STOCK MARKET ANALYSIS

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INTRODUCTION

'The stock market is a device for transferring money from impatient to patient'- Warren Buffet also known as the Oracle of Omaha

Let me start by giving some real life examples after which you won't be able to stop yourself from reading further.

As an Indian if you want some examples from Indian Markets you can't forget Rakesh Jhunjhunwala who started with just 100Rs in the BSE and now has a net worth of around 16,627 crores.

In modern world most of the people are fond of web series one of them the '**Scam 1992**' series will also excite you in stock market.

I will try to give real life examples wherever possible as I personally feel it to be the best way to understand something .

1. INTRODUCTION TO STOCK MARKET

- ## WHAT ?

Stock market is a place where people buy/sell shares of publicly listed companies. It offers a platform to facilitate seamless exchange of shares. The Indian stock market is open from 9:15 AM to 03:30 PM. During the 6 hours 15-minute market session, there are millions of trades that take place.

There are two main stock exchanges in India where majority of the trades take place

- **Bombay Stock Exchange (BSE)** - BSE is Asia's first as well as the oldest stock exchange in India. It was established in 1875 and is located in Mumbai. BSE Sensex is the flagship index of BSE. It measures the performance of the 30 largest, most liquid and financially stable companies across key sectors. A total of around 5656 companies is listed on BSE till April 2021.

- **National Stock Exchange (NSE)** - NSE is the leading stock exchange in India where one can buy/sell shares of publicly listed companies. It was established in the year 1992 and is located in Mumbai. NSE has a flagship index named as NIFTY50. The index comprises of the top 50 companies based on its trading volume and market capitalisation.

Regulator of the Indian Stock Market

Securities Exchange Board of India (SEBI) is the regulatory body of the Indian Stock Markets. The main objective of SEBI is to safeguard the interest of retail investors, promote the development of stock exchanges, and regulate the activities of financial intermediaries and investors in the market.

Stock Broker

A stock broker also known as a dealer is a professional individual who buys/sells shares on behalf of its clients. A stock broker is registered as a trading member with the stock exchange and holds a stock broking license.

- WHY ?

For a reference less than 1% of the total population of India currently invests in stock markets the major reason for this being the lack of knowledge and guidance. The biggest myth being that it's very risky.

The majority of population is currently just saving the money in banks at a mere 3-4% rate of interest in savings account and 6-8% on FD. Let me list some of its benefits :

- **Potentially High Returns**
- **Win the race against inflation**
- **Simple and Flexible**

Here are some examples to show the power of stock market:

Bajaj Finance, a non-banking finance company, between December 2009 and December 2019 gave 13,000% returns in its stock.

Now let me give a recent example:

You must have heard about **Gautam Adani** (the second richest Asian on May 21 ,2021)

Adani Group Companies have been among the biggest beneficiaries of the post pandemic rally seeing a jump of about 6.5 times in m-cap since March 2020.

Therefore the one thing that I want to show here using both these examples is that stock market can be seen as a short as well as long term investment option.

- HOW ?

Now let's address the most important part in stock market which is how to invest in stock market :

- The first step is that you have to 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. For example you must have heard or seen the Advertisement of Groww app .

- The broker or the stock brokerage platform opens a demat account for you. A demat account holds the financial securities in your name.

- These two accounts are then linked to your bank account.

- Once open, you can trade with your broker or brokerage company online via a portal or offline via phone calls.

There are some charges that you have to pay during a transaction as listed below:

- **Brokerage**
- **Security Transaction Charges**
- **Transaction Charges**
- **GST**
- **Stamp Charges**
- **SEBI Charges**

Some of the charges may vary depending on the platform one is using .

2. Basic Terminologies

So now as we are familiar with some of the basics of stock market let's dive deep into the world of stock market . Firstly let us start with some of the basic terminologies used in the stock market. I will explain some of the terms which might be hard to understand in a bit more detail .

