loss order needs to put in a trigger price, which specifies the price point where the order will enter the system and not before that.

Buy SL Order - A stock is trading @ 100, a trader wants to buy the share above 103, he will be putting a SL order where the Trigger Price is 103 and limit price could either be 103 or 103.10

Sell SL Order - A stock is trading @ 100 and the trader wants to sell the share below 97, he would put the trigger price as 97 and limit price at 97 or 96.95.

Bracket Order - Bracket orders are designed to help limit your loss and lock in a profit by "bracketing" an order with two opposite-side orders.

- BUY Order is bracketed by a high-side sell limit order and a low-side sell stop order
- SELL Order is bracketed by a high-side buy stop order and a low side buy limit order

CHAPTER 5: Brokerage Fundamentals

Every Trader/ Investor has to pay a brokerage for every trade entered via the Trading terminal whether online or offline.

Intraday Brokerage - 0.03% for buying and 0.03% on selling, plus taxes.

Delivery Brokerage - 0.30% for buying and 0.30% for selling, plus taxes.

Although the maximum brokerage which can be charged, according to SEBI should not be more than 2.5% of the trading volume.

Brokerage is levied on the total transaction value. Ex: A trader has bought 1000 shares @100 and sold them @105 in intraday, the brokerage calculation would be

- Buying Brokerage = (1000 *100) * 0.03% = Rs. 30
- Selling Brokerage = (1000 * 105) * 0.03% = 31.50

Various brokerage firms charge brokerage in different ways. Some firms charge on total turn-over (buying and selling), some charge a fixed amount per lot whereas some others charge a fixed amount per month irrespective of number of trades or turn-over. Based on the brokerage charging method and available margin, customer can select the brokerage firm. DreamGains customer support team can assist you with finding the right broker for you and providing advice on short-term/ long-term positions. Just follow the link for more information.

Brokerage and Tax Calculation - Intraday

Buy Side
- Brokerage: 0.01 % to 0.03% (Charged on order amount). It is a broker's income.
- Service Tax: 12.36 % (Charged on brokerage). It is excise department's income.
- NSE / BSE turn over charges: 0.003% (Charged on order amount). It is exchange's income.
- Stamp duty / Notary Tax: 0.002 % (Charged on order amount). It is State Government's income.

Sell Side
- Brokerage: 0.01 % to 0.03% (Charged on order amount). It is broker's income.
- Service Tax: 12.36 % (Charged on brokerage). It is excise department's income.
- NSE / BSE turn over charges: 0.003% (Charged on order amount). It is exchange's income.
- Stamp duty / Notary Tax: 0.002 % (Charged on order amount). It is State Government's income.
- STT Security Transition Tax: 0.0125% (Charged on order amount). It is Central Government's income.

If a client has bought 1000 shares at Rs. 100, then the calculation of charges would be done as follows:

Buy Side
- Brokerage: 30 (0.03 paisa brokerage)
- Service Tax: 3.7
- NSE / BSE turn over charges: 3
- Stamp duty / Notary Tax: 2
- Total Amount: 38.70

If the client has now booked profit at 103, the calculation of charges would be done as follows:

Sell Side
- Brokerage: 30.90
- Service Tax: 3.82
- NSE / BSE turn over charges: 3.09
- Stamp duty / Notary Tax: 2.06
- STT Security Transition Tax: 12.88
- Total Amount: 52.75

Total Charges = Buy + Sell = Rs. 38.70 + Rs. 52.75 = Rs. 91.45

Brokerage and Tax Calculation - Delivery

Buy Side

- Brokerage: 0.3% (Charged on order amount). It is broker's income.
- Service Tax: 12.36 % (Charged on brokerage). It is excise department's income.
- NSE / BSE turn over charges: 0.003% (Charged on order amount). It is exchange's income.
- Stamp duty / Notary Tax: 0.002 % (Charged on order amount). It is State Government's income.

