Stock Market Trading

What is Trading?

Trading means buying and selling something. Trading in stock market can be of two types: Long term and short term. Long term trading refers to an investment period (horizon) of 3 years or more. Short term trading refers to the investing wherein the holding period is in months, weeks, days, hours or even a few minutes. It all boils down to timing, when you purchase the commodity and when you sell it.

What is a Share/Stock?

Suppose a company wants to expand, it can either take a loan, use its own funds or issue its capital amount to the public to raise money. The company will divide their capital into smaller chunks which are called shares and issue it to the public. The public will buy these shares and are then known as shareholders. These shares represent the ownership security/capital of the shareholder in the company. Examples of companies which have issued shares to the public are: IRCTC, TCS, Infosys, DMART, etc.

What is a Share/Stock market?

A share market is a place where all the financial securities, especially shares, are bought or sold by investors or the traders in the stock exchange. There are two types of share market available:

- Primary Market
    - Here the companies issue shares to the public.
    - This is also called market for new shares because this is the market where new shares are issued.
    - It is also called as New Issue Market (NIM).
    - Investor purchases shares directly from the company.
    - This market helps the companies to expand and diversify.
    - Buying and selling takes place between the company and investors.
    - The company will get the entire amount.
    - The shares are bought and sold at a fixed price or price band.
- Secondary Market
    - Here the existing securities are bought and sold among the investors.
    - Shares of companies are traded among investors.
    - It provides liquidity (ease of entry and exit to and from the company).
    - It helps in discovering the price of the share.
    - The trading happens on stock exchanges (BSE or NSE).

What is an IPO?

An IPO is an acronym for Initial Public Offering. Whenever a company wants to raise funds from the public in the form of shares, the company does it using IPOs. A few IPO Details explained:

- Issue Size: The amount of money the company is planning to raise through the IPO.
- Prospectus: This is a document which lists out almost each and every aspect of the company that can affect its share price.
- Face value: The nominal amount of the share. This is the basic price at which the company should issue their shares.

- Book Building Issue: The company gives a price band to the investors so that they can bid between these prices and purchase the shares. This process is called Book Building Issue.
- Subscription: When investors buy the shares, we say that they have subscribed to the issue. Buying the shares of a company through the IPO is known as subscription of the issue.
- Allotment: If the issue gets over-subscribed (more number of people subscribe to the shares) then a person may not get the shares or the allotment.
- IPO Price: The amount at which the share is sold in the IPO
- Lot size: The minimum amount of quantity that should be bought in order to buy the shares through the IPO.
- Listing at: It can happen in either NSE or BSE. NSE stands for National Stock Exchange and BSE stands for Bombay Stock Exchange.
- Listing on: The date when the shares were listed on the stock market.
- Listing price: The price at which the first trade happened.

Through the IPO, privately held companies becomes a publicly traded company because it is raising funds from the public. It is through IPO where the shares are sold for the first time. This makes the company listed on the stock exchange. There are two stock exchanges in India: National Stock Exchange and Bombay Stock Exchange. IPO is a process through which the company gets the opportunity to obtain capital by offering shares.

Why does a company launch an IPO?

- Expansion: When the company wants to grow (expand), it would require a lot of money for the same and to generate that amount they may list an IPO.
- Improvement: When a company wants to improve by means of upgradation of machinery in plants, etc.
- Infrastructure: When a company wants to build infrastructure such as roads, buildings, offices, etc. which would help the company grow in the future.
- Increasing Liquidity: When the company gets listed on the market, it provides additional liquidity to the owners of the company wherein the owners can convert the shares into cash at any point of time.
- Credibility and Pride: To improve the goodwill of the company
- Helps in Mergers and Acquisitions: Provides a smooth pathway for mergers by increasing the valuation and all.

How to invest in an IPO?

1. Open a DEMAT and Trading account.
2. Choosing the Right Company.
3. Arrange for funding (minimum 14k-16k per lot).
4. Apply through the trading account.
5. Bidding
6. Allotment by the company

How to find a Good IPO?

- Evaluate the fundamentals of the company that affect the share price.
    - Profit and Loss accounts
    - Balance Sheet
    - Cash Flow Statement

    - Business Model of the Company
    - Promoters of the company
- Analyse the growth potential of the Company.
    - Analyse the industry
    - Expansion plans of the company
    - Vision of the company
- Be sure that the Promoters are not using the IPO to exit.
- Invest in the IPO only if the funds are going to be used for future growth.
    - Make sure no debt repayment plans.
    - Make sure no selling liabilities plans.
    - Make sure funds is used for acquiring assets, expanding business, diversifying the business, building the wealth.
- Make sure the IPO is not very expensive.
    - If expensive, stay away.
    - If within budget, invest.

What is an FPO?

FPO is the acronym for Follow on Public Offer. This offer is given by already listed companies. FPOs release new shares to the public. It helps the company to diversify its equity base. It is mainly used for expansion or debt repayment purposes.

Virtual Trading platforms

This a virtual trading platform where actual buying and selling does not take place. This will help in understanding the stock market by stimulating the trades. One such example is:

Website: https://moneybhai.moneycontrol.com/

It is an investing simulation game. It mimics the actual trading environment when we trade using our actual money. In the above mentioned site, we receive exactly 1 crore (1,00,00,000) rupees as soon as we open the account and ready for stock trades. We can invest in multiple asset classes such as shares, mutual funds, fixed deposits, etc. And it is free. You can reset your portfolio whenever you want.

Miscellaneous information

Brokerage charges are applied according to the type of trading conducted. These charges are different for intra-day and delivery trading. Delivery trading is something wherein you do not buy and sell on the same day. The brokerage charge for delivery trading tends to be higher than intraday trading. Intraday trading is something wherein the buying and selling happens on the same day.