- ***Open-*** The price at which a stock started trading when the opening bell rang.
- ***High-*** The highest price at which a stock traded during a period
- ***Low-*** The lowest price of the period.
- ***Close-*** The price of an individual stock when the stock exchange closed shop for the day.
- ***Bid-*** The highest price someone is willing to pay for a share.
- ***Ask-*** The lowest price someone is willing to sell a share.
- ***Spread-*** The difference between bid and ask.
- ***Trading volume-*** Trading volume is a measure of how much of a given financial asset has traded in a period of time. For stocks, volume is measured in the number of shares traded and, for futures and options, it is based on how many contracts have changed hands.
- ***Moving Average-*** A stock's average price-per-share during a specific period of time is called its moving average.
- ***Bull market-*** If the stock market index is going up during a particular time period.
- ***Bear market-*** If the stock market index is going down during a particular time period.

- ***Long position -*** Investors take a long position in the stock market when they buy stocks and hold on to them, believing prices will increase. Going long indicates you're bullish about an asset's future.

- ***Short position -*** The Short Position is a technique used when an investor anticipates that the value of a stock will decrease in the short term, perhaps in the next few days or weeks. In a short sell transaction the investor borrows the shares of stock from the investment firm to sell to another investor. Of course, the investor must eventually return the stock they borrow. The intent is to borrow the stock for sale at a high price, then buy them back later at a lower price to and return them to the stockbroker.

- ***Square Off -*** Squaring off is a trading style used by investors/traders mostly in day trading, in which a trader buys or sells a particular quantity of an asset (mostly stocks) and later in the day reverses the transaction, in the hope of earning a profit (price difference net of broker charges and tax).

- ***Liquidity-*** Liquidity describes the degree to which an asset can be quickly bought or sold in the market at a price reflecting its intrinsic value. Cash is universally considered the most liquid asset because it can most quickly and easily be converted into other assets.

- ***Dividends-*** Dividend refers to a reward, cash or otherwise, that a company gives to its shareholders. Dividend is usually a part of the profit that the company shares with its shareholders.

- ***Bonus Issue-*** A bonus issue is a stock dividend, allotted by the company to reward the shareholders. These are free shares that the shareholders receive against shares that they currently hold.

- ***Stock Split-*** A stock split is when a company divides the existing shares of its stock into multiple new shares to boost the stock's liquidity.

- ***Asset-*** Everything a company or person owns, including money, securities, equipment and real estate.

- ***Liability-*** The debts and obligations of a company or an individual. Current liabilities are depts due and payable within one year. Long-term liabilities are those payable after one year.

3. IPO MARKETS

An IPO is the first sale or offering of a stock by a company to the public. It happens when a company decides to go public rather than remain solely owned by private or inside investors. Although it may seem an easy process, but actually a company has to go through a lot of funding processes through major investors and after that huge formal procedures prescribed by SEBI before it get registered in the stock exchange.

The basic question that comes in everyone's mind is why do companies go public. The simplest answer being is to raise funds for CAPEX requirement.

As a customer we shall not go in much detail of how an IPO is initialized. The important things in which a buyer of a stock is interested:

- **Look at the valuation**
- **Strong Promoters**
- **Financial health of the company**

Though there are many more factors which play a role before deciding whether to buy a given IPO or not but these are some of the most important ones.

Now let's see some examples of IPOs in Indian Stock Market:

HDFC Standard Life Insurance IPO

- IPO year:2017
- IPO value: Rs 8,695.01 crore
- Issue date: 7th to 9th November 2017
- Listing date: 17th November 2017
- Price Per Share: Rs 275 to 290
- Current Price Per Share: Rs682.10
- Current Market Cap: Rs137,816 Crore

AS ON June 14, 2021.Though this is an example of a successful IPO around 7 out of the 9 biggest IPOs of India are currently trading below there issue price which itself indicates the need to gain knowledge before investing blindly seeing the name and size of the IPO.

A future IPO release that might attract your attention is LIC in 2021-22 with a tentative issue size of 70,000 Crores .

4. Technical Analysis

The biggest advantage of technical analysis is that one can you only need to learn technical analysis once. Once you do so, you can apply TA's concept on any asset class – equities, commodities, foreign exchange, fixed income, etc. The open, high, low, close prices are the main data points from the technical analysis perspective. Each of these prices has to be plotted on the chart and analyzed.

