

Stocks Basic

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1. Need to Invest

Investing your money in assets can generate enough returns to sustain through your life.

Earn: 50 k

Expense: 30k

Saving: 20k

Years	Income	Expense	Cash retained
1	600,000	360,000	240,000
2	660,000	388,800	271,200
3	726,000	419,904	306,096
4	798,600	453,496	345,104
5	878,460	489,776	388,684
6	966,306	528,958	437,348
7	1,062,937	571,275	491,662
8	1,169,230	616,977	552,254
9	1,286,153	666,335	619,818
10	1,414,769	719,642	695,127
11	1,556,245	777,213	779,032
12	1,711,870	839,390	872,480
13	1,883,057	906,541	976,516
14	2,071,363	979,065	1,092,298
15	2,278,499	1,057,390	1,221,109
16	2,506,349	1,141,981	1,364,368
17	2,756,984	1,233,339	1,523,644
18	3,032,682	1,332,006	1,700,676
19	3,335,950	1,438,567	1,897,383
20	3,669,545	1,553,652	2,115,893
Total			17,890,693

Ignore:

10% Increase

Cost of living 10% increase

Investment Example:

Years	Income	Expense	Cash retained	Invest @ 12%
1	600,000	360,000	240,000	2,067,063
2	660,000	388,800	271,200	2,085,519
3	726,000	419,904	306,096	2,101,668
4	798,600	453,496	345,104	2,115,621
5	878,460	489,776	388,684	2,127,487
6	966,306	528,958	437,348	2,137,368
7	1,062,937	571,275	491,662	2,145,363
8	1,169,230	616,977	552,254	2,151,566
9	1,286,153	666,335	619,818	2,156,069
10	1,414,769	719,642	695,127	2,158,959
11	1,556,245	777,213	779,032	2,160,318
12	1,711,870	839,390	872,480	2,160,228
13	1,883,057	906,541	976,516	2,158,765
14	2,071,363	979,065	1,092,298	2,156,003
15	2,278,499	1,057,390	1,221,109	2,152,012

16	2,506,349	1,141,981	1,364,368	2,146,859
17	2,756,984	1,233,339	1,523,644	2,140,611
18	3,032,682	1,332,006	1,700,676	2,133,328
19	3,335,950	1,438,567	1,897,383	2,125,069
20	3,669,545	1,553,652	2,115,893	2,115,893
			Total	42,695,771

Key-points of Investing:

- Fight inflation
- Create Wealth
- Meet financial goals

Assets and Liabilities

Types of Investments - Popular assets :

- Fixed Income
- Equity
- Real Estate
- Gold

A. Fixed Income

Sources of fixed income:

- Bank fixed deposit
- Government bonds like Indian Railways, NTPC
- Bonds issued by private companies like TATA, Muthoot Finance, Mahindra Finance.

Interest rate btw 7 to 10%

B. Equity

BSE and NSE

Compound Annual Growth Rate (CAGR) : 14 to 15%

Longterm : anything above 365 days

Longterm tax: 10 %

First one lakh is exempted from tax

CAGR: 20% min

C. Real Estate:

- Commercial property
- Non Commercial Property
- Appts
- Farms
- Lands

2 income instruments:

Rental income

Capital Appreciation of Property

D. Gold

Rate of return: 7 to 8 %

Instruments:

- Jewellery
- Sovereign Gold Bond
- Gold Exchange Traded Funds
- Government Issued Gold Bonds

Popular because one of the safest option

Bullion: investment in gold and silver

Asset Allocation: The technique of allocating money across assets

Financial Regulators and Intermediaries : Anyone who transacts in the stock market is a participant.

Two types of participants:

Individual and Corporate

Domestic retail participant

NRI and OCI

Domestic Institutions : LIC, Asset Managements Companies (AMC)

Foreign Institutional

All have same agenda: to make profit

Regulator: Securities and Exchange Board of India

Objectives of SEBI:

- Promote the development of stock exchange
- Protect the interest of retail investors
- Regulate the activities in stock
- Financial Intermediaries

Depository acts like Vaults for the share

Dematerialised Account can be linked to 2 banks.

CDSL: Central Deposit Service Limited

NSDL: National Security Depository Limited

Depository Participant: agent who communicates between BSE, NSE and CDSL and keeps logs transactions.

Clearing Corporations: subsidiary of NSE and BSE. Its job is to ensure guaranteed settlement of your transaction.

NSCCL: National Security Clearing Corporations Limited

ICCL: Indian Clearing Corporations Limited

IPO Market

5000 companies in BSE

NSE 1660

Different ways to raise fund:

- Borrow from bank
- Borrow from domestic institution
- Borrow from overseas
- Private Transaction
- List shares by filing an IPO

Reasons to file an IPO:

- Capital Expenditure (CAPEX):
A company may need fund for an existing project or new project.
- Repay debt
- Provide exit

Merchant Bankers (Book Running Lead Managers - BRLM)

Any company who wishes to file an IPO must have a merchant bank.