There are 2 types of order validity, GTD and GTC. GTD stands for Good to day which means that the order is valid until 3:30pm of the day (market closes at 3:30pm). GTC stands for Good Till Cancel which means that the order will remain in the system until you cancel it or the order is executed.

DEMAT account is one in which the shares held by the account holder is held in electronic format. A Trading account helps the investor to buy or sell the shares.

Why to invest in Stock Markets?

- To beat inflation (Inflation means the reduction of value of money over time).

- It gives you the power of compounding.
- It is easy to trade.
- It gives you freedom as compared to other financial income streams.

Difference between Investing, Trading and Gambling

Criteria	Investing	Trading	Gambling
Goal	To gradually increase wealth.	To make quick money by buying and selling.	To become rich overnight.
How they earn?	Compounding, Dividend and stock splits	Buy low, Sell high Sell High, Buy low	On the basis of probability
Basis	Fundamental analysis	Technical analysis	Luck

Myths of Stock Market Investing
- It is a gamble.
- It is an act of an expert.
- You need a lot of money to invest.
- High risk means High returns.

Why does the stock market go up/down?

The simplest answer is the demand and supply. When demand is high and the supply is low, then the prices go up. When the demand is low and the supply is high, the prices go down.

The complex answer is that the stock market goes up when:
- The company has good earnings.
- The companies give regular dividend.
- When companies merged with other companies.
- When companies acquire another company.
- When a new product is launched in the market.
- When there is a change in management.
- When there is an increase in GDP.
- When interest rate goes down.

The complex answer is that the stock market goes down when:
- There is a scam.
- There is a natural disaster.
- There is a War.
- There is recession.
- A new competition emerges for the company.
- Pandemic hits.
- Bad earnings, meaning no profits and even incurring losses.
- Unstable government.
- Bad fiscal budget.

Why do people lose money in stock market?
- Looking to get rich quick or for quick money

- Invest based on tips.
- Overexposure and leverage (If you have a capital of 1L, your trader can get you investment of up to 10L but suppose the market goes down by 5%, you lose 50k which is 50% of your original capital.)
- Non-diversification of stocks.
- Taking small profits while holding onto Loss.
- Lack of patience and discipline.

How to earn money in stock market?
- Buy low and sell high
- Sell high and buy low (Short selling)

What are the risks of investing in stock market?
- Market risk (fluctuations of stock market)
- Liquidity risk (not able to convert shares into cash)
- No guarantee (unlike FD, RD or savings, no guarantee of returns)
- Credit risk (a company can go bankrupt)

How to reduce the risks?
- Diversify your portfolio
  - Do not put all your eggs in one basket.
  - Purchase shares of different type so as to make sure you have a return.
- Do research
  - Complete opposite of using tips.
  - Study the financials of the company.
  - Understand the business model, philosophy, management, etc. of the company.
  - Understand the future plans of the company.
- Invest for long term
  - Stock fluctuates in the short run.
  - The value of the company unfolds in the long term.
  - Fundamentally strong companies do well in the long run.
- Avoid emotions
  - Don't invest on hunches.
  - Don't follow news, friends, family, brokers, etc. blindly.
  - AVOID panic selling and greedy buying.
- Invest as per risk tolerance
  - Assume what worst could happen.
  - If you can afford to, lose what you invest.

Risk Tolerance	Go for	Probable Loss in a year
Very High	Derivatives	100%
High	Small Caps	40-60%
Medium	Mid Cap	25-40%
Low	Large Cap/Mutual Funds	15-25%

Ways to invest in a Stock Market

- Lump sum
  - Open a DEMAT account and invest at appropriate levels.
- Systematic Investment
  - Invest a fixed amount every month (Mutual funds)
- Systematic Withdrawal
  - Invest a large amount and then withdraw periodically.

Stock Exchanges

Trading of shares, be it in the primary market or the secondary market, happens in the Stock Exchange. There are 2 stock exchanges in India: NSE (National Stock Exchange) and BSE (Bombay Stock Exchange). A few details about them:

- Bombay Stock Exchange
  - Established in 1875.
  - Head office is located in Mumbai, Dalal Street.
  - It is the World's 10^{th} largest stock exchange.
  - The market cap is $4.9 Trillion.
  - Approximately 6000 companies listed.
- National Stock Exchange
  - Established in 1992.
  - Head office is located in Mumbai, BKC.
  - Its purpose was to eliminate the monopoly of BSE.
  - The market cap is $4.1 Trillion.
  - Approximately 1600 companies listed.

Depositories

There are basically two depositories in which the investors open a DEMAT and trading account. These are:

- NSDL – National Securities Depository Limited
- CDSL – Central Depository Services Limited

Indices

We measure the economy of the country by calculating the GDP (Gross Domestic Product: Monetary value of all finished goods and services made within a country during a specific period of time, generally 1 year) or by the Index.

The BSE has divided the companies listed in it into 14 sectors such as pharmaceuticals, information technology, banking, etc. BSE then takes the top 30 companies in each sector and the performance of these 30 companies becomes the performance of the index. This index of 30 companies is called as Sensex. Similarly, NIFTY stands for the index of the top 50 companies of the NSE.