Some assumptions are made in technical analysis as listed below:

- ***The 'how' is more important than 'why'***
- ***Price moves in trend***
- ***History tends to repeat itself***

To study a particular stock we use charts . There are 3 types of charts namely:

1. ***Line chart***
2. ***Bar chart***
3. ***Japanese Candlestick***

Mainly we use Japanese Candlesticks to study a particular stock cause it let us plot all four prices (not possible in line chart) for long time interval (not possible in bar chart) in the same chart .

Though there are several types of candlesticks the assumptions followed in almost all of them are same :

- ***Buy strength and sell weakness***
- ***Be flexible with patterns***
- ***Look for a prior trend***

The Resistance and Support

The resistance is one of the critical technical analysis tools which market participants look at in a rising market. The resistance often acts as a trigger to sell.

The support is one of the critical technical level market participants look for in a falling market. The support often acts as a trigger to buy.

The support and resistance lines are only indicative of a possible reversal of prices. They by no means should be taken for ascertain. Like anything else in technical analysis, one should weigh the possibility of an event occurring (based on patterns) in terms of probability.

Indicators

Indicators are independent trading systems introduced to the world by successful traders. Indicators are built on preset logic using which traders can supplement their technical study (candlesticks, volumes, S&R) to arrive at a trading decision. Indicators help in buying, selling, confirming trends, and sometimes predicting trends.

The Dow Theory

The Dow theory is a financial theory that says the market is in an upward trend if one of its averages (i.e. industrials or transportation) advances above a previous important high and is accompanied or followed by a similar advance in the other average. For example, if the Dow Jones Industrial Average (DJIA) climbs to an intermediate high, the Dow Jones Transportation Average (DJTA) is expected to follow suit within a reasonable period of time.

5. Fundamental Analysis

Now if you are a long term investor and don't have the time to look daily into the stock market then this is the section you should be most interested in. The tools used in the fundamental analysis are as follows :

- **Company's Annual Report**
- **Industry Related Data**
- **Access to the News**
- **MS Excel**

An investible grade company has a few distinguishable characteristics. These characteristics can be classified under two heads:

1. ***Qualitative aspect*** – As the name suggests it mainly involves understanding the non-numeric aspects of the business. This includes many factors, such as:
    - **Business ethics**
    - **Management's background**
    - **Share transactions**
    - **Shareholders**
    - **Political affiliation**
    - **Promoter lifestyle**
    - **Salaries paid to promoters**

2. ***Quantitative aspect*** – These are matters related to financial numbers. Quantitative aspects include many things, to name a few:
    - **Profitability and its growth**
    - **Matters related to taxes**
    - **Investments**
    - **Asset growth**
    - **Debt**
    - **Financial ratios**
    - **Dividend payout**

Though many people consider the qualitative aspect more important than the quantitative aspect I personally feel though it may be more important but for common people sometimes it might not be possible to get the complete insight about any company so for them definitely quantitative aspect becomes a more important tool.

Now if someone would be wondering that how will he/she will get the quantitative data of a company then the answer is **Annual Report (AR)** which is easily available on most company's website as a PDF document, or one can contact the company to get a hard copy of the same. The annual report contains everything that you will be needing to see the quantitative aspects of a company. Many people feel that they should be from the commerce background to be able to read the annual report but that is not the case anyone can read the annual report on their own.

The three main things to look for in an annual report to analyse the quantitative aspects are listed below:

1. ***The Profit and Loss statement***
2. ***The Balance Sheet***
3. ***The Cash flow statement***

Now with all this knowledge we are all set to get an idea on how to select a stock. So first of all, how do we generate a list of stocks that seems interesting enough to investigate further? Well, there are a few methods to do this –

- **General Observation**
- **Stock Screener**
- **Macro Trends**
- **Sectoral Trends**
- **Special Situation**
- **Circle of Competence**

Due Diligence

The equity research due diligence process involves the following stages–

1. Understanding the business – requires reading the annual reports
2. Application of the checklist and
3. Valuation – to estimate the intrinsic value of the business