Sell Side

- Brokerage: 0.3% (Charged on order amount). It is broker's income.
- Service Tax: 12.36 % (Charged on brokerage).It is excise department's income.
- NSE / BSE turn over charges: 0.003% (Charged on order amount). It is exchange's income.
- Stamp duty / Notary Tax: 0.002 % (Charged on order amount). It is State Government's income.
- STT Security Transition Tax: 0.0100% (Charged on order amount). It is Central Government's income.

·DP Charge: Rs. 18 to 20/- per script, whether the client sell 1 share or 100 shares as it is the charge to close/ Sell Off a particular trade.

If a client has bought 1000 shares at Rs. 100, the calculation of charges would be done as follows:

Buy Side
- Brokerage: 300 (0.30 paisa brokerage)
- Service Tax: 37.08
- NSE / BSE turn over charges: 3
- Stamp duty / Notary Tax: 2
- Total Amount: 342.08

If the client has now booked profit at 105, the calculation of charges would be done as follows:

Sell Side
- Brokerage: 315
- Service Tax: 38.93
- NSE / BSE turn over charges: 3.15
- Stamp duty / Notary Tax: 2.10
- STT Security Transition Tax: 10.50
- Total Amount: 369.68 (DP Charge excluded)

Total Charges = Buy + Sell = 342.08 + 369.68 = 711.76

CHAPTER 6A: Trading Strategies - Why put a Stop Loss?

What Is a Stop-loss Order?

It is an order placed with a broker to buy or sell once the stock reaches a certain price. The purpose of a stop-loss is to limit a trader's/investor's loss on a script. Example – A trader purchased SBI at Rs. 300 per share and put a stop-loss order for Rs. 295. According to the trade, if the stock price falls below Rs. 295, his shares will be sold at the market price. DreamGains suggests to always trade with a Stop-loss.
Benefits

1. The benefit of a stop-loss order is that you don't have to monitor on a continuous basis about how a particular script is trading in the market. On a lot of occasions (example – you are in a meeting or on a vacation), it will not be possible for you to keep a track of your positions.

2. Stop-loss orders are also used to book profits. In such cases, the stop-loss order is set at a price/percentage level below the current market price (which is in profit at current level). The stop-loss levels can be changed as the script price fluctuates. Using a stop-loss for this purpose allows traders and investors to run in profits while guaranteeing that they book at least some profits in case the stop-loss triggers. Example – In our SBI example, let's say that the current market price has reached to Rs. 315 (i.e. Rs. 15 profit per share). A trader can then (according to his judgment) put a stop-loss at Rs. 310, so that even in case the prices fall down, he will book at least Rs. 10 profit per share. This helps the trader remain bullish on the script; while safe-guarding his profit in case a dip in prices occurs.

3. A stop-loss order costs nothing to be placed. Brokerage is charged only once the stop-loss triggers and the stock is sold.

4. Also, a stop-loss allows the traders/investors to take decisions without any emotional influences. A general tendency of people is to keep believing that if they give their script another couple of days/months, it will rebound to its original price. This, in a majority of cases causes further losses to traders/investors.

Disadvantages

1. The disadvantage of a Stop-loss Order is that the SL (Stop-loss) price could be triggered by a short-term movement in a stock's price. The art lies in selecting a stop-loss that allows your script to fluctuate in small ranges on a daily basis while preventing the risk of getting triggered. There are no strict rules for the levels at which the stop-loss should be put. This completely depends on a trader's trading strategies and style - an active trader might use 5% while a long-term investor might choose 10% or more and some risky traders/investors might choose more than 20% also.

2. When a stop-loss is triggered, the stop-loss order becomes a market order and the price at which your position exits may be much different from the stop-loss price. This becomes more of a risk in a fast-moving market.

3. Yet another disadvantage of a stop-loss order is that in a lot of cases, brokers do not allow to place a stop-loss order on certain scripts.

A stop-loss order is thus a simple strategy, yet there are only a few traders/investors who use it. A stop-loss order is to safe-guard a trader's/investor's interests. You hope you never have to use it, but it's always good to know that you have the protection in case you need it.

CHAPTER 6B: Trading Strategies - Why trade with equal investment in each call?