There are several other indices available which are:

Index	No of stocks	Stock Exchange	What it represents?
BSE MIDCAP	95	BSE	Mid Cap Companies
BSE SMALLCAP	658	BSE	Small Cap Companies
BSE 500	500	BSE	Top 500 Companies by Marketcap
BSE BANKEX	9	BSE	Banking Sector
NIFTY 50	50	NSE	Top 50 Companies by Marketcap
NIFTY MIDCAP 100	100	NSE	Top 100 Companies in Midcap

There are global indices as well such as:

Country	Index
US	NASDAQ
EUROPEAN	FTSE, CAC, DAX
ASIAN	NIKKEI, HANG SENG, KOSPI

Market Capitalization (MC)

$$(Total\ no.of\ shares - Promoters\ shares) * Current\ share\ price = Free\ float\ MC$$

Types of Shares

Type	Rank	Market Cap	Risk/Reward	Volatility	Growth Potential	Liquidity
Large Cap	Top 100	20,000 Cr or more	Low 10-25% ROI	Low	Low	High
Mid Cap	101-250	5,000 Cr – 20,000 Cr	Medium 30-40% ROI	Medium	Medium	Medium
Small Cap	Rest	Below 5,000 Cr	High 60-70% ROI	High	High	Low

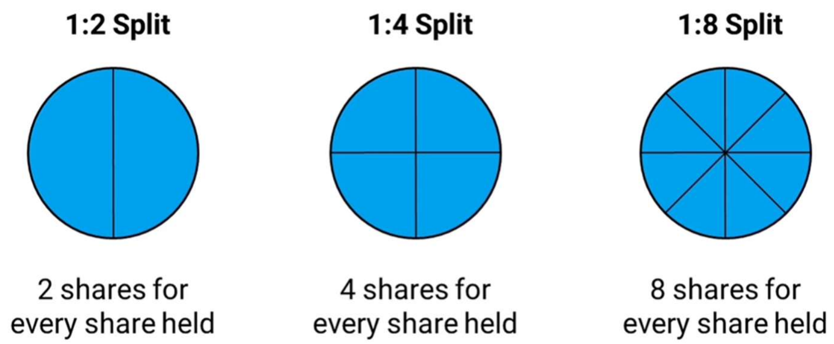
Corporate Actions

A corporate action is an event initiated by a public company that brings or could bring an actual change to the securities – equity or debt – issued by the company. A few common corporate actions are:

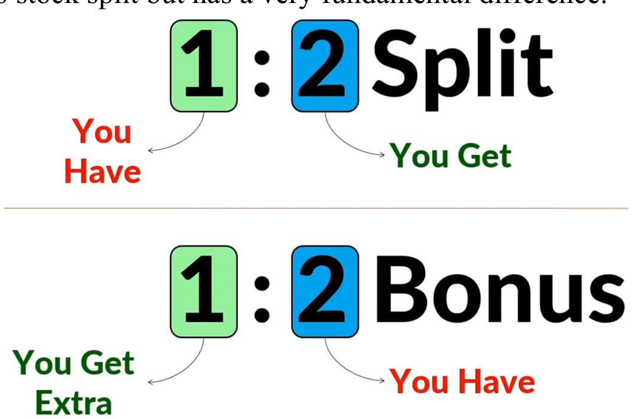
- Dividends
  - $EBIDTA = Revenue - Operating\ Expenses$
  - EBIDTA stands for - Earning Before Interest, Depreciation, Taxes and Amortization (Depreciation but of the intangible objects).
  - $EBIT = EBIDTA - (Depreciation + Amortization)$
  - EBIT stands for – Earning Before Interest and Taxes.

- $EBT = EBIT - Interests$
- EBT stands for Earning before Taxes.
- $EAT = EBT - 30\%$
- EAT stands for – Earning after Tax. 30% is the standard corporate tax. It can also be called the net profit.
- The company can now either take the entire amount for its future purposes or take a portion of it and distribute the rest among its shareholders as dividends.
- Companies give the dividend based on the percentage of the face value of the company shares.
- One metric which should be studied if investing for dividends is the Dividend Pay-out Ratio (%)
- $Dividend\ Payout\ Ratio = \frac{Dividend\ Paid}{Net\ Income}$

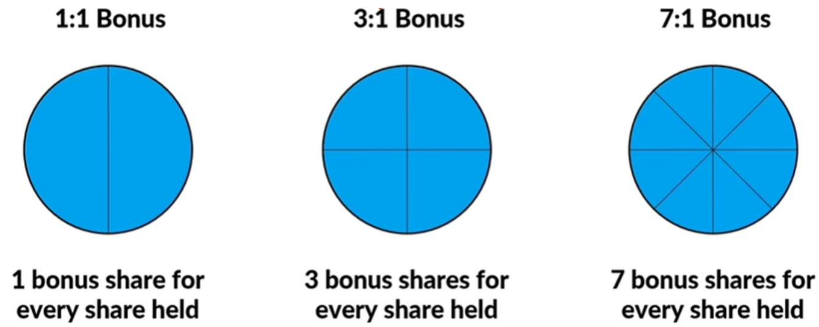
- Stock Split
  - There can be various types of splits of the shares such as:



  - When the shares are split, the share price is also divided by the same amount to balance and make sure to give the same investment value.
  - Stock split makes the price more affordable, creates a positive sentiment of the company and increases the liquidity and demand of the company stocks.
- Bonus Shares
  - It is similar to stock split but has a very fundamental difference.

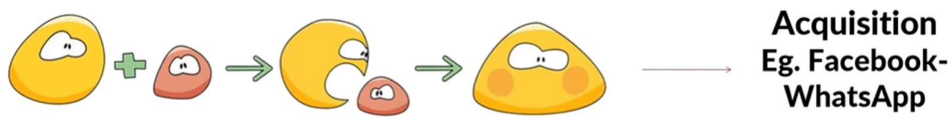


  - A few examples of Bonus share splits are as follows:

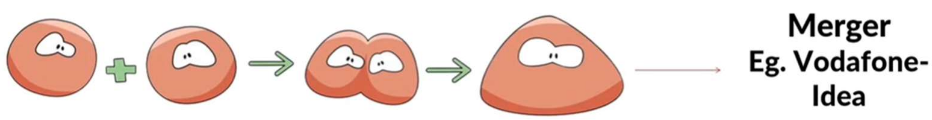


- When the shares are split and increased, the face value remains unchanged, the share capital of the company goes up as the reserves go down.
- Bonus shares gives the shareholders extra shares while having the same face value of the company. The liquidity of the company stocks increases and leads to an increase in wealth.