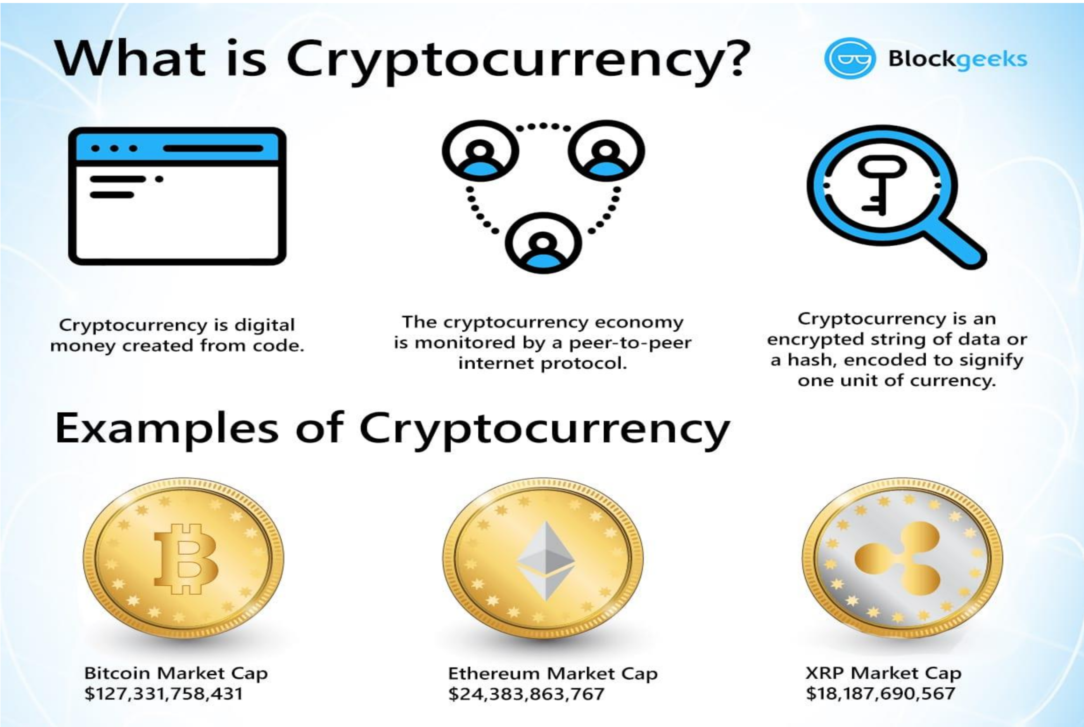
The most popular valuation method is called the “**Discounted Cash Flow (DCF) Analysis**”.

6. Cryptocurrency

A blockchain, originally block chain, is a growing list of records, called blocks, that are linked using cryptography. Each block contains a cryptographic hash of the previous block, a timestamp, and transaction data.

A cryptocurrency is a tradable digital asset or digital form of money, built on blockchain technology that only exists online. Cryptocurrencies use cryptography to verify and secure transactions, hence their name. There are currently well over one thousand different cryptocurrencies in the world and many people see them as the lynchpin of a fairer, future economy.

The major difference between cryptocurrencies and traditional financial models is in the decentralized nature of cryptocurrencies. What this means is that when you spend a cryptocurrency, the approval of the transaction does not come from one central authority, like a bank or PayPal, but rather from a Peer-to-Peer network of computers, coming to a consensus that your transaction is legitimate.



Bitcoin

Bitcoin is a digital currency created in January 2009. It follows the ideas set out in a white paper by the mysterious Satoshi Nakamoto, whose true identity has yet to be verified. Bitcoin offers the promise of lower transaction fees than traditional online payment mechanisms and is operated by a decentralized authority, unlike government-issued currencies.

Bitcoin is a type of cryptocurrency: Balances are kept using public and private "keys," which are long strings of numbers and letters linked through the mathematical encryption algorithm that was used to create them. The public key (comparable to a bank account number) serves as the address which is published to the world and to which others may send bitcoins.

Bitcoin is one of the first digital currencies to use peer-to-peer technology to facilitate instant payments. The independent individuals and companies who own the governing computing power and participate in the Bitcoin network, also known as "miners," are motivated by rewards (the release of new bitcoin) and transaction fees paid in bitcoin. These miners can be thought of as the decentralized authority enforcing the credibility of the Bitcoin network.

