Paper on entry in the world of Trading for complete beginners.

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15th of June 2024

Disclaimer notice

Welcome to your step into entering the stock market and maybe after going through the whole paper you would become confident enough to not shiver and shrug the idea of earning a few bucks from the stock market. A more casual and precise intro will follow.

This paper is written taking considering the Indian Stock landscape and includes examples from the Indian subcontinent market only, but the idea and knowledge is somewhat applicable to markets all over the world, with some tweaks here and there.

This paper is written with the understanding that the author is not engaged in rendering legal, accounting, or any kind of advice while publicising this paper. Each individual’s risk appetite might differ depending on the past experience, income streams, responsibilities and the mindset while entering the market. All the ideas, opinion, charts, information or examples are only for informational and educational purposes only and should not be considered as a recommendation to invest and trade in the market. The author disclaims any liability, loss, or risk resulting, directly or indirectly, from the user or application of any contents of the book.

Technical analysis is based on the past analysis of the market and to corelate with certainty would be a far-fetched assumption. Refrain yourself from getting into the market with this thought process.

Note from the author

First and foremost, I would like to take this opportunity to thank you all for reading my research paper and would like to acknowledge the fact that I would make sure that this read turns out fruitful to you.

I am Garv Roy Choudhury, a Btech student in the Indian Institute of Technology, Guwahati, India. I my writing this paper as a fellow finance enthusiast and a avid stock trader, who has been learning about the nitty-gritties since the past 3 years, and this makes me nothing more than an intermediate myself.

This Research paper is more of a blog kind, where I too teach you to the fullest, but off course a blog can’t be this long, so consider this to be somewhat in between the two and enjoy the interactive and easy to understand language of this paper.

The main purpose of writing this paper was to make it easier for the beginners to enter the market and remove the fear of the market. I wrote this for the people to understand in a manner which comes naturally to them and easier to grasp, but be warned I too am not the most successful person in this domain.

So why would you read a paper written by someone like me? I will try to convince you by giving two reasons. Firstly, I went through the whole process of learning on my own from the early age of 16(I am 19 as off now) and it took me 3 years to understand the market to an extent where I can book profit on most of my trades and therefore, I have recent experience of what a beginner might face upon entering this so-called tough terrain. Secondly, I am constantly trying to help others and make sure that the readers are fed well and up-to date information plus I am motivated to make it as easy as possible for you guys.

I as a trader am involved in the long term and short-term investment (they are based upon the holding period which would be discussed later on) as well as occasionally do intraday trading (if my schedule permits me to).

I hope this will be a worth reading paper and would be highly beneficial to the novice traders.

Thanks a lot!

Garv roy choudhury

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Acknowledgement

I have written this paper after 3 years of my experience and after scouting through multiple articles, books, and by taking a Platero of courses online. The book was written based on the inputs gained from these books, courses and articles.

I would like to thank all of them and would provide a bibliography at the end of the paper with all links.

Introduction and History of the market

This is going to be a brief introduction to the market and what really is it plus some insights on the history of the stock market.

To term it simply in layman language it is a place where company, can be big or small come for the buyers to sell some part of the company, known as dissolved equity. Similarly, a person may already own some equity in a company and would like to get rid of it and again to find a buyer would have to come knocking at the doors of the stock market.

Hence it is place where the commodity being sold is the equity of some x, y, z company, and the people involved in the process of buying and simultaneously selling are known as stock traders. The commodity, that is the equity while being sold in the market is termed as a share.

Now let me introduce you to more basic terminologies which you will hear on a regular basis, lets start with SEBI or the securities and exchange board of India. SEBI is a central institution of India which regulates the market within India. All companies have to submit their detailed report to SEBI on a quarterly basis after they have been enlisted into SEBI.

Now coming to NSE and BSE, they are the stock exchanges or in other words they are the markets where the traders come to exchange the commodities (share). NSE stands for National Stock Exchange and BSE stands for Bombay Stock Exchange and they act as separate institutes through which a trader may buy/sell the share. The official working time of the exchange is from 9:15 AM to 3:30 PM and this is the only time frame where we can actually buy or sell a stock. The exchanges are also subject to holidays and weekends.