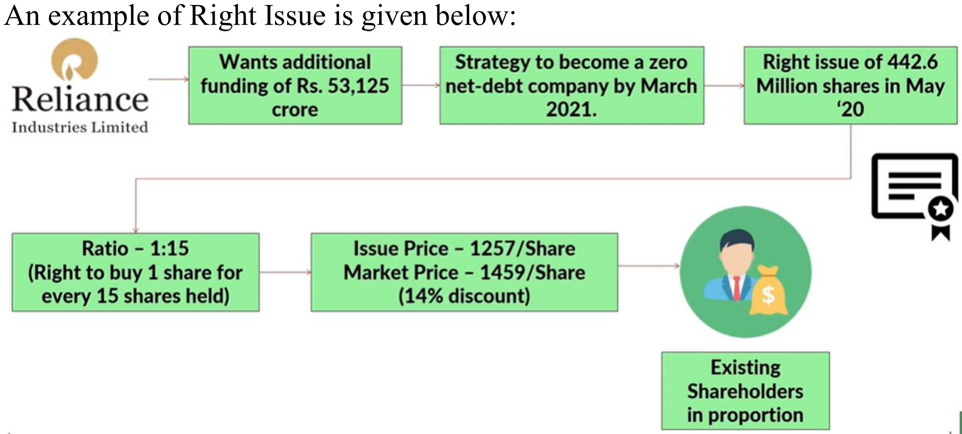
- Mergers and Acquisitions
    - When a bigger company acquires a smaller company, the resultant is that the bigger company grows in size. An easier example to understand is given below:



    - When 2 companies come together and form a new company, they are said to have merged. An easier example to understand is given below:



- Right Issue
    - Right issue of the shares is when the shareholders are given the right to buy a share at a discounted price provided they meet the minimum criteria of held shares.
    - The purpose of the right issue is to raise fresh capital, improve the debt: equity ratio, for expansion, takeover or debt repayment purposes or come out of financial troubles.
    - An example of Right Issue is given below:

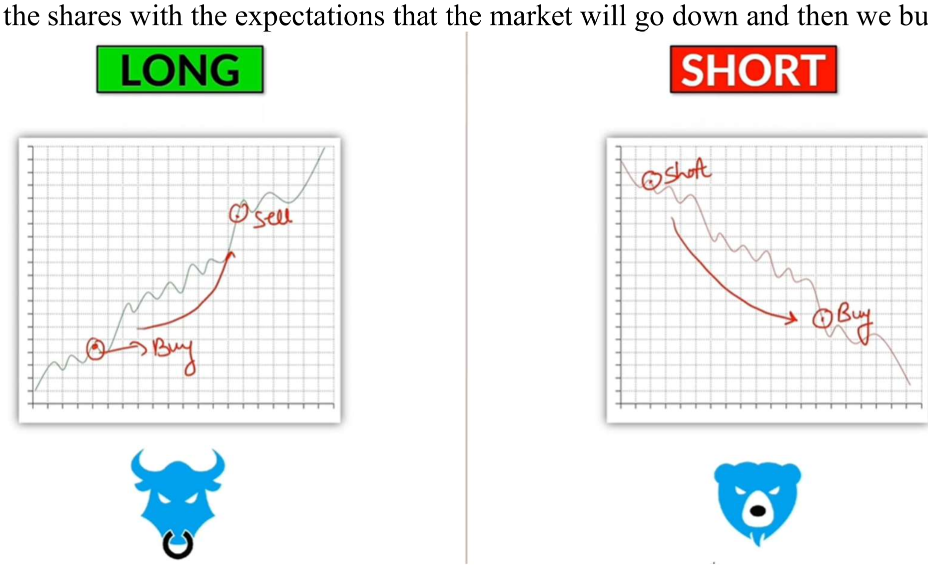


- Buy Back
    - In this the company buys the shares back from the Investors.

Trading Basics

- Bull & Bear
  - Bull means a phase in the market when the market rises 20% from the bottom.
  - Bear means a phase in the market when the market falls 20% from the peak.

- Long & Short
  - By long we mean that we are bullish in the market. It means that we are buying the shares with the expectation that the market will rise and then we sell.
  - By short we mean that we are bearish in the market. It means that we will buy the shares with the expectations that the market will go down and then we buy.



Types of Orders

- Market Order
  - Buying or selling at the current price.
- Limit Order
  - Buying or selling at a specific price.
- Stop loss Order
  - Buying or selling at the current price after a specific price is reached.