Trading with equal investment in all calls is a trading strategy, which results into a minimal loss. A brief explanation for same is as mentioned below:

Example 1 –

On Day 1, a trader buys 800 shares of SBI @ Rs. 300/- and exits in profit @ Rs. 310/-.
Investment = Rs. 2,40,000/-
Profit = Rs. 8,000/-

On Day 2, the same trader buys 1000 shares of Axis Bank @ Rs. 450/- (as he had got a good profit on day 1) and exits in a loss @ Rs. 435/-.
Investment = Rs. 4,50,000/-
Loss = Rs. 15,000/-

Trader resulted into a net loss of Rs. 7,000/-.

Example 2 –

On Day 1, a trader buys 800 shares of SBI @ Rs. 300/- and exits in profit @ Rs. 310/-.
Investment = Rs. 2,40,000/-
Profit = Rs. 8,000/-

On Day 2, the same trader buys 533 shares of Axis Bank @ Rs. 450/- (equal investment in all calls strategy) and exits in a loss @ Rs. 435/-.
Investment = (approx.) Rs. 2,40,000/-
Loss = (approx.) Rs. 8,000/-

Trader resulted into a net no profit – no loss.

Over a long period of time (a month or a year), investing equal ion all calls thus yields more returns when compared to random investments (by emotions) of any amounts in these calls.

DreamGains thus suggests “Equal investment in all calls as a golden rule to follow”.

CHAPTER 6C: Importance of above / below level calls

In our earlier chapters you learnt some of our trading strategies, wherein we discussed on why is it essential to put a stop-loss in every call and why is it necessary to invest with equal amount in each call. Our third trading strategy is to trade with “Buy Above and Sell Below” levels.

When a trader buys/sells particular scrip, that buy/sell order should be placed at certain levels based on the technicals. This is essentially important in case you are not a full-time trader.

'Buy Above' indicates that you have to buy scrip above the specified value. If the price reaches that value, then it will gain strength to go further up and reach your target level. Otherwise, if the scrip does not reach buy above level, the scrip may not have strength and hence may go down. Similar is true for 'Sell Below' levels, If the price goes down below that specified level, then it will move further in the downward direction. Otherwise, if the scrip does not reach the sell below level, it may not go down below the level and hence may move upward.

DreamGains as an advisory firm provides Buy Above / Sell Below trading tips only. The reason for this is if you are trading with an advisory firm and they give you a recommendation, you will need a certain amount of time to check your SMS/call and inform about the same to your broker, in case you trade offline. Giving recommendations at market price will lead to you missing out on the trading opportunity.

Also, since buy above and sell below have an advantage of setting the order in advance (either through broker or your terminal), you do not need to wait and watch the market till it reaches that price. Just inform your broker about your entry (buy above or sell below) level, target and stop-loss and you can get busy in your other work. Your broker will put the order in his terminal, and trade will automatically be executed when that price arrives in market and profit/loss will automatically be booked through your target and stop-loss orders.

Buy above and Sell below strategy thus not only indicates good buying/selling levels, but also gives you sufficient time to enter into your positions and the flexibility to trade as per your convenience.

Let's take an example where we have given a recommendation to buy SBI above Rs. 300/-, with a target of Rs. 310/- and a stop-loss of Rs. 290/-. This means that we have to buy SBI at the rate of Rs. 300.05/- or slightly above only. The scrip should not be purchased at any rate lower than this. If you buy the scrip at Rs. 299.95/- also, there is a good chance that the scrip may fall down from there and hit a stop-loss, as it has not broken our given level of Rs. 300/-.

Let's take another example where we have given a recommendation to sell SBI below Rs. 290/-, with a target of Rs. 280/- and a stop-loss of Rs. 300/-. This means that we have to sell SBI at the rate of Rs. 289.95/- or slightly below only. The scrip should not be sold at any rate lower than this. If you sell the scrip at Rs. 290.05/- also, there is a good chance that the scrip may go upward from there and hit a stop-loss, as it has not broken our given level of Rs. 290/-.

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your money, our ideas

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