Their purpose is to help company for advertising

Steps of IPO:

Phase 1:

- Appointing a merchant banker
- For a large issue, multiple merchant bankers are appointment
- Inform SEBI about registration statement (includes background and reason to go public), SEBI reviews this registration and decide the worthiness. SEBI can request additional details of IPO.
- Company puts out Draft Red Hearing Prospectus (DRHP) - public open

Content of DRHP:

- Size of IPO
- Number of shares offered for the public
- Reason for IPO
- Fund Utilisation Plan
- Business Description
- Revenue Model
- Expenditure Details
- Complete Financial Statements
- Management's view on business prospects
- Risk involved in running business

Phase 2:

- IPO promotion
- Price range
- Book building: reason for price
- Closure
- Listing Day

IPO Subscription

CAGR Formula:

T+2 settlement: The number of days it takes to credit the shares in the DEMAT account.

Holding period: period over which you intend to hold the shares

Absolute return: the return that the trade or investment has generated.

Rate of return : $(\text{ending period value} / \text{starting period value} - 1) * 100$

Market Index: The important companies which are preselected and monitored continuously to give you a sense of how the broader markets are performing.

S&P BSE Sensex (standard & poor) : represents BSE (top 30 companies)
Nifty : represent NSE (top 50 companies)

India Index Service and Product Limited (IISL) manages these indices.

Ideal Index represents whole economy comprising different sectors and economies.

FF: Index could be up this minute and down the next minute leaving you completely confused.

Index application: reflects the market trend for a selected period.

Index Trading: Popular form of trading

Portfolio Hedging: Large companies buy 10 to 12 stocks from index funds to keep their offering stable and grow at market values.

Index Construction: whichever stock outperforms in the market is listed in index.

Market Capitalisation: the total dollar market value of a company's outstanding shares of stock

Free Float Market Capitalisation (FFMC) : Product of the total number of shares outstanding in the market. Weight are assigned based on FFMC of the company. Larger the market capitalisation, higher the weight.

Face Values: price of share.

Long Position: reference to the direction of the trade. It is the position in the market where you stand to benefit from the increasing price.

Short position: it is to going short.

Bullish: bull market - optimist

Bearish: bear market - pessimist

Trend: upwards or downwards of trade

All time high and all time low

Square off: indicates that you intend to close an existing position. Sell stock.

Open High Low Close

Volume: number of shares exchanged. Represent transaction for both buy and sell for a particular stock on particular.

Market segment: It is division within which a certain type of financial instrument is traded. Each financial instrument is categorised by its risk and reward parameters.

Stock exchange operates 3 main segments:

- Capital market segment (equity and ETF)
- Future and Options segment
- Whole sale debt market (government securities and bonds)

Trading Terminal:

Ways to trade stocks:

- call and trade
- Do it yourself

2 types of trading terminal:

- Browser based
- Software based

Logging process:

Cash , stock in demat account , trading positions.

2FA mandatory to logging.

Market Watch: up and down of portfolio in percentage. It is available on dashboard of any trading platform.

Features of Market Watch:

- Shows Last Traded Price of stock
- Percentage change in percent

Buying and selling stock via terminal

Margin Intraday Square off (MIS) and CNC (Cash and Carry)

Bid and Offer: bid is to buy and offer is to sell.

Features of Tt:

- 2fa logging process
- Market watch (LTP and percent change)
- Dashboard
- Buy order form (qty, limit price, SL, trigger price, market order)
- Market depth (OHLC, bid, ask, previous close)
- Order book (modification and cancellation)
- Trade book

Trade Day (T-day)

Contract Note : bill in the stockbroking world.

T+1: the day after you carry out a transaction. On this day, you can sell a stock you bought on the previous day. If you do so, you are making a quick trade (buy today sell tomorrow - BTST or acquire today sell tomorrow - ATST)

Risk in BTST is that you are selling a stock that you don't own yet. NOTE: Avoid this type of trade.

T+2: Shares are credited in DEMAT account. And these shares are available for transaction on T+3 day.

Settlement for sale transaction.

Corporate Actions: Initiative by companies to reward their shareholders.

Rewards types:

- Dividend: cash pay out.
- Dividend cycle

Dividend declaration: AGM(annual general meeting) decides when to give dividends.

Dividend ex date: Check for T+2 day

Dividend record date: list of eligible shareholders is made

Dividend pay out date: money is deposited in bank account

CUM Dividend: time period between dividend declaration and ex date.

Interim dividend: dividend that are given the financial year. If dividend is paid at the end of the financial year, it is final dividend.

Issues in corporate actions:

Bonus Issue: an offer given to existing shareholders to subscribe for additional shares.

Stock Split: when company decided to split the value of the stock

Right Issue: Company approaches existing shareholders instead of second IPO.

Buyback: Technique by a company to invest in itself by buying other shares from other investors.

Market Event.

RBI rates:

- Repo rate: 6.5%
- Reserve Repo Rate: 6.25%
- CRR(Cash Reserve Ratio)

Inflation Rate:

- Measured with index
- Wholesale Price Index (WPI)
- Consumer Price Index (CPI)
- Index of Industrial Production (IIP): short term indicator of progress in industrial sector. Data released every month by MOSPI (Ministry of Statistic and Program Implementation)