Players in the stock market

- Security and Exchange Board of India

    - The regulator of Securities Market of India
        - They issue securities. The Issuers are:
            - Corporations
            - Investment trusts
            - Domestic government
            - Foreign government
        - Investors buy these securities. A few types are:
            - Retail Investors
            - High Network Individuals
            - Qualified Institutional Bidders
        - SEBI provides the financial intermediaries for the fair trade between the Issuers and Investors. These intermediaries which facilitate the trade are:
            - Stock exchanges
            - Depository
            - Brokers
            - Commercial banks
            - Clearing corporations
    - It was founded in 1988 by the Government of India
    - It got statutory powers in 1992 through SEBI Act 1992.
    - It has majorly 3 roles
        - Protect the interest of the investors from the malpractices.
        - Regulate the securities of the stock market.
        - Develop the securities market.
- Stock Broker
    - The main intermediary between the issuers and the investors.
    - Services provided by the broker:
        - Gives access to the stock market and let you transact.
        - Give margins for trading.
        - Providing trading platform.
        - Call and trade facility.
        - Issue contract notes for transactions.
        - Facilitate the funds between trading and bank accounts.
        - Back office login – To see a summary of your account.
    - Brokers in India can be broken down into 2:
        - Full service Brokers
            - ICICI
            - HDFC bank
            - Kotak
            - Share-khan
            - Motilal Oswal
            - Edelweiss
            - Angel Broking
        - Discount Brokers
            - Zerodha
            - 5paisa.com
            - Upstox
            - Prostocks
            - Groww (I USE THIS)
    - Choosing a Broker

    - Consider the type of Broker. New – Full Service, Old – Any.
    - Costing – High transactions = Discount broker.
    - Brand reputation for all.
    - Trading platform provisions. Ease of trade.
    - Research and tips.
    - Leverage amount provided by the brokers. (Typically do not)
    - Trading Segments – You are able to trade in shares, commodities, cash, derivatives, forex, etc.
    - Customer service
- Types of Investors
  - Retail Individual Investors
    - Less than 2L investment.
    - Resident individuals, NRIs and HUFs
    - 35% reservation in IPO.
  - Non-Institutional Investors
    - More than 2L investment.
    - Individual investors, NRIs, companies, trusts, etc.
    - 15% reservation in IPO.
  - Employee and Share holders
    - Employees of the company who invest up to 5L.
    - Employees of the company and existing shareholders.
    - Over and above the RII reservation for IPO.
  - Qualified Institutional Buyers
    - Registered with SEBI.
    - Banks, Foreign investors, Insurance companies, Mutual funds.
    - 50% reservation in IPO.
  - Anchor Investors
    - Minimum 10Cr investment.
    - Are QIBs.
    - Up to 30% reservation in IPO.

Analysis of the Shares

Generally, there are 2 types of analysis done by the traders and investors which are Technical analysis and Fundamental analysis. Technical analysis is basically the study of graphs, prices and volume of a particular share. On the basis of the charts, they study the demand and supply relationship of the stock prices and then predict the share prices to decide whether to buy or sell. Fundamental analysis on the other hand is the study of fundamental factors that affect the share price of the company. Fundamental factors include economic data, industry specific data or international factors or even company specific factors like P&L Statements, Balance sheets, etc. Fundamental analysis is preferred by long term investors whereas Technical analysis is preferred by short term investors. Both analysis is explained in detail further ahead.

Fundamental Analysis

Fundamental factors include economic data, industry specific data or international factors or even company specific factors like P&L Statements, Balance sheets, etc. An example of the analysis is given below:

How do you know **DMart** is a **good company???**

	2015-16	2020-21	Growth (%)
Stores	110	214	95%
Revenue (Rs. Cr.)	8575	24675	188%
Profit (Rs. Cr.)	318	1350	325%
Assets (Rs. Cr.)	2094	6229	197%
Debt (Rs. Cr.)	1192	333	-72%
EPS	5.7	20.09	252%
Share Price (Rs.)	300	2800	833%

Fundamental analysis is basically the study of the business. We can identify the undervalued companies through FA in which we can invest in. It is fundamentally a metric used by long term investors. In FA we must most of the time study the financial position of the firm. There are certain tools for FA which are:

- Business Model
  - It answers the question – "What does a company do?".
  - We can get the Business Model from the Annual Report of the company.
- Annual Reports of the company
  - Profit and Loss account
    - Earnings after tax is called the net profit.
    - Retained earnings is basically the EAT-Dividend for shareholders.
    - How to analyse a P&L account?
      - Revenue – SHOULD GROW CONSISTENTLY
      - Net profit - SHOULD GROW CONSISTENTLY
      - Earning per share - SHOULD GROW CONSISTENTLY
  - Balance Sheet
    - Total Equity is given by the sum of the following:
      - Equity share capital.
      - Reserve and surplus (retained earnings added to this, every year).
      - Preferred equity.
    - Total Liabilities
      - Non-current liabilities (with Rate of interest) – repayment after a year.
      - Current liabilities – repayment within a year.
    - Assets
      - Non-current assets (Long term assets, eg: buildings, machinery, vehicles etc.).
      - Current assets – can get liquidated into cash within a year. For eg: raw material.
    - $Total\ Equity + Total\ Liabilities = Assets$
    - How to analyse a Balance Sheet?
      - Total Assets - GROWING
      - Debt – DECREASING
  - Cash Flow statement

- How to analyse cash flow statements?
    - Cash flow generated from operating activities
        - Should be positive meaning it is doing well in the market.
    - Cash flow from investing activities
        - Should be negative as it means that the company is expanding and investing for its future.
        - If it is positive, it means that it is not doing so well and might collapse in the future.
    - Cash flow from financing activities
        - Should be negative as it means that the company is repaying its debts of loans and all.
        - Can be positive for the new companies as they need to take loans to expand.

- Ratio Analysis
    - There are 6 important ratios
        - Earning Per Share (EPS)
            - $EPS = \frac{Net\ Profit - Preferred\ Dividends}{Outstanding\ shares}$
            - It denotes the earnings the company is able to generate per share that the shareholders hold.
            - It should grow over the years
        - Price to Earning Ratio (P/E ratio)
            - $PE = \frac{Share\ Price}{Earnings\ per\ Share}$
            - PE ratio should be compared between 2 companies of the same industries.
            - PE ratio of the company can be compared with that of the Industry too.
            - If the PE ratio of the company is less than the PE of the industry then it is cheaper and if more than expensive.
            - How to analyse PE ratio:
                - Low PE – Low Growth (Price increases slowly, EPS also increases slowly, PE remains almost constant)
                - High PE – High Growth (Price increases sharply, EPS also increases moderately, PE also increases moderately)
                - Low PE – Negative Growth (Price decreases, EPS also decreases, PE also decreases)
                - Moderate PE – High Growth (Price increases sharply, EPS also increases sharply, PE also increases moderately)

Low PE	High PE
Stock is undervalued	Stock is overvalued
Low growth or Negative growth	High growth
Future prospectus is not great	Great future prospectus

            - How to check PE?
                - Compare with Peers, industry or index.
                - Why is PE high or low?
                - Growth is sustainable or temporary?