Understanding another important term, the stockbroker. How do you think the buying and selling of the goods happen? There might be 1000 sellers and 1000 buyers for just one particular share and all of them reaching the NSE office to carry out the trade would be an extremely messy affair and hence the stockbrokers come into place, it is through a variety of stockbroker one might want to conclude the trade, and to perform the trade on behalf of the people, the stockbrokers take something known as brokerage, which is a percentage of profit or a fixed capital that has to be paid, the mode and the brokerage fees will vary depending upon the reputation and the functionality the broker provides. Some examples of renowned stockbrokers of our nation are Zerodha, Groww, Upstox, AngelOne ect….

Another pair of terminologies are buy and sell order which is nothing but an instruction to the stockbroker to perform a trade, either buy or sell a particular commodity. The important thing is to understand that the price of a share of a company is everchanging, understand this, a particular commodity has hundreds of buyers and sellers wiling to buy and sell simultaneously and the NSE/BSE handles all these orders at real time using huge databases and high clock speed systems and therefore the price of the stock is volatile, or everchanging. Try this out for yourself, pick any companies stock or any registered index and check the price of the share from time to time, you would understand what I meant by volatile.

The process of fast paced trades happening and the graph generated on your screens is known as the price action graph which is the variation of the stock price with the volume and time. A seasoned trader can pick a lot of data about a stock just by going through the price action for a while, and this is exactly what we will also be aiming to achieve.

Alas, we have understood all the major and basic terminologies of the stock market and its landscape in India. I am pretty sure that by now you must have been exhausted by all these overwhelming terminologies, and taking this into consideration I will make it a simple for you guys by taking you into a history tour of the stock markets and how it came into being.

The first modern stock market is generally considered to be the Amsterdam Stock Exchange, which was established in 1611. The Dutch East India Company was the first publicly traded company on the exchange, selling stock to raise capital and paying dividends to investors. The exchange introduced formal trading of company shares and bonds, and many elements of modern stock exchanges.

In 1792, NYSE acquires its first traded securities. In 1817, the constitution of the New York Stock and Exchange Board is adopted. It had also been established by the New York brokers as a formal organization. In 1863, the name changed to the New York Stock Exchange. Fun fact, the NYSE is the largest stock exchange in the world as of now.

Now coming to our vibrant nation of India. 1986: On 1st January this year, BSE SENSEX, a 30-share index was established. This was the country’s first equity index with base year as 1978-79 and base value of 100. 1992: The National Stock Exchange of India Limited (NSE) was established. It was around the same time that interest in stock market spiked sharply, thanks to the bull market led by Harshad Mehta.

Now that the history lesson is over let us get back to the main deal of this paper, that is understanding the market in an elaborate and well-structured manner.

For the next part we will move on to the next section which will be more towards the Indian scene of the market and its nitty-gritties.

Till then consider giving yourself a small task of scavenging the internet in order to get to more about the terminologies and the history of the market, and don’t get rattled by enigmatic terminologies, let me leave you with this: The members of the NYSE after multiplying their wealth quickly using the stock market wanted to secure their position and did not want new entrants into the market and made bewildering words for the simplest of terms in order to frighten the new players into dropping the idea of becoming a trader, funny isn’t it ? The same is applicable to you as well, the terms are actually not that difficult as they might sound and through perseverance one will definitely cope.

Indian Stock Market

Let’s start with something new, as already discussed, there are two major stock exchanges in our nation, the NSE and the BSE and both of them provide something known as the index.

Indices is nothing but a bucket of stocks of stocks already created by the stock exchanges and you might have heard terms like NIFTY and SENSEX, as they are the first words of any headline related to the stock market. Let us quickly understand both of them. They are simply nothing but indexes of the NSE and BSE respectively.

NIFTY is the main index of NSE and is a bag of 50 biggest blue-chip companies enlisted in the SEBI, blue chip you might ask are the companies which are already matured and the best performing in the nation in terms of the market capitalisation and namesake, some of the companies in the NIFTY basket are Reliance Industries, TCS, HDFC, JSW and Tata steel, ITC, Axis, Adani ports and SEZ’s etc…. so, it is a bag with the best performing stocks of the nation and provides a lot of diversity as it contains stocks from the banking, construction, manufacturing, telecom, service sectors.