Bitcoin mining is the process through which bitcoins are released to come into circulation. Basically, it involves solving a computationally difficult puzzle to discover a new block, which is added to the blockchain and receiving a reward in the form of a few bitcoins.

Bitcoins are stored in a “digital wallet,” which exists either in the cloud or on a user’s computer. The wallet is a kind of virtual bank account that allows users to send or receive bitcoins, pay for goods or save their money. Unlike bank accounts, bitcoin wallets are not insured by the FDIC.

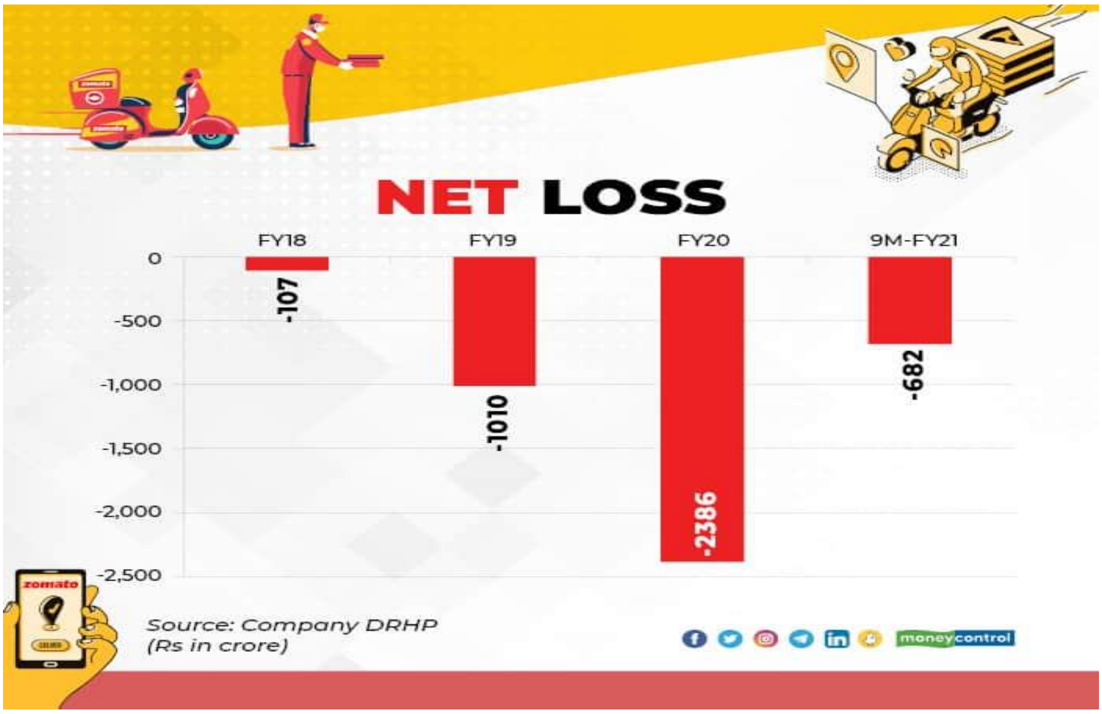
7. Future Planning

With all the knowledge part done you are now all set to invest in the stock market. Indian economy is one of the fastest-growing economies in the world and is expected to touch a 5 trillion dollar mark by 2025 to become the third-largest economy in the world. India has a very young and aspiring population with rising average income and has shown an increase in its growth rates in every decade since independence.

Seeing the rising inflation in the future it's really important for people to invest properly to counter this inflation. With the knowledge gained you will surely be able to identify the right stocks for your portfolio.

Now let's take an example in recent times:

You must have heard about the recent IPO release of 'ZOMATO' with the number of subscriptions being nearly 38 times .But surely most of the people would have been just influenced by the name and IPO size without studying anything about it. Let me say that for the past three financial years FY18-20 Zomato has encountered huge losses.



Though with the money gained from IPO the company might be able to make huge profits in future but one should always consider all these factors before investing such a huge amount because as stated before in the IPO section 7 out of 9 biggest IPOs of India are not successful right now therefore one should always study the company in which he/she wants to invests before actually investing.

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