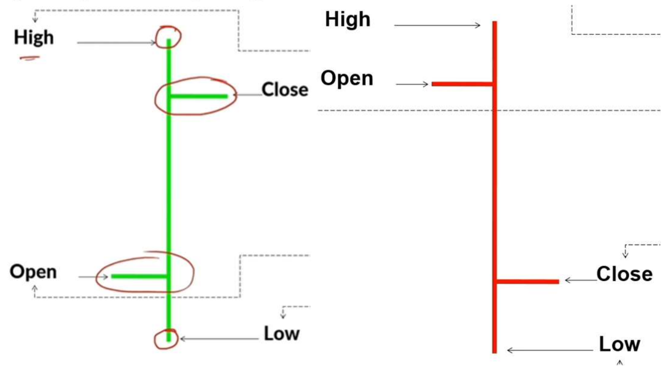
        - Return on Equity (ROE)
            - $ROE = \frac{Net\ Profit}{Shareholder's\ Equity}$
            - It measures the profits made for each dollar from the shareholder's equity.
            - How to analyse ROE?
                - Do not blindly trust the ROE.
                - Check the total debt of the company. The lower the debt, the better.
        - Return on Capital Employed (ROCE)
            - We need to consider the Equity as well as the Debt of the company.
            - There are multiple formulae for the ROCE:
            - $ROCE = \frac{Profit}{Capital\ Employed}$
            - $ROCE = \frac{EBIT}{Equity+No\quad current\ Liabilities}$
            - $ROCE = \frac{EBIT}{Equity+Long\ term\ debt}$
            - $ROCE = \frac{EBIT}{Equity+Lon\quad term\ debt+Short\ term\ debt}$
            - A good rule is that ROCE is 15% or more.
        - Return on Asset (ROA)
            - $ROA = \frac{EBIT}{Total\ Assets}$
            - Indicates how well is a company using its assets.
        - Debt to Equity ratio
            - Measures the risk associated with the company.
            - $Debt\ to\ Equity = \frac{Long\ term\ Debt+Shor\quad term\ Debt}{Shareholde\ \ 's\ Equity}$
            - A ratio less than 1 is acceptable.
            - A ratio less than 0.5 is good.
            - A negative ratio means that the company has more liabilities as compared to the assets and may go bankrupt soon.
            - The ratio highlights how a company's financials is tilted towards the debt or equity financing.
- Industry Related data
- Economy specific data

Technical Analysis

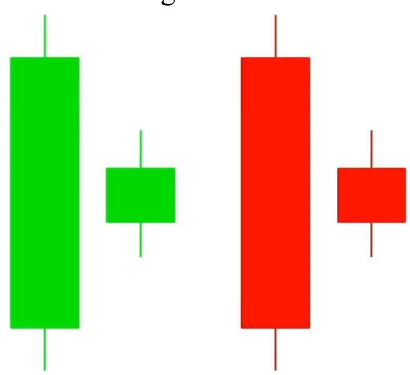
Technical analysis is basically the study of graphs, prices and volume of a particular share. On the basis of the charts, they study the demand and supply relationship of the stock prices and then predict the share prices to decide whether to buy or sell. Technical analysis is preferred by short term investors. Technical analysis is done on the basis of cost increases with high demand and less supply whereas cost decreases with less demand and high supply. There are different types of charts available for analysis, these are:

- Line Chart
    - Gives an overview of the stock in one glance
    - Made by joining the closing prices of the stock over a period of time. Hence it does not give good enough information.
- Bar Chart
    - Gives an overview of the stock price in one glance.

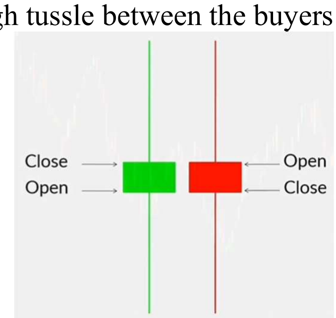
- Shows the Opening, Closing, High and Low amount in one place for the day.



- Candlestick Chart
  - Gives the same amount of information as Bar chart.
  - There are 6 typical types of candles which are:
    - Long vs Short
      - A long candle represents the strength of the bullish or bearish market.
      - A short candle represents the bullish or bearish nature of the stock which is weak in strength



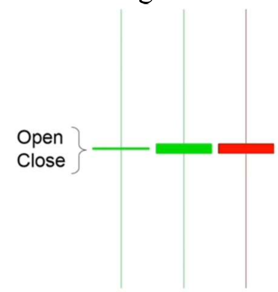
    - Spinning tops
      - Has small body and longer shadows.
      - It indicates a tough tussle between the buyers and sellers.



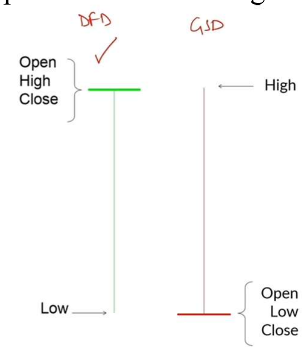
    - Doji
      - Has small body as well as short shadows.
      - Indicates the indecision in market as well as exhaustion.