SENSEX is the NIFTY but for BSE, that is it is a bag which is created by the BSE and is very much similar to the NIFTY. SENSEX is also one of the costliest indices to invest in India (At the time of writing this paper it is hovering around 76992 points).

Some other examples for indices in India are NIFTY Bank, S&P 500 BSE, NIFTY 500, NIFTY midcap 200, BSE 200 Midcap etc, and not just India indices are given out by all the exchanges around the world like NASDAQ composite, S&P 500(NYSE), NYSE composite etc.

The question here is why is understanding indices so important, the reason lies in their safe returns and continuous payout to its investors. Let me introduce a investment plan to you guys now, the 50:30:20 rule which states that 50% of the salary is to utilised to meet the daily needs, 20% of the salary on luxuries and miscellaneous payments other than the needs and the rest 30% in savings. This is to used when you cannot make investments on a regular basis and don’t want to get into the hassle of managing your savings/investments.

The investments must be made in a manner in which you invest 30% of the savings on the major indices of our nation, another 30% in buying a good mutual funds and SIP (we won’t be going into what these are for that I will have to write another paper on MF selection.), 10% in green bonds, gold bonds, Crypto currency (if you are into those kinds of things) etc and the last 30% in a FD account it being the safest source if income but at a rather slow and money can only be liquified after its maturity. As investors we just hope that the money invested in the indices returns more than FD or else it would be a worth less investment.

Be advised that even after so many articles on indices being on a bull run for the past few years doesn’t guarantee anything, after all the performance of the indices is based on the performance of the company and the failure or crash of the market will definitely take its toll on the indices as well, hence even while being invested in the indices be vigilant enough and keep a close eye over the market and the news and don’t blindly depend on the indices to generate money for you. Anyways we will be going through multiple ways to mitigate the extent of the risks taken.

Now that we have thoroughly discussed all about indices let us move to the next important aspect of the Indian stock market. The Indian stock market provides multiple ways for one to earn/lose the money like equity ownership, derivatives which includes options and futures, bonds and forex on the Indian Rupee. We will go through all these terminologies in the following sections.

For now, we would be moving to the next section, and you can treat yourselves with a visit to the internet to understand a little bit more about the indices around the world if you will to.

Ways to generate money in the Indian market

In the previous section we ended our discussion by introducing some new terminologies like options, futures, bonds, forex etc. The are all the different ways to generate an income from the market without the involvement of a third party like a bank (FD, SIP and MF). We will be briefly discussing about these and introduce the concept of long, short, intraday trading in this section of the paper.

Starting from something which you might have understood by now, that is equity trading which in layman terms includes long, short and intraday trades (in subsequent section we will understand that option/futures are also equity trading, just a different manner.).

Long- and short-term investments are purchasing a stock and then depending on the time frame, and keeping a close eye over the market and selling them at appropriate time to maximize the gain or minimize the loss when the market rallies opposite to the direction of prediction, and the process of shorting or short selling is not allowed in the long- or short-term investing. We will go in details of shorting in the intraday day section. The period for which you hold the equity is completely on you that is you can own the commodity for as long as you want.

Coming to intraday trading, it is the process very much similar to long-short term investments but all the trades must be completed on the particular trading day. Hence if in the intraday trading domain after buying a share you must sell it on the same day at desired time but before the end bell, or else the stockbroker will make an automatic trade at the closing price which on multiple occasions takes a dip at the end of the day and cause money leaking issue. Even you can get involved in shorting the share and gaining from the downtrend and at the end of the trading day the shorted share returns back to the lender. We will understand the process of shorting in detail in the subsequent intraday section.

I have given you all an overview of the most basic way to earn money in the market, now diving into a little difficult terrain to earn an income/

F/O! this is a realm that most of the players are non-willing to enter as it has the potential to generate unlimited wealth and unlimited loss as well. Due to its high-risk sand high reward mechanism, traders seem to distance themselves from this domain. I myself don’t get involved too much into dividends as I still consider myself as an intermediate trader but I promised to make all the domains as clear as I possibly can.

Dividends, you may ask is the umbrella under which both option and future lie. Options and futures are like a promise to purchase the share in the future and can be used when you are predicting the market to go up or go downS