    - Long Legged Doji
      - They do not have a body at all, basically a negligible body.

- Indicates the indecision and tough tussle in the market.

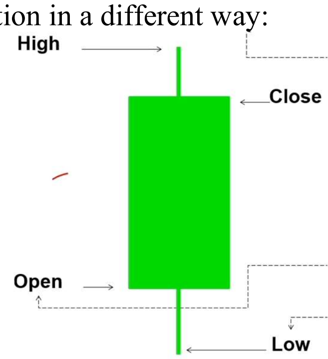


- Dragonfly and Gravestone Doji
  - Dragonfly Doji represents a Bullish sign.
  - Gravestone Doji represents a Bearish sign.

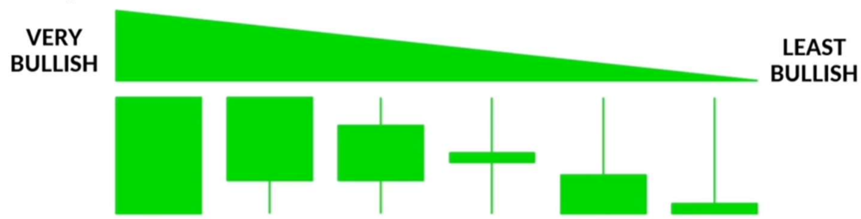


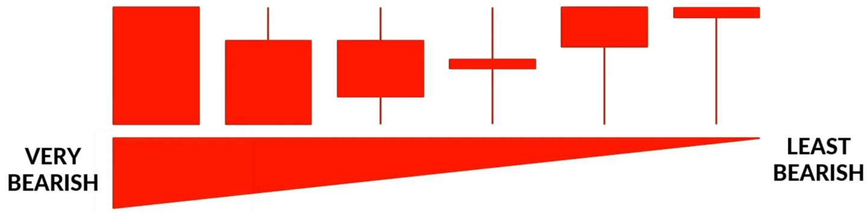
- Marubozu
  - A very strong candle.
  - Shows complete control of either of the bulls or bears.

- It just shows the information in a different way:



- Strength of the candles:





Moving average is one of the main indicators in technical analysis. We can find out the entry as well as exit on the basis of this indicator. It's a trend following indicator which means that it shows us the existing direction of the trend. It defines the current direction. It is a lagging indicator due to it being based on past prices, hence it can only show the trend after it has begun. It also indicates the shift in the sentiments of the traders. Following is how to use the moving average to make trading decisions:

- When using 1 moving average
    - Buy when the price crosses the moving average from below.
    - Sell when the price crosses the moving average from above.

Difference between Fundamental Analysis and Technical Analysis

Fundamental Analysis	Technical Analysis
Long term investments	Short term investments
Investing	Trading
To identify intrinsic value of the stock	To identify the right time to enter or exit the market
Economic reports, news, events, industry statistics	Chart analysis
Long term position trader	Swing trader or Short term day trader

Steps to do a Fundamental Analysis

1. Check the P&L account for the following:
    - Revenue – SHOULD GROW CONSISTENTLY
    - Net profit - SHOULD GROW CONSISTENTLY
    - Earning per share - SHOULD GROW CONSISTENTLY

2. Check the Balance Sheet for the following:
   - Total assets are growing
   - Total of Borrowings and Other liabilities is less than the total assets.
   - Ideal case Assets should be TWICE the value of the total liabilities.
3. Analyse the Cash flow statements:
   - CF from operating activities should be positive and increasing
   - CF from investing activities should be negative
   - CF from financing activities should be negative
   - Net CF should be positive
4. Analyse the ratios
   - Earnings Per Share should continuously increase.
   - Check the PE Ratio
     - Compare with peer companies, industry PE to check whether it is higher (expensive) or lower (cheaper).
     - Why is the PE high or low? Check the price, EPS and PE ratio along with the table:

Low PE	High PE
Stock is undervalued	Stock is overvalued
Low growth or Negative growth	High growth
Future prospectus is not great	Great future prospectus

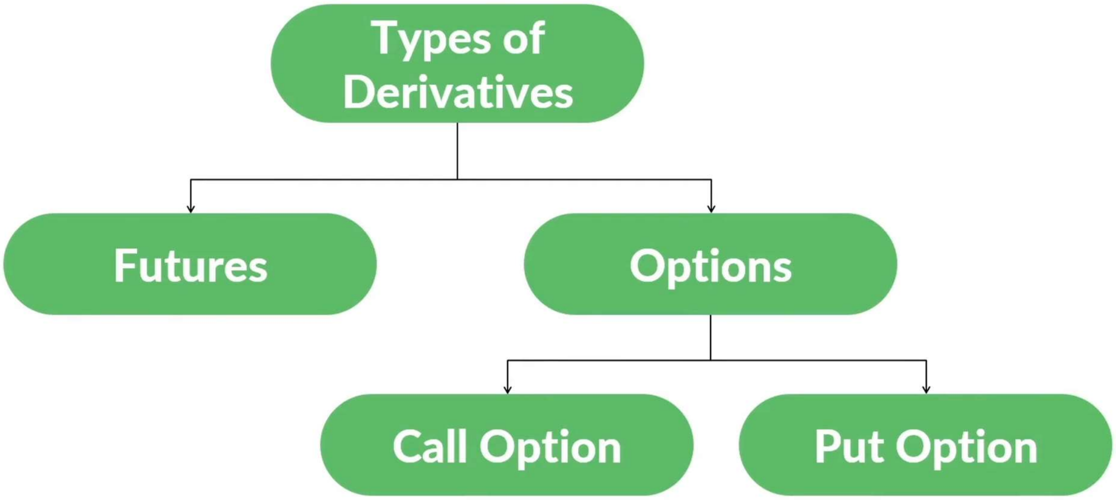
     - Growth is sustainable or temporary according to current market trends?
   - Check the Return of Equity (ROE)
     - Do not blindly trust the ROE.
     - Check for the higher ROE with lesser debt!!
   - Check the Return on Capital Employed (ROCE)
     - Make sure to have a higher ROCE.
     - Make sure that the ROCE is minimum 15% or more.
   - Check the Return on Asset (ROA)
     - A higher ROA is better.
   - Check the Debt to Equity ratios
     - A ratio less than 1 is acceptable.
     - A ratio less than 0.5 is good.
5. Keep an eye out for industry related news in the market.
6. Keep an eye out for the economic news around the world, as well as the country.

Steps to do a Technical Analysis

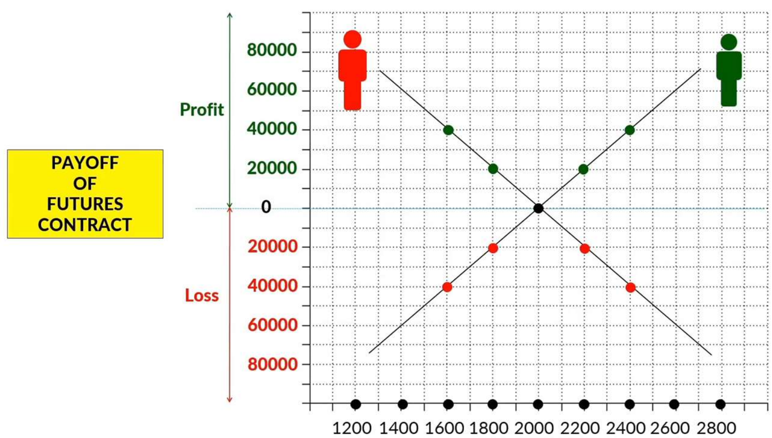
1. Check the candlestick graph.
2. Use moving average to determine whether to buy or sell. (For short term only).

Derivatives

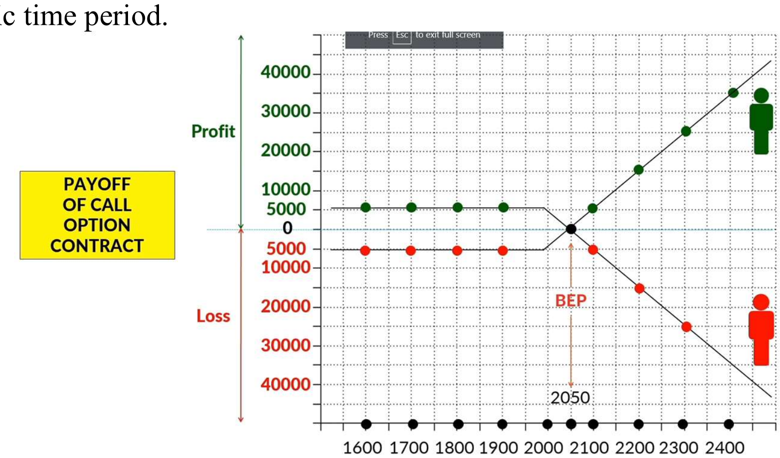
Derivative is something which basically derives its value from something else. Examples are: Sugar is a derivative of sugarcane, petrol is a derivative of crude oil, cloth is a derivative of cotton, etc. There are 2 types of derivatives that are traded in the trading market of India, which are:



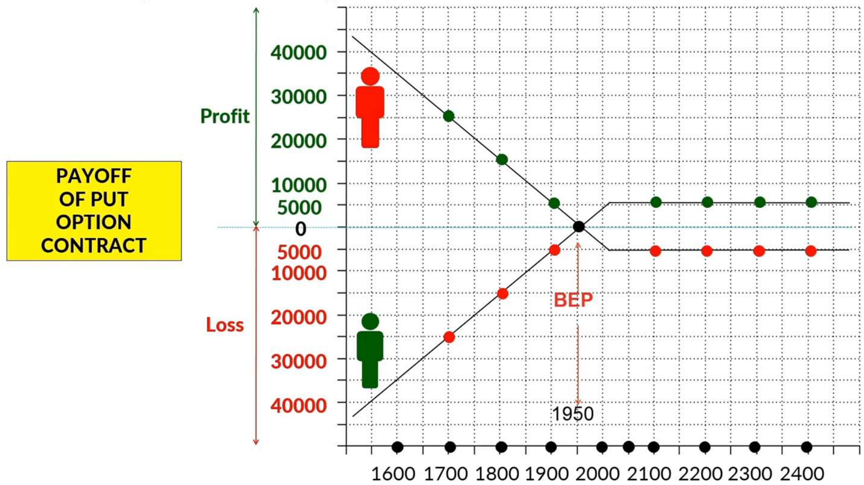
- Futures
    - A futures contract is a standardized legal agreement to buy or sell an asset at a predetermined price at a specified time in the future between parties not known to each other.



- Call Option
    - A call option, often simply labeled a "call", is a contract, between the buyer and the seller of the call option, to exchange a security at a set price. It gives the option buyer the right to buy an underlying asset at a specified price within a specific time period.



- Put Option
    - The Put option is a financial market derivative instrument that gives the holder the right to sell an asset, at a specified price, by a specified date to the writer of the put. It is a contract giving the option buyer the right, but not the obligation, to sell—or sell short—a specified amount of an underlying security at a predetermined price within a specified time frame.



Resources to use

- ***To get information for the Fundamental Analysis of the Company – screener.com***
- ***To learn how to invest – moneybhai.com***